© DEC 2025 | IRE Journals | Volume 9 Issue 6 | ISSN: 2456-8880
DOI: https://doi.org/10.64388/IREV9I6-1713207

Effects of Internal Control Systems on Small and Medium-Sized Enterprises in Ondo State, Nigeria

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Abstract-This study examines how organizational structure or internal control mechanisms affect the effectiveness and efficiency of small and medium-sized businesses (SMEs) in Nigeria's Ondo State. SMEs are essential to economic growth, but because of inadequate internal controls and poorly defined organizational structures, many of them struggle with operational inefficiencies, financial mismanagement, and sustainability issues. Targeting SMEs in a variety of Ondo State sectors, the study used a descriptive survey approach guided by contingency theory. Regression analysis, ANOVA, and descriptive statistics were used to examine 331 valid replies in total. The results show that the financial performance of SMEs is significantly improved by the efficacy of internal control systems, which also improves resource utilization, fraud prevention, and accountability. It was also discovered that organizational structure plays a major impact in decision-making and operational efficiency, with governance frameworks, clear role descriptions, and communication routes enhancing productivity and responsiveness. Additionally, the long-term viability of SMEs was found to be strongly positively correlated with the combined effect of strong internal controls and cohesive organizational structures, which allowed for enhanced competitiveness and flexibility in response to environmental changes. According to the study's findings, SMEs' resilience and growth depend on their internal control systems being in line with appropriate organizational structures. It advises SME owners to codify operational structures, implement proactive internal control measures, and use technology to improve efficiency and governance. Policymakers and development organizations should help SMEs by providing resources, regulatory frameworks, and training to institutionalize efficient control and structure procedures. This study adds to the body of literature by offering empirical data from the local area regarding the relationship between organizational structure, internal controls, and SME performance in a developing economy.

Key words: Internal Control, Organisational Structure, Efficiency, Effectiveness

I. INTRODUCTION

Background to the Study

The interplay between internal control systems, organizational structure, and the performance of small and medium-sized enterprises (SMEs) is crucial, especially in specific contexts like Ondo State, Nigeria. Internal control systems are fundamental for enhancing operational efficiency and safeguarding assets, which are essential for the survival and growth of SMEs in a challenging economic environment. Research indicates that SMEs lacking robust internal control mechanisms encounter increased risks of financial loss and operational inefficiencies, potentially leading to business failure (Adegboyegun et al., 2020; Igbojioyibo, 2024). Understanding how these internal mechanisms correlate with firm performance is both timely and imperative given the significant role SMEs play in driving economic growth in Nigeria.

Internal control systems are critical for ensuring the reliability of financial reporting and protecting organizational assets. Effective internal controls not only prevent resource misappropriation but also enhance data accuracy, facilitating better decision-making processes (Adegboyegun et al., 2020). In the context of SMEs in Ondo State, these systems enable businesses to adapt to rapidly changing market dynamics by providing a framework for operational procedures and risk management strategies. Without these controls, SMEs face a greater risk of financial improprieties and operational vulnerabilities, negatively impacting their profitability and longevity (Igbojioyibo, 2024). Thus, establishing comprehensive internal control systems is not merely a compliance issue but a strategic necessity that can significantly boost organizational resilience.

Moreover, organizational structure plays a pivotal role in shaping the operational effectiveness of SMEs. A well-defined structure provides clarity in roles and responsibilities and enables better communication and streamlined processes. This clarity is especially relevant for SMEs, where resource constraints often hinder the establishment of formalized processes (Thanki & Thakkar, 2018). Ineffective organizational structures can lead to ambiguity and inefficiency, ultimately reducing performance. Different organizational structures, such as hierarchical versus flat models, may exhibit varying degrees of responsiveness to market changes and internal challenges. A strategic approach to structuring the organization enhances workflow and lays a foundation for implementing sound internal control practices, ultimately contributing to sustained business performance (Odek & Okoth, 2019).

Studies have shown that the quality of internal controls is significantly influenced by organizational culture and structure. An environment that promotes compliance and accountability fosters a culture of integrity, encouraging employees to adhere to established protocols and regulations (Igbojioyibo, 2024; Ololade, 2024). Promoting a culture that values internal controls can also improve the trustworthiness of financial reporting, thereby enhancing stakeholder confidence and potentially leading to increased access to capital (Orujekwe et al., 2024; Wang et al., 2019). For SMEs in Ondo State, cultivating such a culture is critical for enhancing their contribution to economic development, particularly as these enterprises often play a key role in job creation.

Understanding the interplay between internal control systems and organizational structure provides a comprehensive perspective on the operational dynamics of SMEs in Ondo State. While many SMEs recognize the need for both elements, practical implementation remains a challenge, as financial and human resource limitations often hinder these efforts (Babatunde & Dandago, 2014). It is essential for policymakers, practitioners, and business leaders to establish frameworks that support and encourage the development of robust internal controls and coherent organizational structures tailored to the specific contexts of SMEs in the region.

The challenges that SMEs face, particularly in Nigeria, require multifaceted approaches that align internal controls and organizational structures to create a resilient business environment. Financial regulatory frameworks and government support initiatives can enable SMEs to thrive through improved internal mechanisms. Empowering SMEs with knowledge and resources regarding internal control systems and organizational best practices will enhance individual firm performance and contribute to the overall economic resilience of Ondo State and Nigeria at large (Igbojioyibo, 2024; Bularafa & Adamu, 2021).

In summary, the effects of internal control systems and organizational structure on SMEs in Ondo State are profound and multifaceted. They underpin operational sustainability by promoting efficiency, safeguarding assets, and enhancing profitability. Without these systems and structures, the viability of SMEs in the region remains precarious, highlighting the need for scholarly attention and practical interventions that address these critical aspects of business management.

The efficacy of internal control systems is crucial for the operational performance of SMEs, allowing them to mitigate risks, improve efficiency, and assure adherence to regulatory standards. A research conducted by Adegboyegun et al. (2020) demonstrate that internal control systems are crucial for firms to adjust to the swiftly evolving business landscape, enabling efficient decision-making and operational management. Effective internal controls not only reduce risks but also foster confidence among stakeholders, enhancing business continuity and sustainability. Boubakary et al. (2021).

The dynamics of the internal control system and organizational structure inside SMEs in Ondo State are further complicated by external influences such as market competition, changing consumer tastes, and technology improvements. A detailed investigation undertaken by Boubakary et al. Boubakary et al. (2021) underlines the necessity for managerial innovation and structural adaptations to face these external challenges successfully. The empirical findings imply that SMEs that embrace both internal control systems and a comprehensive organizational framework are more likely to boost their performance measures, including market share and operational efficiency.

In the local context, tax laws and government policies also exert deep influences on SMEs, altering their internal controls and organizational structures. Aribaba et al. (2019) analyze the particularities of tax laws in Ondo State and their consequences for entrepreneurial sustainability. The study underlines that regulatory frameworks can either support or inhibit organizational processes, so breaking the delicate balance between internal controls and structural adaptability (Aribaba et al., 2019).

Knowing the implications of these variables on the performance and resilience of SMEs can offer substantial insights into encouraging sustainable business practices in the region.

Furthermore, technology's significance in upgrading internal controls and altering organizational structures cannot be underestimated, particularly in the context of digital transformation. Sidabutar & Siswanto (2024) demonstrate that the use of digital tools and techniques greatly improves the operational efficiency and performance of SMEs, boosting their ability to maneuver through unanticipated problems. As these firms integrate technology into their management processes, the integration of robust internal controls with nimble organizational structures becomes increasingly more crucial to preserving competitiveness.

Moreover, organizational structure plays a vital role in defining the internal dynamics and decision-making processes of SMEs. In many small organizations, organizational roles are inadequately defined, leading to role conflicts, lack of responsibility, and unclear reporting lines (Eze et al., 2017). This unstructured and often hierarchical structure impairs communication, weakens control mechanisms, and makes it impossible to separate ownership from management, which is needed for sustainable growth and governance.

In Ondo State, the absence of established control systems and functional organizational structures has resulted in high business mortality rates and limited scalability among SMEs (Garcia et al., 2022). Many firm owners either lack the technical ability to develop internal controls or regard them as costly and unneeded, especially in micro and small-scale settings. These structural limitations hinder their capacity to obtain funds, secure alliances, and scale operations thus contradicting the greater goals of entrepreneurship promotion and economic diversity.
Consequently, the study challenge clearly articulates the importance of examining how internal control systems interact with organizational structures to affect the performance and resilience of SMEs in Ondo State. These interconnected factors are critical for comprehending the intricacies of operational management within a situation defined by complexity and uncertainty. Addressing this topic comprehensively would produce insights not only for academic discourse but will also advise policymakers and practitioners on fostering a flourishing SME sector in Nigeria.

This research aims to clarify the connection between internal control systems and organizational structure as critical factors influencing performance in small and medium-sized firms in Ondo State, Nigeria. The study seeks to develop a detailed understanding of these elements to improve the resilience and operational viability of SMEs, thereby contributing to the region's economic framework.

Research Questions

This research is aimed at providing answers to the following questions.

i. How does the effectiveness of internal control systems influence the financial performance of SMEs in Ondo State?
ii. What role does organizational structure play in enhancing operational efficiency and decision-making in SMEs?
iii. To what extent do internal control systems and organizational structure jointly impact the sustainability of SMEs in Ondo State?

Aim and Objectives of the Study

The aim of the research is to evaluate the effects of internal control system on small and medium sized enterprise in Ondo state, Nigeria. The Specific objectives of the study are to:

i. assess the influence of internal control system effectiveness on the financial performance of SMEs in Ondo State.
ii. examine how organizational structure contributes to operational efficiency and decision-making within SMEs.
iii. evaluate the combined effect of internal control systems and organizational structure on the long-term sustainability of SMEs in Ondo State.

Research Hypothesis

i. Hypothesis 1 (H_1): There is a significant positive relationship between the effectiveness of internal control systems and the financial performance of SMEs in Ondo State.
Null Hypothesis (H_{01}): There is no significant relationship between the effectiveness of internal control systems and the financial performance of SMEs in Ondo State.

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DOI: https://doi.org/10.64388/IREV9I6-1713207

ii. Hypothesis 2 (H_2): Organizational structure significantly contributes to operational efficiency and enhances decision-making processes within SMEs.
Null Hypothesis (H_{02}): Organizational structure does not significantly contribute to operational efficiency or influence decision-making within SMEs.

iii. Hypothesis 3 (H_3): The combined effect of internal control systems and organizational structure has a significant positive impact on the long-term sustainability of SMEs in Ondo State.
Null Hypothesis (H_{03}): The combined effect of internal control systems and organizational structure does not have a significant impact on the long-term sustainability of SMEs in Ondo State.

II. LITERATURE REVIEW

Conceptual Review

Internal Control System in Small and Medium-Sized Enterprises (SMEs)

Internal control systems are crucial frameworks that enable organizations, particularly small and medium-sized firms (SMEs), to run operations efficiently, ensure compliance, and preserve assets. Igbojioyibo, (2024).

The fundamental function of internal control systems is to offer a structured environment for risk management and operational effectiveness. Mahadeen et al., (2016). According to Ahmad and Muslim, efficient internal control systems are strongly linked to sound corporate governance practices, which promote the dependability of financial reporting and operational efficiency within businesses. Ahmad & Muslim (2024). This relationship is essential in SMEs, where the implementation of such systems can considerably influence decision-making processes and overall corporate viability.

Studies suggest that a robust internal control system contains numerous interconnected components, including risk assessment, control activities, information and communication, and monitoring. Otoo et al., (2023) underlined that these components play a significant role in boosting organizational effectiveness by generating a disciplined atmosphere that allows SMEs to achieve their control objective. Such frameworks not only preserve assets but also establish a transparent operating environment, vital for SMEs striving for growth under competitive constraints.

Moreover, the significance of company culture on the effectiveness of internal controls cannot be overstated. Surya et al. highlighted that developing a strong ethical work culture is crucial in increasing the performance of internal audits, which, in turn, strengthens the entire internal control systems (Surya et al., 2023). This is particularly pertinent for SMEs that may struggle with governance difficulties owing to limited resources or knowledge. The formation of a culture that promotes compliance and integrity can facilitate the effective application of internal control processes, ultimately boosting operational outcomes.

The dynamic nature of the company environment needs ongoing adaptation of internal control systems. As firms negotiate difficulties such as technological breakthroughs and legal changes, the significance of flexible and responsive internal controls becomes obvious. Research by Indriyani and Mappanyukki highlights that aligning internal control systems with new information technology and accounting frameworks can boost the quality of financial reporting, thereby underlining the necessity of adaptation (Indriyani & Mappanyukki, 2022). In SMEs, where resources may be tight, employing technology properly can not only prevent risks but also streamline processes, boosting overall performance.

In the context of SMEs in Nigeria, internal control systems encounter unique obstacles, principally due to resource restrictions and a lack of competent personnel. Domnişoru et al. suggest that understanding the connection between organizational culture and internal control is crucial in building successful control systems that adapt to the specific environment of SMEs (Domnişoru et al., 2017). Addressing these difficulties demands a personalized approach, integrating localized solutions that strengthen the capabilities of internal controls while recognizing the organizational capacities of SMEs.

Research by Adegboyegun et al. explicitly investigated the impact of internal control systems on the operating performance of SMEs in Ondo State. The study revealed a positive association between well-structured internal controls and profitability, showing that SMEs with effective control systems are better positioned to overcome market obstacles and achieve greater financial performance (Adegboyegun et al., 2020). This study underscores the view that internal control systems are not simple compliance tools but strategic assets that drive effectiveness and growth.

Additionally, the mediation function of organizational commitment on the effectiveness of internal control systems has been stressed in many research. By evaluating the interplay between human resource competency, internal control systems, and the quality of reports, researchers showed that a committed workforce can greatly boost the efficacy of internal controls (Mustofa et al., 2022). This underlines the necessity for SMEs to focus personnel development alongside establishing control measures to optimize their operational effectiveness.

Furthermore, the literature suggests that the management of fraud risks through efficient internal control mechanisms is particularly crucial for SMEs, which are typically more sensitive to such threats due to their size and operating architecture. Recent studies have underlined the need of building a solid internal control structure to prevent financial irregularities and bolster the integrity of financial reporting (Zainal et al., 2021).

In summary, the literature on internal control systems in SMEs highlights their critical role in guaranteeing operational viability and compliance in an increasingly complicated company environment. The review illustrates the intricate links between internal controls, organizational culture, and operational performance, particularly within the context of SMEs in Ondo State, Nigeria. Future research approaches should focus on improving the specific parts of control systems that are most successful for SMEs and on implementing supportive policies that boost their implementation and sustainability.

Organizational Structure in Small and Medium-Sized Enterprises (SMEs)

Organizational structure is a fundamental component that dictates how activities are directed to fulfill the goals of an organization. It creates the hierarchy inside the firm, delineates roles, and establishes communication flows among different layers of management and staff. In small and medium-sized organizations (SMEs), understanding and managing organizational structure is vital for boosting performance, enhancing operational efficiency, and stimulating innovation. Isichei et al., (2020).

The significance of organizational structure has been addressed in much research. Xu et al., (2025) argues how the design of an organizational structure can impact the effectiveness of internal controls, so harmonizing with the broader idea of organizational behavior. Xu et al., (2025). This link highlights that organizational structures are not only administrative necessities; they can serve as significant drivers in how internal controls function and how responsibilities are assigned within the firm.

The correlation between organizational structure and corporate governance has also been investigated. Ahmad and Muslim stress that a well-defined organizational structure contributes positively to corporate governance procedures, boosting the overall efficacy of internal controls (Ahmad & Muslim, 2024). The establishment of defined governance frameworks enables for better risk assessment and enhanced compliance, which is particularly critical for SMEs that may lack the sophisticated control processes of bigger firms.

Domnişoru et al. emphasize the relevance of organizational culture in defining and maintaining internal control systems, stating that the alignment of culture with structure is crucial for good governance (Domnişoru et al., 2017). This alignment provides a coherent workplace where individuals understand their roles and responsibilities, which ultimately supports corporate purposes. The synergy between culture and structure allows businesses to adapt better to changes in their operational environments and exploit their cultural assets to drive performance improvements.

The concept of organizational ambidexterity balancing exploitation and exploration has been discovered as highly influenced by organizational structure. Pertusa-Ortega and Molina-Azorín believe that some structural configurations can promote this balancing, allowing SMEs to adjust to changing market demands while also optimizing existing capabilities (Pertusa-Ortega & Molina-Azorín, 2018). This adaptability is particularly critical for SMEs, which generally operate in dynamic contexts

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DOI: https://doi.org/10.64388/IREV9I6-1713207

marked by rapid technical advances and evolving consumer demands.

Furthermore, the digital transformation of enterprises is changing traditional structures, prompting a reevaluation of how organizations are organized. Li et al. believe that the use of digital technologies profoundly modifies the ways organizations arrange themselves, affecting operational efficiency and redefining staff roles (Li et al., 2024). This transition underlines the need of maintaining a flexible organizational structure that can accept new technological processes and the corresponding shifts in worker dynamics.

Organizational structure also plays a significant role in facilitating communication and collaboration within SMEs. Demirkol points out that an effective organizational structure clarifies reporting lines and helps speed decision-making processes (Demirkol, 2023). The potential for conflict emerges when systems are poorly defined or unduly inflexible, leading to inefficiencies and possibly disenchantment among personnel. Adequately built organizational structures can limit these risks, thereby generating a more engaged and productive workforce.

Moreover, studies suggest that organizational structure affects resource allocation and can influence employee motivation. A well-structured company successfully integrates individual roles with bigger strategic objectives, hence improving motivation and productivity. As stated by Kalbouneh et al., a specified structure aids to greater integration of tasks and promotes clarity in roles and duties, which are vital for operational success (Kalbouneh et al., 2024). In SMEs, where resources are generally limited, optimizing resource allocation through a resilient structure is crucial.

The study of organizational structure is further enriched by evaluating the balance between centralization and decentralization. The decision between these two structures can considerably effect organizational performance. More centralized systems give uniformity and control but can impede creativity and responsiveness. In contrast, decentralized organizations inspire empowerment and innovation but may lead to inconsistency when choices are performed. This balance between control and flexibility is particularly crucial in the context of SMEs, where agility often acts as a competitive advantage (Koufteros et al., 2014).

In light of the aforementioned ideas, strengthening organizational structure is vital for supporting improved internal control settings inside SMEs. A well-designed organizational structure leads to increased communication, enhanced performance, and a proactive approach to risk management. Future research should focus on establishing frameworks that combine both structural aspects and cultural considerations to provide a holistic picture of how SMEs might achieve operational success through optimum organizational structures.

In conclusion, organizational structure greatly determines the performance and strategic direction of SMEs. It is not only an administrative framework but a core ingredient that intersects with corporate governance, internal controls, employee engagement, and innovation. A thorough grasp of these interrelations is vital for SMEs aiming to better their operational performance and achieve sustainable growth in a competitive landscape.

Conceptual Linkages

The relationship between internal control systems and organizational structure is a vital area of inquiry, especially within the context of small and medium-sized enterprises (SMEs) in Ondo State, Nigeria. This literature review seeks to explain conceptual linkages between these two elements and how they influence the operational performance and sustainability of SMEs. It draws upon a range of studies that highlight various dimensions of internal control systems and organizational structure, contextualizing their implications for SMEs.

Internal Control Systems and Organizational Efficiency

Internal control systems are designed to enhance operational efficiency by ensuring that organizations operate within the parameters of established policies and procedures. Effective internal control systems are integral in managing assets and ensuring the accuracy of financial reporting in SMEs, which is essential for maintaining stakeholder trust and supporting sustainable growth. A robust control framework mitigates the risks of fraud and operational inefficiencies, enabling SMEs to allocate resources more judiciously and optimize their outputs (Ajala et al., 2023).

Moreover, organizations with adaptive structures are better positioned to implement proactive resilience strategies, which significantly improve operational performance. This aligns with contingency theory, suggesting that the effectiveness of control systems hinges upon the fit between an organization's structure and its specific operational environment. Therefore, SMEs that integrate flexible organizational designs with comprehensive control systems are more likely to exhibit greater operational efficacy and adaptability (Pertheban et al., 2023).

Theoretical Review

Agency Theory

Agency theory is particularly helpful in understanding the interactions between internal control systems and organizational structures. This idea asserts that there exists an inherent tension between the principals (owners) and agents (managers) in companies. For SMEs in Ondo State, the adoption of robust internal control systems serves to reduce this conflict by ensuring that the agents operate in the best interest of the proprietors. Adebayo et al., (2023). Effective internal controls can inhibit opportunistic conduct and promote transparency, which in turn develops trust and increases corporate performance. (Efunniyi et al., 2024)

Furthermore, the architecture of organizational structure can influence how agency relationships are managed. Centralized systems tend to exhibit greater control mechanisms, as authority is concentrated, which may strengthen the monitoring of managerial actions. Xiao et al., (2013) Conversely, decentralized organizations may empower managers and stimulate creativity, but potentially at the cost of less severe internal control mechanisms. The balance between these structures reflects the specific strategic choices made by SMEs in managing their respective operating situations. Charles et al., (2015)

Contingency Theory

Contingency theory is the targeted theory for this thesis because it suggests there isn't a universal model for organizational design; instead, success depends on various internal and external factors (Taylor & Taylor, 2014). In Ondo State, Nigeria, where companies face numerous uncertainties and resource limitations, this approach is particularly vital for SMEs (Okwurume, 2024). To stay competitive and effective, organizations must adapt their structures and controls to changing circumstances (Aladejebi, 2017). The core idea is that management methods, leadership styles, and organizational structures should be tailored to specific situations (Setyawibawa & Tahir, 2025).

For instance, a relationship-focused approach may thrive in moderately favorable conditions, while a task-oriented style might be better suited for extreme operational scenarios (Rüzgar, 2018). Factors like organizational size, technology level, task type, and environmental stability are crucial for these adjustments in SMEs (Hilda, 2025). Applying contingency theory helps SMEs understand how to improve effectiveness by assessing situational factors and customizing management strategies (McAdam et al., 2019). This flexibility is especially essential in Ondo State, where government policies and economic conditions are constantly changing. When organizational structures and controls are adaptable, performance improves (Prajogo & McDermott, 2014).

Research indicates that SMEs should avoid a "one-size-fits-all' approach to structures and controls; instead, they should be tailored to the company's unique features and challenges. Larger, more established SMEs might need formal processes for accountability and governance, whereas newer ones may benefit from less formal, innovative structures (Igboghole & Akinlabi, 2023). Leadership strategies should also align with the company's operational context and strategic goals to boost performance (Aladejebi, 2017). Ultimately, contingency theory offers valuable insights into how organizational design and controls influence SME effectiveness in Ondo State. By recognizing that situational variables shape optimal management practices, SMEs can better navigate their complex environments and achieve improved performance outcomes.

Empirical Review

Evidence from Developed Countries

Kyere and Ausloos (2021) investigated the connection between corporate governance practices and firm performance in the UK by performing a quantitative regression analysis on 252 listed non-financial companies. Their research shows that essential governance elements, including board size, audit committee efficacy, and the separation of the CEO and board chair positions, have a significant impact on financial performance metrics, particularly Return on Assets (ROA) and Tobin's Q. In particular, the study discovered that better financial results are positively correlated with an independent and well-organized board and a capable audit committee. The idea that internal control through governance is crucial for accountability and efficiency in SMEs operating within mature capital markets was further supported by the finding that CEO duality was linked to lower performance.

Similar to this, Wang et al. (2019) investigated how internal control systems support SMEs' sustainable growth in China, especially when multiple large shareholders are involved. The study, which used panel data analysis of listed SMEs, discovered that having several significant shareholders improves the efficacy of internal control systems by distributing power and lowering agency issues. It has been demonstrated that robust internal controls directly support sustainability and growth, but ownership structure considerably reduces their efficacy. The study emphasizes that governance elements that restrict opportunism and promote transparency must be added to internal control in developing but economically developed markets like China.

Gal et al., (2016) used a clustering approach in a larger European context to group companies according to the setup and performance of their internal control systems. Control system typologies, including "highly structured," "moderately structured," and "loosely structured," were developed through the analysis of data from several European businesses. The findings showed that in terms of risk reduction, compliance, operational effectiveness, and eventually financial performance, companies in the "highly structured" cluster continuously outperformed others. These results lend credence to the idea that internal control systems are contextually dependent and not consistently effective, and that their effectiveness depends on how well they are planned and aligned with the strategic goals of the company.

Vitale et al. (2020) carried out a case study to explore how integrating big data influences management control systems (MCS) in an Italian agricultural SME. Applying Simons' levers of control as a framework, the research used qualitative methods including interviews, observations, and document analysis over several years. Results showed that big data improved real-time monitoring, decision-making, and strategic alignment. It also shifted control from static to interactive, helping managers better engage with performance metrics and reacting to market changes. Diagnostic controls became more automated, boosting operational efficiency. Challenges such as data complexity, limited digital skills, and resistance to change were also observed. These results highlight the importance of managerial learning and digital readiness. Overall, the study offers valuable empirical insights into how big data can transform control systems in SMEs, especially during digital transitions in resource-limited settings. Finally, in an upper-middle-income, Nosratabadi et al. (2020) examined how leadership cultural intelligence, organizational structure, and firm performance interact, using data from Iranian SMEs. They applied structural equation modeling (SEM) and discovered that organizational structure is a vital mediator between leadership intelligence and performance. Leaders with high cultural intelligence positively affected performance only when the organizational structure was flexible and decentralized, enabling more responsive and adaptive decision-making. This highlights that structural design greatly impacts the effectiveness of internal control systems, particularly in transitional or semi-developed economies where cultural diversity and leadership behaviors converge.

Across these studies, a common empirical theme is that effective internal controls and adaptable organizational structures are essential for SME success in both developed and upper-middle-income economies. Governance factors like board independence, the strength of audit committees, and shareholder arrangements act as formal internal controls that help prevent managerial opportunism and improve strategic alignment. Additionally, digital transformation and structural flexibility are increasingly important in enhancing internal control, particularly in environments characterized by complexity and rapid change that require quick, adaptable responses.

Evidence from Developing Countries

Hoai and Nguyen's (2022) empirical research explored how leadership consistency and quality

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DOI: https://doi.org/10.64388/IREV9I6-1713207

influence the relationship between internal control systems (ICS) and firm performance in emerging markets. Using a quantitative approach, they collected data from 206 SMEs in Vietnam. The analysis, conducted with Partial Least Squares Structural Equation Modelling (PLS-SEM), revealed a significant positive correlation between effective internal controls and firm success. Importantly, ICS had a stronger effect on firms led by reliable and competent leaders. Under various leadership structures, factors such as risk assessment, control activities, and monitoring showed particularly significant impacts. This study contributes to the literature by highlighting that managerial behaviour significantly affects the effectiveness of ICS in emerging market contexts.

Nyakundi et al. (2014) conducted one of the early empirical studies on internal control systems in Kenyan SMEs, specifically in Kisumu City. Using a descriptive survey approach, they gathered data via structured questionnaires and analyzed it with SPSS for correlation and regression. Their results highlighted a positive link between the five COSO components—control environment, risk assessment, control activities, information and communication, and monitoring—and SMEs' financial performance. Notably, control environment and monitoring were the most influential factors, underscoring the significance of a strong ethical climate and ongoing oversight. The study also revealed that many Kisumu-based SMEs lack formal internal controls, pointing to a vital need for policies and capacity building to improve financial performance and sustainability.

Dubihlela and Nqala (2017) examined the relationship between risk performance and internal control systems in small and medium-sized manufacturing firms in Cape Metropole, South Africa. They analyzed data using correlation and regression methods based on responses from SME operators through a structured questionnaire within a quantitative framework. The results indicated that stronger internal control systems are linked to lower risk, showing a significant inverse correlation between ICS robustness and operational risk exposure. Control operations and information systems were highlighted as crucial for reducing uncertainty and enhancing operational stability. However, the study also found that smaller businesses tend to be more vulnerable because they often lack the resources to institutionalize and document their internal control processes. Overall, this research contributed to the literature by emphasizing the role of ICS as both a performance enhancer and a critical risk mitigation tool, especially in resource-limited settings.

Vu and Nga (2022) analyzed panel data from 2,000 Vietnamese SMEs collected between 2015 and 2019 to provide detailed quantitative evidence on the relationship between ICS implementation and firm profitability. They used panel regression models to examine how internal controls influence profitability across different business sizes. The results showed a positive link between ICS implementation and profitability, with a more pronounced impact on medium-sized firms compared to micro or small ones. Among various internal control components, internal audits and financial oversight had the most significant effects on performance. The study's large size and rigorous methodology distinguish it, offering strong statistical support for the benefits of internal control systems in enhancing performance within Vietnam's private SME sector. It also underscores the importance of institutional support in standardizing and enforcing internal auditing procedures.

All these studies confirm that internal control systems enhance SME performance in developing and emerging markets. Properly implemented ICS lead to better financial outcomes, reduced operational risks, and are most effective when supported by robust institutional structures and leadership. The consistent findings across different sectors and regions emphasize the global significance of internal control systems in promoting SME growth and sustainability. They also highlight the need for tailored approaches to overcome local challenges such as resource shortages, informality, and leadership deficiencies.

Evidence from Nigeria

The impact of internal control systems (ICS) on SME performance has garnered significant interest in Nigerian literature, particularly regarding how these systems relate to organizational structure, financial sustainability, and employee behaviour. Empirical evidence from Ondo State and other parts of Nigeria highlights both the benefits and challenges of internal control procedures in small businesses.

Adegboyegun et al. (2020) investigated how internal control systems affect the operational performance of

SMEs in Ondo State, using the COSO framework as their basis. They conducted a descriptive survey, collecting data from 120 SMEs and applying multiple regression analysis to examine the relationship between five key elements: internal control environment, risk assessment, control activities, information and communication, monitoring, and firm performance. The study found that the control environment covering management integrity, ethical values, operational style, and control activities, such as authorization and approvals- had a marginally significant positive impact on performance. These elements facilitated better task delegation, reduced delays, and minimized operational bottlenecks. However, the effects of risk assessment, monitoring, and communication systems were not statistically significant, suggesting that SME operators may lack proper implementation or understanding of these areas. This indicates that SMEs in Ondo may have informal or ad hoc control mechanisms without maximizing performance benefits. The authors concluded that incomplete or inconsistent implementation of internal controls reduces their effectiveness and limits opportunities for operational improvement.

Olufunmilayo and Hannah (2018) explored how internal control systems influence worker performance in small manufacturing firms in Ondo State. They used a cross-sectional survey to gather data from 195 SMEs. The study employed logistic regression to evaluate the effect of internal control factors such as the control environment, employee training, performance monitoring, and compliance on performance indicators like accountability, task completion, and punctuality. Results showed that internal controls explained only 3.5% of the variation in employee performance, which was statistically insignificant. Nonetheless, SMEs with role-specific task delegation, documented policies, and regular monitoring tended to have higher productivity and discipline. The findings suggest that while internal controls provide a crucial framework for promoting accountability and discipline, they might not be the main drivers of employee behaviour. The study also emphasizes that informal aspects like motivation, leadership, and job satisfaction, alongside formal structures, influence employee performance in SMEs. Therefore, internal controls are important for fostering discipline and order but should be complemented by other human resource strategies for optimal outcomes.

Ajala et al., (2023) examined how proactive and reactive strategies affect the fraud prevention capabilities of internal control systems in SMEs in Lagos and Oyo States. Data were collected through structured interviews and organizational audits from samples of SMEs across the retail, service, and light manufacturing sectors within a comparative case study. The findings show that SMEs employing proactive internal control measures, such as preventive checks, real-time data monitoring, staff rotation, and technological tools, experienced significantly lower fraud rates compared to those relying on reactive systems that mainly focus on post-event detection. Proactive firms also reported less asset misappropriation, better tax compliance, and greater financial transparency. The study emphasizes that internal controls should promote a prevention culture alongside detection. It recommends shifting from reactive to preventive frameworks, supported by employee training and automation, especially in Nigeria, where informal business practices are common.

Agbo et al. (2022) examined how internal control systems influence working capital management through a case study of a water production company in Benin City, Edo State. The research focused on factors like inventory turnover, accounts payable, and receivable management. Key data sources included document review, semi-structured interviews, and financial ratio analysis. Results revealed a strong link between effective working capital management and internal controls. For instance, consistent follow-up on receivables and record reconciliation improved cash inflow from customers, while clear approval hierarchies ensured timely payments. Inventory controls, such as reorder levels and regular audits, helped prevent shortages and excess stock, thereby optimizing production costs. This case study highlights the importance of internal financial discipline and transparency for SMEs to maintain liquidity and sustain operations. It suggests that enhancing cash flow, reducing waste, and supporting long-term viability rely on robust control systems.

Ajala et al. (2023) empirically investigated the link between organizational performance and internal control systems in Nigerian SMEs. The study adopted a quantitative approach, distributing structured questionnaires to SME operators in selected Nigerian regions. Regression analysis of 250 responses revealed how various internal control

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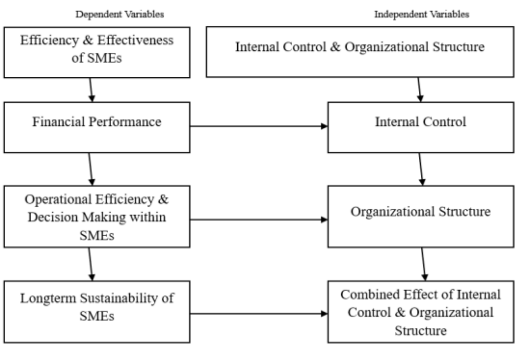
DOI: https://doi.org/10.64388/IREV9I6-1713207

components relate to performance indicators such as sustainability, operational effectiveness, and profitability. The internal control system was analyzed based on the COSO framework, which includes five key elements: monitoring, information and communication, control activities, risk assessment, and control environment. Results showed a significant positive correlation between SME performance and internal control effectiveness, especially highlighting monitoring and control activities as the most influential factors. This suggests that SMEs' operational and financial performance improves with practices like audits, compliance checks, and consistent monitoring. The authors also observed that many Nigerian SMEs face challenges like inadequate documentation and weak control environments, hindering accountability and transparency. To strengthen internal control practices, the study emphasizes capacity building and policy support. Overall, the findings reinforce the idea that robust internal control systems are vital for improving SME performance and reducing risks, especially in developing countries like Nigeria.

The findings also indicated that SMEs often face challenges in implementing such systems due to limited awareness, financial constraints, or lack of training. To promote the adoption of internal controls among small businesses, the study suggested regulatory incentives, capacity-building programs, and partnerships with financial institutions. The reviewed research offers valuable insights into how organizational structure and internal control systems influence various performance indicators, including financial growth, working capital management, operational efficiency, employee productivity, and fraud prevention. A key recurring theme is the need for proactive, integrated, and structured internal control frameworks, especially in contexts like Nigeria where informal practices are prevalent.

Conceptual Framework



III. METHODOLOGY

Research Design and Population

This study utilizes a quantitative approach and according to SMEDAN there are over 158,000 registered SMEs in the state.which represent the population of SMEs in Ondo State for this study

Sampling Frame

The selected 360 SMEs in Ondo State serves as the sampling framework for this research. The sample size of 360 was determined using a statistically valid approach, such as the sample size formula for finite populations, which balances precision and feasibility. For a population of 158,000, a sample size of 360 provides a confidence level of approximately 95% with a margin of error of around 5%, assuming a 50% response distribution. This size ensures reliable and representative results while being manageable given resource constraints. Using the finite population correction (FPC) sample size formula:

$$n= \frac{Z^2.p.(1-p).N}{E^2.(N-1)+Z^2.p.(1-p)}$$

Where:
n = sample size
Z= Z-score (1.96 for 95% confidence)
p= population proportion (0.5 assumed)
N= population size (158,000)
E= margin of error (0.05)

Data Analysis and Presentation

Primary data was collected through the use of well structured questionnaire for this research. Microsoft Excel (MS Excel) and Statistical Package for Social Science (version 28.0) was used to process the data. To process the data obtained accurately, it is necessary to analyze it using the right methodology. The following methods was adopted:

Mean Items Score

Mean items score was used for the purpose of ranking and determination of significance of different factors of collected data. The premise of decision for the ranking is that the factors with the highest mean item score "MIS" will be ranked first and other in such subsequent descending order. The method was used for objective one, and two and three of this study.
Since the Likert of 5-point scale was employed for data collection.

5F5+4F4+3F3+2F2+F1

The formula for mean item score is (MIS) =

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DOI: https://doi.org/10.64388/IREV9I6-1713207

$F5+F4+F3+F2+F1$
where F is the frequency of each of the rankings

Standard Deviation
Three decimal places are used to calculate the standard deviation using SPSS software (version 28.0). This is displayed in a table next to each variable's mean value to make it simple to rank the variables in order of importance. The variable with the smaller standard deviation is scored higher when two or more variables have the same mean score value. A lower standard deviation indicates the respondents' internal coherence. The method was used for objective one and two and three in this study.

ANOVA
ANOVA was used for the research to reveal how internal control systems and organizational structures, individually and in combination, contribute to measurable differences in SME outcomes across the region. This method was used for objective one of this study.

Regression Analysis
Regression analysis was use to enables the prediction of the value of the dependent variable based on known values of the independent variables, understand the strength and type of relationships between variables, and assess the impact of specific factors on the outcome. This method was used for objective three of this study.

Table 3.1: Research Objectives, Method of Analysis, and Tools

Objectives	Research Instrument	Method of Analysis	Software	Source of Data
Assess the influence of internal control system effectiveness on the financial performance of SMEs in Ondo State.	Questionnaire	Mean Item Score, Standard Deviation, Anova.	MS Excel and SPSS	All Respondents
Examine how organizational structure contributes to operational efficiency and decision-making within SMEs.	Questionnaire	Mean Item Score, Standard Deviation.	MS Excel and SPSS	All Respondents
Evaluate the combined effect of internal control systems and organizational structure on the long-term sustainability of SMEs in Ondo State.	Questionnaire	Mean Item Score, Standard Deviation, Regression Analysis.	MS Excel and SPSS	All Respondents

IV. DATA PRESENTATION, ANALYSIS AND DISCUSSION

Table 4.1 General Information of the Respondents

Variables	Classification	Frequency	Percentage
Age Range	18-25	101	28.8
	26-35	216	61.5
	36-45	34	9.7
	Total	351	100
Academic Qualification	OND	15	4.3
	HND	27	7.6
	B.Sc	268	76.4
	M.Sc/M.Tech	41	11.7
	Total	351	100
Type of Business	Agriculture	25	7.1
	ICT	33	9.4
	Manufacturing	41	11.7
	Restaurants	17	4.8
	Services	166	47.3
	Trade/Retail	69	19.7
	Total	351	100
Number of Employees	10-49(Small)	41	11.6
	50-199(Medium)	24	6.8
	Less than 10(Micro)	286	81.5
	Total	351	100
Business Structure	Sole Proprietorship	272	77.5
	Partnership	37	10.5
	Limited Liability company	25	7.1
	Government parastatal	10	2.8
	Cooperative	7	2.0

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DOI: https://doi.org/10.64388/IREV9I6-1713207

	Total	351	100
Business Location	Akure South	257	73.2
	Akure North	52	14.8
	Ilaje	8	2.3
	Owo	34	9.6
	Total	351	100
Years in Operation	0-5 Yrs	194	55.3
	6-10 Yrs	120	34.2
	11-15 Yrs	37	10.5
	Total	351	100

Internal Control System Effectiveness on the Financial Performance of SMES In Ondo State

This section presents the results on internal control system effectiveness on the financial performance of SMES in Ondo state. The statement "The internal control system ensures accountability in financial reporting" has the highest mean (4.07, SD = 0.701), indicating strong agreement that internal controls promote accountability. Similarly, "Compliance with regulatory requirements is enforced through controls" (Mean = 3.97, SD = 0.654) and "Segregation of duties is practiced in our financial processes" (Mean = 3.96, SD = 0.736) suggest that SMEs prioritize regulatory compliance and segregation of duties.

The statement "Our revenue tracking system is robust and effective" has the lowest mean (3.63, SD = 1.016), suggesting moderate agreement and potential weaknesses in revenue monitoring. "Periodic internal audits are conducted to assess compliance" (Mean = 3.67, SD = 0.961) also indicates room for improvement in audit practices.

The relatively low standard deviations (ranging from 0.654 to 1.016) indicate moderate consensus among respondents, with revenue tracking showing the highest variability, possibly due to differences in business size or sector.

These results suggest that while SMEs in Ondo State have relatively effective internal control systems for financial accountability and compliance, revenue tracking and internal audits may require strengthening to enhance overall financial management.

Table 4.2: Internal Control System Effectiveness on the Financial Performance of SMES In Ondo State

Statement	Mean S.D	Rank
The internal control system ensures accountability in financial reporting.	4.070.701	1
Compliance with regulatory requirements is enforced through controls.	3.970.654	2
Segregation of duties is practiced in our financial processes.	3.960.736	3
The internal control system helps detect and prevent fraud.	3.940.840	4
We maintain proper records of cash inflows and outflows.	3.910.812	5
We have control mechanisms in place for cash handling and inventory.	3.890.812	6
The effectiveness of our internal control system improves profitability.	3.880.884	7
Financial performance has improved since adopting stricter internal control practices.	3.870.834	8
Internal control measures contribute to minimizing financial loss	3.850.710	9
Our organization has well-documented internal control policies and procedures.	3.850.905	10
Our financial reports are reviewed regularly for accuracy.	3.820.906	11
All financial transactions are subject to approval controls.	3.780.975	12
Budgeting and spending are monitored through internal controls.	3.780.846	13
Periodic internal audits are conducted to assess compliance.	3.670.961	14
Our revenue tracking system is robust and effective.	3.631.016	15

ANOVA

The table presents the results of an Analysis of Variance (ANOVA) conducted to assess the significance of differences in responses across groups for various statements related to internal control systems in small and medium enterprises (SMEs), with a sample size of 334 (df total = 333). Each row corresponds to a specific statement about internal control practices, with columns detailing the sum of squares, degrees of freedom (df), mean square, F-statistic, and significance level (Sig.). All statements exhibit statistically significant differences between groups ($p = .000$), indicating that group responses vary significantly for each aspect of internal control evaluated.

For the statement "All financial transactions are subject to approval controls," the ANOVA results show a high between-groups sum of squares (180.714, df = 4) and a mean square of 45.179, yielding an F-statistic of 109.482 ($p < .001$). This suggests strong differences in perceptions or implementation of approval controls across groups. Similarly, the statement "We maintain proper records of cash inflows and outflows" has a between-groups sum of squares of 99.889 (df = 4), with a mean square of 24.972 and an F-statistic of 68.800 ($p < .001$), indicating significant variability in cash flow record-keeping practices.

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DOI: https://doi.org/10.64388/IREV9I6-1713207

The practice of "Segregation of duties in financial processes" also shows significant group differences, with a between-groups sum of squares of 54.301 (df = 4), mean square of 13.575, and F-statistic of 35.439 (p < .001). This reflects varying degrees of adherence to this control mechanism. The statement "The internal control system ensures accountability in financial reporting" yields a between-groups sum of squares of 54.175 (df = 4), mean square of 13.544, and F-statistic of 40.789 (p < .001), underscoring differences in perceived accountability.

Periodic internal audits, as assessed by the statement "Periodic internal audits are conducted to assess compliance," show a between-groups sum of squares of 93.895 (df = 4), mean square of 23.474, and F-statistic of 36.167 (p < .001), indicating variability in audit practices. The ability of internal controls to "detect and prevent fraud" has a lower between-groups sum of squares (26.113, df = 4), mean square of 6.528, and F-statistic of 10.292 (p < .001), suggesting relatively less pronounced but still significant group differences.

Regular review of financial reports for accuracy ("Our financial reports are reviewed regularly for accuracy") produces a between-groups sum of squares of 69.493 (df = 4), mean square of 17.373, and F-statistic of 28.056 (p < .001). Monitoring of budgeting and spending through internal controls shows a between-groups sum of squares of 78.789 (df = 4), mean square of 19.697, and F-statistic of 40.663 (p < .001), reflecting significant group variations in budgetary oversight.

Control mechanisms for cash handling and inventory yield a between-groups sum of squares of 63.150 (df = 4), mean square of 15.788, and F-statistic of 33.184 (p < .001). The contribution of internal controls to minimizing financial loss has a between-groups sum of squares of 39.051 (df = 4), mean square of 9.763, and F-statistic of 24.945 (p < .001). Compliance with regulatory requirements, enforced through controls, shows a between-groups sum of squares of 40.530 (df = 4), mean square of 10.132, and F-statistic of 32.648 (p < .001).

The robustness of revenue tracking systems is evidenced by a between-groups sum of squares of 110.741 (df = 4), mean square of 27.685, and F-statistic of 39.055 (p < .001). The effectiveness of internal control systems in improving profitability has a between-groups sum of squares of 80.147 (df = 4), mean square of 20.037, and F-statistic of 36.659 (p < .001). Finally, the statement "Financial performance has improved since adopting stricter internal control practices" shows the highest F-statistic (88.023, p < .001), with a between-groups sum of squares of 119.656 (df = 4) and mean square of 29.914, indicating substantial group differences in perceived financial improvements due to stricter controls.

ANOVA analysis on influence of internal control system effectiveness on the financial performance of SMEs in Ondo State.

		Sum of Squares	df	Mean Square	F	Sig.
All financial transactions are subject to approval controls.	Between Groups	180.714	4	45.179	109.482	0.000
	Within Groups	135.765	329	0.413		
	Total	316.479	333			
We maintain proper records of cash inflows and outflows.	Between Groups	99.889	4	24.972	68.800	0.000
	Within Groups	119.416	329	0.363		
	Total	219.305	333			
Segregation of duties is practiced in our financial processes.	Between Groups	54.301	4	13.575	35.439	0.000
	Within Groups	126.025	329	0.383		
	Total	180.326	333			
The internal control system ensures accountability in financial reporting.	Between Groups	54.175	4	13.544	40.789	0.000
	Within Groups	109.241	329	0.332		
	Total	163.416	333			
Periodic internal audits are conducted to assess compliance.	Between Groups	93.895	4	23.474	36.167	0.000
	Within Groups	213.533	329	0.649		
	Total	307.428	333			
The internal control system helps detect and prevent fraud.	Between Groups	26.113	4	6.528	10.292	0.000
	Within Groups	208.689	329	0.634		
	Total	234.802	333			
Our financial reports are reviewed regularly for accuracy.	Between Groups	69.493	4	17.373	28.056	0.000
	Within Groups	203.728	329	0.619		
	Total	273.222	333			
Budgeting and spending are monitored through internal controls.	Between Groups	78.789	4	19.697	40.663	0.000
	Within Groups	159.369	329	0.484		
	Total	238.159	333			
We have control mechanisms in place for cash handling and inventory.	Between Groups	63.150	4	15.788	33.184	0.000
	Within Groups	156.526	329	0.476		
	Total	219.677	333			
Internal control measures contribute to minimizing financial loss	Between Groups	39.051	4	9.763	24.945	0.000
	Within Groups	128.761	329	0.391		
	Total	167.811	333			
Compliance with regulatory requirements	Between Groups	40.530	4	10.132	32.648	0.000
	Within Groups	102.108	329	0.310		

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DOI: https://doi.org/10.64388/IREV9I6-1713207

is enforced through controls.	Total	142.638	333			
Our revenue tracking system is robust and effective.	Between Groups	110.741	4	27.685	39.055	0.000
	Within Groups	233.223	329	0.709		
	Total	343.964	333			
The effectiveness of our internal control system improves profitability.	Between Groups	80.147	4	20.037	36.659	0.000
	Within Groups	179.820	329	0.547		
	Total	259.967	333			
Financial performance has improved since adopting stricter internal control practices.	Between Groups	119.656	4	29.914	88.023	0.000
	Within Groups	111.808	329	0.340		
	Total	231.464	333			

Organizational structure contribution to operational efficiency and decision-making within SMEs

This section presented the results on organizational structure contribution to operational efficiency and decision-making within SMEs. The statement "Decision-making authority is properly delegated" has the highest mean (4.20, SD = 0.698), indicating strong agreement that SMEs have effective delegation practices. "Staff performance is monitored through a structured evaluation system" (Mean = 4.11, SD = 0.684) and "Our structure promotes efficiency in executing tasks" (Mean = 4.07, SD = 0.621) further suggest that organizational structures support efficiency and performance monitoring.

The statement "Management style fits the existing organizational structure" has the lowest mean (3.85, SD = 0.773), indicating moderate agreement and potential misalignment between management practices and organizational design. "There is a clear reporting hierarchy within the organization" (Mean = 3.90, SD = 0.954) also suggests some ambiguity in reporting structures. The standard deviations (0.621 to 0.954) indicate moderate to high consensus, with reporting hierarchy showing the highest variability, possibly due to differences in business size or ownership structure. These findings suggest that SMEs in Ondo State have well-defined organizational structures that promote delegation and efficiency, but improvements in management alignment and reporting clarity could enhance operational effectiveness.

Organizational structure contribution to operational efficiency and decision-making within SMEs

Statement	Mean	S.D	Rank
Decision-making authority is properly delegated.	4.20	0.698	1
Staff performance is monitored through a structured evaluation system.	4.11	0.684	2
Our structure promotes efficiency in executing tasks.	4.07	0.621	3
Structural changes are being made to improve productivity.	4.06	0.668	4
Operational roles are well aligned with our business goals.	4.06	0.712	5
Our organizational structure enhances responsiveness to market needs.	4.06	0.739	6
Our structure allows for smooth communication flow.	4.05	0.717	7
The structure supports quick resolution of issues.	4.04	0.645	8
Teamwork is encouraged and facilitated by our structure.	4.04	0.782	9
The structure reduces duplication of efforts.	4.01	0.781	10
Departmental coordination is effective	3.95	0.804	11
Each employee understands their roles and responsibilities.	3.95	0.858	12
Our SME has a clearly defined organizational structure.	3.94	0.863	13
There is a clear reporting hierarchy within the organization.	3.90	0.954	14
Management style fits the existing organizational structure.	3.85	0.773	15

The combined effect of internal control systems and organizational structure on the long-term sustainability of SMEs in Ondo State.

This section presented the result on the combined effect of internal control systems and organizational structure on the long-term sustainability of SMEs in Ondo State. The statement "We can make better long-term decisions due to our structure and internal controls" has the highest mean (4.16, SD = 0.727), indicating strong agreement that the synergy of these systems supports strategic decision-making. "Innovation is encouraged through structural clarity and control policies" (Mean = 4.14, SD = 0.637) and "The current system setup improves transparency and accountability" (Mean = 4.12, SD = 0.613) further highlight the positive impact on innovation and accountability. The statement "The combination has reduced our vulnerability to internal/external shocks" has the lowest mean (3.70, SD = 0.930), suggesting moderate agreement and potential weaknesses in resilience. "Our leadership is better able to monitor and evaluate sustainability goals" (Mean = 3.81, SD = 0.740) also indicates areas for improvement in leadership oversight. The standard deviations (0.613 to 0.930) show moderate consensus, with vulnerability to shocks exhibiting the highest

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DOI: https://doi.org/10.64388/IREV9I6-1713207

variability, possibly reflecting differences in business size or sector exposure to economic fluctuations. These results indicate that the synergy between internal controls and organizational structure significantly enhances long-term decision-making and transparency in SMEs, but resilience to shocks remains a challenge.

The combined effect of internal control systems and organizational structure on the long-term sustainability of SMEs in Ondo State.

Statement	Mean	S.D	Rank
We can make better long-term decisions due to our structure and internal controls	4.16	0.727	1
Innovation is encouraged through structural clarity and control policies.	4.14	0.637	2
The synergy between control and structure enhances our business growth.	4.12	0.719	3
The current system setup improves transparency and accountability.	4.12	0.613	4
Our SME can adapt to regulatory changes due to these systems.	4.07	0.721	5
Both systems support effective risk management.	4.02	0.648	6
Strategic partnerships are easier to form with clear structure and internal accountability.	3.98	0.739	7
Planning for future expansion is supported by our structure and control systems.	3.97	0.720	8
Our long-term sustainability is tied to both control and structure mechanisms.	3.96	0.636	9
We maintain operational continuity during economic fluctuations.	3.95	0.744	10
Employee performance is more sustainable due to proper systems in place.	3.94	0.786	11
Internal controls and organizational structure complement each other in our business.	3.93	0.778	12
Continuous improvement is encouraged by the interaction between control systems and structural design.	3.91	0.806	13
Our leadership is better able to monitor and evaluate sustainability goals.	3.81	0.740	14
The combination has reduced our vulnerability to internal/external shocks.	3.70	0.930	15

Regression Analysis

$R = 0.784$, $R^2 = 0.615$, Adjusted $R^2 = 0.598$: The model explains 61.5% of the variance in SME performance/sustainability, indicating a strong relationship between the independent variables and the outcome. The adjusted R^2 (0.598) confirms the model's robustness after accounting for the number of predictors. $F = 36.439$, $p = .000$ shows the model is statistically significant, confirming that internal controls and organizational structure collectively influence SME outcomes.

Model Summary

					Change Statistics	
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change
1	0.784	0.615	0.598	0.493	0.615	36.439

In examining the predictors of small and medium enterprise (SME) performance, a multiple regression analysis reveals several significant factors. Transparency and accountability emerged as the strongest predictor ($\beta = 0.513$, $p < .001$), underscoring the critical role of systems that enhance openness in significantly improving SME outcomes. Risk management, with a robust effect ($\beta = 0.459$, $p < .001$), indicates that integrated systems for mitigating risks substantially contribute to performance. Continuous improvement, facilitated by system interactions, also positively impacts sustainability ($\beta = 0.304$, $p < .001$). Furthermore, systems supporting planning for expansion enhance performance ($\beta = 0.222$, $p < .001$), while the synergy between control and structure in fostering business growth exhibits a modest but significant effect ($\beta = 0.133$, $p = .044$). These findings highlight the multifaceted role of strategic systems in driving SME success.

A multiple regression analysis exploring factors affecting small and medium enterprise (SME) sustainability reveals several significant negative predictors. Long-term sustainability is notably hindered by an overemphasis on certain control mechanisms ($\beta = -0.515$, $p < .001$), suggesting that excessive rigidity in these systems may undermine enduring performance. Similarly, long-term decision-making exhibits a negative effect ($\beta = -0.320$, $p < .001$), potentially due to over-centralization, which may stifle adaptive strategies. Operational continuity also faces challenges, with current systems showing a negative impact ($\beta = -0.274$, $p < .001$), indicating insufficient resilience against economic fluctuations. Additionally, non-significant predictors, such as employee performance and innovation, demonstrate limited direct influence on the dependent variable, highlighting the need for a nuanced approach to system design to bolster SME sustainability.

These findings suggest that while internal controls and organizational structure significantly enhance transparency, risk management, and growth, certain aspects (e.g., rigidity in controls) may negatively affect sustainability and resilience.

Regression Analysis Using Internal Control and Organizational Structure as Dependent Variable

Predictors	Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1(Constant)	-0.185	0.236		-0.785	0.433
The synergy between control and structure enhances our business growth.	0.143	0.071	0.133	2.024	0.044
Both systems support effective risk management.	0.551	0.096	0.459	5.721	0.000
We can make better long-term decisions due to our structure and internal controls	-0.342	0.073	-0.320	-4.685	0.000
The combination has reduced our vulnerability to internal/external shocks.	0.098	0.059	0.118	1.672	0.095
Employee performance is more sustainable due to proper systems in place.	-0.044	0.068	-0.045	-.652	0.515
Planning for future expansion is supported by our structure and control systems.	0.239	0.066	0.222	3.627	0.000
Innovation is encouraged through structural clarity and control policies.	0.040	0.065	0.032	.609	0.543
Our SME can adapt to regulatory changes due to these systems.	0.126	0.072	0.117	1.749	0.081
We maintain operational continuity during economic fluctuations.	-0.287	0.081	-0.274	-3.549	0.000
Our leadership is better able to monitor and evaluate sustainability goals.	0.077	0.066	0.074	1.168	0.244
The current system setup improves transparency and accountability.	0.650	0.080	0.513	8.096	0.000
Strategic partnerships are easier to form with clear structure and internal accountability.	.0106	0.064	0.101	1.670	0.096
Our long-term sustainability is tied to both control and structure mechanisms.	-0.630	0.073	-0.515	-8.669	0.000
Continuous improvement is encouraged by the interaction between control systems and structural design.	0.293	0.061	0.304	4.836	0.000

Discussion of Findings

This section discussed the findings from the data analysis in relation to the research questions. Furthermore, the findings are discussed with reference to literature. This is carried out with the purpose of establishing that the research questions have been answered based on the data analyzed. In addition, the results in relation to the research question have been presented together with the relevant data required.

Internal Control System Effectiveness on the Financial Performance of SMES In Ondo State

The findings from the analysis highlight the significant role of internal control systems in enhancing the financial performance of small and medium enterprises in Ondo State, Nigeria. The descriptive analysis indicates that SMEs exhibit strong agreement on the effectiveness of internal controls in ensuring accountability in financial reporting, enforcing regulatory compliance, and practicing segregation of duties (Aladejebi, 2017). These results align with prior literature, which underscores the critical role of internal controls in promoting financial discipline and governance. For instance, COSO (2013) emphasizes that effective internal control systems enhance accountability by establishing clear procedures for financial reporting, thereby reducing errors and fraudulent activities. Similarly, Adeyemi (2010) found that segregation of duties and compliance with regulatory requirements are pivotal in ensuring the integrity of financial processes in Nigerian SMEs, corroborating the strong agreement observed in this study.

However, the relatively weaker agreement on revenue tracking systems and periodic internal audits suggests areas for improvement. The higher variability in responses for revenue tracking indicates differences in practices, potentially due to variations in business size, sector, or resource availability. This finding resonates with Ejoh & Ejom (2014), who noted that many Nigerian SMEs struggle with robust revenue monitoring due to limited technological adoption and inadequate training. Likewise, the moderate agreement on internal audits aligns with studies by Olatunji, (2013) who highlighted that resource-constrained SMEs often conduct audits irregularly, undermining their ability to detect non-compliance or inefficiencies. These weaknesses suggest a need for targeted interventions, such as affordable digital tools for revenue tracking and capacity-building programs for audit practices, to strengthen SME financial management.

The ANOVA results further confirm significant differences in perceptions of internal control effectiveness across groups, with particularly strong differences for approval controls and financial performance improvements due to stricter controls.

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DOI: https://doi.org/10.64388/IREV9I6-1713207

These findings indicate that SMEs with varying characteristics, such as size, sector, or location, perceive and implement internal controls differently, which is consistent with the literature (Coetzee & Bruwer, 2019). For example, Amudo & Inanga (2009), found that micro-enterprises often adopt less formalized controls compared to small or medium enterprises, leading to perceptual differences. Moreover, the strong differences in perceived financial performance improvements support the argument by Kinney, (2000) that robust internal controls directly enhance profitability by minimizing financial losses and ensuring resource efficiency, as evidenced by the agreement on fraud prevention and minimizing financial loss.

The findings also align with agency theory, which posits that internal controls mitigate agency conflicts by aligning the interests of owners and managers through accountability mechanisms (Jensen & Meckling, 2019). The strong agreement on accountability in financial reporting reflects this alignment, suggesting that SMEs in Ondo State leverage controls to reduce information asymmetry (Olaoye et al., 2024). However, the weaker agreement on revenue tracking and audits indicates potential agency issues, as inadequate monitoring may allow inefficiencies or misappropriation to persist, as noted by Adomako et al., (2024) in their study of African SMEs.

In conclusion, the results underscore the effectiveness of internal control systems in enhancing financial performance among SMEs in Ondo State, particularly in fostering accountability, compliance, and fraud prevention. However, challenges in revenue tracking and internal auditing highlight gaps that require policy attention. These findings are consistent with global and regional literature, reinforcing the importance of tailored internal control frameworks for SMEs to optimize financial outcomes. Future research could explore the specific barriers to adopting advanced revenue tracking systems and regular audits, particularly among micro-enterprises, to inform targeted support strategies.

Organizational Structure Contribution to Operational Efficiency and Decision-Making within SMEs in Ondo State

The findings from the analysis highlight the significant contribution of organizational structure to operational efficiency and decision-making within small and medium enterprises in Ondo State, Nigeria. The descriptive analysis indicates strong agreement among respondents that decision-making authority is properly delegated, staff performance is monitored through structured evaluation systems, and organizational structures promote efficiency in executing tasks (Al-Jammal, 2015). These results align with existing literature, which emphasizes the pivotal role of well-defined organizational structures in enhancing SME performance. For instance, Walter (2018) argues that clear delegation of authority enables faster and more effective decision processes by empowering employees at various levels. Similarly, O'Regan & Ghobadian (2004) found that structured performance evaluation systems foster accountability and productivity in SMEs, corroborating the findings of this study.

However, the relatively weaker agreement on management style fitting the existing organizational structure and clarity in reporting hierarchy suggests areas for improvement (Huang et al., 2011). The higher variability in responses for reporting hierarchy indicates differences in practices, possibly due to variations in business size, ownership structure, or sector (Leuz, 2010). These findings resonate with studies by Mohammed (2023) who noted that Nigerian SMEs often face challenges in aligning management practices with organizational structures, particularly in micro-enterprises, which dominate the sample. The lack of a clear reporting hierarchy aligns with Adjabeng & Osei, (2022) who found that ambiguous reporting lines in African SMEs can hinder communication and decision-making efficiency, especially in sole proprietorships, which constitute the majority of the sample.

The strong agreement on statements related to operational efficiency, such as task execution and structural changes to improve productivity, supports the notion that organizational structures tailored to business goals enhance SME competitiveness (Mudau et al., 2024). This is consistent with contingency theory, which posits that organizational effectiveness depends on the alignment of structure with contextual factors such as size and environment (Donaldson, 2001). The findings suggest that SMEs in Ondo State have adopted structures that facilitate task efficiency and responsiveness, as evidenced by the agreement on responsiveness to market needs. However, the moderate agreement on management

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DOI: https://doi.org/10.64388/IREV9I6-1713207

style alignment indicates potential misfits, which could undermine these benefits, as noted by Chandler (2015) in his seminal work on strategy and structure. Furthermore, the results align with studies emphasizing the role of organizational structure in fostering teamwork and communication. The strong agreement on smooth communication flow and teamwork encouragement reflects the findings of Olawale & Garwe (2010), who highlighted that effective communication channels within SMEs enhance collaboration and innovation. However, the weaker agreement on departmental coordination suggests that inter-departmental integration remains a challenge, particularly for micro-enterprises with limited resources, as supported by Madueme & Nwosu, (2022).

In conclusion, the findings underscore the effectiveness of organizational structures in promoting delegation, efficiency, and communication within SMEs in Ondo State. However, challenges in aligning management styles and clarifying reporting hierarchies highlight areas for improvement. These results are consistent with global and regional literature, reinforcing the need for SMEs to adopt flexible and context-specific structures to optimize operational and decision-making outcomes. Future research could explore the specific factors contributing to management-structure misalignment, particularly in micro-enterprises, to inform targeted capacity-building initiatives.

Combined Effect of Internal Control Systems and Organizational Structure on the Long-Term Sustainability of SMEs in Ondo State

The findings from the analysis highlight the significant combined effect of internal control systems and organizational structure on the long-term sustainability of small and medium enterprises (SMEs) in Ondo State, Nigeria. The descriptive analysis indicates strong agreement among respondents that the synergy between these systems supports better long-term decision-making, encourages innovation through structural clarity and control policies, and enhances transparency and accountability. These results align with existing literature, which emphasizes the complementary role of internal controls and organizational structure in fostering sustainable business outcomes. For instance, COSO (2013) underscores that integrated internal control systems, when aligned with organizational structures, enhance strategic decision-making by providing a framework for accountability and risk management. Similarly, Adeyemi (2010) found that Nigerian SMEs benefit from structured systems that promote transparency, corroborating the strong agreement observed in this study.

The regression analysis further reveals that transparency and accountability are the strongest predictors of SME sustainability, followed by effective risk management and support for continuous improvement. These findings are consistent with the work of Kinney (2000), who argues that robust internal controls, when integrated with clear organizational structures, significantly enhance business performance by mitigating risks and fostering accountability. The positive effect of systems supporting planning for expansion aligns with O'Regan & Ghobadian, (2004) who noted that structured organizational designs facilitate strategic growth in SMEs by aligning resources with long-term objectives. However, the modest effect of the synergy between control and structure on business growth suggests that while beneficial, this relationship may be moderated by contextual factors such as business size or sector, as highlighted by Olawale & Garwe (2010) in their study of African SMEs.

Conversely, the analysis identifies significant negative predictors, including an overemphasis on certain control mechanisms, which may hinder long-term sustainability due to rigidity, and over-centralization in decision-making, which may stifle adaptability. These findings resonate with studies by Amudo & Inanga, (2009) who found that excessive control rigidity in African SMEs can undermine flexibility and resilience, particularly in micro-enterprises, which dominate the sample. The negative impact on operational continuity during economic fluctuations further supports Ejoh & Ejom, (2014) who noted that resource-constrained SMEs often lack robust systems to withstand external shocks. The non-significant effects of employee performance and innovation on sustainability align with Adjabeng & Osei (2022), who argue that these factors may have indirect rather than direct impacts, mediated through other organizational processes.

The findings also align with contingency theory, which posits that organizational effectiveness depends on the alignment of structure and control systems with environmental demands (Donaldson,

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DOI: https://doi.org/10.64388/IREV9I6-1713207

2001). The strong agreement on decision-making and transparency suggests that SMEs in Ondo State have achieved some alignment, but the weaker agreement on resilience to shocks indicates a need for more adaptive systems (Otokiti et al., 2022). This is consistent with Omowole et al., (2024) who highlighted that African SMEs often struggle with resilience due to limited integration of flexible control mechanisms. The variability in responses, particularly for vulnerability to shocks, may reflect differences in business size or sector exposure, as noted by Madueme & Nwosu, (2022).

In conclusion, the results underscore the critical role of the synergy between internal control systems and organizational structure in enhancing long-term decision-making, transparency, and risk management in SMEs in Ondo State. However, challenges such as control rigidity and limited resilience to shocks highlight areas for improvement. These findings are consistent with global and regional literature, emphasizing the need for balanced and context-specific systems to ensure SME sustainability. Future research could investigate strategies to enhance resilience, particularly for micro-enterprises, and explore the optimal balance between control rigidity and flexibility to support long-term sustainability.

V. CONCLUSION AND RECOMMENDATIONS

Conclusion

This study examined how internal control systems and organizational structure influence the efficiency, effectiveness, and sustainability of SMEs in Ondo State, Nigeria. The findings demonstrate that effective internal controls such as financial accountability, regulatory compliance, and segregation of duties positively influence SME financial performance (Adegboyegun et al., 2020; COSO, 2013). However, areas like revenue tracking and internal audits remain weak and require attention (Ejoh & Ejom, 2014; Olufunmilayo & Hannah, 2018).

Furthermore, the study confirmed that well-structured organizations support decision-making, teamwork, and operational efficiency (O'Regan & Ghobadian, 2004). Despite this, challenges such as misalignment between management style and structural design persist, particularly in micro-enterprises (Adjabeng & Osei, 2022).

The combined impact of internal control and organizational structure significantly contributes to long-term SME sustainability through enhanced risk management, transparency, and strategic planning (Kinney, 2000; Wang & Wang, 2020). However, excessive rigidity in controls and centralized decision-making may limit adaptability and resilience (Amudo & Inanga, 2009; Ejoh & Ejom, 2014).

In summary, internal control systems and organizational structure, when effectively implemented and synergized, significantly improve the performance and sustainability of SMEs. However, these systems must remain flexible and responsive to contextual realities to deliver optimal impact (Donaldson, 2001; Omowole et al., 2024).

Recommendations

1. Adopt Technology-Enabled Controls and Audits: SMEs should utilize affordable digital tools to improve revenue tracking, periodic audits, and financial accuracy
2. Formalize Organizational Structures: Define clear roles, reporting lines, and decision rights to reduce ambiguity and strengthen operational flow
3. Avoid Excessive Centralization: Balance internal control with operational flexibility to encourage innovation and responsiveness
4. Encourage Government and Institutional Support: Policymakers should provide training, technical support, and incentives to help SMEs implement structured controls and governance systems
5. Foster a Culture of Continuous Improvement: SMEs should routinely assess and adjust internal systems and structures to align with evolving market conditions and sustainability goals

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