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The Impact of Internal Control System and Working Capital Management on Financial Performance at Supermarket in Dili, Timor-Leste

Alexandre F.X Cham, Teresa Freitas Belo, Alvaro Menezes Amaral
Master of Business Administration (MBA) Program, Dili Institute of Technology, Timor-Leste
Email: chamalexf23@gmail.com, teresafreitas.belo@hotmail.com, alvaromenezesamaral@gmail.com

ABSTRACT

The objective of this study was to investigate the relationship between internal control and capital management systems on financial performance. The study was carried out using a sample of 50 supermarkets in Dili, and the participants were owners or managers of these supermarkets. Data was collected using a questionnaire, and the Multiple Linear Regression technique was employed to analyze the data and test the hypotheses using SPSS 21. The study reveals that the internal control system (measured by environmental control indicators, activity control, and risk assessment) and working capital management (measured by stock management, credit management, cash management, and debt management) have a significant positive impact on the financial performance of supermarkets in Dili, Timor-Leste. The findings suggest that effective implementation of an internal control system and efficient management of working capital can enhance the financial performance of supermarkets. However, the study also indicates that the information system indicator within the internal control system does not have a significant impact on the financial performance of supermarkets in Dili, Timor-Leste. The findings of this study are valuable for advancing research on internal control systems in supermarkets in developing countries. Specifically, the study examines the impact of environmental control indicators, activity control, information systems, risk assessment, and working capital management (as measured by stock management indicators, credit management, cash management, and debt management) on financial performance (as measured by profitability, ROE, and liquidity). The study highlights the importance of effective internal control systems and working capital management in improving financial performance in supermarkets. However, the study is limited in that it relies solely on a questionnaire for data collection. Future research should consider using interviews to obtain more reliable and valid data.

Keywords: Internal control system, working capital management, financial performance.

1. Introduction

Financial performance is crucial for companies as it facilitates the effective implementation of their operations (Asdullah & Rehman, 2015). According to Asdullah & Rehman (2015), a company's competitiveness and potential can be gauged by its financial performance. Financial performance refers to the measurement of a company's policies and services related to finance, and it involves assessing the company's overall financial profitability over a specified period of time. This measure can also be used to compare the company's financial performance with other firms in the same industry (Kinyua, Gakure, Gekara & Orwa, 2015).

Effective management of working capital is a key determinant of a company's financial performance, and it is considered a critical factor in assessing the financial health of an organization (Niresh, 2012). Working capital management is a fundamental aspect of overall financial management strategy, with the aim of creating value for the company's owners (Muhammad, 2015). As Boisjoly et al. (2020) suggest, working capital can serve as a competitive advantage for supermarkets.

Improving the internal control system is another crucial factor for enhancing financial performance by reducing the level of irregularities and manipulations within a company. It is widely recognized that the internal control system is a vital management tool for financial management (Odek and Okoth, 2019). As (Nyakundi et al., 2014) asserts, the internal control system is a planned process implemented by responsible parties such as managers and other staff members to ensure that the objectives of the entity are achieved, with a focus on providing reasonable assurance regarding the credibility of financial reports, efficient and effective operation of the company, compliance with relevant laws and regulations, and ensuring trust in the information system. Implementing an effective internal control system can help companies to achieve good financial performance by preventing the loss of resources and producing reliable reports, which ultimately helps to eliminate unnecessary doubts and maintain accurate and consistent accounting records.

Various studies have examined the relationship between the internal control system and working capital management on financial performance. For instance, Kiptoo's (2017) research found that working capital management has a significant impact on financial performance. Similarly, Ogetange's (2017) study revealed that the internal control system, which includes risk assessment, monitoring procedures, activity supervision, environmental management, and reconciliation verification systems, has a significant positive impact on the financial performance of supermarkets in Kajiado County. However, Kabuye et al., (2019) research yielded different results, indicating that the internal control system does not significantly influence financial performance.

Supermarkets in Timor-Leste operate with the primary goal of generating profits. To achieve this, they require effective management of working capital to fund their operational activities and long-term investments. Unfortunately, the political impasse that persisted in Timor-Leste between 2017 and 2021 had significant impacts on national companies, leading some to experience financial difficulties and even shut

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down their operations. Furthermore, consumer groups such as the *Asosiasaun Tane Konsumidor* have raised concerns about inadequate information systems in supermarkets, which make it difficult for customers to access accurate pricing information for goods, and also about poor stock management systems, especially during peak shopping periods.

The aim of this study is to examine the significance of the internal control system (X1) measured by environmental control indicators, activity control, information system, risk assessment, and capital management (X2) measured by stock management, credit management, cash management, and debt management on financial performance (Y) measured by profitability indicators, return on equity (ROE), and liquidity in supermarkets. Additionally, this study seeks to explore the differing perspectives of prior researchers on the relationship between internal control system and financial performance in supermarkets in Dili, Timor-Leste. Through this research, the writer aims to assess the impact of the internal control system and working capital management on the financial performance of supermarkets in Dili, Timor-Leste.

2. Literature Review

2. 1. Small and Medium Enterprises (SMEs)

Small and medium-sized enterprises (SMEs) are considered important economic drivers that can generate employment, provide essential services to communities, facilitate distribution processes, and contribute to economic growth, thereby promoting national stability. Additionally, they play a crucial role in advancing the economy of developed countries by creating job opportunities (Masocha and Dzomonda, 2016). As dynamic growth agents, SMEs are responsible for 80% of global economic growth, making them an essential part of economic activities in developed countries (H. Kent Baker, Satish Kumar, 2019). Moreover, SMEs have proven their ability to withstand different economic conditions and compete with larger corporations. In developing countries, the World Bank classification system measures the size of companies based on the total number of employees. For instance, companies with 5 to 19 employees are classified as small enterprises, while those with 20 to 99 employees are classified as larger enterprises. In Timor-Leste, a micro-enterprise is defined as a company with more than one employee and fewer than five employees (Belo, 2019)

2. 2. Internal Control System

Internal control refers to the planned process and actions taken by the parties responsible for managing a company, including managers and other staff, to provide reasonable assurance regarding the achievement of the entity's objectives related to reliable financial reporting, efficient and effective operations, and compliance with applicable laws and regulations (Bett & Memba, (2017). . Establishing an effective internal control system helps companies achieve their performance objectives, prevent loss of resources, produce reliable reports, and ensure compliance with laws and regulations.

To put it simply, the 2013 COSO framework defines internal control system as a process that involves management, leadership, and other employees, with the aim of providing reasonable assurance of achieving objectives related to operations, reporting, and compliance (Kinyua et al., 2015). The internal control process has three key objectives: efficiency and effectiveness of operations, reliability of financial reporting, and compliance with laws and regulations The Committee of Sponsoring Organizations (COSO) as cited in Donati, (2019). The internal control system encompasses policies, procedures, practices, behaviors, and other aspects of an organization that are aimed at facilitating effective and efficient operations and addressing business, operational, and financial risks, regulatory compliance, and achievement of organizational goals (Magara, 2013). Environmental control, activity control, information system, and risk assessment are the four essential components of internal control (Ahmed and Muhammed, 2018).

2. 3. Working Capital Management

Working capital is a crucial measure of a company's financial health and its impact on profitability and liquidity cannot be overstated (Talonpoika *et al.*, 2016) . According to Adeniji (2008), working capital is the capital utilized by the organization for daily operations, comprising current assets and current liabilities. Managing working capital is a traditional concept highlighted in all standard finance books, and is considered essential for achieving a company's goals of profitability and market value (Actas et al., 2015). Rehman & Anjum (2013) note that working capital plays a significant role in generating income or losses, making it a crucial factor for investors and stakeholders analyzing the balance sheet to assess net capital and management effectiveness.

Financial executives must align their working capital policy with the company's goals to increase profitability and market value, making working capital a competitive advantage for companies (Boisjoly et al., 2020). Identifies four key management practices for ensuring optimal working capital: stock management, creditor management, cash management, and debt management.

2. 4. Financial Performance

The concept of financial performance has been widely discussed in literature as a way to assess the results of various activities (Zailani *et al.*, 2019) . Financial performance refers to the level of business performance over a specific period of time, as reflected by all profits and expenses during that time. In addition, financial performance measures the company's profit and market growth (Zailani *et al.*, 2019). Given the significance of financial performance, different groups have a vested interest in a company's financial performance and analyze it in various ways. For creditors, the focus is on the company's liquidity (i.e., the ability to meet its obligations), while for those who have obligations, the focus is on the company's cash flow (i.e., assessment of the company's capital structure, primary resource and fund utilization, time-to-term profit, and future profit projections). Investors are interested in both current and future profit as well as income stability (i.e., assessment of the

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company's profit and financial condition), while management is focused on internal control, the company's financial condition and performance, and asset return (i.e., the company's current financial position, investment opportunities, and potential for change). In this study, financial performance was assessed based on three criteria: profitability, liquidity, and return on equity (Kabuye *et al.*, 2019).

Independent Variables **Dependent Variable**

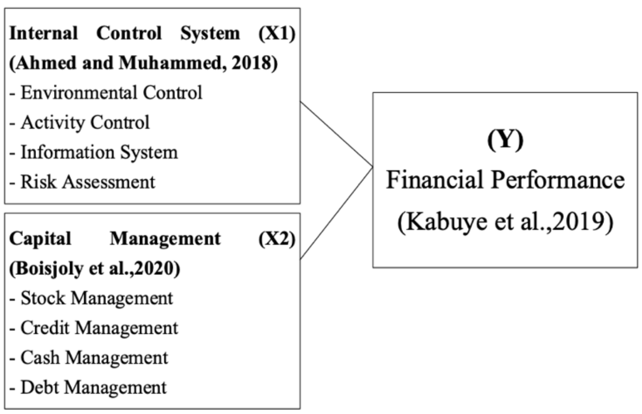

Figure 1. Conceptual Frame Work

2. 5. Hypothesis

The study aims to test several hypotheses related to the impact of internal control components on financial performance. The hypotheses are as follows:

H1: Environmental control positively and significantly affects financial performance.
H2: Activity control positively and significantly affects financial performance.
H3: Information systems positively and significantly affect financial performance.
H4: Risk assessment positively and significantly affects financial performance.
H5: Stock management positively and significantly affects financial performance.
H6: Credit management positively and significantly affects financial performance.
H7: Cash management positively and significantly affects financial performance.
H8: Debt management positively and significantly affects financial performance.

3. Methodology

3.1. Population and Samples

The study was carried out in a supermarket located in Dili, Timor-Leste, with a population of 50 supermarkets in the area serving as the data sources (SERVE IP, 2020). The sample for this research consisted of the managers or owners of each supermarket, who were purposively selected due to their better understanding of the internal control system and working capital management in improving the financial performance of the supermarkets (Gitau, 2018). The study utilized the Sensus method (Gitau, 2018) for data collection.

3.2. Data Collections Techniques

The researchers employed a questionnaire as their data collection instrument in this study, using primary data. The questionnaire was distributed by visiting each of the 50 supermarkets in Dili, Timor-Leste, to the manager or owner of the supermarket. To measure financial performance, the researchers utilized the respondents' classification of 28 items included in the questionnaire, which was a modified version of questionnaires adopted by (Kabuye *et al.*, 2019). The internal control system, including environmental control, activity control, information system, and risk assessment, was measured using 33 items, while working capital management, including stock management, cash management, credit management, and debt management, was measured using 35 items. The items used in the questionnaire were based on studies conducted by (Kabuye *et al.*, 2019).

3.3. Data Analysis Techniques

For this study, SPSS version 21 software was utilized to perform various data analyses. Firstly, validity and reliability tests were conducted to verify the effectiveness of the questionnaire used as a research tool. The classical Assumption Test was then carried out, consisting of several components. The initial component was a normality test according to Ghozali, (2018), which aimed to determine whether the independent and dependent variables followed a normal distribution. Following this, a multicollinearity test was performed to assess the correlation between the independent variables in the regression model. Finally, the Heteroskedasticity Test was conducted to identify any variations in the regression model observed among the different residents. According to Ghozali, (2018), the analysis of regression, which involves the relationship between two or more independent variables, can be effectively addressed through the use of multiple linear regression. The multiple linear regression model is presented: $Y' = a + b1X1 + b2X2 + \ldots + bnXn$ (Keith, 2019).

In hypothesis testing, a significance value of 0.05 ($\alpha = 5\%$) is commonly used for the T-test. The F-test, on the other hand, is utilized to determine the joint impact of internal control and capital management systems on financial performance variables. The ANOVA table displays the results of the F-test in the "sig" column. The Adjusted R Square is employed to determine the percentage of variation in the dependent variable that is explained by the independent variables. In simple regression analysis, the R Square value is used for this purpose. However, for multiple linear regression analysis, the Adjusted R Square is used instead (Kabuye *et al.*, 2019).

4. Result

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4.1 Characteristic of Respondents

The survey consisted of a total of 50 respondents. Among them, 18 were female, comprising of 12 supermarket owners and 6 managers, accounting for 36% of the total respondents. The remaining 32 respondents were male, consisting of 24 supermarket owners and 8 managers, making up 64% of the total respondents. In terms of age, 37% (74%) of the respondents were over 30 years old, while 9 respondents were aged between 26 and 30 years, representing 18% of the total. 4 respondents were aged between 20 and 25 years, accounting for 8% of the total. With regards to profession, the majority of respondents, comprising of 36% (72%) of the total, were supermarket owners. 14 respondents were supermarket managers in Dili, Timor-Leste, representing 28% of the total. In terms of nationality, the majority of respondents were Chinese, comprising of 32 supermarket owners, or 64% of the total. 1 respondent was a Pakistani supermarket owner, accounting for 2%, while 2 respondents were Bangladeshi supermarket owners/managers, accounting for 4%. Additionally, 11 Timorese respondents were included in the survey, comprising of 2 supermarket owners and 9 managers, making up 22% of the total. Finally, 4 Indonesian respondents, all of whom were supermarket managers, accounted for 8% of the total.

4.2 Descriptive Statistics Results

The statistical descriptive of the internal control system indicates an average value of 4.4600, with a standard deviation of 0.57888. Meanwhile, the average value of the variable, which is less than 3.000, has a standard deviation of 1.14731. These values suggest that the internal control system in the Dili supermarket is good, as the average value of the variable exceeds 3.00. This finding is consistent with the results of a study conducted by (Bromilow and Berlin, 2008), which highlights the importance of having an internal control structure in place to ensure efficient management practices. Thus, the company has recognized the internal control system as a crucial administrative requirement to ensure effective business operations (Ogetange, 2017).

The descriptive analysis of capital management statistics indicates a total medium value of 4.1600, with a standard deviation of 0.76559. The lowest total mean value was 2.9400, with a standard deviation of 1.01840. These results suggest that the medium value of the variable, capital management turnover, exceeds 3.00, indicating that the Dili supermarket has good capital turnover management in place for its business activities. This finding is consistent with a survey conducted by (Kiptoo, 2017), which emphasizes that effective management of capital turnover can significantly impact a company's success or failure. Similarly, (Nazir and Afza, 2009) state that proper management of capital turnover can minimize financial risk and ensure optimal performance for a company (Kiptoo, 2017).

After conducting statistical analysis, it was found that the variable "financial performance" had a total mean value of 4.0000 with a standard deviation of 0.80812, while the lowest total mean value was 3.5000 with a standard deviation of 1.01519. These results indicate that the average value of financial performance of the supermarket is above 3.00, which suggests that the supermarket in Dili has good financial performance in carrying out its business activities. This finding is consistent with Kabuye et al., (2019), who emphasized that a strong and effective internal control system combined with capital management are key factors in improving financial performance (Kabuye *et al.*, 2019).

4.3 Data Analysis

Validity testing was conducted for the survey questionnaire used to measure the internal control system, working capital management, and financial performance. Results showed that for the internal control system, 10 out of 11 questions were valid with the exception of one risk assessment question. For working capital management, 9 out of 10 credit management questions and 6 out of 7 cash management questions were valid, while all 9 divisions management questions were valid. In terms of financial performance, all 12 profitability questions, all 8 ROE questions, and all 8 liquidity questions were valid. The validity was determined based on the r-statistics value being larger than the r-table value, except for the one question in risk assessment and one question in credit management where the r-statistics value was lower than the r-table value. Overall, this suggests that the survey questionnaire used to measure these variables was valid.

4.3.1 Reliability Test

The reliability test results of this research indicate that the control of activities and the information system's reliability is acceptable, with a Cronbach's Alpha value of 0.60. However, the environmental control indicators and risk assessment have low reliability as the Cronbach's Alpha value is below 0.60. On the other hand, stock management, credit management, and debt management indicators are reliable, with the Cronbach's Alpha value exceeding 0.60. Unfortunately, the cash management indicator is not reliable, as the Cronbach's Alpha value is below 0.60. Lastly, the reliability of profitability and liquidity indicators is also mixed, with some sub-indicators having Cronbach's Alpha value below 0.60.

4.3.2 The Classic Assumption Test

The normality of the variables "financial performance", "internal control", and "capital management system" were tested. The results showed that the data points on the histograms were distributed along the diagonal line, indicating normal distribution. Therefore, based on the P-P plot graph, it can be concluded that the regression model follows a normal distribution. This finding is consistent with Mtani and Masanja, (2018) suggestion that a variable is normally distributed when the majority of the data distribution points lie on a diagonal line in the histogram graph.

The multicollinearity test results indicate that both the environmental control, activity control, information system, and risk assessment indicators, as well as the stock management, credit management, cash management, and debt management indicators have a tolerance value of 1 and a VIF value of less than 10, suggesting that the data is not affected by multicollinearity (Kabuye *et al.*, 2019).

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The Heteroskedasticity Test revealed that there was no distinct clustering of points above or below zero on the Y-axis. This indicates that Heteroskedasticity was not present in the research data (Kabuye *et al.*, 2019).

4.4 Analysis of Correlation Results

The researchers used the Karl Pearson correlation coefficient (r) to assess the correlation between the research variables and study outcomes. The findings revealed a significant and positive correlation between environmental control and financial performance at Dili supermarket in Timor-Leste, with a total correlation value of 0.337 **. This suggests that effective implementation of environmental control in the supermarket could potentially enhance its financial performance. Moreover, the results also demonstrated a significant and positive correlation between control activity and financial performance at the same supermarket in Dili, Timor-Leste, with a total correlation value of 0.341 **. The study's findings suggest that effective control activity at the Dili supermarket in Timor-Leste can potentially increase its financial performance. However, the correlation table indicates that there is no significant relationship between the information system and the financial performance of the supermarket, as evidenced by the total correlation value of 0.082. Conversely, the assessment of risk and financial performance at the Dili supermarket in Timor-Leste revealed a significant positive correlation, with a correlation value of 0.318 **. The results show that the supermarket in Dili, Timor-Leste must have a good policy of reviewing and risk assessment so that it can increase the financial performance of the supermarket in Dili, Timor-Leste. There is also a significant positive relationship between stock management and financial performance in the Dili supermarket, Timor-Leste with a correlation value 0.505 * *. The outcome shows that when a supermarket is in Dili, Timor-Leste manages an effective stock policy that is important for a supermarket to improve financial performance to facilitate the operation of the day-to-day supermarket. The results also showed a significant positive relationship between credit management and financial performance in the supermarket in Dili, Timor-Leste and cash management and financial performance in the supermarket in Dili, Timor-Leste with a correlation value of 0.436 * * and 0.455 * *. The results show that the supermarket in Dili Timor-Leste should create good credit management and cash management mechanisms so that the supermarket has the opportunity to increase financial performance to ensure the operation of the supermarket activity. The latter resulted in a significant positive relationship between debt management and financial performance in the Dili Timor-Leste supermarket with a correlation value of 0.732 * *. The results show that divided management is an important component of the supermarket in Dili, Timor-Leste because if the supermarket creates a good way of managing the divided management the supermarket itself can have a great advantage in improving the financial performance of the supermarket.

4.5 Multiple Linear Regression Test

According to the regression analysis, there is a significant relationship between environmental control, activity control, information systems, risk assessment and stock management, credit management, cash management, and debt management on the financial performance of supermarkets in Dili, Timor-Leste, with an overall regression coefficient of 39.359. When considering the other independent variables to have a value of zero, the increase in environmental control leads to a 1.007 increase in financial performance of the supermarket; an increase in activity control leads to a 0.525 increase in financial performance; an increase in the information system leads to a 0.158 increase in financial performance; an increase in risk assessment leads to a 0.751 increase in financial performance; an increase in stock management leads to a 0.781 increase in financial performance; an increase in credit management leads to a 0.653 increase in financial performance; an increase in cash management leads to a 1.045 increase in financial performance; and an increase in debt management leads to a 0.976 increase in financial performance. These results indicate that cash management has the greatest impact on the financial performance of the supermarket, followed by environmental control, debt management, stock management, risk assessment, credit management, and activity control. On the other hand, the results show that the information system has the least contribution to financial performance in the supermarket in Dili, Timor-Leste.

Financial Performance = $\beta 0 + \beta 1 EC + \beta 2\ AC + \beta 3\ IS + \beta 4\ RA + \beta 5 SM + \beta 6 CM + \beta 7 CM + \beta 8\ DM + \varepsilon$
Become: Y (FP) = 39.359+ 1.007 EC+ 0.525 AC+ 0.158 IS+ 0.751 RA +0.781 SM+0.653 CM+ 1.045 CM+ 0.976 DM+ 12.130 ε = 57.385 (57.38%) (Jain and Chalasani, 2016).

According to the regression analysis, the variables of internal control system, which include environmental control, activity control, information system, risk assessment, and turnover capital management measured by the indicators of stock management, credit management, cash management, and debt management, have a significant impact on the financial performance of the supermarket in Dili, Timor-Leste. The total contribution of these variables to the financial performance of the supermarket is 57.38%.

4.6. Hypothesis Result Test

The results of the t-test conducted on the variables of internal control and capital management system with respect to the financial performance of the supermarket in Dili, Timor-Leste are as follows:

Environmental control obtained a t-statistic value of 2.476 which is greater than the t-table value of 2.014 or a significant value of 0.017 which is lower than the significance level of 0.05. Therefore, H1 is accepted and H0 is rejected, indicating that proper implementation of environmental control can increase the financial performance of the supermarket. Similarly, control activity received a t-statistic value of 2.512 which is greater than the t-table value of 2.014 or a significant value of 0.015 which is lower than the significance level of 0.05. Thus, H2 is accepted and H0 is rejected, indicating that effective control of activity

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can also enhance the financial performance of the supermarket. On the other hand, the information system had a t-statistic value of 0.571 which is lower than the t-table value of 2.014 or a significant value of 0.571 which is greater than the significance level of 0.05. Hence, H3 is rejected and H0 is accepted, implying that the information system does not significantly contribute to the financial performance of the supermarket in Dili, Timor-Leste. Finally, the risk assessment received a t-statistic value of 2.321 which is greater than the t-table value of 2.014 or a significant value of 0.025 which is lower than the significance level of 0.05. Therefore, H4 is accepted and H0 is rejected, signifying that conducting an effective risk assessment is likely to increase the financial performance of the supermarket.

The stock management has a t-statistic value (4.053) greater than the t-table (2.014) or could be seen from a value meaning 0,000 smaller than a = 0.05. That is why H5 accepted and H0 rejected. This means that if the supermarket manages good stock management in the supermarket's certainty it can increase the financial performance of the supermarket in Dili, Timor-Leste. The credit management has a t-statistical value (3.356) greater than the t-table (2.014) or it can be seen from a 0.002 lower than a = 0.05. That is why H6 accepted and H0 rejected. This means that an effective credit management supermarket will have the opportunity to increase the financial performance of the supermarket in Dili, Timor-Leste. The cash management is the t-statistic value (3.540) greater than the t-table (2.014) or visible from the value of 0.001 smaller than a = 0.05. This is H7 accepted and H0 rejected means that the supermarket needs to implement good cash management and will increase the financial performance of the supermarket in Dili, Timor-Leste. Debt management has a t-statistic value (7.446) greater than the t-table (2.014) or can be seen from a value meaning 0,000 smaller than a = 0.05. This is H8 accepted and H0 rejected. This means that if the supermarket effectively implements debt management it can increase the financial performance of the supermarket in Dili, Timor-Leste.

The results of the F-test reveal a total statistical value of 6.724 with a significant level of 0.000. This indicates that the internal control system and capital management system together have a significant impact on the financial performance of the supermarket in Dili, Timor-Leste. The F-statistic value (6.724) is higher than the table value (3.19), and the probability value (0.000) is lower than the alpha level (0.05). Therefore, it can be concluded that if the supermarket in Dili, Timor-Leste effectively implements an internal control system and efficiently manages the working capital, it can significantly improve its financial performance.

Based on the analysis of the regression model results, the Adjusted R Square value of 0.483 indicates that the combined variable value of the internal control system and working capital management system can explain 48.3% of the variability in the financial performance of the supermarket in Dili, Timor-Leste. However, it also indicates that there are other factors not included in the model that account for the remaining 51.7% of the impact on financial performance. Therefore, while the internal control system and working capital management system are important contributors to financial performance, there are other factors that should also be considered for a more comprehensive understanding of the overall impact on financial performance.

5. Discussions

In accordance with the research theme, objective, and hypothesis, the analysis of the results indicates the following:

The t-test results for the H1 hypothesis demonstrate that environmental control significantly affects the financial performance of supermarkets in Dili, Timor-Leste. This is supported by the t-statistical value (2.476) which is greater than the t-table (2.014) and a significance level of 0.017, which is lower than $\alpha = 0.05$. Therefore, H1 is accepted, and H0 is rejected. The findings suggest that effective implementation of environmental controls can enhance the financial performance of supermarkets in Dili, Timor-Leste. This study is consistent with previous research that established a positive relationship between the internal control system and financial performance, which was conducted at SMEs in Kisumu, Kenya (Nyakundi, Nyamita, & Tinega, 2014).

The t-test results for the H2 hypothesis demonstrate that activity control significantly impacts financial performance. This is evident from the t-statistics value (2.512), which is greater than the t-table (2.014), or can be seen from the value of 0.015, which is lower than $\alpha = 0.05$. Therefore, H2 is accepted and H0 is rejected. This means that effective activity control has a significant impact on the financial performance of supermarkets in Dili, Timor-Leste. The study suggests that implementing effective activity control can improve the financial performance of supermarkets in the region. The research findings of Ahmed and Muhammed, (2018) also support this study by showing that effective internal controls can significantly enhance financial performance and prevent fraudulent behavior. Similarly, a study conducted on a telecommunications company in Kurdistan found that there is a significant relationship between the internal control system, measured through environmental control indicators, risk assessment, information systems, control activity, and financial performance. These findings provide further support for the positive impact of internal controls on financial performance (Ahmed and Muhammed, 2018).

The results of the t-significance test for the H3 hypothesis suggest that the information system does not have a significant impact on financial performance, as the t-statistics value (0.571) is lower than the t-table (2.014) or, in other words, the value of 0.571 is greater than $\alpha = 0.05$. Therefore, H3 is rejected and H0 is accepted. These findings are consistent with previous research that found a negative impact of the information system on the financial performance of a distribution company in Kenya called Moonbluz (Odek and Okoth, 2019). Similarly, Kabuye et al. (2019) found that the internal control system measured by information system indicators did not have a significant impact on supermarkets in Uganda (Kabuye *et al.*, 2019a).

The t-significance level test results for the H4 hypothesis indicate that risk assessment has a significant impact on the financial performance of supermarkets in Dili, Timor-Leste.

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This is evident from the t-statistics value (2.321), which is higher than the t-table (2.014), and the value of 0.025, which is lower than α = 0.05. Therefore, H4 is accepted, and H0 is rejected. The findings suggest that in order to increase the financial performance of supermarkets in Dili, Timor-Leste, it is essential to have a well-formulated policy for reviewing and conducting risk assessments, which includes risk identification, assessment, and response. The research by Odek & Okoth (2019) also reinforces these findings, showing that risk assessments have positive correlations with the financial performance of SACCOs in Nakuru, Kenya. Similarly, other studies, such as those conducted by Nyakundi et al. (2014), have also established a significant positive relationship between risk assessment and financial performance (Odek & Okoth, 2019).

The results of the t-sig test for the H5 hypothesis indicate that stock management has a significant impact on the financial performance of the supermarket in Dili, Timor-Leste, as evidenced by the t-statistical value of 4.053, which is higher than the t-table of 2.014. Furthermore, the value of 0.000 is lower than α = 0.05, indicating that H5 is accepted and H0 is rejected. These findings suggest that effective stock management policies (such as inventory ordering, stocking, tracking, and management) are crucial for improving the financial performance of supermarkets in Dili, Timor-Leste, and can facilitate their day-to-day operations. This result is supported by Kassim (2014) research on the relationship between working capital management and financial performance in retail supermarkets in Kenya, which found a positive correlation between the two. Similarly, Mtani and Masanja (2018) study on the impact of working capital management on financial performance at manufacturing companies in South Africa found that working capital management has a significant impact on both profitability and liquidity.

The results of the significant level test t for hypothesis H6 indicate that credit management has a significant impact on the financial performance of the supermarket in Dili, Timor-Leste. This is evident from the t-statistical value (3.356) being higher than the t-table (2.014), or from the value of 0.002 being lower than α = 0.05. Thus, H6 is accepted, and H0 is rejected. It is crucial for the supermarket to establish an effective credit management system, such as setting payment schedules, to increase financial performance and ensure the smooth running of daily operations. This finding is in line with previous studies conducted by Wainaina (2010) and (Kiptoo, 2017), which revealed a significant relationship between capital management and financial performance in SMEs in Kenya. Additionally, research by Cyprian, Jomo, and Tobias (2014) confirmed a positive correlation between credit management and financial performance in Nairobi Securities Exchange (A and Abdulrahamand, 2018).

The t-test results for hypothesis H7 indicate that cash management significantly affects the financial performance of the supermarket in Dili, Timor-Leste. This is evident from the t-statistical value (3.540), which is higher than the t-table (2.014), and the significance value (0.001), which is lower than α = 0.05. Therefore, H7 is accepted, and H0 is rejected, indicating that the supermarket's cash management has a significant impact on its financial performance. To enhance financial performance, the supermarket should implement effective cash management practices, including proper control and planning of cash inflows and outflows. Previous studies also support the importance of cash management for financial performance. Kassim, (2014) research on variable working capital management and financial performance in a Kenyan retail supermarket revealed a positive relationship between the two variables. Similarly, study on the impact of capital management on SSEs' financial performance in the South Kisii district found that cash management, along with inventory and debt management, positively affects financial performance (Kassim, 2014).

The results of the t-test for hypothesis H8 indicate that debt management has a significant impact on the financial performance of the supermarket in Dili, Timor-Leste. This is supported by the higher t-statistical value (7.446) than the t-table (2.014) and the significance value of 0.000 being lower than α = 0.05. Therefore, H8 is accepted and H0 is rejected. The findings suggest that debt management is a crucial aspect of the supermarket's operations, and effective management of debt can lead to significant improvements in financial performance. Previous research conducted by Thuku (2019) on selected supermarkets in Nairobi County, Kenya found a significant relationship between working capital management and financial performance, which was supported by (Ahmed Akram Mohamed, 2019). Additionally, Abuzayed, (2012) conducted a study on the food industry in Greece and found a significant relationship between working capital management and financial performance. These studies further emphasize the importance of effective management of working capital, which includes debt management, in improving financial performance.

6. Conclusion and Implication

6.1. Conclusion

Based on the research findings, it can be concluded that there is a significant positive relationship between the internal control system variables, namely environmental control indicators, activity control, risk assessment, and working capital management, as measured by stock management indicators, credit management, money management, and divide management, with the financial performance of supermarkets in Dili, Timor-Leste. This indicates that effective implementation of environmental control, activity control, risk assessment, and proper management of stock, credit, cash, and debt can provide supermarkets in Dili, Timor-Leste with an advantage in improving their financial performance and financing their daily business activities. However, the research also revealed that the internal control system, when measured by information system indicators, did not significantly impact the financial performance of supermarkets in Dili, Timor-Leste.

6.2. Implication

Based on the researcher's findings, it is recommended that the Dili Supermarket in Timor-Leste implement an efficient internal control system, with a focus on components such as environmental control, activity control, information system, and

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risk assessment. This will provide the supermarket with opportunities to improve its financial performance. Additionally, the supermarket should enhance its management of working capital, specifically focusing on stock management, credit management, cash management, and debt management. By doing so, the Dili supermarket can increase its profitability and financial performance, enabling it to finance its daily business activities effectively.

For the future research so that research can be conducted in another institution or company. Ask the following research to re-test the indicators which does not have impact, with an increase in the number of samples and other indicators that have not been used in the research. The following research can also use observation and interview as data collection techniques at a supermarket in Dili, Timor-Leste so that more clear and effective research information can be obtained at a supermarket in Dili, Timor-Leste.

7. Limitation and Future Research

The research was conducted only in the supermarket in Dili, Timor-Leste, not including some in other municipalities. The research only used some of the indicators used by the researchers, variable internal control systems (environmental control, activity control, information systems, risk assessment) and variable working capital management (stock management, credit management, cash management, debt management). The variable dependent on financial performance is measured by (profitability, (ROE), liquidity). In this research, researchers also gathered data using quantitative data and therefore sometimes lost some important information and there were limited opinions from the respondents to the variable studies. In this research the authors used only the questionnaire as a data collection tool.

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