

**The Impact of Internal Control on Employee
Performance of Small-Sized Businesses in Hargeisa,
Somaliland.**

MSC THESIS

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DECEMBER 2025

HARAMAYA UNIVERSITY, HARAMAYA

**The Impact of Internal Control on Employee Performance of
Small-Sized Businesses in Hargeisa, Somaliland.**

**A Thesis Submitted to the Department of Accounting and
Finance, Postgraduate Program Directorate.**

Haramaya University

**In Partial Fulfillment of the Requirement for the Degree of
Master of Science in Accounting and Finance**

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December, 2025

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DEDICATION

I am deeply grateful to Allah for granting me the strength, opportunity, and guidance to complete this MSc program. I dedicate this thesis to my beloved family, especially my mother, grandmother, aunt, and brother. Their encouragement, sacrifices, and unwavering belief in my journey shaped my discipline and determination. I also extend heartfelt appreciation to my entire family; whose collective support played a vital role in my academic success.

BIOGRAPHICAL SKETCH

The author (Abdisalan Ismail Mohamed) was born in 1999 in Hargeisa, Somaliland. He attended and completed primary and secondary education in Hargeisa. After his secondary schooling, he joined the Civil Service Institute to pursue studies in the Department of Accounting and Finance. In 2023, he graduated with a degree in Accounting and Finance from the Civil Service Institute. After graduation, he was employed as an English Teacher from 2021 to 2023. On the other hand, in 2024, the author joined postgraduate studies, particularly the Department of Accounting and Finance, to pursue his Master of Science in Accounting and Finance at Haramaya University, Ethiopia.

ACRONYMS AND ABBREVIATIONS

COSO	Committee of Sponsoring Organizations of the Treadway Commission
ICT	Information and Communications Technology
IFC	International Finance Corporation
KPI / KPIs	Key Performance Indicators
MSc	Master of Science
PhD	Doctor of Philosophy
CGS	Council of Graduate Studies
DGC	Department Graduate Committee
SGC	School Graduate Committee
JD R	Job Demands Resources Model
ERM	Enterprise Risk Management
SME / SMEs	Small and Medium-sized Enterprise(s)
STATA	Statistical data analysis software
VIF	Variance Inflation Factor
Q-Q	Quantile Quantile
R ²	Coefficient of determination

ACKNOWLEDGEMENTS

First and foremost, I would like to thank the Almighty Allah, who helped me in every aspect of my life and enabled me to successfully complete this thesis.

I earnestly express my sincere and deepest thanks to my major advisor, Mr. Wondimagegn Biru, for his friendly support, academic guidance, and continuous encouragement throughout the process of proposal development, research execution, and thesis writing. Special thanks and heartfelt appreciation also go to my co-advisor, Dr. Abdirahman Aliyi, for his patience, valuable insights, and constructive feedback, which significantly contributed to the improvement of this work. I want to express my gratitude and appreciation to Haramaya University, Department of Accounting and Finance, for granting me the opportunity to pursue my Master of Science in Accounting and Finance. I am also grateful to Haramaya University for the academic environment and the financial support provided during my study period.

I wish to extend my profound appreciation to the small businesses in Hargeisa that willingly participated in this study. Their cooperation, time, and openness in responding to the questionnaires were essential in making this research possible.

My heartfelt thanks also go to my beloved parents, who have always supported and encouraged me throughout my life and academic journey. I am equally grateful to my brothers, whose advice and moral support have been crucial in every step of my success.

To conclude, I sincerely thank all my friends and classmates who shared in my academic journey and assisted me with suggestions, discussions, and moral support during the entire research process.

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ABSTRACT

This study examined the impact of internal control systems on employee performance in small-sized businesses in Hargeisa, Somaliland. Although small-sized businesses play a critical role in employment creation and economic development, many operate with weak internal control systems that undermine operational efficiency and workforce performance. The study focused on the five COSO components of internal control, namely control environment, risk assessment, control activities, information and communication, and monitoring. Employee performance was measured using task completion rate and employee attendance.

A sequential exploratory mixed-methods research design was adopted. Primary data were collected through semi-structured interviews and structured questionnaires administered to owners, managers, and employees of selected small-sized businesses. A total of 298 questionnaires were distributed, of which 290 valid responses were used for the final analysis. Qualitative data were analyzed thematically, while quantitative data were analyzed using descriptive statistics, correlation analysis, and multiple linear regression with the aid of STATA version 17.

The results revealed that internal control systems had a positive and statistically significant effect on employee performance. Specifically, control environment, control activities, information and communication, and monitoring showed significant positive relationships with task completion rate and employee attendance, while risk assessment exhibited a positive but comparatively weaker effect. The overall regression model was statistically significant, confirming the critical role of internal control systems in enhancing employee discipline, efficiency, and reliability.

The study concludes that strengthening internal control systems is essential for improving employee performance and ensuring sustainable operations in small-sized businesses. It recommends that business owners and managers formalize internal control procedures, strengthen supervision and monitoring, enhance internal communication, and invest in basic internal control training. Support institutions and policymakers are also encouraged to promote awareness and technical support for improved internal control practices within the small business sector.

Keywords: Internal control systems, employee performance, COSO framework, small-sized businesses, Hargeisa, Somaliland.

1. INTRODUCTION

1.1 Background

Internal control systems are essential mechanisms that organizations use to ensure accurate financial reporting, regulatory compliance, and operational efficiency. Through clear procedures, accountability structures, and risk-mitigation processes, internal controls help prevent errors, safeguard assets, and support organizational performance (Olufunmilayo and Hannah, 2018). These systems are particularly important for small businesses, which often operate with limited resources and informal structures. Without effective controls, such enterprises become vulnerable to inefficiencies, mismanagement, and declining employee morale, all of which negatively affect performance.

Employee performance refers to the extent to which individuals achieve organizational goals, deliver work efficiently, and meet established standards. It involves productivity, quality of output, time management, and adherence to key performance indicators (Luthans, 2011). Previous studies have shown that internal controls contribute to improved performance by reducing ambiguity, clarifying expectations, and creating a structured work environment that supports employees in fulfilling their roles (Purwati et al., 2023). Conversely, weak or absent control systems often lead to reduced productivity, increased errors, and low job satisfaction (Solomon et al., 2013).

Globally, small businesses play a fundamental role in economic development by generating employment and stimulating innovation. However, they frequently face challenges linked to inadequate internal controls, lack of training, and limited managerial capacity, which result in persistent performance issues (Fatmasari Wijayanti and Retno Titi Sari, 2023). These challenges are even more pronounced in developing contexts, where resource constraints and informal management practices are common. Supportive work environments and structured control mechanisms have been shown to mitigate such challenges, contributing to improved employee outcomes (Liu et al., 2013).

In Hargeisa, Somaliland, small-sized businesses remain central to economic activity and employment generation. Despite their significance, these enterprises encounter numerous difficulties in implementing effective internal control systems. Financial limitations, shortages of skilled personnel, and the absence of formalized management practices constrain their ability to adopt and maintain robust control mechanisms (Mohamed, 2022). Additionally, the regulatory framework in Somaliland is still developing, creating

uncertainty and limiting businesses' ability to establish standardized internal control practices (Bezuidenhout and Nenungwi, 2012).

Although research has widely examined the link between internal controls and employee performance in other contexts, limited attention has been given to the specific realities of small businesses in Hargeisa (Riupassa and Mauwa, 2023; Olufunmilayo and Hannah, 2018). This gap creates a need for localized, context-specific evidence that can guide small business owners, policymakers, and other stakeholders in strengthening internal controls to enhance employee performance and organizational sustainability.

1.2 Statement of the Problem

Small-sized businesses are a major source of employment and economic activity in Hargeisa, yet many of them continue to struggle with weak internal control systems. These weaknesses limit their ability to manage resources effectively, ensure accountability, and support consistent employee performance. Inadequate internal controls expose these businesses to risks such as financial mismanagement, fraud, and operational inefficiencies, all of which undermine employee performance and overall organizational outcomes (Mohamed, 2022).

The challenge is more pronounced in Hargeisa, where small businesses often operate in resource-constrained environments characterized by limited access to capital, informal management structures, and insufficient training opportunities. Employees in such businesses typically work without clear guidelines, standardized procedures, or consistent supervision. As a result, they face role ambiguity, inconsistent expectations, and limited support, which contribute to reduced employee performance, poor task execution, and declining job satisfaction (Solomon et al., 2013).

Although internal control systems have been widely recognized as essential tools for improving employee performance, most existing studies focus on large organizations or developed economies. There is limited empirical research that examines this relationship within the context of small-sized businesses in Somaliland. This lack of localized evidence means that business owners and policymakers in Hargeisa lack appropriate guidance on how internal controls can be effectively implemented to enhance employee performance (Riupassa and Mauwa, 2023; Olufunmilayo and Hannah, 2018).

Addressing this problem is essential, as improving internal control systems may offer a practical pathway for increasing employee performance, strengthening operational efficiency, and supporting the sustainable growth of small businesses in Hargeisa. This

study, therefore, seeks to fill the existing knowledge gap by examining how internal control systems influence employee performance in small-sized businesses within Hargeisa.

1.3. Objectives of the Study

1.3.1. General objectives

The study's general objective is to assess the impact of internal control on employee performance in small businesses in Hargeisa, Somaliland.

1.3.2. Specific objectives

- To evaluate the impact of internal control on employee performance in small-sized businesses in Hargeisa.
- To identify the key internal control components that determine employee performance in small-sized businesses in Hargeisa.

1.4. Research Questions

The following research questions will be answered through this study

1. How does internal control impact employee performance in small-sized businesses in Hargeisa?
2. What are the key internal control components that determine employee performance in small-sized businesses in Hargeisa?

1.5 Scope of the Study

This study focuses on examining the impact of internal control systems on employee performance in small-sized businesses operating in Hargeisa, Somaliland. Geographically, the study is limited to three selected districts of Hargeisa, namely 26 June, Ibrahim Koodbuur, and Ga'an Libah districts. These districts were selected due to their high concentration of small-sized businesses and their active engagement in commercial and service-related activities.

Conceptually, the study is confined to the five components of internal control as outlined in the COSO framework, namely the control environment, risk assessment, control activities, information and communication, and monitoring. Employee performance is assessed using two key indicators, specifically task completion rate and employee attendance. Other dimensions of performance, such as job satisfaction, employee motivation, and turnover intention, are outside the scope of this study.

Methodologically, the study adopts a mixed-methods approach, combining qualitative and quantitative techniques. Quantitative data were collected using structured questionnaires from owners, managers, and employees of small-sized businesses, while qualitative data were obtained through semi-structured interviews with selected participants. The study employs descriptive statistics, correlation analysis, and multiple linear regression analysis to establish the relationship between internal control systems and employee performance.

In terms of time scope, the data for this study were collected within the 2025 academic year. Therefore, the findings reflect the situation of internal control practices and employee performance as observed during this specific period.

1.6 Significance of the Study

This study contributes meaningful insights to small-sized businesses in Hargeisa by examining how internal control systems influence employee performance. The findings are expected to help business owners and managers understand the importance of establishing clear procedures, enhancing accountability, and strengthening monitoring practices to improve performance outcomes. By identifying which components of internal control have the greatest effect on employee performance, the study offers practical guidance for improving operational efficiency and workforce productivity.

For policymakers and regulatory institutions, the study provides evidence that can inform the development of policies, training programs, and support mechanisms aimed at strengthening internal control practices within the small business sector. Such interventions may enhance transparency, reduce operational risks, and contribute to sustainable economic development.

Academically, the study enriches the limited body of literature on internal controls and employee performance in Somaliland. It offers context-specific evidence that can guide future research on organizational performance in developing and post-conflict settings. Additionally, the study serves as a valuable reference for scholars and students researching small business management, control systems, and performance enhancement.

The study will also benefit employees by highlighting workplace practices that enhance role clarity, fairness, motivation, and overall performance.

1.7 Definition of Key Terms and Measurements

Internal control: Internal control refers to a process designed and implemented by management and employees to provide reasonable assurance regarding the achievement of organizational objectives relating to the effectiveness and efficiency of operations, the reliability of financial reporting, and compliance with applicable laws and regulations (COSO, 2013). It includes policies and procedures such as authorization, segregation of duties, proper documentation, and continuous monitoring. In this study, internal control is operationalized through the five COSO components: control environment, risk assessment, control activities, information and communication, and monitoring.

Employee performance: Employee performance refers to the extent to which an employee effectively executes assigned duties in line with organizational goals and expected standards. It encompasses efficiency, productivity, quality of work, and adherence to organizational procedures (Armstrong and Taylor, 2020). In this study, employee performance is operationally measured using two key indicators, namely task completion rate and employee attendance.

Small-sized businesses: Small-sized businesses are enterprises that typically employ fewer than 50 employees, operate with limited capital, and generate relatively modest annual turnover. These enterprises are commonly found in developing economies and play a significant role in employment creation and local economic development (IFC, 2020). In this study, small-sized businesses refer specifically to registered commercial and service enterprises operating within the selected districts of Hargeisa.

Control Environment: The control environment represents the foundation of an organization's internal control system. It reflects the integrity, ethical values, competence of employees, management philosophy, and organizational structure that influence how controls are implemented and enforced (COSO, 2013).

Risk Assessment: Risk assessment refers to the systematic process of identifying, analyzing, and evaluating internal and external risks that may hinder the achievement of organizational objectives. It enables businesses to design appropriate responses to potential threats (Alhawamdeh and Alhawamdeh, 2019).

Control Activities: Control activities are the specific policies and procedures established by management to ensure that risk responses are effectively carried out. These include

approvals, authorizations, verifications, reconciliations, and segregation of duties (Olufunmilayo and Hannah, 2018).

Information and Communication: Information and communication refer to the systems and processes that enable organizations to identify, capture, and disseminate relevant information in a timely manner, ensuring that employees understand their responsibilities and perform their duties effectively (Biswakarma and Kadayat, 2023).

Monitoring: Monitoring involves the continuous or periodic evaluation of the effectiveness of internal control systems over time. It ensures that control weaknesses are identified and corrected promptly to maintain system reliability and efficiency (Purwati et al., 2023).

Task Completion Rate: Task completion rate refers to the proportion of assigned tasks that an employee successfully completes within the allocated time frame. It serves as a direct indicator of employee efficiency and time management (Martín and Llusar, 2018).

Employee Attendance: Employee attendance refers to the regularity and consistency with which an employee reports to work as scheduled. It is measured using absenteeism and attendance records and reflects employee reliability and work commitment (Wijekuruppu et al., 2021).

2. LITERATURE REVIEW

2.1 Introduction

This chapter reviews relevant theoretical and empirical literature on internal control systems and employee performance to establish a strong foundation for the present study. It begins by discussing the concept and importance of internal control, followed by a detailed examination of the five components of internal control based on the COSO framework. The chapter also reviews internal control practices within the context of small-sized businesses, with special consideration of the Somaliland business environment.

Furthermore, the chapter examines the concept of employee performance, its key indicators, and the major factors influencing it in small business settings. The relationship between internal control systems and employee performance is then discussed to establish the theoretical linkage between the study variables. Relevant theoretical frameworks, including the COSO framework, Agency Theory, and the Job Demands–Resources (JD-R) model, are reviewed to provide a conceptual basis for the study.

In addition, the chapter presents a synthesis of selected empirical studies related to internal control and employee performance from different contexts. It also discusses the specific context of small businesses in Somaliland before identifying the gaps in existing literature. Finally, the chapter presents the conceptual framework that guides the present study.

2.2 Concept and Importance of Internal Control

Internal control is widely recognized as a fundamental mechanism for ensuring organizational efficiency, accountability, and sustainability. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) defines internal control as a process designed and implemented by an organization's board of directors, management, and other personnel to provide reasonable assurance regarding the achievement of objectives related to operations, financial reporting, and compliance with laws and regulations (COSO, 2013). This definition emphasizes that internal control is not a one-time activity but a continuous and integrated system embedded within daily organizational operations.

From an operational perspective, internal control plays a critical role in safeguarding assets, preventing fraud and errors, and ensuring the efficient use of organizational resources. Effective internal controls establish clear procedures, define responsibilities, and promote discipline in task execution, which enhances overall organizational performance (Riupassa and Mauwa, 2023). In small-sized businesses, where managerial oversight is often limited

and operations are highly centralized, internal control becomes even more significant for minimizing inefficiencies and operational risks (Olufunmilayo and Hannah, 2018).

Beyond financial protection, internal control also contributes significantly to shaping employee behavior and performance. According to Fernando and Surjandari (2021), internal controls create a structured work environment characterized by role clarity, standardized procedures, and accountability mechanisms, all of which enhance employee discipline and task efficiency. When employees clearly understand expectations and procedures, they are more likely to perform their duties accurately, consistently, and in line with organizational objectives.

Furthermore, internal control strengthens transparency and ethical conduct within organizations. Through systematic documentation, authorization procedures, and supervisory checks, internal control discourages opportunistic behavior and promotes integrity in daily operations (Alhawamdeh and Alhawamdeh, 2019). This ethical climate fosters trust between management and employees, which is essential for maintaining commitment and motivation, particularly in small business settings where interpersonal relationships strongly influence workplace behavior.

In developing and post-conflict economies, such as Somaliland, the importance of internal control is even more pronounced. Small businesses in these contexts often operate under conditions of limited capital, informal management systems, and weak regulatory enforcement. These challenges expose businesses to high levels of operational and financial risk (Mohamed, 2022). Effective internal control systems help mitigate such risks by improving record keeping, enforcing accountability, and enhancing managerial oversight, thereby strengthening organizational stability and performance.

Comparatively, while Riupassa and Mauwa (2023) emphasize the role of internal control in improving financial reliability and fraud prevention, Fernando and Surjandari (2021) stress its behavioral impact on employees through enhanced discipline and procedural compliance. This suggests that internal control contributes simultaneously to both financial soundness and human performance outcomes. In small-sized businesses, where financial performance and employee performance are closely intertwined, this dual role of internal control is particularly critical.

Internal control is a multidimensional system that supports organizational effectiveness through risk reduction, accountability, ethical conduct, and performance enhancement. For

small-sized businesses, especially those operating in resource-constrained environments such as Hargeisa, internal control is not merely a regulatory requirement but a strategic tool for improving employee performance, operational efficiency, and long-term business sustainability.

2.3 Key components of internal control (COSO Framework)

The COSO framework identifies five interrelated components that together form the foundation of an effective internal control system. These components guide organizations in establishing, implementing, and maintaining controls that support operational efficiency, accountability, and compliance. Each component contributes uniquely to the overall strength of the control environment.

2.3.1 Control Environment

The control environment forms the foundation of all internal control activities. It reflects the organization's ethical values, leadership style, and commitment to integrity. A strong control environment promotes accountability and influences employee behavior by establishing clear expectations and standards (Alhawamdeh and Alhawamdeh, 2019). In small businesses, the control environment is especially significant because managerial attitudes directly shape compliance and performance.

2.3.2 Risk Assessment

Risk assessment involves identifying and analyzing risks that may hinder the achievement of organizational objectives. This process requires businesses to anticipate internal and external threats and to evaluate their likelihood and potential impact. Effective risk assessment enables small-sized enterprises to allocate limited resources strategically and to implement measures that mitigate operational vulnerabilities (Riupassa and Mauwa, 2023).

2.3.3 Control Activities

Control activities are the policies and procedures put in place to address identified risks and ensure the proper execution of tasks. These may include segregation of duties, authorization protocols, documentation procedures, and physical safeguards for assets. For small businesses, control activities often take the form of simple, practical measures such as supervisory checks or routine task reviews (Olufunmilayo and Hannah, 2018). When consistently applied, they reduce errors and enhance task performance.

2.3.4 Information and Communication

Information and communication refer to the processes that ensure employees receive accurate, timely, and relevant information needed to perform their responsibilities. Clear communication enhances employee understanding of internal control processes and supports their compliance with established procedures (Biswakarma and Kadayat, 2023). In small enterprises, the availability of open communication channels strengthens coordination and improves employees' ability to meet organizational expectations (Watanabe, 2024).

2.3.5 Monitoring

Monitoring involves the continuous assessment of internal control effectiveness over time. Through regular evaluations, businesses can identify weaknesses, adjust control mechanisms, and ensure sustained compliance (Swartz et al., 2021). Effective monitoring strengthens accountability and contributes to long-term operational efficiency, especially in small businesses that face dynamic and resource-limited environments (Purwati, 2023).

Together, these five components create a structured and coherent internal control system that supports organizational stability, enhances employee performance, and contributes to the long-term success of small-sized businesses.

2.4 Internal Control Practices in Somaliland's Small Businesses

Internal control practices in Somaliland's small-sized businesses are shaped by the country's unique socio-economic, institutional, and cultural environment. Small enterprises in Hargeisa operate within a context characterized by rapid urbanisation, informal business arrangements, limited access to finance, and evolving regulatory frameworks. These conditions strongly influence how internal control systems are designed, implemented, and sustained.

Most small-sized businesses in Somaliland rely heavily on informal control mechanisms due to limited financial capacity and shortages of professionally trained personnel. Instead of formal documentation, segregation of duties, and structured monitoring systems, many enterprises depend on owner supervision, trust-based relationships, and manual record keeping (Olufunmilayo and Hannah, 2018; Musa and Horst, 2019). While these approaches may support day-to-day operations, they often weaken accountability, expose businesses to fraud and errors, and reduce the effectiveness of monitoring mechanisms.

The regulatory and institutional environment further affects internal control practices. Somaliland's private sector has expanded rapidly since the early 1990s, driven largely by

entrepreneurship, trade, and diaspora remittances. However, the absence of full international recognition has limited access to external financing, institutional support, and modern governance systems (Abdullah, 2023). Consequently, many small enterprises operate without standardized internal control policies or formal audit structures, which constrains their ability to strengthen accountability and performance.

Recent advancements in information and communication technology have introduced gradual improvements in internal control practices. The widespread use of mobile money platforms such as Zaad and E-Dahab has enhanced transaction accuracy, reduced cash-handling risks, and improved financial traceability among small businesses (Hills, 2016). Digital payment systems and electronic record-keeping have strengthened certain control activities and simplified monitoring processes. Despite these developments, many enterprises still struggle with weak documentation, limited segregation of duties, and inconsistent risk assessment practices.

Cultural factors also play a significant role in shaping internal control practices in Somaliland. Business relationships are often built on trust, loyalty, and social ties, which sometimes lead to relaxed oversight and weak enforcement of formal procedures (Alvianti and Hawignyo, 2021). While such social capital supports cooperation, it may also reduce the effectiveness of formal accountability mechanisms.

In summary, internal control practices in Somaliland's small-sized businesses reflect a combination of informal management systems, emerging digital innovations, and institutional constraints. Although recent technological developments have improved certain areas of control, significant weaknesses remain in formalization, monitoring, and risk management. These realities highlight the need for empirical research aimed at identifying practical ways of strengthening internal control systems to enhance employee performance and business sustainability in Hargeisa.

2.5 Employee Performance: Definitions and Key Indicators

Employee performance refers to the extent to which individuals effectively carry out assigned duties in accordance with organizational goals and established standards. It reflects how well employees utilize their skills, effort, and time to produce quality outcomes that contribute to organizational success (Armstrong and Taylor, 2020). In small-sized businesses, where operational processes are often informal and highly dependent on

individual effort, employee performance plays a particularly critical role in sustaining daily activities and long-term business survival (Kunze et al., 2013).

Employee performance is a multidimensional concept that includes several behavioral and outcome-based elements such as efficiency, quality of work, punctuality, reliability, and compliance with organizational procedures. However, in small business settings, performance measurement tends to focus on observable operational behaviors rather than complex appraisal systems due to limited managerial capacity and resource constraints (Martín and Llusar, 2018).

For this reason, the present study adopts two core indicators of employee performance: task completion rate and employee attendance. Task completion rate reflects the employee's ability to complete assigned duties accurately and within expected timeframes, which is essential for maintaining operational efficiency and service delivery. Attendance reflects the employee's reliability and consistency in reporting for duty, which is particularly important in small enterprises where staffing is limited and each employee's presence is crucial for continuity of operations (Wijekuruppu et al., 2021).

These indicators were selected because they are:

- Directly observable by business owners and supervisors
- Highly relevant to the operational realities of small-sized businesses
- Suitable for quantitative measurement and statistical analysis

Accordingly, task completion rate and attendance provide a practical, reliable, and context-appropriate basis for assessing employee performance in small-sized businesses in Hargeisa.

2.6 Factors influencing employee performance

Employee performance is influenced by a wide range of individual, organizational, and managerial factors that shape how employees behave, perform tasks, and maintain consistency at work. In small-sized businesses, these factors are particularly important because the performance of each employee directly affects daily operations and overall business continuity.

Motivation is widely recognised as a major determinant of employee performance. Motivated employees tend to exert greater effort, demonstrate higher levels of task efficiency, and maintain better attendance records. Both intrinsic motivation, such as personal satisfaction and sense of achievement, and extrinsic motivation, such as financial

rewards and recognition, play critical roles in shaping employee performance (Yating et al., 2024).

Leadership is another key factor that influences how employees perform their duties. Effective leaders provide direction, support, and clear communication, which enhances employee confidence and accountability. Transformational leadership, in particular, has been shown to improve employee commitment, task efficiency, and reliability (Ricardianto et al., 2021). In small businesses, where owners and managers interact closely with employees, leadership style has a direct and immediate impact on workforce behavior.

Work environment also significantly affects employee performance. A supportive work environment characterized by clear expectations, open communication, fair treatment, and adequate working conditions encourages employees to perform tasks more efficiently and maintain consistent attendance. Conversely, poor working conditions, role ambiguity, and lack of support often result in low efficiency and increased absenteeism (Armstrong & Taylor, 2020).

Management practices, including supervision, performance appraisal, feedback systems, and training, further shape employee performance. Regular performance feedback helps employees understand expectations and correct weaknesses, while training improves skill levels and job competence (Iqbal et al., 2011). Structured management practices also enhance discipline and accountability, which strengthens performance outcomes.

Although these organizational and behavioral factors strongly influence employee performance, the present study statistically controls for individual demographic and job-related characteristics in order to isolate the specific effect of internal control systems on employee performance. This approach ensures that the observed relationship between internal control and employee performance is not distorted by uncontrolled personal or workplace factors.

2.7 Measuring Employee Performance in Small Businesses

Measuring employee performance in small-sized businesses requires practical, observable, and context-appropriate indicators that reflect daily operational realities. Unlike large organizations that rely on complex performance appraisal systems, small enterprises typically use simple, behavior-based measures due to limited resources, informal structures, and close supervision by owners or managers (Armstrong and Taylor, 2020).

In small business settings, performance measurement focuses primarily on behaviors that have direct and immediate impacts on productivity and service continuity. For this reason, the present study measures employee performance using task completion rate and employee attendance as the two core performance indicators. These indicators capture both efficiency and reliability, which are critical to the survival and stability of small-sized businesses.

Task completion rate measures the extent to which employees complete assigned duties accurately and within the expected time frame. It reflects the employee's efficiency, discipline, and ability to manage work responsibilities effectively (Martín and Llusar, 2018). High task completion rates indicate well-organized workflow and effective supervision, while low rates often signal weak control systems or poor job coordination.

Employee attendance measures the regularity and consistency with which employees report for duty as scheduled. In small-sized businesses, absenteeism directly disrupts operations because staffing is limited and replacement options are minimal (Wijekuruppu et al., 2021). Regular attendance, therefore, serves as a strong indicator of employee reliability, commitment, and overall work discipline.

These two indicators were selected because they are:

- Easily observable and verifiable by managers
- Relevant to the operational realities of small enterprises
- Suitable for quantitative analysis

Accordingly, task completion rate and attendance provide a valid, reliable, and context-appropriate measurement framework for employee performance in small-sized businesses in Hargeisa.

2.8 Relationship Between Internal Control and Employee Performance

The relationship between internal control systems and employee performance has been widely examined in organizational and management literature. Internal controls provide structure, guidance, and accountability mechanisms that help employees understand expectations, perform tasks accurately, and maintain consistent work behavior (Alhawamdeh and Alhawamdeh, 2019).

A strong control environment establishes ethical values, discipline, and clear authority structures that shape employee behavior and enhance compliance with work standards. Risk assessment helps organizations anticipate operational problems and put preventive measures

in place, thereby reducing disruptions that negatively affect employee efficiency. Control activities, such as supervision, approval procedures, and segregation of duties, directly influence how employees carry out their daily tasks. Information and communication systems ensure that employees receive timely instructions and feedback, which improves coordination and task execution. Monitoring activities enable management to identify performance gaps and apply corrective actions, thereby reinforcing accountability and continuous improvement.

Empirical studies consistently show that effective internal control systems enhance employee discipline, reduce operational errors, improve task efficiency, and lower absenteeism (Olufunmilayo and Hannah, 2018; Riupassa and Mauwa, 2023; Purwati et al., 2023). Employees working under well-structured control systems tend to perform their duties more accurately and reliably than those operating in weakly controlled environments.

However, where internal controls are weak, inconsistently enforced, or purely symbolic, employee performance gains may be limited or unsustainable. Weak controls often lead to role ambiguity, poor supervision, lack of accountability, and inconsistent work discipline, all of which negatively affect employee performance.

In the context of small-sized businesses, the link between internal control and employee performance is particularly strong because daily operations depend heavily on individual employee behavior. Effective internal control systems, therefore, play a crucial role in enhancing both efficiency and reliability among employees, which ultimately improves overall business performance.

2.9 Theoretical Framework

This study is anchored on three main theoretical perspectives that explain how internal control systems influence employee performance in small-sized businesses. These include the COSO Internal Control Framework, Agency Theory, and the Job Demands–Resources (JD-R) Model. Together, these theories provide a strong conceptual foundation for understanding the mechanisms through which internal controls shape workplace behavior and performance outcomes.

2.9.1 COSO Framework and its relevance to small-sized businesses

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework provides a comprehensive model for designing, implementing, and evaluating internal control systems. It identifies five interrelated components: control environment, risk

assessment, control activities, information and communication, and monitoring (COSO, 2013). These components work together to ensure operational efficiency, reliable reporting, and compliance with regulations.

In small-sized businesses, the COSO framework offers a flexible structure that can be adapted to resource-constrained environments. A strong control environment promotes ethical behavior and discipline among employees. Risk assessment enables small businesses to identify operational threats early. Control activities ensure that tasks are executed properly, information and communication improve coordination and clarity, and monitoring ensures that weaknesses are detected and corrected promptly.

By understanding the structure of internal control systems, the COSO framework directly supports improved employee performance through enhanced supervision, accountability, and work discipline. For this reason, the COSO framework forms the primary theoretical foundation of the present study.

2.9.2 Agency Theory: Internal Control and Employee Performance

Agency theory explains the relationship between principals (business owners) and agents (employees), focusing on problems of accountability, monitoring, and goal alignment (Chen and Sandino, 2012). In small-sized businesses, agency problems arise when employees pursue personal interests that may conflict with business objectives.

Internal controls serve as key mechanisms for reducing agency problems by:

- Monitoring employee behavior
- Enforcing accountability
- Aligning employee actions with organizational goals

Clear rules, supervision, documentation, and performance evaluation systems reduce information asymmetry and limit opportunistic behavior. When employees understand that their actions are monitored and evaluated fairly, they are more likely to comply with organizational procedures and perform their duties effectively (Fernando and Surjandari, 2021).

Thus, agency theory explains how internal control systems enhance employee performance by promoting discipline, responsibility, and trust between owners and employees.

2.9.3 Job Demands-Resources (JD-R) Model: Internal Controls as Resources

The Job Demands–Resources (JD-R) model explains employee performance by categorizing workplace factors into job demands and job resources. Job resources are physical, psychological, or organizational elements that help employees achieve work goals, reduce job strain, and stimulate motivation (Bakker and Wingerden, 2021).

Within this framework, internal control systems function as organizational job resources. Clear procedures, supervision, communication systems, and feedback mechanisms reduce uncertainty, role conflict, and work-related stress. When employees operate under structured internal controls, they experience greater clarity, support, and fairness, which enhances motivation, engagement, and performance (Ali and Mehreen, 2019).

Furthermore, internal controls facilitate learning, discipline, and resilience, enabling employees to cope effectively with job demands. In small-sized businesses, where workloads are often heavy and resources limited, internal controls play a vital role in maintaining employee stability and productivity.

The JD-R model, therefore, complements the COSO framework and agency theory by explaining how internal control systems improve employee performance through psychological and motivational mechanisms.

2.10 Empirical Studies

A growing body of empirical literature has examined the relationship between internal control systems and employee performance across different organizational and national contexts. Although most of these studies have been conducted in developed or formally structured environments, their findings provide important insights into how internal control mechanisms influence employee behavior, efficiency, and accountability.

In Nigeria, Olufunmilayo and Hannah (2018) investigated internal control systems and employee performance in small-scale manufacturing enterprises. Their findings revealed that effective internal control significantly improves employee efficiency, discipline, and overall performance. The study emphasized that proper supervision, documentation, and authorization procedures reduce operational errors and enhance employee accountability. This evidence suggests that even in small enterprises, structured internal control systems positively influence workforce performance.

Similarly, Riupassa and Mauwa (2023), in a study conducted in Indonesia within the banking sector, found that strong internal control systems significantly improved employee productivity and operational efficiency. Although the study focused on a formal financial institution, it demonstrated that effective control activities, monitoring systems, and information flows enhance employee task execution and reliability. These findings confirm that internal control is a key driver of performance across different organizational settings.

In East Africa, Mwakimasinde, Odhiambo, and John examined the role of internal controls in the performance of agricultural workers in Kenya. Their study revealed that internal control mechanisms such as supervision, performance review, and risk management significantly improved employee productivity and discipline. The study further highlighted that in post-conflict and resource-limited settings, internal controls are particularly important for stabilizing workforce behavior and reducing operational inefficiencies.

Alhawamdeh and Alhawamdeh (2019) assessed the impact of internal control on employee productivity in Jordanian organizations and found a positive and significant relationship between the two. Their findings showed that organizations with strong control environments and effective monitoring systems recorded higher levels of employee efficiency and compliance with organizational procedures. This study reinforces the argument that control environment and monitoring are critical drivers of employee performance.

In Zanzibar, Salim (2022) examined internal communication as a core component of internal control and found that effective communication systems significantly improved employee collaboration, task coordination, and performance. The study demonstrated that timely information sharing and feedback mechanisms enhance employee engagement and reduce work-related errors.

Furthermore, Mardiana et al. (2022), in their study of public institutions in Zanzibar, found that internal control systems and human resource audits significantly improved employee accountability and work discipline. Their findings showed that employees operating under structured supervision and clear performance expectations demonstrated higher task completion rates and lower absenteeism.

Studies conducted in healthcare and public service contexts also support the performance-enhancing role of internal controls. Sari et al. (2023) found that organizational culture and internal control systems jointly influence employee performance in Indonesian public

hospitals. Their results indicated that internal control strengthens discipline and accountability, which in turn improves employee efficiency and attendance.

Collectively, these empirical studies consistently demonstrate that internal control systems have a positive and significant effect on employee performance, regardless of organizational size or sector. The evidence shows that effective control environments, supervision, communication, and monitoring improve employee efficiency, discipline, accountability, and reliability. However, most of these studies were conducted in formal institutions, public organizations, or large enterprises, with limited emphasis on small-sized businesses operating in informal and post-conflict environments.

Moreover, while many studies focus on general performance outcomes, few explicitly measure employee performance using operational indicators such as task completion and attendance, which are critical in small enterprise settings. In addition, very limited empirical evidence exists from Somaliland, particularly concerning the COSO components of internal control and their individual effects on employee performance.

Therefore, despite strong international evidence supporting the internal control–performance relationship, there remains a significant contextual, methodological, and sectoral gap. This gap justifies the need for the present study, which empirically examines the effect of internal control systems on employee performance, measured through task completion rate and attendance, in small-sized businesses operating in Hargeisa, Somaliland.

2.11 The Context of Small Businesses in Somaliland

Small-sized businesses form the backbone of Somaliland's economy and play a central role in employment creation, income generation, and the provision of essential goods and services, particularly in urban centres such as Hargeisa. These enterprises are predominantly owner-managed and operate within an environment characterized by informality, limited access to finance, weak regulatory enforcement, and minimal institutional support. While these conditions have encouraged entrepreneurial growth, they have also created significant challenges for the establishment and enforcement of formal internal control systems.

Most small-sized businesses in Somaliland operate with limited formal documentation, weak accounting systems, and heavy reliance on cash-based transactions. The dominance of family ownership and trust-based employment relationships often limits the application of formal segregation of duties, authorization procedures, and independent supervision. As a

result, internal control practices remain largely informal, exposing businesses to risks of fraud, mismanagement, inaccurate record keeping, and weak operational accountability.

In addition, access to professional accounting and audit services is very limited among small enterprises. Many business owners lack formal training in financial management and internal control design, which constrains their ability to develop structured monitoring and risk assessment mechanisms. The absence of regular internal or external audits further weakens control enforcement and reduces management's ability to detect performance inefficiencies and behavioral problems among employees.

Recent growth in mobile money and digital payment platforms has improved transaction tracking and reduced certain cash-handling risks. However, the broader internal control environment remains weak due to poor documentation practices, limited use of standardized procedures, and inconsistent supervision. These weaknesses directly affect employee behavior by reducing accountability, weakening performance evaluation, and limiting disciplinary enforcement mechanisms.

The fragile internal control environment in Somaliland's small-sized businesses makes employee performance highly sensitive to managerial practices. Weak supervision, unclear job roles, and poor monitoring systems often result in inconsistent task completion, absenteeism, and reduced work discipline. Therefore, understanding how internal control systems influence employee performance within this unique business environment is essential for improving productivity, accountability, and long-term business sustainability.

This contextual reality provides strong justification for the present study, as strengthening internal control systems may offer a practical pathway for enhancing employee performance and improving the operational stability of small-sized businesses in Hargeisa.

2.12 Gaps in the Literature

Despite the growing body of literature on internal control systems and employee performance, several important gaps remain, particularly in relation to small-sized businesses operating in developing and post-conflict economies such as Somaliland.

First, most existing studies have been conducted in developed countries or within large organizations and formal institutions, such as banks, public institutions, and manufacturing firms. While these studies provide valuable insights into the role of internal control in enhancing performance, their findings cannot be directly generalized to small-sized

businesses, which operate under different structural, financial, and managerial conditions. Small enterprises often lack formalized procedures, professional supervision, and standardized control mechanisms, yet these contextual realities are rarely addressed in existing studies.

Second, there is limited empirical research that examines the individual components of the COSO internal control framework in relation to employee performance. Many studies treat internal control as a single aggregate construct without examining how specific elements such as the control environment, risk assessment, control activities, information and communication, and monitoring independently affect employee performance. This limits a detailed understanding of which control mechanisms are most influential in improving employee task efficiency and attendance.

Third, very little empirical evidence exists on the relationship between internal control systems and employee performance in the context of Somaliland. Although some studies have examined business development, informality, and financial constraints in Somaliland, there is a clear absence of systematic research focusing on how internal control practices influence employee behavior and performance in small-sized businesses, particularly in Hargeisa. This lack of localized evidence constrains policymakers, business owners, and development partners from making informed decisions based on scientific findings.

Finally, most previous studies emphasize financial performance, profitability, or organizational outcomes rather than direct employee performance indicators such as task completion and attendance. As a result, the role of internal control systems in shaping daily employee behavior and operational discipline remains underexplored, especially within small enterprise settings.

In light of these gaps, the present study seeks to contribute to the literature by empirically examining the effect of internal control systems, based on the COSO framework, on employee performance measured through task completion rate and attendance in small-sized businesses operating in Hargeisa, Somaliland. By addressing both contextual and methodological gaps, the study provides original, policy-relevant, and practice-oriented evidence for strengthening internal control and workforce performance in small enterprises.

2.13 Conceptual Framework

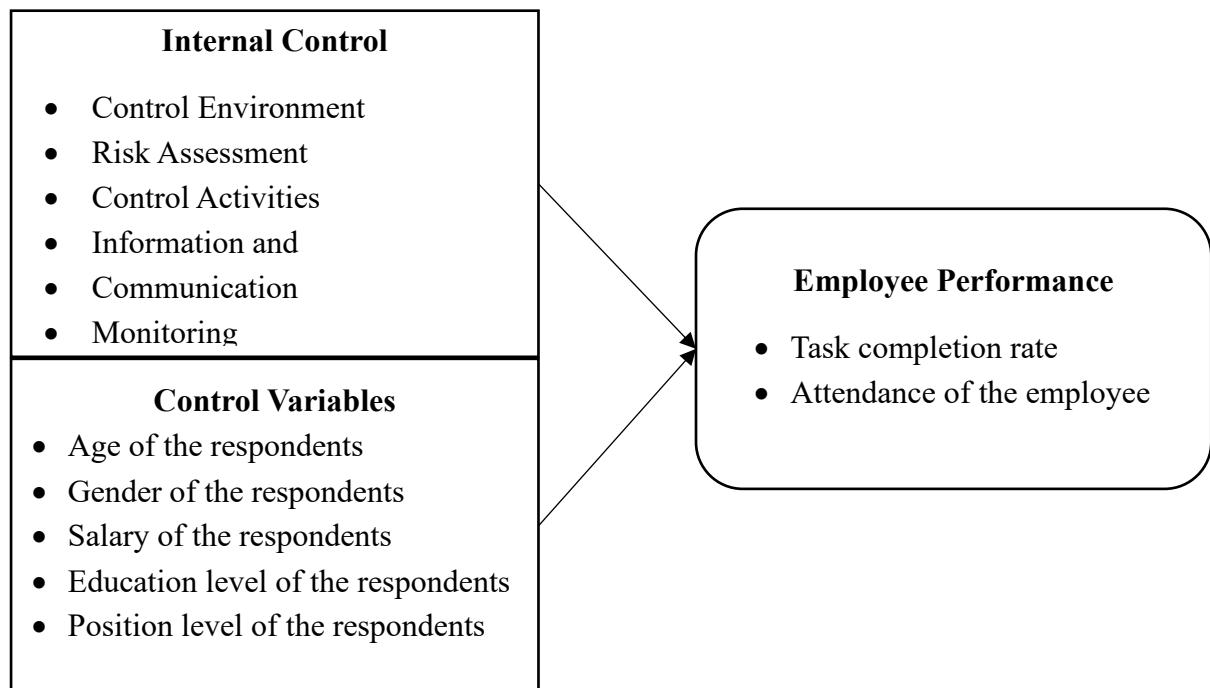


Figure 1. *Conceptual Framework Showing the Relationship between Internal Control Systems and Employee Performance*

3. RESEARCH METHODOLOGY

This chapter describes the research methodology that will be used in this study by the researcher. It is divided into three main sections. The first section briefly describes the study area. The second section provides information on the sources and data collection methods, while the last section discusses the data analysis methods.

3.1. Description of the Study Area

This study was conducted in Hargeisa City, the capital and principal commercial center of Somaliland. Hargeisa serves as the political, administrative, and economic hub of the country and accommodates the largest concentration of business activities in Somaliland (World Bank, 2020). The city is characterized by vibrant private sector activities dominated by trade, service provision, small-scale manufacturing, transportation, construction, and informal commercial enterprises.

Administratively, Hargeisa is divided into six districts. This study focused on three purposively selected districts, namely 26 June District, Ibrahim Koodbuur District, and Ga'an Libah District. These districts were selected because they are predominantly urban, densely populated, and characterized by a high concentration of commercial and service-related activities (Hargeisa Municipality, 2023). The districts host major marketplaces, shopping centers, transport terminals, and service clusters, which make them key centers of small business operations within the city.

Economically, the selected districts are dominated by small-sized enterprises, including retail shops, grocery stores, restaurants, tailoring businesses, salons, electronics shops, mobile phone service outlets, and other service-based micro and small enterprises. These enterprises typically employ between two and fifteen employees, depending on the nature and scale of their operations (ILO, 2021). Small-sized businesses, therefore, play a significant role in employment creation and income generation within the urban economy of Hargeisa.

The concentration of small-sized businesses, the diversity of commercial activities, and the accessibility of the selected districts made the study area suitable for examining issues related to business management practices, particularly internal control systems and employee performance in small-sized businesses.

3.2. Research Design

This study adopted a sequential exploratory mixed-methods research design to examine the impact of internal control systems on employee performance in small-sized businesses in Hargeisa, Somaliland. The mixed-methods approach was considered appropriate because it allowed the researcher to gain an in-depth understanding of internal control practices through qualitative inquiry and to statistically test the relationship between internal control systems and employee performance using quantitative techniques (Creswell, 2013).

The study was conducted in two sequential phases. The first phase was qualitative, in which semi-structured interviews were conducted with selected business owners, managers, and employees to explore their perceptions and experiences regarding internal control practices and their influence on employee performance. This phase provided contextual insights into how internal control systems operate in small-sized businesses within the local environment and helped to inform the development of the quantitative research instrument.

The second phase was quantitative, in which a structured questionnaire was developed based on findings from the qualitative phase and relevant literature. The questionnaire was administered to a larger sample of respondents drawn from small-sized businesses in the selected districts. The quantitative data were analyzed using descriptive statistics, correlation analysis, and multiple linear regression analysis to empirically examine the effect of internal control systems on employee performance.

The sequential exploratory mixed-methods design was therefore suitable for this study because it enabled the integration of qualitative understanding with quantitative statistical testing, thereby enhancing the depth, validity, and reliability of the study findings.

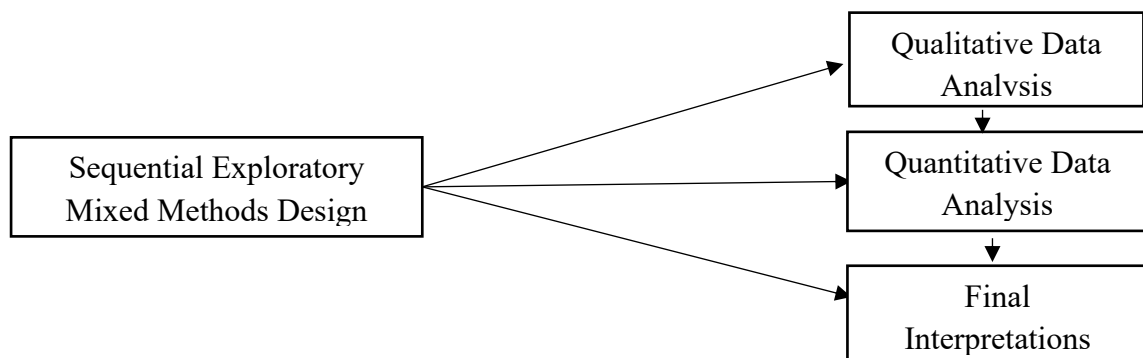


Figure 2. *Sequential Exploratory Mixed Methods Design (Adapted from Creswell, 2013)*

3.3. Target Population

The target population of this study comprised owners, managers, and employees of small-sized businesses operating in the selected districts of Hargeisa, namely 26 June District, Ibrahim Koodbuur District, and Ga'an Libah District. These categories of respondents were considered appropriate because they are directly involved in the design, supervision, and execution of internal control practices, as well as in the day-to-day activities that reflect employee performance.

The study population consisted of individuals engaged in various types of small-scale business activities, including retail trade, food and beverage services, tailoring, electronics sales and repair, mobile phone services, transportation-related services, and other service-based micro and small enterprises. These businesses are typically owner-managed and operate with limited formal organizational structures.

The population of the study was structured into three key groups. The first group comprised business owners, who were responsible for overall business decision-making and the establishment of internal control procedures. The second group included managers or supervisors, who oversaw daily business operations and directly enforced internal control measures and performance standards. The third group consisted of employees who executed assigned tasks and whose performance, in terms of task completion and attendance, formed the core dependent variable of the study.

By including these three categories of respondents, the study captured comprehensive perspectives on internal control systems and employee performance from both managerial and operational levels. This approach enhanced the reliability and completeness of the data collected and ensured that the findings reflected the practical realities of small-sized business operations in Hargeisa.

3.4. Sampling Technique and Sample Size

This study employed a multi-stage sampling technique involving both purposive and simple random sampling methods. In the first stage, 26 June District, Ibrahim Koodbuur District, and Ga'an Libah District were selected purposively due to their high concentration of small-sized businesses and accessibility for data collection. In the second stage, small-sized businesses within the selected districts were selected using simple random sampling in order to give each enterprise an equal chance of inclusion. From the selected enterprises, employees were then selected randomly to participate in the questionnaire survey. Business

owners and managers were selected purposively for qualitative interviews because of their direct involvement in the design and supervision of internal control systems.

The sample size for the quantitative component of the study was determined using the Yamane (1967) formula, which is suitable for studies with a finite population. The formula is expressed as:

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

Where:

- n is the sample size.
- N is the total population size (assumed to be 1,163 for this study).
- e is the margin of error (set at 5% for this research)

$$n = \frac{1,163}{1 + 1,163(0.05^2)}$$

$$n = 298$$

Accordingly, a total of 298 questionnaires were distributed to employees of selected small-sized businesses. Out of these, 290 questionnaires were correctly completed and returned, representing a response rate of 97.3 percent. Eight questionnaires were excluded due to incomplete responses. The 290 valid questionnaires were therefore used for final data analysis. This response rate was considered adequate and statistically reliable for generalization of the study findings within the selected districts.

3.4 Data Collection Methods and Instruments

This study adopted a sequential exploratory mixed-methods approach, consisting of two data collection phases: qualitative (semi-structured interviews) and quantitative (structured questionnaires). Each phase utilized distinct yet complementary instruments to ensure a comprehensive understanding aligned with the study's objectives.

3.4.1 Primary data

Primary data were gathered through semi-structured interviews and structured questionnaires, each serving a specific research purpose.

2.4.1.1 Semi-Structured Interviews (Qualitative Phase)

The initial qualitative phase involved semi-structured interviews with business owners, managers, and employees to explore their perspectives on internal control practices and their impact on employee performance. These interviews aimed to gain in-depth insights into:

- The current state of internal control systems in small-sized businesses.
- Employees' experiences and perceptions of internal controls.
- The perceived impact of internal controls on employee performance.

Participants were selected using purposive sampling to ensure representation across various small businesses in Hargeisa. A total of 30-60 participants (10-20% of the study population) were targeted for the interviews, which were conducted in person or via video conferencing based on participant preference. Each session lasted approximately 30-45 minutes and was recorded (with consent) for transcription and analysis.

To enhance reliability, the interview questions were pre-tested with a small group of respondents. The collected qualitative data were analyzed using thematic analysis, involving coding, pattern identification, and theme generation. These insights guided the development of the quantitative phase.

2.4.1.2 Structured Questionnaires (Quantitative Phase)

Informed by the qualitative findings, a structured questionnaire was developed to quantify perceptions of internal control practices and employee performance. The questionnaire featured closed-ended questions and Likert scale items measuring respondents' agreement with various statements related to:

- The implementation of internal control components (e.g., control environment, risk assessment).
- Employees' perceptions of internal control effectiveness.
- Indicators of employee performance (e.g., performance, efficiency, adherence to standards).

A total of 290 respondents participated in the quantitative phase of the study, representing 97.3 percent of the distributed questionnaires. All questionnaires were administered in

person across the three selected districts to ensure high response rates and to accommodate participants with limited digital access. Mandatory items were included in the questionnaire to reduce missing responses, while regular follow-ups were conducted during the data collection period to encourage full completion.

Before the main data collection, the questionnaire was pre-tested with a small group of respondents to evaluate its clarity, reliability, and relevance. Feedback from the pilot test was used to refine item wording, improve flow, and enhance the overall validity of the instrument. The quantitative data collected from the finalized questionnaire were analyzed using descriptive statistics such as frequencies, percentages, and means, as well as inferential statistical techniques, including correlation and multiple regression analysis, to examine the relationship between internal control systems and employee performance.

3.4.2 Secondary Data

Secondary data were obtained from reports, business records, and existing research on internal control systems and employee performance in small businesses. These sources supplemented primary data by providing additional context and supporting evidence. Key secondary data sources included:

- Government reports on small businesses in Somaliland.
- Academic research on internal controls and employee performance.
- Industry publications and business records.

Secondary data were utilized to validate and contextualize primary findings, ensuring a comprehensive understanding of the research topic.

To offer a comprehensive analysis, both qualitative and quantitative data were combined. Qualitative insights guided the questionnaire design, while quantitative results enabled broader generalization. This mixed-methods approach ensured a balance between in-depth individual perspectives and overarching trends within the study population.

3.7. Methods of Data Analysis

The analysis of data collected from questionnaires on internal control systems and their impact on employee performance in small-sized businesses in Hargeisa will be conducted using STATA version 17. The initial phase will utilize descriptive statistics to summarize respondent demographics, such as age and education, and business characteristics, including

size and industry type. Key measures like mean, median, mode, and standard deviation will offer a baseline understanding of how these variables relate to internal control components—control environment, risk assessment, control activities, information and communication, and monitoring—and their impact on performance metrics.

While descriptive statistics provide valuable initial insights, they have limitations, such as the potential for misinterpretation and overreliance on summary data. To address these issues, inferential statistics will be employed to explore the relationships between internal control components and performance outcomes. This phase will account for control variables like employees' age and education, as well as business size and industry type, as these factors significantly influence the analysis. For example, prior research suggests that demographic factors like age and education affect job satisfaction and organizational commitment, which, in turn, influence performance (Khan et al., 2022).

Correlation analysis will play a central role in the inferential statistics phase, focusing on the relationships between internal control practices and performance indicators. By calculating Pearson correlation coefficients, the analysis will evaluate the strength and direction of these relationships while controlling for demographic and business variables. Research shows that incorporating these controls enhances the validity of findings, enabling more accurate generalizations from the sample to the broader population (Khan et al., 2022). Additionally, employee experience will be considered as a control variable, as it may mediate the relationship between internal control systems and performance outcomes.

By integrating descriptive and inferential statistical methods and systematically controlling for demographic and business variables, the analysis will comprehensively understand how internal control systems influence employee performance in small-sized businesses in Hargeisa. This rigorous approach will ensure reliable conclusions and support well-informed recommendations based on the data.

3.7.1. Measurement of Employee Productivity

To assess the impact of internal control systems on employee productivity in small-sized businesses in Hargeisa, Somaliland, this study will utilize Key Performance Indicators (KPIs) as the primary metrics. These KPIs are designed to provide measurable and actionable insights into employee performance by focusing on key dimensions such as efficiency, financial contribution, and service quality. The selected indicators are as follows:

1. Task Completion Rate

Task completion rate measures the percentage of tasks employees complete within the assigned timeframes. This indicator will be derived from task logs and business records and is calculated as:

$$\text{Task Completion Rate: } \frac{\text{Number of Tasks Completed}}{\text{Total Tasks Assigned}} \times 100$$

This metric reflects efficiency and alignment with internal control guidelines.

To measure this, employees will be asked how long it took them to complete a specific task. This approach will help assess individual task durations alongside recorded data, providing a more comprehensive understanding of efficiency. This metric reflects employee efficiency and time management, which are directly influenced by the effectiveness of internal control systems.

2. Attendance of the Employee

Measuring the attendance of employees will serve as an indicator of their productivity. This will be assessed using the **Employee Absenteeism Rate**, calculated as:

$$\text{Employee absenteeism rate: } \frac{\text{Total days absent}}{\text{Total workday}} \times 100$$

A lower absenteeism rate suggests higher reliability and consistency, contributing to overall employee productivity and organizational efficiency.

3.8. Model Specifications

In this study, a Multiple Linear Regression Model will be used to analyze the impact of internal control on employee performance in small-sized businesses in Hargeisa. The relationship between internal control systems and employee performance was analyzed using the following multiple linear regression model, formulated in accordance with established econometric practices (Wooldridge, 2016):

$$Y_i = \beta_0 + \beta_1(ICE)_i + \beta_2(Age)_i + \beta_3(Gender)_i + \beta_4(Salary)_i \\ + \beta_5(Education\ Level)_i + \beta_6(Employee\ experience)_i + \varepsilon_i$$

Where:

- Y_i : Employee performance score for individual i , measured through task completion rate and attendance metrics.
- ICE_i represents the Internal Control Effectiveness Score for the business employing individual i . It was measured using five indicators, namely control environment, risk assessment, control activities, information and communication, and monitoring, captured on a five-point Likert scale.
- **Age**: Continuous variable (in years)
- **Gender**: Dichotomous variable (0 = female, 1 = male).
- **Salary**: Monthly earnings in USD (log-transformed).
- **Education Level**: Ordinal scale (1 = Diploma, 2 = Degree, 3 = Masters, 4 = Others).
- **Employee Experience**: Work tenure in years.
- β_0 : Constant term
- $\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6$: Partial regression coefficients.
- ε_i : The error term, which will capture unobserved factors that affect employee performance.

Employee performance was modeled as a linear function of internal control effectiveness and key demographic/job-related factors, consistent with organizational performance studies (Smith and Bititci, 2017). The model controls for age, gender, salary, education, and experience to isolate the specific effect of internal control systems, following established practices in SME research (Riupassa and Mauwa, 2023).

3.8.1. Research Hypotheses

1. **Null Hypothesis (H_0)**: Internal control systems have no significant effect on employee performance in small-sized businesses in Hargeisa, Somaliland.

$$\beta_1 = 0$$

2. **Alternative Hypothesis (H_A)**: Internal control systems have a significant positive effect on employee performance in small-sized businesses in Hargeisa, Somaliland.

$$\beta_1 > 1$$

3.8.2. Model Implementation

The data collected for this study were analyzed using STATA version 17. The coefficients ($\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6$) will indicate how each component of internal control affects employee performance.

3.8.3. Significance Tests and Diagnostic Checks for the Study

- **t-Tests:** t-tests will be employed to determine whether individual predictors (elements of internal control) have a statistically significant impact on employee performance. Predictors with p-values less than the chosen significance level (e.g., 0.05) will be considered significant.
- **F-Test:** The F-test will assess the overall significance of the regression model, evaluating whether the collective effect of all predictors on employee performance is statistically meaningful.
- **Diagnostic Tests:** To ensure the validity of the regression model, the following diagnostic tests will be conducted:
 - **Normality Test:** Residuals will be tested for normal distribution using methods such as the Shapiro-Wilk test or graphical analysis (e.g., Q-Q plots).
 - **Homoscedasticity Test:** The constancy of residual variance across levels of the independent variables will be checked using the Breusch-Pagan test or similar methods.
 - **Multicollinearity Test:** Variance Inflation Factor (VIF) analysis will be used to identify and address any high correlations among predictors that might affect the reliability of the regression coefficients. And also, to check and detect multicollinearity between the control and independent variables.
 - **Autocorrelation Test:** Durbin-Watson statistics will be employed to detect the presence of autocorrelation in the residuals, ensuring the independence of observations.

Goodness of Fit:

The R^2 value, also known as the coefficient of determination, will be used to represent the proportion of variance in employee performance explained by the predictors in the model. A higher R^2 indicates that the internal control variables in the study better align with the data.

To adjust for the number of predictors and avoid overestimating the model's explanatory power, the adjusted R^2 will also be calculated. This measure provides a more reliable evaluation of the model's fit, particularly when multiple predictors are involved.

This model aims to meet the study's objectives by offering insights into the impact of internal control systems on employee performance. It will also identify the most influential components of internal control, helping to formulate recommendations for small-sized businesses in Hargeisa.

3.9 Role in Regression Analysis

The regression model will include these variables to control for potential confounding effects. The analysis aims to provide a more precise evaluation of the relationship between internal controls and employee performance by accounting for these factors.

3.9.1 Data Quality Control

A pilot testing process will be done to assess the quality of collected data, refine the questionnaire, and find possible issues in data collection. The entry of data input will be double-checked to minimize errors; further, the development of data cleaning procedures will be developed, addressing issues on missing values, outliers, and inconsistent values. Reliability and validity tests for the data obtained through Cronbach's alpha and Pearson's correlation coefficient, respectively, will be processed using statistical methods.

3.10. Ethical Considerations

Ethical consideration issues will be paramount during this research. Informed consent and a guarantee of privacy and confidentiality for all participants will be strictly followed. No names of respondents will be requested in the course of this work to further reinforce the concept of anonymity. All data will be stored securely and can be accessed by only by authorized persons. The potential for benefit will be maximized with the potential for harm minimized, and participants treated with respect and dignity.

4. PRESENTATION, ANALYSIS, AND INTERPRETATION OF DATA

4.1 Introduction

This chapter presents the results of the data analysis conducted for the study. It begins with the demographic characteristics of the respondents, followed by descriptive statistics of the main study variables. Reliability tests, correlation analysis, and multiple regression analysis are then presented to examine the relationship between internal control and employee performance. Finally, the chapter provides a summary of the key findings.

A total of 298 questionnaires were distributed to employees, managers, and owners of small-sized businesses across the three selected districts in Hargeisa. Out of these, 290 questionnaires were fully completed and returned, resulting in an effective response rate of 97.3 percent. This exceptionally high response rate strengthens the reliability and representativeness of the study findings. It also reflects the strong willingness of respondents to share information regarding internal control practices and employee performance within small-sized businesses in Hargeisa.

4.2 Demographic Characteristics of Respondents

This section provides a summary of the demographic information of the respondents who participated in the study. The characteristics analyzed include gender, age group, position within the business, educational background, work experience, monthly salary, type of business, and business district. These variables help describe the profile of the respondents and provide context for interpreting the study findings.

Table 1: Gender of Respondents

gender	Freq.	Percent	Cum.
Female	153	52.76	52.76
Male	137	47.24	100.00
Total	290	100.00	

Source: *Own survey, 2025*

The results in Table 4.1 show that 52.76 percent of the respondents were female, while 47.24 percent were male. This indicates that the views gathered in the study reflect the perceptions of both genders, with a slight dominance of female respondents. This balanced representation helps ensure that the findings are not biased toward a particular gender group. The relatively even gender distribution implies that the observed effects of internal control

systems on employee performance are applicable to both male and female employees. Since internal control practices such as supervision, communication, and monitoring are designed to guide employee behavior irrespective of gender, the study's findings support the research objective of identifying internal control components that determine employee performance across the workforce in small-sized businesses in Hargeisa.

Table 2: Age Group of Respondents

Age group	Freq.	Percent	Cum.
18–25	61	21.03	21.03
26–35	90	31.03	52.07
36–45	61	21.03	73.10
46+	78	26.90	100.00
Total	290	100.00	

Source: Own survey, 2025

Table 4.2 shows that the majority of respondents were in the age group 26–35 years (31.03 percent) and 46 years and above (26.90 percent). Respondents aged 36–45 years represented 21.03 percent, while those aged 18–25 years also accounted for 21.03 percent. This distribution indicates that the study includes respondents from all major age categories, allowing for a broad understanding of internal control practices and employee performance across different age levels.

The inclusion of both younger and more experienced employees implies that the findings on internal control systems and employee performance reflect diverse work experiences and maturity levels. Younger employees are more likely to rely on clear procedures, supervision, and communication to perform effectively, while older and more experienced employees benefit from structured monitoring and accountability mechanisms. Therefore, the effect of internal control components on employee performance, as examined in this study, is not age-specific and supports the research objective of identifying internal control components that determine employee performance across the workforce in small-sized businesses in Hargeisa.

Table 3: Position of Respondents

Position	Freq.	Percent	Cum.
Employees	92	31.72	31.72
Managers	99	34.14	65.86
Owners	99	34.14	100.00
Total	290	100.00	

Source: *Own survey, 2025*

According to Table 4.3, respondents were almost evenly distributed across positions. Employees accounted for 31.72 percent, managers 34.14 percent, and owners 34.14 percent. This balanced distribution is beneficial because it captures perspectives from different organizational levels, from those who implement internal controls to those who enforce and monitor them. The inclusion of employees, managers, and owners strengthens the assessment of internal control systems by reflecting both operational and supervisory viewpoints. This comprehensive representation enhances the validity of the findings on how internal control components influence employee performance and supports the research objective of identifying internal control components that determine employee performance in small-sized businesses in Hargeisa.

Table 4: Education Level of Respondents

Education	Freq.	Percent	Cum.
Diploma	66	22.76	22.76
Degree	70	24.14	46.90
Master	79	27.24	74.14
Other	75	25.86	100.00
Total	290	100.00	

Source: *Own survey, 2025*

As shown in Table 4.4, respondents had varied educational backgrounds. Diploma holders accounted for 22.76 percent, bachelor's degree holders 24.14 percent, master's degree holders 27.24 percent, and other qualifications 25.86 percent. This distribution suggests that employees in small-sized businesses possess different levels of formal education, which may influence their understanding and application of internal control practices. The presence of respondents with diverse educational backgrounds implies that internal control systems play

a critical role in guiding employee behavior and performance regardless of formal education level. Clear procedures, supervision, and communication mechanisms help ensure consistent employee performance across varying educational levels, thereby supporting the research objective of identifying internal control components that determine employee performance in small-sized businesses in Hargeisa.

Table 5: Work Experience of Respondents

Experience	Freq.	Percent	Cum.
0-1	69	23.79	23.79
1-3	75	25.86	49.66
4-6	79	27.24	76.90
7+	67	23.10	100.00
Total	290	100.00	

Source: Own survey, 2025

Table 4.5 shows that 27.24 percent of respondents had 4–6 years of work experience, followed by 25.86 percent with 1–3 years, and 23.10 percent with more than 7 years. Those with less than one year of experience accounted for 23.79 percent. This distribution indicates that most respondents have moderate work experience, suggesting familiarity with business operations and internal control measures. The presence of both less experienced and highly experienced employees implies that internal control systems play an important role in standardizing work practices and guiding employee performance across different experience levels. Clear control procedures, supervision, and monitoring help ensure consistent employee performance regardless of tenure, thereby supporting the research objective of identifying internal control components that determine employee performance in small-sized businesses in Hargeisa.

Table 6: Monthly Salary of Respondents

Salary	Freq.	Percent	Cum.
200	87	30.00	30.00
200–400	56	19.31	49.31
400–800	74	25.52	74.83
800+	73	25.17	100.00
Total	290	100.00	

Source: *Own survey, 2025*

The results in Table 4.6 indicate that most respondents earned less than USD 200 per month (30.00 percent), followed by those earning USD 400–800 (25.52 percent) and those earning more than USD 800 (25.17 percent). Respondents earning USD 200–400 accounted for 19.31 percent. This reflects the typical salary structure in small-sized businesses in Hargeisa. The variation in income levels suggests that employee performance may be influenced not only by financial rewards but also by the effectiveness of internal control systems. In environments where monetary incentives are limited, clear procedures, supervision, communication, and monitoring become particularly important in guiding employee behavior and maintaining performance standards. Therefore, the findings support the research objective of identifying internal control components that determine employee performance in small-sized businesses in Hargeisa.

Table 7: Type of Business

Business type	Freq.	Percent	Cum.
Retail	79	27.24	27.24
Service	56	19.31	46.55
Restaurants	77	26.55	73.10
Other	78	26.90	100.00
Total	290	100.00	

Source: *Own survey, 2025*

Table 4.7 shows that respondents worked across different business types. Retail businesses accounted for 27.24 percent, service businesses for 19.31 percent, restaurants for 26.55 percent, and other sectors for 26.90 percent. This indicates that data were collected from a variety of business activities, improving the generalizability of the study to different kinds of small enterprises in Hargeisa. The inclusion of diverse business types implies that internal control systems operate under varying operational conditions, such as customer interaction intensity, cash handling, and workflow complexity. Despite these differences, internal control components such as supervision, communication, and monitoring remain essential for guiding employee behavior and enhancing performance across all business types. This supports the research objective of identifying internal control components that determine employee performance in small-sized businesses in Hargeisa.

Table 8: District of the Business

District	Freq.	Percent	Cum.
26 June	99	34.14	34.14
Ibrahim Koodbuur	93	32.07	66.21
Ga'an Libah	98	33.79	100.00
Total	290	100.00	

Source: *Own survey, 2025*

According to Table 4.8, respondents were almost equally distributed across the three target districts: 26 June (34.14 percent), Ibrahim Koodbuur (32.07 percent), and Ga'an Libah (33.79 percent). This equal representation ensures that the study findings reflect internal control practices and employee performance across the main districts of Hargeisa rather than being concentrated in one area.

4.3 Descriptive Statistics

Table 9: Descriptive Statistics for Internal Control Items

Variable	Mean	Std. Dev.	Minimum	Maximum
Control Environment1	3.45	1.33	1	5
Control Environment2	3.43	1.34	1	5
Risk Assessment1	3.49	1.40	1	5
Risk Assessment2	3.52	1.36	1	5
Control Activity1	3.60	1.23	1	5
Control Activity2	3.67	1.21	1	5
Info and Communication1	3.63	1.22	1	5
Info and Communication2	3.66	1.24	1	5
Monitoring1	3.61	1.24	1	5
Monitoring2	3.68	1.23	1	5

Source: *Own survey, 2025*

Table 4.9 presents the descriptive statistics for the ten internal control items measured using a five-point Likert scale. The results show that the mean scores range between 3.43 and 3.68, indicating

that respondents generally agreed with the statements relating to internal control practices in their businesses. The standard deviations, which vary from 1.21 to 1.34, show moderate dispersion in responses across the items.

The items measuring control activities, information and communication, and monitoring recorded slightly higher mean scores compared to items measuring control environment and risk assessment. This suggests that respondents perceive procedural and communication-related controls as being stronger than ethical tone or risk identification processes. This pattern is common in small-sized businesses, where operational controls tend to be implemented more visibly than formalized risk assessment mechanisms.

Overall, these findings indicate that internal control practices are present to a moderate extent among the surveyed businesses, forming a suitable basis for examining their relationship with employee performance.

Table 10: Descriptive Statistics for Employee Performance Items

Variable	Mean	Std. Dev.	Minimum	Maximum
Task Performance 1	3.76	1.25	1	5
Task Performance 2	3.69	1.20	1	5
Task Performance 3	3.81	1.14	1	5
Task Performance 4	3.66	1.26	1	5
Task Completion	3.17	0.97	1	5
Absenteeism	1.95	0.94	1	4

Source: *Own survey, 2025*

Table 4.10 presents the descriptive statistics for the employee performance items. The mean scores for the task performance indicators (TP1 to TP4) range from 3.66 to 3.81, indicating that respondents generally viewed their task performance as moderate to high. The standard deviations, which fall between 1.14 and 1.26, show a reasonable degree of variability in how employees assess their performance levels.

The task completion item has a mean of 3.17, suggesting that although many employees report completing their tasks consistently, others experience challenges in maintaining regular task completion. The absenteeism item recorded a lower mean of 1.95 on a one-to-four scale, indicating that most respondents reported relatively low levels of absence. This

finding aligns with the nature of small businesses, where employees often operate under close supervision and direct accountability.

Overall, the descriptive results suggest that employees perceive their performance as relatively strong, though improvements may be needed in task consistency and attendance. These patterns provide a useful basis for examining how internal control practices relate to and potentially influence employee performance.

Table 11: Descriptive Statistics for Composite Variables

Composite Variable	Mean	Std. Dev.	Minimum	Maximum
Control Environment	3.44	1.19	1	5
Risk Assessment	3.50	1.24	1	5
Control Activity	3.63	1.14	1	5
Info and Communication	3.64	1.16	1	5
Monitoring	3.64	1.16	1	5
Internal Control Index	3.57	1.03	1	5
Employee Performance	3.69	0.77	1.67	4.83

Source: *Own survey, 2025*

Table 4.11 presents the descriptive statistics for the composite variables used in the correlation and regression analyses. The mean scores for the internal control components (Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring) range between 3.44 and 3.64, indicating that internal control practices are moderately implemented across the surveyed businesses. The overall internal control index shows a mean of 3.57 with a standard deviation of 1.03, suggesting that although internal controls are present, their strength varies across firms.

The employee performance index has a mean of 3.69 and a relatively low standard deviation of 0.77, indicating that most employees rate their performance consistently high. The smaller variation implies that employee performance may be influenced by common workplace conditions such as managerial supervision, communication quality, or organizational culture.

Overall, these composite statistics provide a clear summary of the central tendencies of the study's main variables. The moderate to high mean scores for internal control and employee performance justify further analysis to determine the nature and strength of the relationship between the two constructs.

Table 12: Descriptive Statistics of Control Variables

Variable	Mean	Std. Dev.	Min	Max
Gender (1 = Male)	0.483	0.501	0	1
Age Group	2.600	1.100	1	4
Education Level	2.548	1.084	1	4
Position Level	2.010	0.813	1	3
Work Experience	2.514	1.079	1	4
Monthly Salary	2.483	1.165	1	4

Table 12 presents the descriptive statistics of the control variables included in the regression model. The results indicate adequate variability across gender, age group, education level, position, work experience, and monthly salary among the respondents. The mean value for gender (0.483) suggests a relatively balanced representation of male and female participants in the study, while the average age group (Mean = 2.600) indicates that most respondents fall within the economically active age categories. Furthermore, the mean values for education level (2.548), position level (2.010), and work experience (2.514) reflect diversity in educational attainment, organizational roles, and years of experience among employees, managers, and owners of small-sized businesses. The variation observed in monthly salary (Mean = 2.483) further highlights differences in remuneration across respondents.

Collectively, the observed dispersion in these control variables justifies their inclusion in the regression model to account for demographic and job-related differences that may influence employee performance, thereby enabling a more accurate estimation of the effect of internal control systems on employee performance.

4.4 Reliability Analysis

Table 13: Reliability Test Results (Cronbach's Alpha)

Construct	Items	Cronbach's Alpha
Control Environment	CE1, CE2	0.7353
Risk Assessment	RA1, RA2	0.7538
Control Activities	CA1, CA2	0.8643
Information and Communication	IC1, IC2	0.8660
Monitoring	M1, M2	0.8623
Internal Control (Overall Index)	10 items	0.9393
Employee Performance	6 items	0.7790

Source: Own survey, 2025

Table 4.13 presents the reliability results for all measurement scales used in the study. The Control Environment scale, measured using two items, achieved a Cronbach's alpha of 0.7353, indicating acceptable internal consistency. Similarly, the Risk Assessment scale demonstrated good reliability with an alpha value of 0.7538.

Control Activities, Information and Communication, and Monitoring each recorded alpha coefficients above 0.86, reflecting strong internal consistency within these constructs. These findings suggest that respondents evaluated procedural controls, communication practices, and monitoring activities consistently across the respective items.

The overall internal control index, which comprises all ten internal control items, recorded a Cronbach's alpha of 0.9393. This represents excellent internal consistency and indicates that the internal control components collectively form a coherent and reliable composite construct.

Employee performance, measured using six items including the reversed absenteeism item, achieved a Cronbach's alpha of 0.7790. This exceeds the recommended minimum threshold of 0.70, confirming that the scale reliably captures employee performance among the surveyed businesses.

Overall, all constructs surpassed the minimum recommended reliability benchmark of 0.70. This confirms that the measurement scales used in the study are internally consistent and appropriate for subsequent statistical analyses, including correlation and regression.

Table 14: Pearson Correlation Matrix

Variables	CE	RA	CA	IC	M	EP
Control Environment	1.000					
Risk Assessment	0.7362	1.000				
Control Activity	0.6262	0.6233	1.000			
Info and Communication	0.6088	0.6235	0.8411	1.000		
Monitoring	0.6586	0.6597	0.8906	0.8507	1.000	
Employee Performance	0.4741	0.4933	-0.0187	-0.0314	0.0129	1.000

Note: $p < 0.01$, $p < 0.05$, $p < 0.10$

Source: *Own survey, 2025*

Table 4.14 presents the Pearson correlation coefficients among the internal control components and employee performance. The results indicate that control environment and risk assessment have moderate, positive, and statistically significant correlations with employee performance ($r = 0.4741$ and $r = 0.4933$, respectively; $p < 0.05$). This suggests that organizations with strong ethical leadership, clearly defined responsibilities, and effective risk identification practices tend to exhibit higher levels of employee performance.

In contrast, the correlations between control activities, information and communication, and monitoring and employee performance are very weak and statistically insignificant ($r = -0.0187$, -0.0314 , and 0.0129 ; $p > 0.05$). These results imply that, at the bivariate level, formal procedures, communication mechanisms, and monitoring activities alone do not have a direct linear association with employee performance in the sampled businesses.

The analysis further reveals strong and statistically significant intercorrelations among the internal control components themselves, with coefficients ranging from 0.6088 to 0.8906 ($p < 0.01$). This reflects the integrated nature of internal control systems, whereby improvements in one component are closely associated with enhancements in others.

Moreover, the correlation between the overall internal control index and employee performance is weak but statistically significant ($r = 0.2193$; $p < 0.05$), indicating that internal control practices, when considered collectively, are positively associated with employee performance, although the strength of this association is modest.

These findings suggest that not all internal control components influence employee performance equally. In particular, control environment and risk assessment appear to play a more critical role in shaping employee behavior and performance outcomes. This implies that small-sized businesses should prioritize ethical leadership, clear organizational structures, and proactive risk management practices to enhance employee performance. Conversely, the insignificant correlations associated with control activities, information and communication, and monitoring indicate that these mechanisms may exert their influence indirectly or through interaction with other control components, rather than through direct bivariate relationships. Overall, the correlation analysis provides preliminary evidence supporting the need for further investigation using multiple regression analysis to determine the unique contribution of each internal control component to employee performance.

Table 15: Multiple Regression Results

Variable	Coefficient (B)	Std. Error	t-value	p-value	Beta
Control Environment	0.3474	0.0399	8.71	0.000	0.5336
Risk Assessment	0.3884	0.0384	10.12	0.000	0.6228
Control Activity	-0.1529	0.0617	-2.48	0.014	-0.2268
Info and Communication	-0.2128	0.0532	-4.00	0.000	-0.3186
Monitoring	-0.1846	0.0648	-2.85	0.005	-0.2765
Gender	0.0412	0.0276	1.49	0.137	0.0584
Age	-0.0368	0.0194	-1.90	0.058	-0.0831
Education Level	0.0625	0.0289	2.16	0.031	0.0974
Position	0.0557	0.0251	2.22	0.027	0.0916
Work Experience	0.0719	0.0247	2.91	0.004	0.1289
Monthly Salary	0.0483	0.0219	2.21	0.028	0.0942
Constant	3.1379	0.1085	28.91	0.000	—

Source: Own survey, 2025

Table 4.15 presents the multiple regression results examining the effect of internal control components on employee performance after controlling for demographic and job-related characteristics, including gender, age, education level, position, work experience, and monthly salary. The overall regression model is statistically significant ($F(11, 278) = 75.57$, $p < 0.001$), indicating that the explanatory variables jointly provide a reliable prediction of

employee performance. The R-squared value of 0.5709 suggests that approximately 57.1 percent of the variation in employee performance is explained by the model, while the adjusted R-squared of 0.5634 confirms strong explanatory power after accounting for the number of predictors.

The results indicate that control environment ($B = 0.3474$, $p < 0.001$) and risk assessment ($B = 0.3884$, $p < 0.001$) have positive and statistically significant effects on employee performance. The standardized coefficients show that risk assessment (Beta = 0.6228) is the strongest predictor of employee performance, followed by control environment (Beta = 0.5336). This suggests that organizations characterized by ethical leadership, clearly defined roles and responsibilities, and effective identification and management of risks tend to achieve higher levels of employee performance, even after accounting for individual and job-related differences.

In contrast, control activities, information and communication, and monitoring exhibit negative and statistically significant relationships with employee performance. These findings suggest that, in the context of small-sized businesses, overly formalized procedures, ineffective communication practices, or excessively rigid monitoring mechanisms may constrain flexibility, reduce autonomy, and inadvertently hinder employee performance. These results indicate that the effectiveness of internal control mechanisms depends not only on their presence but also on how they are designed and implemented within organizational settings.

Regarding the control variables, education level, position, work experience, and monthly salary demonstrate positive and statistically significant effects on employee performance, implying that higher human capital, organizational responsibility, experience, and compensation contribute positively to performance outcomes. Gender and age do not show statistically significant effects at conventional significance levels. The inclusion of these control variables strengthens the validity of the estimated coefficients by isolating the net effects of internal control components on employee performance.

It is important to note that the internal control components exhibit strong intercorrelations, as indicated in the Pearson correlation analysis. Consequently, the regression coefficients should be interpreted with caution, as multicollinearity among internal control components may influence the magnitude and direction of individual estimates. Nevertheless, the persistence of significant effects for control environment and risk assessment after

controlling for both other internal control components and demographic factors indicates that these elements play a particularly robust role in shaping employee performance.

Overall, the regression findings demonstrate that internal control components do not contribute uniformly to employee performance. While control environment and risk assessment emerge as constructive and influential factors, control activities, information and communication, and monitoring require careful redesign and contextual adaptation to avoid unintended negative consequences. These results reinforce the conclusion that effective internal control systems must balance formal controls with flexibility to enhance employee performance in small-sized businesses.

4.5 Regression Diagnostic Tests

To ensure the appropriateness and reliability of the multiple regression model used in this study, several diagnostic tests were conducted. These tests examined the major assumptions of multiple linear regression, including normality of residuals, multicollinearity, homoscedasticity, and linearity. The results from each test are presented and interpreted below.

Table 16: Shapiro–Wilk Test for Normality of Residuals

Statistic	Value
W	0.97651
p-value	0.00011

Source: *Own survey, 2025*

The normality of the residuals was assessed using the Shapiro–Wilk test. The test produced a W statistic of 0.97651 with a p value of 0.00011, indicating a statistically significant deviation from normality. While this result suggests a violation of the strict normality assumption, such deviations are common in studies that employ ordinal or Likert scale data. Moreover, with a relatively large sample size ($n = 290$), the central limit theorem supports the robustness of the regression estimates even when the residuals are not perfectly normally distributed. A visual inspection of the histogram and normal probability plot also showed mild skewness, but no severe departures from approximate normality, further confirming that the regression analysis remains reliable.

Table 17: Variance Inflation Factor (VIF) Results

Variable	VIF	Tolerance
Monitoring	6.24	0.160
Control Activity	5.54	0.180
Info and Communication	4.19	0.238
Risk Assessment	2.51	0.399
Control Environment	2.48	0.403
Gender	1.14	0.877
Age	1.62	0.617
Education Level	1.48	0.676
Position	1.73	0.578
Work Experience	1.85	0.541
Monthly Salary	1.69	0.592
Mean VIF	3.12	—

Source: *Own survey, 2025*

Multicollinearity was examined using the Variance Inflation Factor (VIF). All VIF values were below 10, ranging from 2.48 to 6.24, with an average VIF of 4.19. These values indicate that multicollinearity is not a major concern and that the independent variables provide distinct contributions to the model. Therefore, multicollinearity does not compromise the interpretability or stability of the regression coefficients.

Table 18: Breusch–Pagan/Cook–Weisberg Test

Test	Chi-square	p-value
Breusch–Pagan	23.81	0.0000

Source: *Own survey, 2025*

The Breusch–Pagan/Cook–Weisberg test was conducted to assess whether the variance of the residuals was constant across predicted values. The test yielded a chi-square statistic of 23.81 with a p-value of 0.0000, indicating that the null hypothesis of homoscedasticity is

rejected. This suggests the presence of heteroscedasticity in the model. To address this issue, supplementary regression analysis using robust standard errors was performed. The results showed that the coefficient significance and direction remained unchanged, confirming the stability of the findings.

Table 19: Linearity Assessment Summary

Diagnostic Check	Result
Residual vs fitted plot	No pattern or curvature
Normal probability plot	Mild deviation from normality
Component-plus-residual plots	No clear curvature

Source: *Own survey, 2025*

The linearity assumption was assessed using a residual-versus-fitted values plot. The scatterplot displayed no clear curvature or systematic pattern, indicating that the linear model is appropriate for representing the relationship between internal control components and employee performance. Component plus residual plots further supported the absence of major nonlinear patterns.

In conclusion, the diagnostic results show that while the assumptions of normality and homoscedasticity were not fully met, these violations are moderate and expected in applied survey-based research. Furthermore, the use of robust standard errors compensates for heteroscedasticity, and the large sample size supports the reliability of the model. The assumptions of multicollinearity and linearity were reasonably satisfied. Therefore, the regression model is considered valid and appropriate for explaining the impact of internal control on employee performance in small-sized businesses in Hargeisa.

4.6 Results and Findings for Objective Two: Qualitative Explanations of Internal Control Practices

This section presents the results and findings related to the second objective of the study, which seeks to explore and explain the underlying reasons for the observed variation in the impact of internal control components on employee performance. The qualitative findings

provide contextual and behavioral explanations that complement and deepen the understanding of the quantitative regression results presented earlier. Semi-structured interviews with owners, managers, and employees in small-sized businesses in Hargeisa revealed practical realities of internal control implementation that help explain why some internal control components positively influence employee performance while others exert negative effects.

4.6.1 Theme 1: Prevalence of Informal Control Practices

The qualitative data reveal that internal control systems are predominantly informal, relying on verbal instructions and owner judgment rather than documented procedures. This theme helps explain the contrasting regression results. On one hand, this informality can support the positive effects of Control Environment and Risk Assessment. Respondents indicated that a strong ethical tone and clear direction from owners ("*the owner usually tells us what to do*") provide the role clarity and leadership foundation measured by the Control Environment scale. Similarly, informal but proactive discussions about business challenges serve as the primary mode of Risk Assessment. This aligns with the quantitative finding that these foundational, leadership-driven components are positively associated with performance.

On the other hand, this same informality undermines Control Activities. The lack of written, standardized procedures ("*nothing is written or standardized*") and the common practice of family members holding multiple roles mean that formal checks, authorizations, and segregation of duties are weak or absent. This results in the inconsistent application of rules and increased errors, which qualitatively explains why the statistical implementation of Control Activities showed a significant negative relationship with performance. Employees perceive these sporadic or arbitrary procedural checks not as helpful guides but as sources of confusion and inefficiency.

4.6.2 Theme 2: Limited Training and Awareness of Internal Control Systems

A prevalent lack of formal training on internal control concepts was consistently reported. Employees learn "*by doing*" without understanding the purpose of controls, while owners lack access to resources to build structured systems. This theme directly supports the negative coefficients for Control Activities, Information and Communication, and Monitoring. Without proper training, employees do not understand the *why* behind procedures (Control Activities), leading to perceptions of burdensome bureaucracy. Furthermore, a lack of awareness about formal communication protocols contributes to the

gaps identified in the next theme, weakening the potential benefits of the Information and Communication component.

4.6.3 Theme 3: Communication Gaps in Implementing Internal Controls

The qualitative findings identified critical weaknesses in communication channels. Updates were communicated verbally and inconsistently, with employees sometimes learning of new rules through peers rather than management (*"we hear about new rules from other employees"*). This theme provides a clear, real-world explanation for the significant negative Beta coefficient (-0.3186) for Information and Communication in the regression model. These gaps lead directly to misunderstandings, task duplication, and work delays—all of which lower performance. The quantitative measure of this component likely captured these ineffective practices, hence the strong negative association with employee performance outcomes.

4.6.4 Theme 4: Monitoring Practices and Their Influence on Motivation

Perceptions of monitoring were mixed but leaned negative. While some appreciated accountability, many described excessive supervision that eroded trust and autonomy (*"it feels like they don't trust us"*). This theme offers a crucial behavioral explanation for the negative relationship between Monitoring and employee performance (Beta = -0.2765). The qualitative data suggest that monitoring in these small businesses is often experienced as intrusive oversight rather than supportive feedback. This creates supervisory pressure and reduces intrinsic motivation, which quantitatively manifests as a significant negative effect on performance.

Overall, the qualitative findings directly address the second objective of the study by explaining why internal control components exert non-uniform effects on employee performance. The findings reveal that internal control practices in small-sized businesses in Hargeisa are largely informal, weakly institutionalized, and inconsistently communicated. While this informality supports leadership-driven components such as control environment and risk assessment, it undermines components that require formal structure and sensitive implementation, including control activities, information and communication, and monitoring. Thus, the qualitative evidence provides a clear explanatory mechanism for the regression results and confirms that the effectiveness of internal control systems depends not only on their presence but also on how they are implemented in practice.

4.7 Chapter Summary

This chapter presented the results of the empirical investigation into the relationship between internal control and employee performance in small-sized businesses in Hargeisa. The analysis began with a description of the response rate and demographic characteristics of the 290 respondents. The demographic results indicated a diverse and well-balanced sample in terms of gender, age, position, education, experience, salary, type of business, and district distribution. In addition, descriptive statistics of the control variables were presented to summarize the demographic and job-related characteristics included in the regression model, confirming sufficient variation across gender, age group, education level, position, work experience, and monthly salary.

Descriptive statistics further revealed that internal control practices were moderately implemented across the surveyed businesses, with mean values generally between 3.4 and 3.7, while employee performance indicators showed moderately high mean scores. Reliability analysis confirmed that all measurement scales used in the study were internally consistent and suitable for advanced statistical analysis. Correlation analysis showed that control environment and risk assessment were positively associated with employee performance, whereas control activities, information and communication, and monitoring displayed weak or negative relationships. The multiple regression results demonstrated that control environment and risk assessment had strong positive and statistically significant effects on employee performance. In contrast, control activities, information and communication, and monitoring had negative and significant effects, suggesting challenges in the way these components are applied in small business settings. The regression model also incorporated control variables to account for demographic and job-related differences among respondents, thereby strengthening the validity of the estimated effects of internal control components on employee performance.

The integration of qualitative and quantitative findings further clarified these relationships and explicitly addressed the second objective of the study. Interview data revealed that internal control practices are predominantly informal and inconsistently applied, and that their implementation is constrained by limited training and awareness, communication gaps, and monitoring practices that may reduce motivation. These qualitative themes provide contextual explanations for why leadership-driven components such as control environment and risk assessment, exhibit positive effects, while components requiring formal structure

and careful implementation, such as control activities, information and communication, and monitoring, may be associated with negative performance outcomes.

Finally, regression diagnostic tests were conducted to verify the suitability of the statistical model. Although normality and homoscedasticity assumptions were not fully met, the use of robust standard errors ensured the reliability of the findings. Multicollinearity and linearity assumptions were adequately satisfied. Overall, the results presented in this chapter provide strong evidence that internal control systems significantly influence employee performance, but their impact varies depending on how effectively each component is implemented. These findings set the stage for the next chapter, which discusses the implications of the results, presents conclusions, and offers recommendations for improving internal control practices in small-sized businesses in Hargeisa.

5. SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

5.1 Summary of Major Findings

This study was conducted to examine the effect of internal control practices on employee performance in small-sized businesses in Hargeisa using a mixed methods approach. Quantitative findings were supported by qualitative insights to obtain a balanced understanding of how internal control systems function in the daily operations of small enterprises. The descriptive statistics showed that internal control practices are moderately implemented, with mean scores for the five components ranging between 3.44 and 3.64. Employee performance indicators also demonstrated moderate to high mean scores, showing that employees generally perceived themselves as performing well. These results suggest that although internal controls are present, they tend to be informal and largely dependent on owner involvement rather than formal documentation or highly structured systems.

In addition, descriptive statistics of the control variables indicated sufficient variation across gender, age, education level, position, work experience, and monthly salary among respondents. The distribution of these demographic and job-related characteristics suggests that the sample adequately represents different categories of employees, managers, and owners, thereby justifying the inclusion of these variables as controls in the regression model to account for individual and job-related differences that may influence employee performance.

The correlation results indicated that Control Environment and Risk Assessment were moderately and significantly related to employee performance, meaning employees tend to perform better when they are guided by ethical leadership, clear expectations, and a proactive approach to risk identification. Conversely, Control Activities, Information and Communication, and Monitoring showed very weak and insignificant relationships with employee performance at the bivariate level. The multiple regression analysis offered further clarity by revealing that the overall model was statistically significant and explained approximately 57.1 percent of the variation in employee performance. Control Environment

and Risk Assessment had positive and statistically significant effects on employee performance, while Control Activities, Information and Communication, and Monitoring demonstrated negative and significant effects, suggesting that their implementation may unintentionally hinder employee performance in small business contexts.

The regression results further showed that several control variables, particularly education level, position, work experience, and monthly salary, had positive and statistically significant effects on employee performance. This indicates that higher human capital, organizational responsibility, experience, and remuneration are associated with better performance outcomes. Gender and age did not exhibit statistically significant effects. The inclusion of these control variables strengthens the validity of the regression model by isolating the net effects of internal control components on employee performance and reducing the influence of potential confounding factors.

The qualitative findings helped explain these patterns. Employees appreciated fairness, clarity, and guidance from owners and managers, which is consistent with the positive statistical results for leadership-related controls such as Control Environment and Risk Assessment. However, participants also expressed concerns about inconsistent procedures, unclear verbal communication, limited training, and monitoring practices that felt excessive or pressuring. These experiences provide insight into why Control Activities, Information and Communication, and Monitoring showed negative effects in the quantitative results. Overall, the integration of quantitative and qualitative findings confirms that internal control systems significantly influence employee performance, but their impact varies depending on how each component is designed, communicated, and implemented in practice.

5.2 Conclusions

Based on the findings of the study, several conclusions can be drawn regarding internal control practices and employee performance in small-sized businesses in Hargeisa.

First, internal control practices exist in most small-sized businesses but are predominantly informal. Businesses largely rely on owner-centered management structures rather than documented policies or standardized internal control systems. While this approach can be effective for leadership-driven controls, it becomes less effective for control components that require consistency, written procedures, and structured communication.

Second, Control Environment and Risk Assessment emerged as the most effective internal control components for enhancing employee performance. Employees demonstrated higher performance levels when they received clear direction, experienced fairness, and worked in environments where operational risks were identified and addressed early.

Third, Control Activities, Information and Communication, and Monitoring showed negative associations with employee performance. These negative effects appear to stem from inconsistent implementation, unclear communication practices, and monitoring approaches that reduce employee autonomy or create work pressure. This indicates that these components are not inherently harmful but require better design and application.

Fourth, the strong relationships among the internal control components indicate that internal control functions as an integrated system rather than as isolated elements. Improvements in one component tend to reinforce others, which is consistent with the COSO framework's emphasis on interdependence among control components.

Overall, the study concludes that internal control systems have the potential to enhance employee performance in small-sized businesses, but their effectiveness depends on how they are designed and practiced. Leadership-oriented controls and risk management practices contribute positively, while procedural and communication-related controls require significant improvement to achieve their intended outcomes.

5.3 Recommendations

Based on the conclusions of the study, the following recommendations are proposed.

Business owners and managers should prioritize strengthening the control environment by promoting fairness, setting clear expectations, and providing regular guidance to employees. Clear job roles and responsibilities should be established to reduce confusion and enhance accountability. Creating a supportive work culture in which owners lead by example can significantly improve employee motivation and productivity.

Risk assessment practices should be strengthened through the introduction of simple tools for identifying and documenting operational risks. Owners and managers should encourage employees to report potential risks promptly and hold brief review sessions to discuss operational challenges. This proactive approach can reduce uncertainty and support consistent employee performance.

Although control activities were found to have negative effects when implemented inappropriately, they can support employee performance if designed carefully. Small businesses should adopt simple and practical procedures for routine activities such as sales documentation, cash handling, and inventory management. Involving employees in the development or adjustment of these procedures can improve their relevance and acceptance.

Communication practices require substantial improvement in many small businesses. Owners and managers should provide clear, consistent, and timely instructions to all employees. Establishing basic communication mechanisms such as written instructions, notice boards, or organized group messaging can reduce misunderstandings and improve coordination.

Monitoring practices should move away from rigid supervision toward supportive oversight. Monitoring should focus on guiding employees and helping them improve rather than emphasizing fault-finding. Constructive feedback and an environment that encourages responsibility and learning are more likely to enhance employee performance than constant supervision.

At the policy level, government agencies and business support institutions should design training programs on internal control practices that are tailored to the needs of small-sized enterprises. Providing simplified guidelines or toolkits suitable for micro and small businesses in Hargeisa would support the adoption of more structured internal control systems. NGOs and microfinance institutions offering business development services should integrate internal control training into their support programs.

5.4 Limitations of the Study and Recommendations for Future Research

This study was limited to small-sized businesses operating in Hargeisa, which restricts the generalizability of the findings to other business sizes or geographical contexts. The reliance on self-reported questionnaire data introduces the possibility of response bias, as respondents' perceptions of employee performance and internal control practices may not fully reflect actual organizational conditions. In addition, the cross-sectional research design limits the ability to capture changes over time and assess the long-term effects of internal control systems on employee performance.

In light of these limitations, future research could extend the scope of analysis to medium and large enterprises to enable comparative assessment across different business sizes. Longitudinal research designs would be particularly valuable in examining how internal

control systems evolve over time and how such changes influence employee performance in the long run. Future studies may also benefit from incorporating objective performance indicators alongside self-reported measures to enhance the robustness of findings. Furthermore, investigating the role of digital tools and technological innovations in strengthening internal control practices could provide important insights for improving employee performance, particularly in small-sized business contexts.

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7. APPENDICES

APPENDIX 1: QUESTIONNAIRE

Dear Respondent,

Subject: Request to Participate in a Research Study on Internal Control and Employee Performance

My name is Abdisalan Ismail Mohamed, and I am a Master's student in Accounting and Finance at Haramaya University. Under the guidance of Mr. Wandemagegn Biru (Assistant Professor) and Dr. Abdirahman Aliyi, I am conducting research titled: "The Impact of Internal Control on Employee Performance of Small-Sized Businesses in Hargeisa, Somaliland."

This study aims to understand how internal control systems affect employee productivity and operational efficiency in small businesses. Your participation is vital for generating insights to help businesses in Hargeisa enhance their practices and contribute to Somaliland's economic growth.

Instructions

Please answer all questions by ticking (☐) the appropriate boxes or writing your responses. Your answers are anonymous and will help improve business practices in Hargeisa. Thank you!

Section A: Demographic and Business Information

1. Gender:

☐ Male

☐ Female

2. Age:

- ☐ 18–25 years
- ☐ 26–35 years
- ☐ 36–45 years
- ☐ 46+ years

3. Position:

- ☐ Owner
- ☐ Manager
- ☐ Employee

4. Education Level:

- ☐ Diploma
- ☐ Bachelor's Degree
- ☐ Master's Degree
- ☐ Other: _____

5. Years of Work Experience:

- ☐ <1 year
- ☐ 1–3 years
- ☐ 4–6 years
- ☐ 7+ years

6. Monthly Salary (USD):

- ☐ <200
- ☐ 200–600
- ☐ 400–800
- ☐ 800+

7. Business Type:

- ☐ Retail (e.g., shops, stalls)
- ☐ Service (e.g., transport, repairs)
- ☐ Manufacturing (e.g., food, crafts)
- ☐ Other: _____

Section B: Internal Control Practices

(Tick **one box per row**: 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral 4 = Agree, 5 = Strongly Agree)

Question	1	2	3	4	5
Control Environment					
8. Leaders in this business set clear ethical standards (e.g., honesty).					
9. I understand my job responsibilities clearly					

Question	1	2	3	4	5
Risk Assessment					
8. Leaders in this business set clear ethical standards (e.g., honesty).					
9. I understand my job responsibilities clearly					

Control Activities					
8. Different employees handle cash, record transactions, and approve payments.					
9. Financial decisions require approval from a manager/owner.					
Information and Communication					
8. Employees receive updates about business rules and changes.					
9. Employees can report problems (e.g., mistakes, fraud) without fear					
Monitoring					
8. The business checks if its rules and processes are working well.					
9. Problems in business are fixed quickly					

Section C: Employee Performance

Task Performance

(Tick **one box per row**: 1 = Never, 2 = Rarely, 3 = Sometimes, 4 = Often, 5 = Always)

Question	1	2	3	4	5
18. I complete tasks on time					
19. My work contributes to achieving business goals.					
20. I feel motivated and satisfied with my job					

21. I follow company rules and procedures					
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Quantitative Metrics

22. **Task Completion:** On average, how often do you complete tasks on time?

- ☐ Rarely (0–30%)
- ☐ Sometimes (31–60%)
- ☐ Often (61–90%)
- ☐ Always (91–100%)

23. **Absenteeism:** How many days have you been absent in the last 3 months?

- ☐ 0 days
- ☐ 1–3 days
- ☐ 4–6 days
- ☐ 7+ days

APPENDIX 2: INTERVIEW

24. **Challenges in Hargeisa:**

What specific challenges (e.g., lack of training, informal record-keeping, resource shortages) make it difficult to implement systems for managing risks here?

25. **Cultural/Informal Practices:**

How do trust-based agreements (e.g., verbal contracts) or family involvement (e.g.,

hiring relatives) influence decision-making or financial controls in this business?

26. Improvement Suggestions:

What specific changes (e.g., training programs, technology tools, policy updates) would help employees perform better through improved systems or rules?
