Int. Journal of Economics and Management 10 (S2): 523 – 539 (2016)

IJEM
International Journal of Economics and Management
Journal homepage: http://www.econ.upm.edu.my/ijem

The Effect of Internal Control Systems and Budgetary Participation on the Performance Effectiveness of Non-profit Organizations: Evidence from Malaysia

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ABSTRACT

This study examines the relationships between internal control (control environment, control activities, risk assessment, monitoring), budgetary participation, and performance effectiveness of NPOs (measured in term of financial and non financial). The sample consists of NPOs established in Malaysia and registered with either the Registrar of Society or Company Commission of Malaysia. A total of 96 questionnaires out of 150 distributed questionnaires were returned. Based on the result of the multiple regression analysis, there are significant relationship between control environment, control activities, risk assessment, monitoring and financial performance. In addition, the result also shows significant relationship between control environment, risk assessment, budgetary particioation and non-financial performance The results from the study can help regulators and authoritative bodies to effectively monitor these organizations in order to improve the non-profit sector's transparency and accountability.

JEL Classification: F38, L10, G31

Keywords: non-profit organization, internal control, budgetary participation, financial performance

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INTRODUCTION

Non-profit organizations (NPOs) serving as a third sector engine of growth play a vital role in the world economy and social system (Ramasamy, 2013; Hashim, 2014; Wan, 2016; Comas, 2016). The NPOs differentiate themselves from profit organizations in that they exist to pursue the missions that satisfy the shortfalls of the society. The sector, ranging from education, healthcare, disaster relief, social work and overall improvement of the human condition (Williams, 1998; Brody, 2002; Liu, 2010) offer substantial contributions to the economic development of Malaysia. Although the two sector economic models (public and private) has long been established as the mainstream framework in the modern economy, the discrepancies of the sector require the interaction of the third sector in the model as it will strengthen the overall development agenda of nations (Mohd Arshad *et al.*, 2014). Non-profit organizations hold the potential to contribute significantly towards the national economy, the Gross Domestic Product (GDP), and the competitiveness in the global business arena. The existence of NPOs in economies is seen as a sign of a healthy economy and the contribution of the sectors is recognized as a significant proportion of the GDP of many economies (Hashim, 2014).

The subsistence of NPOs complements the role of private and public sector in order to achieve the vision of a high income nation by 2020. Since a high-growth economy does not guarantee high household incomes, let alone economic equality, it is imperative that the sector takes on a more vibrant and active role in the economy to attain high-growth with income equality, in ensuring that nobody in the society is left behind in the nation's pursuit to achieve high-income economy status by the year 2020. Hence, it is important for the sector to be more organized and systematic in order to complement the government's commitment to the fiscal rationalization agenda (Hashim, 2014).

Commonly, the goals and missions of NPOs are disreputably lofty and unclear, thus they are more exposed and susceptible to abuse and fraud. Greenlee *et al.* (2007) argue as the sector is operating in an athmosphere of public trust, have a revenue that is not easily verifiable, weaker in internal conrols and lack of expertise, it make it easier for fraud to exist in NPOs. According to the ACFE Report to the Nations on Occupational Fraud and Abuse, fraud cost NPOs a median financial loss of $108,000 in 2014. While this is already a significant loss, the number could be higher as most cases of fraud are either hidden or unreported. The consequences of fraud and abuse practices can erode public confidence with regards to the credibility of the organisation and this in turn can affect the long-term survivability of the organisation.

This results in a loss of trust among donors and grantors, and disrupts the NPOs' business operations and ability to perform its mission. Hence, it is crucial to oversee the accountability of NPOs financial performance as well as its non-financial performance. At the bottom line, accountability is all about trust. NPOs leaders basically tend to pay attention to accountability once the problems of trust arises, commonly due to a scandal in the sector perpetrated by leaders itself or the employees, questions from the public who is the donor who want to know if their money is being well managed and spent or pressure from regulators who sanction the tax exempt status to NPOs (Ebrahim & Weisband, 2007).

Given that NPOs face demands for accountability from multiple stakeholders, it follows that they are expected to be assess on financial performance and non-financial performance.

According to Behn (2001) and Ebrahim (2009), the expectation of accountability can be broken down into for category: accountability for finances, governance, performance, and mission. In response to various accounting scandals, public policy, typically call for greater disclosure of financial transactions, transparency in the use and oversight of funds by executives and trustees, as well as protections for whistle-blowers who reveal information about mismanagement.

The challenges for greater accountability and transparency, raising a plea for public services, more dependent on fee-for-service income, magnified rivalry from for-profit providers, resistance to the non-profit advocacy activity, and the evolution of communications technology (Drucker, 1992; Bradley, Jansen & Silverman, 2003; Brooks, 2003; Prugsamatz, 2010) put greater pressure on NPOs especially in term of financial resources, particularly as government budget also are being cut back (Irvine, 2011). The demand from the public for the services of NPOs pressurized them to compete over the scarce fund, foundation, and government grant (Kaplan, 2001). Hence, it is important for the NPOs to demonstrate the highest level of performance with a sustainable funding as it can ensure continuous flow of financial resources to fund the operation of the organizations and to serve the need of the community.

The statistics reported in Money for Good II Report and Money for Good Report 2014, documented a trend whereby three percent of surveyed donors would make a research and comparison of the performance of the relative organizations before deciding on which organizations they would want to contribute. This three per cent is equivalent to US25 billion and it shows that under-performing NPOs would be getting less contribution from the donors. This would eventually lead to the problem of sustainability for the under-performing NPOs. They would have difficulty in gaining support from the public and they need to give up on some of their activities.

The sustainability of the NPOs lies in good stewardship, transparency and accountability of the board and management. It is the fiduciary duty of the management and board of trustee to critically maintain public trust and future survivability of the organizations. This is where internal control system is crucial whereby the effectiveness of internal control systems could assist the management of NPOs in managing and safeguarding the fund entrusted to them. Traditionally it was ingrained in the mind of business community and other stakeholders, thinking that internal controls issues is only relevant for the public companies or profit organizations. It was a misconceiving of the aspect, since internal control issues shall exist in each and every type of enterprise regardless whether it is profit organizations or NPOs (Dzomira, 2014).

On the other hand, though budgeting process is more commonly used in commercial organizations, the trend for adopting the budgeting process in projecting and planning the activities in NPOs is becoming more popular. Budgeting is one of the techniques that had been used by the management for the purposes of planning, control, and development of corporate strategy (Hilton, Maher & Selto, 2000). Budget show where and how the organization will spend the money they received and from where they can get the money to cover all the expenses. Budgetary participation is where the managers atleast participated in preparing budget and are infuential in the setting of those budgets (Brownell, 1982). Budgetary participation shows that if level of budget participation increase, performance of the organization would be likely to increase as well.

Previous research has highlighted that poor internal control system leads to poor performance of the organization (Zhou, Chen & Cheng, 2016). Although it is not compulsory for NPOs to adopt the standardized practice of internal control, it is advisable for NPOs to practice good internal control as it is interrelated and a key for accountability and superior performance (Mattie, Hanley & Cassidy, 2005; Masrek *et al.*, 2014). The performance of the organizations is not directly affected by budgetary participation, but the impact of budgetary participation on the approach towards the organizations may lead to the performance effectiveness. According to Covaleski *et al.*, (2003), the budgetary participation plays an important role in influencing decisions because of its role in managerial performance. Hence, the aims of the study are to examine the effect of internal control systems and budget participation on the performance effectiveness of NPOs.

This study addresses key arguments that link internal control system, budgetary participation, and performance effectiveness. These variables are analyzed in the context of NPOs, which has been undergoing a period of major change due to the growth of the sector to complement the existing public and for profit sectors. Studying these relationships within this particular setting is timely, as studies of internal control system and budgetary participation in NPOs are limited, and the influence of these variables on performance effectiveness has been neglected by researchers. This research contributes in improving the effectiveness and efficiency of NPOs in Malaysia by highlighting the strengths and weaknesses in their internal control and budget participation, which could be used as a guidance in enhancing the performance effectiveness of NPOs in Malaysia.

The structure of the paper is as follows. First, the review of literature and hypotheses development are discussed followed by the research methodology. Secondly, the analysis and findings of the survey follows together with the discussions and finally conclusions drawn.

LITERATURE REVIEW & HYPOTHESES DEVELOPMENT

Overview of NPOs in Malaysia

The NPOs in Malaysia can be divided into two, which are registered with Companies Commission of Malaysia (CCM) as companies limited by guarantee and the Registry of Societies Malaysia (ROS) under the Ministry of Home Affairs, and enacted by the Societies Act of 1966. NPOs that are registered with CCM must have at least RM1 million revenue or more and being regulated under the Companies Act 1965, and on the other hand, NPOs that have less than RM1 million are required to register with the ROS. However, some of the NPOs may register under specific acts such as the Sport Commission Act, the University and University Colleges Act 1971, and the Youth Commission Act. NPOs are governed by the Societies Act 1966 and Societies Regulations 1984 under the Malaysian Ministry of Home Affairs. The main statutes dealing with the establishment and regulation of NPOs in Malaysia are the Societies Act 1966 (Act 335) and Societies Regulations 1984, and the Income Tax Act (ITA) 1967 issued by the Inland Revenue Department (IRD).

In Malaysia, the growth of NPOs is overwhelming every year, but it does not last long due to the inability to secure adequate resources to carry out daily activities. There have been around 63,000 NPOs established in Malaysia under a variety of categories based on the ROS statistics in 2011. As at 2013, around 34,474 organizations are considered active in five states (Selangor, Federal Territory, Johore, Perak, and Pulau Pinang). The subsistence of NPOs is highly dependent on donation from business, foundations, individuals, corporations, lending, and grant from the government (Tom Corbett, 2006; Dame & Sam, 2011). NPOs are facing greater insecurity, especially in the financial part, as government budget is being cut back and NPOs are being asked to fill the hole left by the government, thus shouldering more responsibilities (Deakin, 1995; Said *et al.*, 2013). One of the biggest challenges for NPOs is to raise adequate and enough fund to manage the organizations and to serve the needy (Carol, 2001). Nonetheless, Felix (2011) states that some NPOs have a strong aptitude to generate adequate financial assistance to facilitate the NPOs in achieving its strategic mission.

The core competency of NPOs is to build a strong relationship with the donors, as it would secure a sustainable flow of financial aid to the organizations (Zainon *et al.*, 2014). These relationships are based on the ability of NPOs to protect the trust of the donors by demonstrating and practicing the highest level of accountability and transparency. Both qualities can be achieved by having efficient and effective internal control systems and involvement of various levels of employees in budget planning. Involvement of various employees from top to lower level management can provide more strategic thinking and ideas on how to prepare the budget.

Performance Effectiveness of NPOs

Regardless of any type of organization either profit organizatons or non-profit organizations as long as they are in operation they will constantly seek to improve their overall performance. The assessment of performance is quite familiar for profit organizations and basically their performance is measured in term of financial figures, more easily attainable and has been the subject of extensive empirical investigation. However, for NPOs, assessment of performance might be difference due to their nature of operations and their primary vision and goals which is different as compared to profit organizations. Assessment of performance in NPOs need to include non-financial performance as part of their performance measurement (Pinho, Rodrigues & Dibb, 2013). Measuring non-financial performance of NPOs is different from measuring financial performance.

Commercial organizations usually use multiple measures in measuring the financial performance of the organizations. They typically use accounting measures (sales, return on investment, profit) and market measure (share price, return on equity, market value) whereby together it provides an overall overview of performance (Meyer & Gupta, 1994). This type of measurement is commonly are well established with standardized definitions and methods of assessment, allowing for comparability with other enterprises. In contrast, to assess non-financial performance, boards of director and managers running the business have no common ground of measurement to refer on, due to multiple activities, for instance, in healthcare, poverty alleviation, education, and environment for which there are few shared standards or benchmark. Zimmerman & Stevens (2006) suggested several approaches to measuring non-financial performance, such as evaluating participant satisfaction or changing attitudes and behavior among participants.

On the other hand, some researchers measure the impact on a mission as it is an alternative way to measure outcomes whereby impact is defined as all, even unintended, changes that are the result of the organizations' activities (Zimmerman & Stevens, 2006). At the end of a grant or program phase, commonly, donors would conduct external evaluations of social enterprises by employing mid-term assessments. Such evaluations are aimed to assess achievement and performance; and is essential to convince further future funding (Ebrahim, 2003).

Internal Control Systems and Performance Effectiveness of NPOs

Internal controls are systems of policies and procedures that protect the assets of an organization, produce reliable financial reporting, promote compliance with laws and regulations and achieve effective and efficient operations. It is not only related to accounting and reporting, but the systems also relate to the communication processes both internally and externally, staff management and error handling, and include procedures for handling fund received and expanded by the organizations. Sarbanes-Oxley Act of 2002 (SOX 2002) oblige companies to maintain, assess, and disclose internal control over financial reporting. The practice of effective internal control systems and monitoring of the systems will ensure that NPOs meet their objectives while utilizing resources efficiently and minimizing potential future problems and risks. The principles of internal control suggest that internal control systems are the primary accountability and governance tool an organization can establish and use to provide accountability to its stakeholder as well as to help deter, prevent, and detect fraud and corruption (COSO, 1992; ACFE, 2004).

An effective system of internal control consists of all measures taken by an organization to provide management with reasonable assurance that everything is functioning, as it should (Duncan, Flesher & Stocks, 1999). According to the IFAC (International Federation of Accountant Committee), in recent years, most of the organizations focus on the internal control systems to minimize business failure and to protect shareholders' investment. The existence of adequate internal controls indicates that their management committees take their duty to safeguard public donation entrusted to them quite seriously and it shows that, they are improving their performance. According to Sulaiman, Siraj & Ibrahim (2008), implementing a proper internal control system will help the organization's operations become more effective and efficient. One of the issues on internal control is to ensure the efficiency and effectiveness of the activities, reliability of information, compliance with applicable laws, and timeliness of financial reports, which demand adequate internal control (Changchit, Holsapple & Madden, 2001; Jokipii, 2009).

According to the COSO Framework (2013), there are five main components of internal control system to ensure strong control and efficiency of the organization. The components are control environment, risk assessment, control activities, information and communication , and monitoring. This framework applies to all entities; small, medium-size, large, profit organization as well as non-profit organization, and also governament and statutories bodies. The coverage to which each of the components been implemented usually influenced by the size and complexity of the organization, management philosophy, corporate culture, and others (Ongeri, 2010).

The control environment is a set of standards, processes, and structures that provide the basis for carrying out an internal control across the organization (COSO, 2013). There are several principles in control environment such as integrity, ethical values, board independence, the way management assign authorities and responsibilities, and accountability that support the component of internal control . The board of directors and senior management establish the quality at the top regarding the importance of internal control and expected standards of conduct. An organization that establishes and maintains a strong control environment positions itself to be more spirited in the face of internal and external pressures. A study done by Khamis (2013) found that, there is a significant relationship between control environment and performance of the organizations. According to Kinyua *et al.*, (2015), there is a positive relationship between control environment and performance. So, the effect of control environment has a big impact on the system of internal control and also to the performance of the organizations. Hence, based on the arguments above, the following hypothesis is proposed:

H1: There is a relationship between control environment and performance effectiveness of NPOs

Risk assessment on the other hand, involves a dynamic and iterative process for identifying and analyzing risks to achieving the entity's objectives and forming a basis for determining how risks should be managed (COSO, 2013). In this context, risk assessment involves identifying and analyzing risks that the organization's external financial statements are not fairly presented in accordance with the requirements of the applicable financial reporting framework. As part of this process, the management considers possible changes in the external environment, such as changes in the applicable financial reporting standards and within its own processes and procedures that may impede its ability to achieve its objectives. Hence, based on the arguments above, the following hypothesis is proposed:

H2: There is a relationship between risk assessment and performance effectiveness of NPOs

Control activities are the actions established by policies and procedures to help ensure that management directives to mitigate risks to the achievement of objectives are carried out. Control activities are performed at all levels of the entity and at various stages within the business and financial reporting processes, and over the technology environment. Control activities are policies and procedures that help to safeguard that management's directives are carried out (Whittinton & Panny, 2001). Muraleetharan (2013) indicates that control activities have a significant positive relationship with performance. On the other hand, according to Ejoh and Ejom (2014), there is no significant relationship between control activities and performance of the organizations. Hence, based on the arguments above, the following hypothesis is proposed:

H3: There is a relationship between control activities and performance effectiveness of NPOs

Monitoring consists of the activities used to ascertain whether each of the five components of internal control, including controls to address the principles within each component, is present and functioning. Findings are evaluated and deficiencies are communicated in a timely manner, with serious matters reported to senior management and to the board of directors. COSO argues that if the monitoring component is not been fulfilled or insufficient, the internal control system will naturally fail over time even though it initially has been efficient (COSO, 2008). Hence, based on the arguments above, the following hypothesis is proposed:

H4: There is a relationship between monitoring and performance effectiveness of NPOs

Budgetary Participation and Performance Effectiveness of NPOs

Budgetary participation is defined by Brownell (1982) as a process whereby subordinates/ or staff are given an opportunity by the management/or superior to get involved and have an influence on the budget setting process. Both superiors and subordinates are involved in participative budgeting process (Weil & Maher, 2005). A bottom-up approach involves lower-level employees which means that top management may initiate the budget process and provide general guidelines, but the ones who develop the budget for their own units are the lower-level employees (Mohd Noor & Othman, 2012). The process involves the employees, which represent each unit or segment who are able to provide valuable insights on their segments' activities or operations. The final budget allocation is based on their input, thus it is crucial that they are involved throughout the budget-setting process.

Improved budgetary participation can also be a result of positive work attitudes among employees (Dyne & Pierce, 2003). Participation in the budgetary process yields benefits such as increasing employee motivation and commitment to the budget, fostering creativity among all levels of employees, increasing a sense of responsibility (Hoque, 2005), increasing job satisfaction, and also performance (Weil & Maher, 2005). Participative budgeting helps ensure that estimates are more accurate and reliable, leading to greater acceptance from the organization's members (Hoque, 2005). Management can motivate subordinates to have a better performance by giving them more opportunities to participate in the budget activities. Such budgetary participation can facilitate learning and acquiring of more knowledge or information (Shields & Young, 1993; Parkers & Wall, 1996).

Several researchers have offered empirical evidence on the positive relationship between budgetary participation and performance (Milani, 1975; Lau, Low & Eggleton, 1995; Gul *et al.*, 1995). The studies found that budgetary participation positively influences the performance of the organizations. On the other hand, another study reports a negative association between budget participation and performance (Bryan & Locke, 1967) and some report no association at all (Milani, 1975; Kenis, 1979). These inconsistent findings may be the result of certain variables that are unable to determine causality effects or an inappropriate research design in making causal inferences (Brownell & McInnes, 1986). These results indicate that no simple relationship exists between budgetary participation and performance, and perhaps there could be other variables involved.

Such inconsistent findings have proven that several researchers had examined the antecedent variables that affect job performance indirectly during budgetary participation. Most of the studies were conducted in the private sector rather than the public sector (Yuen, 2007) or non-profit sector of developing countries (Yahya, Ahmad & Fatima, 2008). Hence, based on the arguments above, the following hypothesis is proposed:

H5: There is a relationship between budgetary participation and performance effectiveness of NPOs.

RESEARCH METHODOLOGY

The data for this study were collected from Non-Profit Organizations in Malaysia, registered under the Registrar of Society or under the Companies Commission of Malaysia as Company Limited by Guarantee (CLBG). The primary data collection method has been chosen as a method for data collection through questionnaires distributed to selected NPOs' Board of Trustee. Board of Trustees has been chosen as a unit of analysis since they are the ones that are primarily involved in strategic decision making for the organization. Majority of questionnaires were distributed to the NPOs located in Kuala Lumpur, Selangor, and Pulau Pinang. These continents were chosen because based on the statistics, as at 2013, around 34,474 active organizations were located in these states. An introductory letter, questionnaire and pre-paid reply envelope was sent through snail-mail, electronic email, and by hand to the selected respondent. A total of 96 questionnaires was returned out of 150 distributed questionnaires.

The questionnaire consists of five (5) sections. In the first section, the respondents were asked to provide their opinion on the performance effectiveness evaluation (dependent variables) that consists of five (5) questions, using the seven-point Likert-type rating scale ranging from 1 (strongly disagree) to 7 (strongly agree). The item is adapted with some modification from a previous study done by Gupta & Sharma (2014). In the second section, the respondents were asked asked to provide their opinion on the non-financial performance that consist of four (4) questions, using the seven-point Likert-type rating scale ranging from 1 (strongly disagree) to 7 (strongly agree). The item is adapted with some modification from a previous study done by Pinho, Rodrigues & Dibb (2013). In the third section, the respondents were asked to provide their opinion on the internal control procedures (independent variable) provided by the organization. It consists of fourteen (14) questions, using the seven-point Likert-type rating scale ranging from 1 (strongly disagree) to 7 (strongly agree). The item is adapted with some modification from a previous study done by Mohd Sanusi *et al.* (2006).

Then, in the fourth section, the respondents were asked to provide their opinion on their role in the budgetary participation or participation in the preparation of budget. It consists of six (6) questions, using the seven-point Likert-type rating scale ranging from 1 (strongly disagree) to 7 (strongly agree). The item is adapted with some modification from a previous study done by Mohd-Sanusi et al (2006) measured using Milani's (1975) six-item measurement instrument (Brownell, 1982). Finally, the last section of the questionnaire requires the respondents to choose their demographic information such as highest academic qualification, years of services, gender, age, ethnic, position, type of organization, financial resources, estimated income, and number of full-time staff. The sample of the questionnaire can be referred in Appendix 1.

To answer the desired objectives of the study, the data collected from the returned questionnaires were analyzed using the statistical software (Statistical Package for Social Sciences (SPSS) version 21) and Microsoft Office Excel. Several statistical analyses were used to achieve the study's objectives.

ANALYSIS & DISCUSSION

The bivariate correlation statistical analysis is used to test and to determine the strength and direction of the relationship between the independent variables and dependent. Two variables are considered associated if changes in one variable are associated with the changes in the other variables (Hair *et al.*, 2009; Kazemian et al, 2016). Correlation coefficients were used as a test of the relative importance of the relationship between each independent variable (internal control and budgetary participation) and dependent variable (performance effectiveness) Table 1 shows the correlation between all independent variables and dependent variables.

Table 1 Pearson Correlation between Dependent Variables and Independent Variables (N=96)

	Performance	Nonfinancial Performance	Control Environment	Risk Assessment	Control Activities	Monitoring	Budgeting	Donations	Grants	Business
Performance	1	.627**	.689**	.641**	.676**	.492**	.485**	.317**	-.229*	-.095
Nonfinancial Performance		1	.768**	.630**	.592**	.673**	.562**	.104	.017	-.031
Control Environment			1	.858**	.614**	.815**	.636**	.043	.118	-.074
Risk Assessment				1	.564**	.782**	.756**	.070	.047	-.019
Control Activities					1	.689**	.538**	-.038	.010	.130
Monitoring						1	.694**	-.097	.185	.075
Budgeting							1	-.037	.022	.100
Donations								1	-.610**	-.513**
Grants									1	-.272*
Business										1

**. Correlation Is Significant At The 0.01 Level (2-Tailed).

*. Correlation Is Significant At The 0.05 Level (2-Tailed).

Referring to the above table, there are positive relationships between control environment, risk assessment, control activities, monitoring, and budgetary participation with performance effectiveness. The correlation coefficient between all the variables is strongly correlated and of medium correlation. The correlation between financial and non financial performance used for each independent variable ranges from r = 0.485 and r = 0.858. All of these correlations between financial and non financial performance and each factor of these dependent variables are significant at the level of .01 and .05. In summary, the results of the correlation test have provided a preliminary finding of a significant positive relationship between internal control and budgetary participation with performance. These results have also provided a preliminary evidence to support the objectives of this study.

For the purpose of hypothesis testing, multiple regression analysis was carried out. Based on Table 2, the regression model can be used to predict financial performance (F=28.111, p=.000) when the results show a significant value of 5%. Consequently, there is sufficient evidence showing that a linear regression exists between the dependent variable with at least one independent variable. In general, we can conclude that at least one independent variable in this study has affected the performance variable.

Table 2 Multiple Regression Analysis (N=96)

	Financial Performance					Non-Financial Performance				
	Coefficient	t-value	sig-value	Tolerance	Vif	Coefficient	t-value	sig-value	Tolerance	Vif
(Constant)		1.621	0.109				3.371	.001***		
Control Environment	0.549	4.174***	0.00***	0.191	5.229	0.783	5.056	.000***	0.191	5.229
Risk Assessment	0.197	1.456*	0.149*	0.181	5.533	-0.332	-2.082	.041**	0.181	5.533
Control Activities	0.539	6.579***	0.00***	0.493	2.029	0.151	1.565	0.122	0.493	2.029
Monitoring	-0.439	-3.521***	0.001***	0.213	4.7	0.05	0.344	0.732	0.213	4.7
Budget	0.02	0.218	0.828	0.373	2.679	0.191	1.724	.089*	0.373	2.679
Donations	0.057	0.338	0.736	0.117	8.528	0.254	1.283	0.203	0.117	8.528
Grants	-0.227	-1.475*	0.144*	0.14	7.137	0.117	0.648	0.519	0.14	7.137
Business	-0.123	-0.879	0.382	0.169	5.925	0.14	0.848	0.399	0.169	5.925
R-Square	0.745	0.647								
Adjusted R-Square	0.718	0.61								
F-Statistic	28.111	17.629								

* significant at 10% (2-tailed)

**significant at 5% (2-tailed)

***significant at 1% (2-tailed)

Based on the above table, it shows that there is a significant relationship between control environment, control activities, monitoring (p=0.00, p<0.05), risk assessment (p=0.149, p<0.1), and financial performance of the NPOs. The result indicates that internal control systems (control environment, control activities, risk assessment, and monitoring) do influence the performance effectiveness of the organizations. A positive significant relationship between variables provide evidence that organizations with more effective and better internal controls would have more superior financial performance compared to other organizations with a less efficient internal control. Superior financial performance would guarantee the going concern of the organizations in the future, hence, being able to serve the community better. The result is consistent with the study by Muraleetharan (2010) and Al-Thuneibat, Al-Rehaily & Basodan (2015).

In addition, the above table also shows that there is a significant relationship between control environment(p=0.00, p<0.01), risk assessment (p=0.041, p<0.05), and budgetary participation (p=0.089, p<0.1) and non-financial performance of the NPOs. The result indicates that internal control systems (control environment, and risk assessment) and budgetary participation do influence the performance non-financial performance of the organizations. Nonetheless, the result also found that there is no significant relationship between control activities (p=0. 122) and monitoring (0.732) with a non-financial performance of NPOs. Hence, based on the result above, it can be concluded that, only the elements of control environment and risk assessment that significantly influence the performance effectiveness of NPOs, thus supporting Hypothesis 1 and Hypothesis 2.

On the other hand, Hypothesis 5 is not supported. Though the study found that there is a positive significant relationship between budgetary participation and non-financial performance of NPOs (p=0.089), the result for the relationship between budgetary participation and financial performance provide a contradict result (p=0.828). This result is consistent with a previous study done by Mohd Noor & Othman (2012). Nevertheless, a positive significant relationship between budgetary participation and non-financial performance supports the argument that budgetary participation, which involves various levels of employees will influence the performance of the organizations. A proper budgetary process would drive the performance of the organizations as the allocation of the budget follows the suggestion from the employees from different units and segments. A discussion with the employees would enlighten the management on which project or activities need more budget allocation. The practice of the budget participation will assist the organization to achieve the desired mission.

CONCLUSION

Research about NPOs has been broadly discussed, especially regarding their governance, financial integrity, performance, and stewardship of resources. Successful NPOs provide high quality services to beneficiaries. It is very competitive among NPOs in delivering their services and in attracting donors in order to secure their financial resources. The current global financial retreat has further worsened the situation, making only those with the requisite experience, creativity, and knowledge to forge ahead in the face of these trying periods. NPOs need to improve and professionalize their work in pursuit of having successful organizations. The responsibility and the burden of the NPOs are the interaction with budget participation (Brownell & Dunk, 1991) the embezzlement of funds and scandals about the internal control systems (Sulaiman *et al.*, 2008), and about corporate governance. There are many cases that have involved the mismanagement of funds generated by the NPOs, by donations or grants by the government. This is due to poor management control system in the NPOs itself (Sulaiman *et al.*, 2008).

The management of the NPOs needs to create an effective internal control in order to enhance their performance. The result from the study proved that internal control systems are very important for NPOs as it can increase donors' confidence to contribute more funds to the organizations. Jokipii (2009) provided evidence that lack of internal controls has increased the number of business failures. Likewise, the lack of control management in NPOs especially in the reporting of transactions involving receiving of income, authorization, recording of financial transaction, and periodic reconciliation will affect the report on financial performance. Effective internal control systems will boost the performance effectiveness and improve the effectiveness of the program carried out by the organizations (Sulaiman *et al.*, 2008). Subsequently, the adoption of budgetary participation will increase the performance of the NPOs.

This research contributed in improving the effectiveness and efficiency of the NPOs in Malaysia by highlighting the strengths and weaknesses of internal control systems and the importance of budget participation. It could be used as guidance in improving the level of internal control implementation of NPOs. Eliminating the weaknesses and problems of internal control may improve control over resources, thus improving the financial performance.

This study is subject to several limitations. Firstly, it is difficult to get responses because of the limited time period given and distribution of the research instrument. As the distribution is conducted via mail and email, the control over extraneous factors could be limited. Thus, the result shown is only based on 96 respondents out of 150 questionnaires distributed randomly and the data might not be generalized. It is also hard to ensure that the targeted respondents are the ones that answered the questionnaires, as there is no guarantee that the answers provided were truthful ones. Therefore, to achieve as much control as possible for extraneous factors, several demographic questions such as the respondents' age, position, and number of years of service were gathered to provide extra evidence. Finally, the third limitation identified is the use of a single informant design depending on the top management of the sampled organizations, as the unit of analysis is possibly a limitation. Future studies that capture data from multiple informants could productively capture the views of a range of employees and of customers or service users.

ACKNOWLEDGEMENT

The authors would like to express their gratitude to the Accounting Research Institute (ARI), Ministry of Education, Malaysia and Universiti Teknologi MARA for funding and facilitating this research project.

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