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**EFFECTS OF INTERNAL CONTROL ON SALES PERFORMANCE IN THE RETAIL
INDUSTRY IN KENYA (A CASE STUDY OF THE ARMED FORCES CANTEEN
ORGANIZATION)**

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**A RESEARCH PROJECT REPORT SUBMITTED IN PARTIAL FULFILLMENT OF
THE REQUIREMENTS FOR THE AWARD OF THE MASTERS OF BUSINESS
ADMINISTRATION IN FINANCE, SCHOOL OF BUSINESS, KENYATTA
UNIVERSITY**

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DECLARATION

This research project report is my original work and has not been presented for a degree in any other university or any other institution of higher learning for any other award.

Signed..........

Date.....10TH 11/12.....

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Supervisors Approval

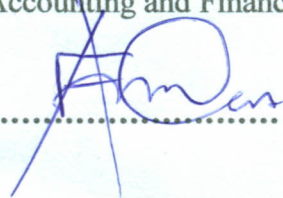
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Heartfelt appreciation and acknowledgement as well go to my generous sponsor Kennedy Omare for his financial support and to my distinguished genuine friends for constant encouragement when the going got tough. Mr. Humphrey Mlaghui Mwangemi, AFCO chief field services officer, accept my gratitude for your relentless effort and support in availing to me the necessary information about AFCO operations during my research. Finally may all AFCO fraternity be blessed for sacrificing their scarce time to respond to the research questionnaire. May our good Lord shower you with abundant blessings.

DEDICATION

I wish to dedicate this project report to the Almighty God who has enabled me to come this far in my academic journey. It has not been an easy journey altogether.

This project report is also dedicated to my caring family led by my brothers KENNEDY and JUSPER, my sister JAQUELINE, my last born sister LILLIAN, my mum EUNICE and dad JAPHET as well as my very supportive distinguished sponsors who supplemented the family material ability to finance this noble course.

I also dedicate this project to my friends who have always encouraged me throughout my academic path.

May Almighty God bless you all.

ABSTRACT

The retail industry has cut-throat stiff competition as new entrants continue entering this economic sector, thus AFCO's Board of management is mandated to formulate and implement an efficient and effective system of internal control to enhance its sales performance. Internal controls are bound to face inherent challenges which may deter AFCO from achieving its objectives. The case study focused on the effects of internal control on sales performance at AFCO'S headquarters in Moi Air Base (MAB), Nairobi. The main objective of the study was to establish the role played by management in implementing an efficient and effective system of internal control. The specific objectives were: To confirm how prudent business practices enhance sales performance; to evaluate how an effective supply chain management affects organization sales performance; to determine how embracing current trends in Information technology enhance sales performance; to establish how Internal Audit's role in risk management, control and governance processes enhances sales performance and to establish the role of sound corporate governance in enhancing an organization's sales performance. The research was conducted through a census survey on the target population. This research utilized descriptive survey design by administering questionnaires and interviewing respondents. The questionnaire included both closed and open ended questions and was self-administered. The target population was employees in management level in Accounts, Internal Audit and Supplies departments at AFCO'S head quarters in Moi Air Base (MAB) in Nairobi. Pre-testing of instruments was conducted at the Accounts, Internal Audit and Supply departments. Data collected was analyzed using descriptive statistics. Quantitative data was analyzed using tables and charts whereas qualitative data was analyzed based on content analysis. Finally, data was presented using frequency distribution tables, pie charts and bar graphs with the use of statistical software, SPSS.

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DEFINITION OF TERMS

Base: Headquarters for each of the armed forces branches.

Civilian: Person not trained as a soldier, but serves the armed forces personnel.

E-Commerce: form of business transaction in which the parties interact electronically rather than by physical exchange or direct physical contact.

Effectiveness: The degree to which the organization's output corresponds to the needs and wants of the internal environment.

Efficiency: Producing satisfactory/quality results without wasting time and other resources.

ERP system: web-based software that allows both employees and partners (such as suppliers and customers) real-time access to the systems.

Garrison: Consists of several units stationed in one camp for example battalion, storage of armory, water drilling department.

ICT: Information and Communications Technology or technologies) is an umbrella term that includes any communication device or application, encompassing: radio, television, cellular phones, computer and network hardware.

Internal auditing: An independent, objective, assurance and consulting activity designed to add value and improve an organization.

Internal control: A process effected by the entity's board of directors, Management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: Effectiveness and efficiency of operations; Reliability of financial reporting; Compliance with applicable Rules and laws and regulations. Internal controls helps the organizations achieve their objectives

Legacy Systems: The systems currently running and or discontinued; that are being replaced are known as legacy systems.

Mess: Recreational and entertainment areas for example, the officers mess, warrant officers and sergeants mess.

Mission: A formal statement of what management wants the organization to be and the guidelines for getting there.

Plan: Frame work that details the methods and tasks that are to be implemented in order to achieve designated goals.

Quality: Is the totality of features, which bears on a product's ability to meet stated needs.

Retail Industry: Matching the individual demands of the consumer with vast quantities of supplies produced by a huge range of suppliers and service providers, making huge contribution to the economy prosperity.

Sales Performance: Income/earnings from an organization's core business activities as per its set annual sales target/performance.

Unit: Fighting ground on land for example the Kenya Rifles at Nanyuki.

LIST OF ABBREVIATIONS AND ACRONYMS

AFCO:	Armed Forces Canteen Organization
BOM:	Board of Management
CGS:	Chief of General Staff: Overall chief executive officer of the Armed Forces
Colonel A/Q:	Colonel Air Force (A colonel is a presidential nominee in the Army)
DOD:	Department of Defense
ERP:	Enterprise Resource Planning
ESCAFA:	Eastern, Central and Southern Africa Federation of Accountants.
IT:	Information technology
KAFOKA:	Kenya Armed Forces Comrades Association.
NAAFI:	(Navy, Army and Air Force Institutes)
SCM:	Supply Chain Management.
SOI:	Senior officer one (with the rank of a colonel)

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CHAPTER ONE

INTRODUCTION

1.0 BACKGROUND OF THE STUDY.

1.1 Origin of Internal control theory.

According to [www://http.hi.com](http://www.http.hi.com), expansion of a firm's size enhances increase in internal functional departments which need to be coordinated within the enterprise to save resources, prevent errors and fraud and improve operational efficiency of business objectives. Therefore enterprises should establish organizational structure, business processes, and self-control and self-adjustment mechanism. The control theory is a study of elements from a variety of coupled systems of regulation and control of the general laws of science, particularly in the economic process based on research systems and how to play their functions, how to control the economic process for the purpose of economic control theory, to become one of the theoretical basis of internal control. This is because the internal control theory in the study of each specific organization's internal management processes, research each unit how to play their proper management functions and how to effectively regulate the process of management and control of established self-regulation, self-control mechanism and control the ways and means, it is in accordance with the general principles of cybernetics. Internal control is essentially a thorough collection, screening, processing, transmission, the process of feedback to guide the logistics and cash flow, according to the intended target to run an effective control mechanism, where information is controlled by the source and basis. Its authenticity, timeliness is a key to the effectiveness of internal control factors. Systems theory was born, not only in the areas of natural and social sciences to bear the rich fruits, but also brings new ideas and concepts, caused great changes in management practices. In accordance with this theory point of view, the enterprise as an interconnected and interdependent system composed of a number of elements, while the internal control is the management system of a subsystem.

According to Dion and Topping (2008), as recently as 35 years ago, retail businesses had very little competition and it was relatively easy to make profit. Year after year, they enjoyed 20-25% growth, which meant they could afford to make a few mistakes and simply sweep them under the carpet. Because retail business has radically changed, one will be successful in the industry by having the right merchandise, in the right place, at the right time, in the right quantity, at the right price, with the right service.

Ogden, Ellam and Fawcett (2007), today's marketplace is more fiercely competitive than ever before. Globalization, technological change and demanding customers promise to make mediocrity an endangered species. New managerial practices and unique business models emerge and fade constantly as managers strive to help their companies succeed in this less kind, less gentle, less predictable world. Increasingly, managers must follow the advice of Thomas Edson "If there is a better way, find it."

According to Kenya's vision 2030 (October 2007), wholesale and retail trade is highlighted as one of the key sectors in the economic development of Kenya, because the sector is the link between production and consumption. Retail development has benefited from the fact that in recent years, the Kenyan government has made considerable headway in terms of making the business environment in Kenya more attractive for investors. Whilst ease of credit has significantly improved the business environment for investors, other factors such as an improved infrastructure, reduced corruption and political stability have all fuelled growth across the sectors.

Nairobi, with a population exceeding three million, is currently estimated to account for 70% of the modern grocery market and has been targeted by many retailers as the most lucrative location for opening stores. Nevertheless opportunities in Nairobi's central business district (NCBD) seem to have become exhausted with supermarkets with recent trends showing that some of the larger chains are beginning to open stores in suburban districts which have longer-term potential (www.ccsent.org).

According to Palmer (2009), Challenges to retailers include keeping costs low and supply chain efficiencies high; protecting brand and reputation; responding rapidly to changing consumer tastes; expanding reach to penetrate new markets and compete from a position of strength; and greening operations.

According to Powers G. (2009) , professional services firm Deloitte suggests successful retailers will enhance the customer experience, while improving risk management systems by: cutting costs, consolidation of support functions and cuts to the payroll, examining the cost of goods more carefully, and negotiating better deals with suppliers; Risk mitigation to adverse factors such as disruptions to supply chains, currency volatility, natural disasters, man-made disasters, legal liability and financial market disruption; improvement in the store

layout or design, better customer service or greater product information; focus on offering competitive prices and a differentiated shopping experience.

1.1.1 Armed Forces Canteen Organization Profile

According to AFCO (1985), the Armed Forces Canteen Organization (AFCO) is the official trading organization for the Army, Air force and Navy and was founded on 1st of July 1974 on the recommendation of a Government committee; taking over services formerly offered by NAAFI to the Armed Forces.

AFCO has a chain of stores with 11 branches spread countrywide and sells duty free goods in 27 shops. AFCO stocks a diversity of items which inter alia includes; electronics, household goods, food stuffs, clothing, hardware, beverages, fuel and so on. These shops function on co-operative principles and operate solely for the benefit of members of the three services; the Army, Navy and Air force.

AFCO is not a Government department, though it has certain rights and obligations under the Government. AFCO is exempted from paying VAT, import duty as well as customs and excise duty. No profits arise, as any surplus income over expenditure after payment of cash rebates to units, discounts (or dividends) to individuals and messes and provision for reserves and contingencies, is paid as extra rebate as directed by Department of Defense, normally to service central funds. The surplus generated is channeled to support inter alia a number of projects; schools; churches; hospitals; gymnasiums; sports teams; KAFOCA and so on.

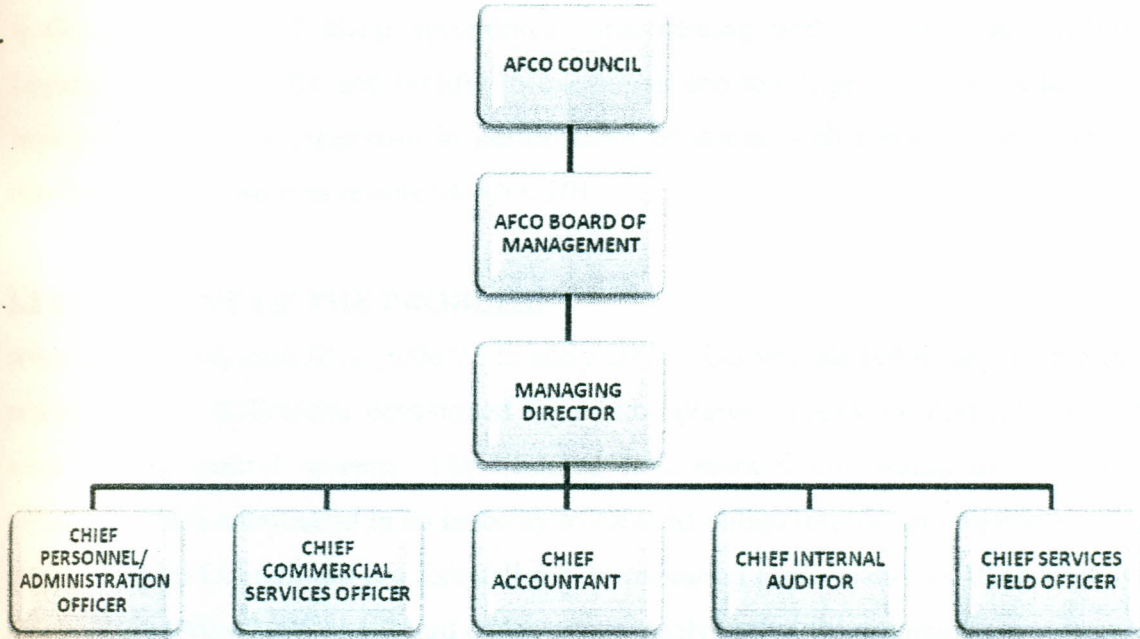
Persons entitled to use the facilities are prohibited from purchasing or being concerned in the purchase of articles for the benefit of persons not so entitled. Under no circumstances are civilian personnel (other than those enumerated above) allowed to deal in AFCO shops.

1.1.2 Control and Management of AFCO

The day-to-day activities of AFCO are directed by a Management board led by the Chief of General Staff as chairman, whose members include the permanent secretary DOD; an Army, Navy and Kenya Airforce Commander, Chief of Staff DOD and the managing director of AFCO; the SOI personnel director of DOD serves as the secretary of the council. Civilians of wide commercial experience may be co-opted as suggested by the Board in an honorary capacity.

AFCOs management structure is shown in figure 1.1.

Figure 1.1: AFCO ORGANIZATIONAL CHART



Source: Rules for AFCO document (2005)

In order to secure a solid base in procurement, the company has adopted a centralized purchasing system whereupon the goods are purchased from established suppliers in bulk and distributed to consumers through its countrywide branches hence giving them value for their money. Cafeterias, however, are allowed to purchase perishables and confectionery goods from the local markets depending on their needs. Issue of goods to these outlets is done as per the requirements of the board; Final distribution is done using the organization's transport fleet (AFCO, 1985).

The canteens sell to individual customers on a cash basis. Pricing of the goods is based on a markup set up by the management board is uniformly maintained in all outlets countrywide. However, credit sales are advanced to the units/Bases/Garrisons and messes. This is in respect to beers, wines and spirits. Stringent measures are taken to avoid bad debts with all units required to clear the previous month's bills by 15th of the succeeding month, failure of which deliveries are discontinued. Electronic items are sold on hire purchase to the military men, AFCO staff and DOD civilians.

AFCO is guided by five core values namely quality service delivery, integrity, loyalty, teamwork and foresight. Quality service delivery entails serving customers selflessly and effectively in order to remain the supermarket of choice. Integrity refers to expression of the quality of honesty and moral uprightness when dealing with customers and fellow staff; Loyalty is being truthful and faithful to customers and the organization whereas teamwork involves organized co-operation in performance of duties with foresight being forecasting into the future for the best results (AFCO, 2011).

1.2 STATEMENT OF THE PROBLEM

www.fas.usda.gov/gain files. 2006/7., in early 2000s, Uchumi started to experience financial and operational difficulties occasioned by a sub-optimal expansion strategy coupled with weak internal control systems. This resulted in a marked diminution of the company's resources, which culminated in its inability to meet its obligations on an ongoing basis. Initial restructuring of Uchumi did not forestall the deteriorating performance of the company. As a result, on 31st May 2006, the Board of Directors resolved that the company ceases operations and on 2nd June 2006, the Debenture Holders placed the company under receivership. Simultaneously, the Capital Markets Authority (CMA) suspended the company's listing on the Nairobi Stock Exchange (NSE). According to Kimani (2006) mismanagement; corruption, inefficiencies and the high cost of operations are the main factors that caused the downward trend in Uchumi supermarket, leading to a significant drop in the share price.

Despite the implementation of a system of internal control and setting sales performance targets as the hallmark to gauge if the implemented controls are effective, A.F.C.O as a player in the retail industry occupies a small market niche (serving only the military men and their dependants). AFCO as well faces a number of threats: East Africa custom union; offering goods and services in a liberalized environment; control of duty free products; retention of qualified staff; dilapidated/congested shops; Government's restrictions to AFCO to sell merchandise to specific customers; implementing an updated information technology (ERP) and the company's inability to meet its set sales target for the last two consecutive years as shown below:

Table 1.2 Table AFCO sales performance.

FINANCIAL YEAR	ACTUAL SALES (K.SHS.)	SET SALES TARGET (K.SHS.)	SALES VARIANCE (K.SH)
2008/2009	2,745,999,449	3,000,000,000	(254,000,551)
2007/2008	2,793,718,865	3,000,000,000	(206,281,135)

Source: AFCO Budgetary section 2009.

According to AFCO field office Department (2011), there have been complaints due to misuse of company resources with pending litigations cash theft by a number of branch managers and other establishment staff as shown below:

Table 1.3 AFCO fraud cases

Establishment/Retail outlet	Year the fraud occurred	Position held by the offender	Amount stolen (KSH)
Mariakani Barracks. Mombasa	Financial year 2006/7	Manager	1,300,000
Thika Barracks	Financial year 2007/8	Manager	1,100,000
Forces Memorial Hospital Nbi	Financial Year 2008/9	Acct Clerk	2,300,000
Kenya Navy Mombasa	Financial Year 2007/8	Manager	8,946

Source: AFCO Field Services department 2009

According to AFCO (2008/2009), the laid down procurement policies and procedures have been compromised; AFCO (2011), delays and damages caused during delivery and unhealthy competition among workers; the centralized rigid purchasing system that buys goods of questionable quality that doesn't meet customers' expectations. Such goods turn out to be obsolete stock, thus inhibits AFCO from achieving the management set sales targets and ties up capital.

1.3 OBJECTIVES OF THE STUDY

1.3.1 The general objective

The general objective of the study was to establish the effect of internal control on sales performance in the retail industry in Kenya.

1.3.2 Specific objectives

The specific objectives of the study were as follows:

- i. To confirm how prudent business practices enhance sales performance.
- ii. To evaluate how an effective supply chain management affects organization sales performance.
- iii. To determine how embracing current trends in information technology enhance sales performance
- iv. To establish how Internal Audit's role in risk management, control and governance processes enhances sales performance.
- v. To establish the role of sound corporate governance in enhancing an organization's sales performance.

1.4. RESEARCH QUESTIONS

The researcher had the following research questions to answer:

- i. How do prudent business practices enhance sales performance?
- ii. How an effective supply chain management does affects organization sales performance?
- iii. How does embracing of current trends in Information technology enhance sales performance?
- iv. How does Internal Audit's role in risk management, control and governance processes enhance sales performance?
- v. What is the role of sound corporate governance in enhancing an organization's sales performance?

1.5 SIGNIFICANCE OF THE STUDY

Findings gathered from the study would be important to the following people:

The managers would be in a position to make comparison in financial performance of the organization with other competitors in the same industry. Internal control system is a means of making optimal use of organizational resources through the avoidance of wastage and losses. Through efficient and effective internal controls, managers could encourage communication and minimize conflict among employee. For AFCO as an organization, these research findings could enable the firm attain market leadership in the niche market. An efficient system of internal control will enable the organization to realize high surplus, obtain

quality output, sustain a good corporate image and survive competition. For AFCO employees, an efficient and effective system of internal control could encourage them to be quality conscious and become more innovative. An internal control system encourages commitment as a result of prompt communication between and among employees. Achievement of greater sales revenue means employees will be rewarded for their hard work through salary increment and promotion, hence motivating them. As for the community, this study could enable the organization discover better ways of serving its customers by providing them with quality products and services, thus protecting and promoting the organization's interest along with the welfare of society as a whole. As for the Government, the wholesale and retail trade is one of the key sectors that enhance the economic development of Kenya as a nation. An efficient and effective application of internal controls in Kenya will result in tremendous growth of both the formal and informal sector, creating more permanent high quality jobs and thus relieve the pressure on government to create more jobs for its population.

1.7. SCOPE OF THE STUDY.

The study focused on the effects of an efficient and effective system of internal control on an organization's sales performance in the retail industry. A case study of AFCO. The Study focused on the company's Accounts, Internal Audit and Supply departments based at AFCO head offices located in Moi Air Base (MAB) in Nairobi. The three departments had a total of 29 employees as at the time of the research.

1.8 LIMITATIONS OF THE STUDY

The limitation of study included:

- i. Respondents' involvement was difficult to mobilize due to language, cultural and structural constraints that created barriers.
- ii. There was also little documented information on the previous studies done in this area. AFCO occupies only a specific niche market in the wholesale and retail sector.
- iii. Information unknown to the respondents could not be tapped in survey.
- iv. Lack of good will by respondents to disclose some information which they considered to give negative picture of the system. However the researcher was able to guarantee confidentiality to get accurate and truthful information.
- v. Inadequate finances; the researcher solved this by avoiding use of research assistants.

vi. Shortage of time, researcher solved this by avoiding break in operations.

LITERATURE REVIEW

The literature review is a critical analysis of the previous studies conducted in the field of study. It is a systematic search, evaluation, and synthesis of the existing literature on a particular topic. The purpose of a literature review is to provide a comprehensive overview of the current state of knowledge on a topic, identify gaps in the literature, and provide a theoretical framework for the current study.

RESEARCH METHODOLOGY

The research methodology is a systematic approach to the collection, analysis, and interpretation of data. It involves the selection of a research design, the identification of the research questions, the selection of the data sources, the collection of the data, the analysis of the data, and the interpretation of the results. The methodology used in this study is a qualitative approach, which involves the collection and analysis of non-numerical data.

The data for this study were collected from a sample of 100 respondents who were selected through a purposive sampling technique. The respondents were interviewed using a semi-structured interview schedule. The data were then analyzed using a content analysis technique. The results of the study are presented in the following sections.

Market in Kenya

The market in Kenya is a complex and dynamic system. It is characterized by a high level of competition and a wide range of products and services. The market is also characterized by a high level of volatility and a high level of risk. The market is a key driver of economic growth in Kenya and is a source of employment for many Kenyans. The market is also a source of income for many Kenyans. The market is a key driver of economic growth in Kenya and is a source of employment for many Kenyans.

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CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

This section of the research contains the literature of the previous studies conducted in the problem area and the review of major issues in the literature. Several sources of literature have been reviewed primarily to gain insight into the issues related to systems of internal control.

2.1 OVERVIEW OF SUPERMARKET RETAIL CHAINS IN KENYA

The growth of supermarkets in Kenya has been attributed to such factors as increased urbanization; a growing middle class and its changing lifestyles and market liberalization that have led to increased competition in the sector. The supermarket is not a new concept in Kenya, having had the first store of its kind in the 1960s (Neven, Reardon 2005).

Some of the old players in the retail industry are Uchumi Supermarkets, founded in the mid 70s and Nakumatt Supermarkets, founded in 1987. However much growth was not seen within the retail chains until the mid 90s when supermarkets grew from 5 to the current over 300 stores in Kenya. These range from well established retail chains to independent one store supermarkets (Kamau, 2008; Neven and David, 2005).

2.1.1 The Retail Market in Kenya

www.ccsent.org. (14 January 2009), the wholesale and retail sector is characterized by limited number of suppliers, mainly manufacturers or importers of major brands, who control market prices. The formal retail sector accounts for 3% of current retail trade, leaving a whopping 97% to the informal sector. This is dominated by kiosks, dukas, and fledgling network marketing. There are relatively few major retailers operating in Kenya.

<http://www.ccsent.org>. (2009), the retail sector is dominated by traditional retail channels and independent supermarkets in the countryside, with the development of modern retail chains in urban areas. Nakumatt and Tuskys are leading the retail markets. South African retailer Woolworths successfully operates three franchise stores in Kenya while Mr. Price (clothing and household stores) and Sheet Street (linen store) recently entered Kenya in a joint venture with Deacons. Uchumi Supermarkets remains a key player in the market despite its history of financial problems. Naivasha Self Service has recently rebranded as Naivas and become more

profitable. As competition in the market stiffens, it is likely that more retailers will be forced out of business. Domestic players such as Nakumatt are beginning to open stores in smaller towns outside the capital city, Nairobi. With a good knowledge of its local clientele, Nakumatt is likely to continue its market leadership in Kenya and widen the gap between itself and other players. However, because consumer spending, for those who do have money, is restricted by lack of choice, it is likely that many consumers will welcome the market entry of new players. The retail market is restricted by price sensitivity. Retail development is restricted by the fact that around 50% of Kenyans still live on less than USD1 per day. Retailers therefore have to compete for the sales of just half of the population-that is, those that can afford to shop in modern retail outlets - and this limits the overall potential of the Kenyan market.

2.3 INCULCATING PRUDENT BUSINESS PRACTICES IN THE RETAIL INDUSTRY

To be successful and remain competitive in the retail industry, every retail business needs to adopt a range of basic strategies.

According to Topping and Dion (2008), a retailer has to offer the lowest price. Rosenfield and Beckman (2008) define cost as the cost of a product or service to the customer. Cost thus includes not only the purchase price of the product or service, but the cost of ownership (lifetime cost of owning, using and maintaining the product or service) as well. Companies may choose to compete primarily along cost dimension. Retail outlets such as Wal-mart focus on providing goods at the lowest possible cost to the consumer. It has developed network-based capabilities that allow it to achieve low-cost performance throughout its supply chain. Valero and Arco focus on providing (relatively) inexpensive gasoline to consumers.

Lusche and Dunne (2009) states that a retailer seeks to boost store traffic by getting shoppers to come for its “super, low price” compared with its competitors on key products. Enlisting of suppliers will help a retailer reduce a product’s cost and increase the efficiency of its movement. Computerization in retail management relentlessly reduces selling, general and administrative expenses. Wal-marts’s aforesaid expenses as a percentage of sales totals only 16% while that of its competitors are 3-5% higher due to computerization.

According to Ramaswamy (1991), the quality of a product entails the better attributes of the product. To a consumer, quality differences matter much. The purpose or use for which a product is needed determines as to what quality of a product is needed for the purpose. The terms superior, inferior and ordinary are used to refer to the quality of a product. The price a customer will be prepared to pay largely depends on the quality of the product to ensure economy in spending. Standardization of product quality enables to maintain consistency and predictability in product performance. A pre-requisite for selling branded good is the standardization of the product.

Rosenfield and Beckman (2008), customers evaluate the quality of the products and/or services they procure along many dimensions and integrate these assessments into an overall assessment of the quality of their experience with the organization. In examining quality, it is important to differentiate assessments of the actual quality delivered from the quality perceived by the customer. Perception has the most effect on a customer's short-term buying decision whereas actual quality experienced by the customer matters more in the long-run. Customer's overall assessment of quality judges both the intangible outputs gained as well as the intangible aspects of the purchasing or service experience. The tangible aspects of quality include the aesthetics (pleasing to the senses) of the product, or output of the service, how reliable it is over a period of time, whether or not it is safe and how straight forward it is to service or repair. The intangible aspects of quality assessed in making a purchasing decision about a product or service include the competence, courtesy and credibility of the people involved in the process and their degree of understanding customers' needs and communicates well with the customers.

Lusche and Dunne (2009), a successful retailer must offer the greatest assortment of merchandise. In selecting merchandise assortment, retailer needs to think carefully who its customers are. Ramaswamy (1991), a retailer should sell goods according to customers' needs; match rapid stock turnover; create possibility for more production. All these enable the retailer to have a rapid stock turnover and create opportunities for more production. Lusche and Dunne (2009), the first decision a retailer must make in planning a store is how to allocate the scarce resource, space. The space layout shows all the location of all merchandise departments and the placement of circulation aisles (walkways) to allow customers to move through the store. Merchandise presentation is a critical factor in the selling power of a store and has a significant effect on the store image. Lighting of store should be considered as well

as the in-store graphics such as art, photography and signs form an important visual link communication between the store and its customers by providing much-needed information on how to shop in the store. Basis of space allocation for the various merchandise should be based on their returns.

According to Topping and Dion (2008), a retailer ought to demonstrate that people are its most important asset. It has to hire super sales associates with a well job description of a sales associate. According to Lusch and Dunne (2009), retailers wanting the best return on their human resource investment should provide training and development to both new and existing employees. There is no such a thing as a 'natural' salesperson or manager. This ability ought to be carefully taught and monitored with a training program. Retailers have made training and educating of customers a core part of their value proposition. Customers should be instructed how to use products. Performance appraisal and review of employees affects morale and organizational climate in significant ways such as training and development, compensation and promotion. Human resource management should motivate employees to strive for higher sales figures hence improve the current performance.

According to Lusch and Dunne (2009), all retailers must give consideration to the service level and services they offer to their customers. High-quality is defined as delivering services that meets or exceeds customers' expectations.

Fawcett et al (2007), without customer feedback, it is easy to emphasize the wrong service activities or focus on the wrong service measures. When this happens, resources are wasted on becoming great at something customers do not value. Customer satisfaction efforts require direct input from important customers regarding their service expectations. Customer feedback approaches include surveys, focus groups, in-depth personal interviews and ethnographic studies. At some companies senior executives spend up to 20% of their time with customers to gain a better understanding of their needs. Customer inputs help managers; align measures to customers' expectations; allocate resources and reevaluate priorities and adopt new policies or practices. The goal is to eliminate service gaps by meeting customer-defined expectations.

2.4. SOUND MANAGEMENT OF THE SUPPLY CHAIN

Lusch and Dunne (2009) defines supply chain as a set of institutions that moves goods from the point of production to the point of consumption. It might include manufacturers, wholesalers and retailers. It consists of all the institutions and all the marketing activities (storage, financing, purchasing, transport, etc) that are spread over time and geographical space throughout the marketing process. If a retailer is a member in the supply chain that collectively does the best job, that retailer will have an advantage over its competitors. Akkermans, et al, (1999) defines it as managing the flow of information and materials from the 'suppliers' supplier to the 'customers' customer and is collaborative specialization that allows a company to do a few things very well for which it has unique skills (Rich & Hines, 1997). Fawcett et al (2007), SCM's goal is to build a corporate team consisting of suppliers, finished goods-producers, service providers, and/or retailers. Henkoff (1994), this team forms an integrated supply chain when it develops a common understanding of supply chain objectives and an ability to work together.

Lusch and Dunne (2009), supply chain is affected by five external forces; consumer behavior; competitor behavior; socioeconomic environment; technological environment and legal and ethical environment. These forces cannot be completely controlled by the retailer, but need to be taken into consideration when retailers make decisions. These external forces are important in the retailer's decision making. The supply chain must as well perform eight marketing functions of buying, selling, storing, transporting, sorting, financing, information gathering and risk taking.

However, the reality is that companies do not engage in such extensive supply chain integration (Kilpatrick and Factor, 2000). From a practical point of view, managers associate SCM with better information exchange, shared resources, and win-win relationships among members of the supply chain. The job of the SC manager is to find opportunities to work with customers and suppliers to reduce costs while improving service. The goal is to use technology and teamwork to build efficient and effective processes that create value for the end customer (Fawcett et al, 2007).

Rosenfield and Beckman (2008), companies today rely on suppliers for an ever-expanding set of products and services, and as a result the roles of suppliers in the supply chain network has evolved significantly. Retailer ought to know the number of suppliers it wants to manage in

total as well as the number of suppliers it wants to have for each subassembly, component or service it sources. Modern supplier management theory suggests a small number of suppliers with more structured and interactive relationships can be developed chain network with a small number of suppliers. The merits of reducing the supplier base by a retailer include: lower cost and effort to manage relationship overall; greater potential to coordinate designs; increased capability to synchronize schedules; increased capability to evaluate suppliers on multiple criteria, not just cost; capability of procuring modules rather than parts; easy tracking of performance and ease of exchanging information. In deciding the right number of suppliers to have, a retailer needs to consider a number of factors including uniqueness of sourced item, how reliable the supplier is, what portion of the supplier's business the firm wants to be, whether or not the supplier's brand is important to selling the buyer's product or service and how competitive the market is for the item being sourced.

Ogden et al (2008), connectivity of people and their ideas through hardware, software and communication networks has revolutionized the way that businesses are managed. Connectivity pays off in a way that mere information processing does not. Connecting computers at various levels of the supply chain has eliminated many steps that formerly required paperwork and human intervention. Orders can now be processed automatically. Production can be linked closely to consumer purchases at the point of sale. The connectivity ideal in SCM is to link the point of delivery of the final product to the end consumer all the way back to the initial point of production of any component. The idea is to have an information trail that initiates and traces the product's physical trail. Management must take a conscious decision to simultaneously develop and integrate the organization's human and technology system.

According to Ogden et al (2008), once an organization understands its customer needs, it needs to develop and align its core competencies to meet these needs. Specifically, the company must determine what its role in the supply chain is going to be and decide how to structure and use its resources to add unique value. The company has to determine how to efficiently and effectively use them. Noncritical activities may be outsourced to companies that better perform them. Establishing the correct mix of internal and outsourced activities is a fundamental part of the supply chain.

2.5 Information Technology

Information technology is the use of computers and software to manage information. Some companies refer it as Management Information Services (MIS) or simply Information Services (IS). The information technology department of a large company would be responsible for storing information, protecting information, processing the information, transmitting the information as necessary, and later retrieving information as necessary. (www://.com.nd).

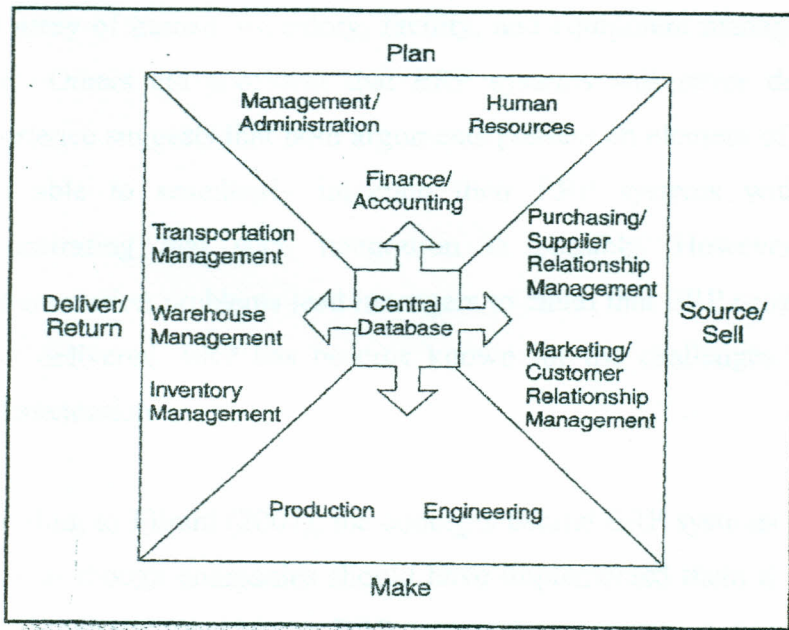
According to Dion and Topping (2008), the rapid evolution of computer technology is bringing dramatic changes to the entire business world. In the retail industry, the biggest and the best companies are taking advantage of every advance to increase their efficiency, which ultimately means that they can offer products to their customers at lower prices. IT is viewed as a parade coming down the street which one should join. A number of trends in computer technology offer huge opportunities for retailers: use of computer as a cash register to track customer details by equipping it with a scanner, a cash drawer and a credit card wedge; automatic replenishment through the establishment of stock models for stocked items; multimedia which entails the use of CD-ROM to provide catalogues and product knowledge; use of executive information systems software by corporate presidents which yields to them so much information about the performance of their organizations and the use of universal product code(UPC) which is a digital barcode that identifies an item of merchandise at the stock keeping unit (S.K.U) level. Scanner is used to record the UPC of every item a retailer sells, thus giving him an extremely precise and understanding of daily sales. The retailer can then implement a quick response (QR) strategy of immediately replenishing what you sell so that replacement items will be available for the next customer who wants to buy them. This goes hand in hand with the Just In Time (JIT) buying philosophy which adds a whole new level of efficiency to a retail business: your inventory investment and risk are lower, while your customer service and ability to micro-manage are higher. If the retail business then layer electronic data interchange (EDI), it will further increase its efficiency.

According to Fawcett et al (2007) during the late 1990s, companies noticed that many of their information systems operated independently of each other and were often implemented on a functional/departmental basis. Each function (for example, accounting, and purchasing, engineering and human resources) had its own system, and seldom were these systems designed to work together. This lack of connectivity was often confounded by the use of

different systems for different divisions or country operations. Companies maintained multiple databases (based on functional lines), entered similar data several times into these various databases, and had difficulty coordinating the information contained in these separate databases. For most companies, it was nearly impossible to carry out intricate, collaborative sales, marketing, purchasing, or logistic activities.

According to Fawcett et al (2007), Managers knew that competitive realities required better connectivity. It was time to bring these entire disparate systems (often called legacy system) under one roof and allow them to communicate with each other. During the 1990s, companies began to replace their legacy systems with Enterprise Resource Planning (ERP) systems designed to integrate transaction modules and provide a common and consistent database. One way to understand the architecture of a typical ERP system is to view it in terms of the four primary business processes of the SCOR model as shown in figure 2.2 below.

Figure 2.2: Typical ERP System Components



Source: Supply Chain Management, (2008).

A typical ERP system consists of a plan which includes strategic and tactical planning as well as accountability on the part of the overall management, administration, finance, accounting, and human resource management. In addition, an ERP system has a sourcing process, which can be viewed from either side of the buyer-supplier relationship. From the supplier's point of view this process is the customer order management process. From the buyer's point of

view this is the purchasing or sourcing process. Further, the make process which involves the production, manufacturing, assembly, or service delivery processes and finally the delivery or return process both of which involve the organization's logistics, warehousing, and transportation processes.

2.5.1. Enterprise resource planning

Rosenfield and Beckman (2008), ERP's real value is that it connects all information flows within the firm. Theoretically, specific transactions taking place in each business process are accessible and visible to everyone in the organization. For example, anyone wanting to find out how much inventory is in the warehouse, whether a particular order has been shipped, or when a supplier was paid can obtain this information by going through the system.

Ogden et al (2007), Enterprise resource planning (ERP) systems are viewed with both great optimism and serious skepticism. Some managers really believe they are the answer to the vast array of human, inventory, facility, and equipment management problems facing firms today. Others are confident that ERP systems will never deliver on promised benefits. Experience suggests that both arguments possess an element of truth. Some companies have been able to seamlessly integrate their ERP systems with suppliers and customers, demonstrating that such integration is possible. However, for many organizations, implementation problems lead managers to claim that ERP providers have overpromised and under delivered. ERP has become known for the challenges companies encounter during implementation

According to Ellram (2007), the concepts behind ERP systems make such good sense that it seems as though companies should have implemented them a long time ago. However, the process of implementing an ERP system in an environment where people are reluctant to change from their familiar legacy systems has proven to be a huge undertaking in most companies). Many firms adopt ERP systems module by module, which makes the implementation, seem like an endless nightmare. Even simple implementations take a year or more. Complex implementations have taken close to a decade. Each application captures data for and about a process. Planning for implementation requires that the process be well understood. Process mapping can help. As processes are mapped out in detail, managers gain a real understanding of how the processes work.

Ogden et al (2007), during the mapping process, managers often discover that the process is very different from what they originally believed. They may find that the process should be redesigned or overhauled. Unfortunately, some managers choose to ignore process inefficiencies and proceed with the ERP implementation. Combining a new ERP system with a bad process usually leads to unsatisfactory results - the same old mistakes are made more rapidly. Thus, in many cases, the software system seems to be driving the implementation of new business practices and processes rather than supporting existing ones. Learning about the company's processes is often an unexpected benefit of ERP implementation. Developing and implementing SC information systems is costly and time-consuming. Without proper planning, costs and timelines can quickly escalate beyond budgeted amounts.

According to Wisner, (2005), early adopters of a new technology have the benefit of being ahead of the competition, but also run the risk of acquiring an untested technology whose problems could disrupt the firm's entire operations. Internal employees and managers often prefer to use their existing legacy systems and are resistant to change, especially change that is hard to understand and is perceived as painful.

Ogden et al (2007), ERP advocates need to do a better job of communicating the decision-making benefits of ERP systems. Sometimes companies learn about glitches or errors in their systems only after they have been implemented. To avoid the problem, many organizations, gradually phase in new systems while phasing out old ones, run both systems concurrently (in parallel) until the "bugs" have been worked out, or; Utilize pilot projects at a limited number of divisions or locations as a sort of beta test of the new system.

Ogden et al (2007), once the companies in a supply chain have their information systems in place, these systems need to be able to communicate or speak with each other. Advances in communication mechanisms such as electronic data interchange (EDI) and the Internet have greatly facilitated this networked communication by eliminating technological barriers and creating new opportunities for trading partners to share information along the supply chain. The cost of providing, collecting and communicating information electronically has been dropping rapidly in recent years. This has led to the creation of a completely new and interconnected business environment. SC Managers need to be aware of these changes and look for ways to incorporate them into their supply chains. Electronic commerce has been

defined as the automation of commercial transactions using computers and networked communication technologies. It therefore includes technologies such as EDI, the Internet, e-mail, electronic funds transfers, and electronic bulletin boards. Some large firms have been using computer linkages to manage production and supply since the early 1980s. But these mainly specialized and proprietary systems have only been available to a limited number of participants. E-commerce allows for the centralization of inventory.

According to Ogden et al (2007), E-commerce also allows customers to perform the data entry tasks associated with placing an order, which reduces the redundancy of having to input this information multiple times during the order fulfillment process. E-commerce also reduces costs of collecting and sharing demand and inventory information across the chain. Unfortunately, efficiency can cut two ways. Although the impact of e-commerce has already been dramatic on the retail industry, its biggest impacts may yet be seen in its ability to encourage, enable, and facilitate SC integration.

2.6. INTERNAL AUDIT

Government of Kenya (2005) defines internal auditing as an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control systems and governance processes.

According to AFCO (2006), Internal Audit assists the Board of Directors and management to achieve sound managerial control over all aspects of the operations including accounting, financial control, asset management, information management and control systems. The overall objective function of the department is to assist all levels of management in the effective discharge of their responsibilities by providing independent analysis, appraisals, advice and recommendations concerning the activities reviewed. The department is an advisory function having independent status within an organization. The Internal Auditors:- shall be directly answerable to the Managing Director through the chief internal auditor in their conduct of duties assigned to them; shall have no executive or managerial powers, functions or duties except those relating to internal auditing; shall not be involved in the day to day operations of AFCO outside their specified roles except when so directly assigned to them by the Managing Director ;shall not be responsible for the detailed development or

implementation of new systems or procedures; it shall have access at all reasonable times to all books, documents, accounts, property, vouchers, records, correspondence and other data necessary for the proper performance of the internal audit function. The internal audit scope (coverage) may extend to all areas and include financial, accounting, administrative, computing and other operational activities. The extent and frequency of internal audits will depend upon varying circumstances such as results of previous audits, relative risk associated with activities, materiality, adequacy of the system of internal control, the resources available as well specific needs that might arise anytime.

According to Gleim (2008), the scope of internal auditing within an organization is broad and may involve internal control topics such as the efficacy of the operations, reliability of financial reporting, deterring and investigating fraud, safeguarding assets and compliance with laws and regulations. Internal auditors are responsible for assisting companies prevent fraud by examining and evaluating the adequacy and effectiveness of their internal auditing practices, commensurate with the extent of a potential exposure within the organization. In conducting engagements, the internal auditors' responsibilities in detecting fraud are to: consider fraud risks in the assessment of control, design and determination of audit steps to perform.

According to Zabihollah (2002), fraud encompasses a range of irregularities and illegal acts characterized by intentional deception or misrepresentation, which an individual knows to be false or does not believe to be true. Fraud may also be legally defined and/or commonly known as corruption. Fraud is perpetuated by a person knowing that it could result in some unauthorized benefit to him or her, to the organization or to another person, and can be perpetuated by persons inside or outside the organization. Fraud perpetuated to the detriment of the organization is conducted generally for the direct or indirect benefit of an employee, outside individual, or another organization. Some examples are acceptance of bribes or kick backs, diversion of a potentially profitable transaction that would normally generate profits to the organization to an employee or outsider, embezzlement, as typified by the misappropriation of money or property and falsification of financial records to cover up an act, thus making detection difficult.

Collins (2006), Fraud designed to benefit the organization generally produces such benefit by exploiting an unfair or dishonest advantage that also may deceive an outside party.

Perpetrators of such acts usually accrue an indirect benefit, such as management bonus payments or promotions. Examples of fraud designed to benefit the organization include: improper payments, such as illegal political contributions, bribes and kickbacks as well as payments to government officials, intermediaries of government officials, customers, or suppliers, Intentional and improper representation or valuation of transactions, assets, liabilities and income, among others

According to KPMG practical guide (October 1999), where a company does not have an internal audit function, the Board should assess the need for such a function annually. The need for an internal audit function will vary depending on company specific factors including the complexity, diversity and scale of the company's activities, the number of employees and the company's corporate structure. Where an internal audit exists, the Board should annually review its scope of work, authority and a resource as regards to the above factors. KPMG recommends that Boards also consider the following questions: how well does the internal audit function assist management and the Board in the achievement of corporate objectives? Is the internal audit function well respected across the company? Are they perceived as an asset or a liability? Does the internal audit add value, and how is the value measured? How often do internal audit report to the Audit Committee or full Board? Is the internal audit responsive to changes in the business? Is a period in internal audit considered to be important in the development of senior members of the company? Is there a demand for internal audit staff to move into the management roles?

Internal Audit provides an independent evaluation of the adequacy of internal controls and reports the results to management and the Board of Trustees. Auditors look at how the internal controls, within an operation, work together to make up the internal control structure. They document existing controls at each significant control point, evaluate the adequacy of the controls to ensure achievement of the objective, and then test the controls to verify they are working as described.

According to AMF (2004), internal auditing consists of five interrelated components. These are derived from the way management runs a business, and are integrated with the management process. Although the components apply to all entities, small and mid-size companies may implement them differently than large ones. Its controls may be less formal and less structured, yet a small company can still have effective internal auditing practices.

Internal auditing practices need to be monitored which is a process that assesses the quality of the system's performance over time. This is accomplished through ongoing monitoring activities, separate evaluations or a combination of the two. Ongoing monitoring occurs in the course of operations. It includes regular management and supervisory activities, and other actions personnel take in performing their duties. The scope and frequency of separate evaluations will depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures.

Manasseh (2004), internal auditing deficiencies should be reported upstream, with serious matters reported to top management and the board. According to Fredrick (2006), Internal auditing, no matter how effective, is rendered impotent when management decides to circumvent it. Therefore, internal auditing must be extended to cover all major risks outside the accounting process. In other words, internal auditing rests on adequate and comprehensive analysis of enterprise-wide risks.

Internal auditing and fraud detection and prevention are interrelated (Morley, 1999). Hersh (2002) observes that, it has become almost impossible to open a newspaper or business journal without seeing some mention of fraud. The recent scandals and fraud schemes that have headlined our newspapers have led executives and investors to the realization that internal fraud committed by management or employees can severely damage a company and even result in the collapse of major corporations.

According to Sharma (1994), the growth in accountancy profession has made it obligatory for corporations to recruit qualified auditors and arrange for their subsequent training to enhance their competence. Tailer and Millichamp (2008), the definition of who can be an auditor is set out in the companies Act 2006. Under the Act, auditors are referred to as 'statutory auditors'. This is to confirm their legal status as properly qualified auditors eligible to audit a range of activities.

According to Agami (2006), Fraud Risk Assessment will imply the identification, the evaluation and the mitigation of the fraud risks within all activities Forensic Audit should be involved in the fraud risk assessment given their experience with fraud investigations in the company and in general. In Kenya, the Capital Markets Authority (CMA) in the year 2002 issued guidelines for application by public listed companies, which stated among others

things that the board should establish an audit committee. The guidelines issued by CMA specifically with regard to the establishment of audit committees and operations of internal audit functions are yet to be made mandatory for state-owned enterprises however, most state-owned Enterprises have established audit committees and internal functions.

2.7. Corporate governance

Carver (2001) defines corporate governance as the process by which organizations are directed, controlled and held accountable. According to Mohr et al (2010), the term corporate governance was an academic jargon. Today, the term is familiar to almost everyone. Unfortunately, its familiarity in our society comes due to the ensuing global economic crisis. However, since there is no clear definition of the concept, the 6 pillars that describe corporate governance include: Accountability; Efficiency & Effectiveness; Probity and integrity; Responsibility & Transparency; Open leadership and accurate and timely disclosure of information which are fundamental in any corporate governance discussion.

According to Harding and Stiles (1993), corporate governance is imperative for the financial health of a corporation and the economy in general. Through good corporate governance, local investment will be enhanced. The problems of increasing corporate failure, fraudulent and corrupt behavior among top management, prevalence of rubber stamp boards, reduced competitiveness of corporations and diminishing ethical behaviours by corporations has been worrying the society for over sometime. The relative effectiveness of corporate governance has a profound effect on how well a business performs. Prospered businesses are those that have found ways to govern their affairs effectively. Similarly, with companies that have performed poorly; it is common to track the problems to boards that have not effectively addressed issues confronting their businesses. The management team takes the leading role in corporations and is accountable for the day-to-day running of the business, economic survival of the firm balancing the demand of all stakeholders in such a manner that the organization can achieve its objectives. Employees provide services and skills and are interested in maintaining employment, and working in a safe comfortable environment. It's the duty of management to realize their variable input and take care of their needs as well as give them opportunity to voice their opinions as regards direction of the company. Creditors provide finance to the organization, are responsible for lending to the organization as well as giving professional advice regarding finance issues in these firms.

Corporate governance (1999) outlined that good corporate governance seeks to find the appropriate mechanisms for governing the leaderships of constituent groups with the company so as to generate long term value. It also makes sure that the right people make the decisions, conflicts of interest among various shareholders are reduced and it ensures that corporate power is exercised in the best interest of a society. Corporate governance ensures that long term strategic objectives and plans are established and proper management and management structures are put in place to achieve these objectives. In addition, the structure should function to maintain the company's integrity, reputation and accountability to its relevant constituents. It's also important a right system of checks and balances should be the basis of merit for any corporate governance system. Each shareholder has a distinct interest in the company. For instance, shareholders are interested in a future return on their risk capital, lenders and suppliers are concerned with timely repayment and an employee is concerned with employment, good remuneration and job security, while the government is interested in tax collection. Corporate governance is therefore the convergence point of all the above needs for the shareholder in a fair and transparent manner. Among the benefits of corporate governance and corporate success are increased standards of professionalism which call for close monitoring of organizations.

According to Nyang'aya (2010), demographics of most corporate boards have a heterogeneous collection of exceptional talent. The skills members bring to the table reflect a wealth of experience, knowledge and wisdom. Yet despite this extraordinary diversity of viewpoints, we believe that every member of the board should don a pair of risk-coloured glasses. It is expected that the tinted eyewear will become increasingly popular. Every board member sitting on a public company board should at least give cursory attention to risk. Regulatory authorities across the globe are increasingly requiring the audit committee of all listed companies to annually discuss the company's financial risk exposures and understand how management addresses such risks.

According to Mbutia (2010), Poor governance hurts state corporations; irregular awarding of contracts within the public sector has been blamed on weak corporate governance structures within state-owned companies. There is an anomaly in a situation where the chief executive officer of a parastatal is also secretary to the board of directors. This creates conflict of interest and negates good governance principles. Poor governance structures within state corporations makes it easy for public officers to circumvent the law. Directors in

private firms who fail to disclose interests in the firms results to irregular awarding of contracts and other private practices in many private companies. Parameters to measure organizations that practice and apply good corporate governance practices include: how do they conduct annual general meetings; presentation of directors reports and financial statements and how directors respond to shareholders and other stakeholders.

2.7.1. Corporate governance channels and Board of directors

Corporate governance channels according to Styles and Taylor (1993) includes various agents such as the government, the Board of Directors, employees, shareholders and creditors. The board provides an important corporate governance function because the board is a part of the firm's organizational structure at the top of the corporate hierarchy and thus might be considered the firm's most important internal monitor. While the board's role in the corporation seems to ensure that shareholder interests are being attended to, there are some potentially serious problems. Among the issues are lack of board independence from the CEO, directors who do not have the time or expertise to fulfill their roles adequately or do not always act in the shareholders' best interest, and members who do not have vested interest in the company.

Melvin (1996) and Styles (1993) both concur by indicating that the BOD is a major cause of corporate failure despite the fact that they are expected to be the overseers of the shareholders resources. An empirical study by Dun & Bradstreet (1973) assigns 94.6% business failure to management, incompetence and fraud. It's clear therefore that the BOD is important in corporate governance.

According to Stettinius et al (2005), the governance model of a successful corporation typically has the following characteristics: an effective BOD that carries out its responsibilities with integrity and competence; a competent CEO hired by the board and given authority to run the business; selection by the CEO of a "good" business (or businesses) in which to operate with the board's advice and consent

According to governance (2003), every company should be headed by an effective board collectively responsible for the financial health and achievement of the firm's objectives. The theoretical framework on which corporate governance is built is on control activities, policies and procedures established and monitored by the management board in a controlled

environment. This environment entails internal checks such as audit systems that enable detection of fraud in the supply chain and identification and assessment of risk that would reduce sales turnover.

2.9. Summary of literature review

Prudent business practices in the retail industry entails offering low cost products relative to competitors; offering quality goods and services commensurate with the prices the retailer charges; having greatest assortment of merchandise that match customers' tastes and preferences; having a well designed store layout with merchandise department based on sales returns, its walkways allowing easy customer movements and well placed signs to provide information to customers on how to shop; the retail has to have super associates who have a clear job description and well motivated to enhance sales performance. The retailer ought to have an efficient and effective customer service.

An efficient supply chain gives a retailer a competitive advantage through a well coordinated corporate team of suppliers, finished goods, service providers and retailers. SC management is associated with better information exchange, shared resources and win-win relationship among its SC members. SC manager should collaborate with customers and suppliers to reduce costs and improve services through the use of technology. The retailer need to know the right number of retailers to deal with and should implement the correct mix of internal and outsourced activities in the supply chain.

Companies are using IT to increase their efficiency and offer customers low cost products. This is through the use of computers to track customer details, automatic stock replenishments through establishment of stock modules like JIT (Just in Time) which lowers inventory investment and risk. Competitive retailers require supply chain managers to bring legacy systems under one roof through the ERP integration-commerce has allowed centralization of inventory, customer participation in placing orders as well as reduced costs of collecting and sharing demand and information across the chain.

Internal audit helps an organization accomplish its objectives through evaluation and improvement of risk management, internal controls and governance processes. Internal audit assists the BOD and management achieves sound managerial control over all organization aspects. Internal audit scope in an organization involve topics such as efficacy of operations,

reliability of financial reporting, deterring and investigating fraud, safeguarding assets and compliance with rules and regulations. Internal audit is rendered impotent if managers circumvent it. It has to often report to the audit committee and full board. Growth in the accountancy profession has necessitated corporations to recruit and train auditors to enhance their competence.

Corporate governance is the process by which organizations are directed, controlled and held accountable. It is described by six pillars of accountability, efficiency and effectiveness, probity and integrity, responsibility and transparency, open leadership and timely dissemination of information. Corporate governance ensures long-term strategic objectives are established, proper management and management structures are put in place to achieve organization objectives. BOD should have members with exceptionally heterogeneous talents. BOD is a major cause of corporate failure through mismanagement, incompetence and fraud. A successful business has an effective BOD carrying its responsibilities with integrity and competence as well as a competent CEO with authority to run the business effectively with the Board's advice and consent.

2.10 Gaps to be filled by the study

There have been several studies of the rise of supermarket chain stores in Kenya (Onwong et al, 2010); (Neven and Reardon, 2003). The studies established that (1) Supermarkets have spread from the capital to intermediate and small towns, with 44% of supermarket sales and 58% of supermarket stores located outside of Nairobi in 2003 (2) supermarkets had larger capital investment, asset value and sales turnover as compared to wholesale outlets (3) supermarkets had product specialization designed to meet the demands of their customers as per the supermarket's locality (4) supermarkets used customers' satisfaction, market positioning, customers' loyalty, new products planning, product acceptance, product life cycle, supplies offering, pricing of other competitors and new technology to great extent in managing the sales (5) the use of contracts rather than spot markets in the supply chain (6) the competitive production and marketing of high-quality and value-added products for demanding markets.

After critically reviewing the literature review, the researcher has identified the following gaps based on the previous research. Previous research has concentrated on the whole system of total quality management but ignored the internal control, supply chain management,

internal auditing practices and efficient and functioning BOD, thus ignoring the other fundamental areas that can incorporate total quality management concept.

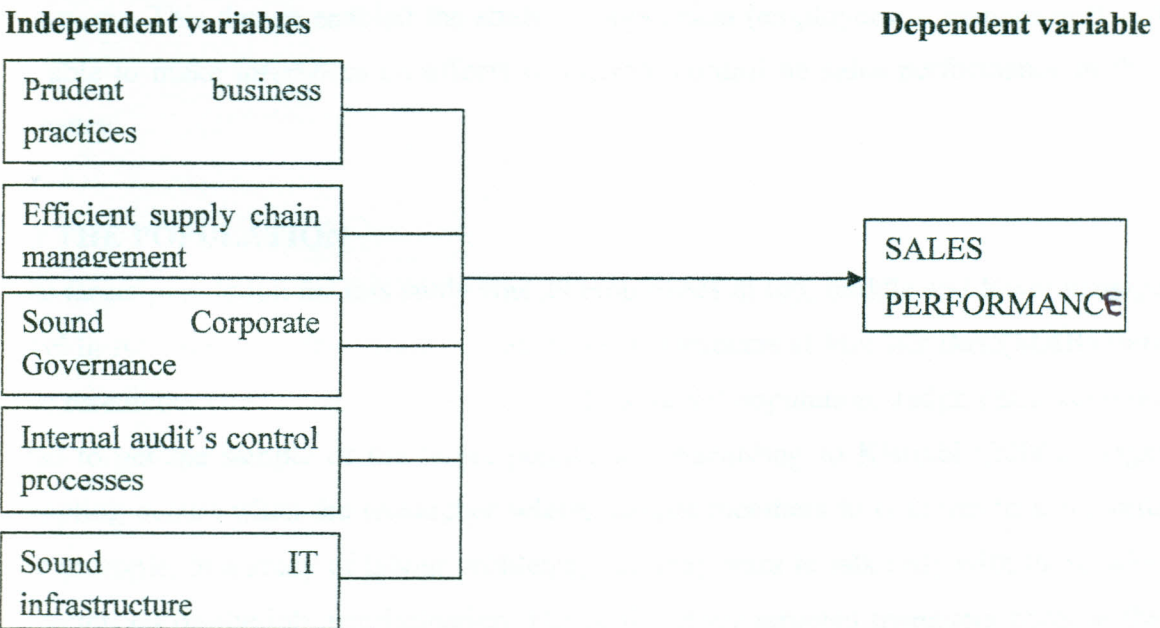
Filling this void in the literature, this research paper will focus on the impact of an efficient and effective system of internal control in managing the sales of chain stores/supermarkets with specific reference to AFCO.

2.8 CONCEPTUAL FRAMEWORK

A conceptual framework is a research tool intended to assist a researcher in developing an understanding of the situation under investigation. In this study, organizational sales performance is conceptualized as being dependent of prudent business practices, an effective supply chain management, and sound Information technology infrastructure, Internal Audit's role in risk management, control and governance processes and sound corporate governance.

(See Fig 2.3: Conceptual Framework)

Figure 2.3: Conceptual framework



Source: Researcher (2012)

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 INTRODUCTION

This section was concerned with research design and research methodology. It focused on population, description of research instrument, how the instrument would be administered and an outline of the methods used to analyze and present data.

3.1 RESEARCH DESIGN

This research was accommodated within a descriptive survey design as proposed by Kombo and Tromp (2006). Orodho (2003) defines descriptive survey as a method of collecting information by administering a questionnaire to a sample of individuals. Kerlinger (1969) points out that descriptive studies are not only restricted to fact findings, but may often result in the formulation of important principles of knowledge and solutions to significant problems. The survey method was chosen because the information to be provided by respondents would answer the research questions posed. The organization employees were accessible to the researcher and were used to generate information to answer research questions. This design enabled the study of population (employees in management level) to be able to make inferences on effects of internal control on sales performance in the retail industry.

3.2 THE POPULATION

The target population for this study was 29 employees in top, middle and lower management level in Accounts, Internal Audit and Supplies departments at Moi Air Base(MAB) Barracks. The researcher conducted a census survey of the target population. Judgmental sampling was used to get the sample of the target population. According to Kisimbi (2006), judgmental sampling occurs when the researcher selects sample members to conform to some criterion. For example, in a study of labour problems, you may want to talk only with those who have experienced on-the-job discrimination. Hence the study targeted managers because they are direct users of the implemented internal controls and AFCO top management level uses them to gather weekly performance data from its countrywide retail outlets and compiling any issues raised in their daily operations from the outlets in the process. Above all, they have adequate knowledge on the topic being investigated. AFCO processes its financial statements at headquarter level in MAB from its countrywide retail outlets. The data from the retail outlets usually come in the form weekly returns for these departments to analyze the same

and prepare management reports for the BOD's perusal and ultimate decision making. The table below shows the analysis of the target population:

Table 3.1 AFCO headquarters management staff

Department	Employee Designation	Management level	Job Group	Gender		Cumulative figure
				Male	Female	
Accounts	Chief Accountant	Top management	12	1		1
	Senior information system manager	Top management	11	1		2
	Accountant	Middle	10	4	1	7
	Assistant accountant	Middle	9	2	4	13
	Accounts assistant	Lower	8	2	1	16
Supplies	Chief commercial services officer	Top management	12	1		1
	Senior supplies officer	Top management	11	1		2
	Supplies officer	Middle	10		1	3
	Assistant supplies officer	Middle	9	1	2	6
	Senior supplies assistant	Lower	8	1	1	8
Internal Audit	Chief internal auditor	Top management	12		1	1
	Assistant internal auditor	Middle	9	2		3
	Audit Assistant	Lower	8	2		5
Total Target population as analyzed above in the three departments: (16+8+5)						29

Source: Researcher (2012)

3.3 DATA COLLECTION PROCEDURE

The objective of the study formed the basis from which the instruments were designed. This was done through filling of a questionnaire by all the managers. It included both closed and open ended questions which allowed respondents to answer them in their own words. The questionnaires were administered by the researcher to the respondents.

3.4 PRE-TESTING OF INSTRUMENTS

Pre-testing of instruments was carried out in Audit, Accounts and Supply departments. The main purpose of pre-testing was to enhance content validity of the instruments by refining vague statements in the questionnaire. After administering the instruments, necessary adjustments were made on each instrument. The questionnaires were gathered after the given response time was over.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.0 INTRODUCTION

This chapter presents the analysis of the collected data and discusses the findings of the study on the effects of an efficient and effective system of internal control in the retail industry in Kenya. A case study of the Armed Forces Canteen Organization.

After collecting data from the respondents the data was edited, classified, coded and tabulated. The data analysis was based on the research objectives and questionnaire items which were analyzed using statistical tools like pie charts, frequency distribution tables and graphs and the results of the analysis presented. This chapter is divided into quantitative and qualitative analysis.

4.1 RESPONSE RATE

The data was collected by administering questionnaires to AFCO employees in management level at its headquarters in Moi Air Base (MAB). The respondents were from Accounts, Internal Audit and Supply departments. All the management employees responded to the questionnaire. This represents a response rate of 100% which is significant to provide reliable finding for this study. The questionnaire was divided into section A and section B. Section A contained bio-data information while section B contained data on five major factors of internal control that affect sales performance in the retail industry in the Armed Forces Canteen Organization (AFCO). This is well shown in the analysis below.

4.2 BIO-DATA ANALYSIS

The researcher wanted to establish the name of the department the employee works in, Job group and Job title held in the department, highest level of education achieved and the number of years the employee has served the organization. The results are shown in tables 4.1, 4.2, 4.3 and 4.4 and figure 4.1 below:

4.3 QUANTITATIVE ANALYSIS

The respondents were asked to state the department they worked in and the results are shown in the table 4.1 below:

Table 4.1: Department

Department		Frequency	Percent
Response	Internal Audit	5	17.2
	Accounts	16	55.2
	Supplies	8	27.6
	Total	29	100.0

Source: researcher (2012)

Table 4.1 above shows the rate of responses from various departments, that is, Internal Audit, Accounts and Supplies departments. It shows majority of the respondents were from Accounts department.

The respondents were asked to state the respective job groups they held in the department they work in and the results are shown in the table 4.2 below:

Table 4.2: Job group

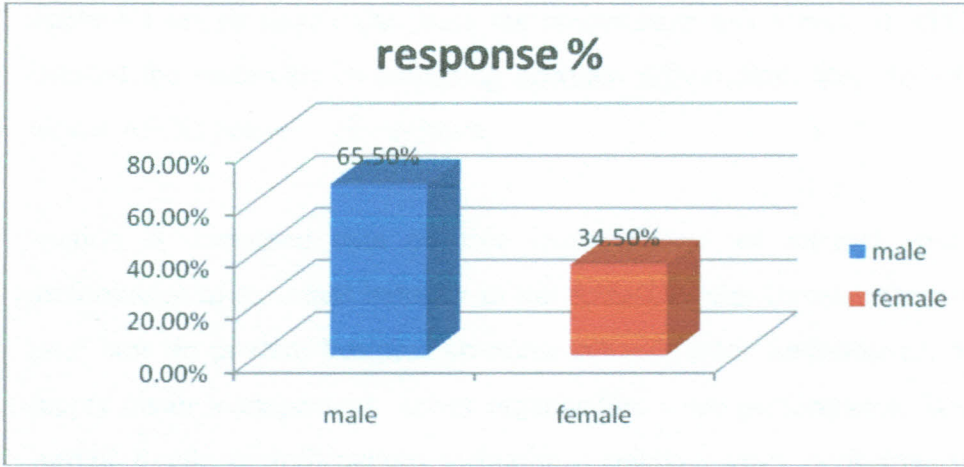
Various job groups	Frequency	Percent
Job Group 12	3	10.3
Job Group 11	2	6.9
Job Group 10	6	20.7
Job Group 9	11	37.9
Job Group 8	7	24.1
Total	29	100.0

Source: researcher (2012)

The table 4.2 above shows the various respondents job groups and their responses at AFCO. It shows majority of the respondents are from job group 9. See appendix C for elaboration of what each job group entail.

The respondents were asked to state their gender and the results are shown in the table 4.1 below:

Figure 4.1 Gender



Source: researcher (2012)

Figure 4.1 above shows how both men and women responded. Men were the majority respondents with 65.5% and women at only 34.5% respectively.

The respondents were asked to state highest level of education achieved and the results are shown in the table 4.3 below:

Table 4.3: Highest level of education

Level of Education	Frequency	Percent
Diploma	20	68.9
Degree	9	31.0
Total	29	100.0

Source: researcher (2012)

Table 4.3 above shows that Most of the respondents are diploma holders.

The respondents were asked to state how long had served AFCO and the results are shown in the table 4.4 below:

Table 4.4: Years served at AFCO

Years served at AFCO	Frequency	Percent
Less Than 10yrs	6	20.7
Between 10yrs-20yrs	12	41.4
Between 20yrs-30yrs	9	31.0
Above 30yrs	2	6.9
Total	29	100.0

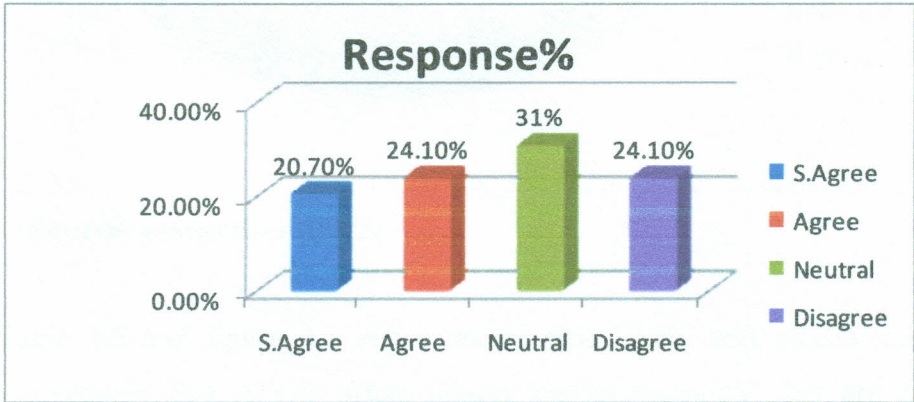
Source: researcher (2012)

Table 4.4 above shows the years the respondents has served at AFCO. The years served assisted the researcher in collecting accurate information. Majority of the respondents had served AFCO between 10yrs-20yrs.

Section B contained data on five major factors of internal control that affect sales performance in the retail industry in the Armed Forces Canteen Organization (AFCO) vis a avis: how do prudent business practices enhance sales performance; how does an effective supply chain management affect organization sales performance; how does embracing of current trends in Information technology enhance sales performance; how does Internal Audit’s role in risk management, control and governance processes enhance sales performance and What is the role of sound corporate governance in enhancing an organization’s sales performance?.The results are shown in tables 4.5-4.20 and figures 4.2-4.12 shown below:

The respondents were asked to state whether AFCO charges low prices for its goods and services and the results are shown in the fig 4.2 below:

Fig 4.5 AFCO charges low prices



Source :researcher (2012)

Figure 4.2 above shows that 20.7% and 24.1% strongly agree and agree respectively that AFCO charges low prices for its products/services compared with its competitors and its general, selling and operating expenses have drastically reduced through its computerization. However, a moderate 24.1% disagree to that while 31% remain neutral. The researcher therefore concludes that AFCO retail chains prices are lower compared to others.

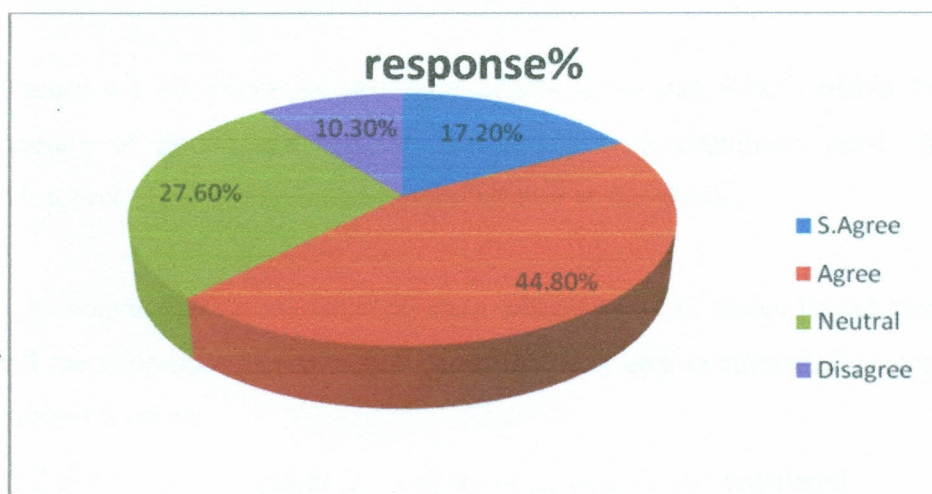
The respondents were asked to state whether AFCO offer quality products and services in their stores and the results are shown in the table 4.5 and fig 4.3 below:

Table 4.5: AFCO offer quality products and services

Responses	Frequency	Percent
Strongly Agree	5	17.2
Agree	13	44.8
Neutral	8	27.6
Disagree	3	10.3
Total	29	100.0

Source: researcher (2012)

Figure 4.3: AFCO offer quality products and services.

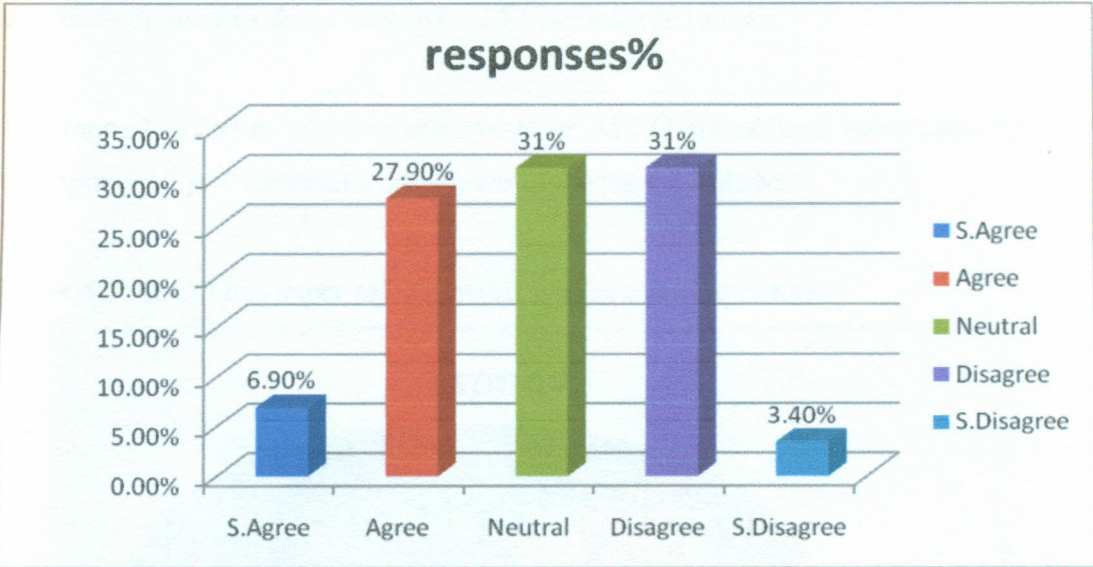


Source: researcher (2012)

Table 4.5 and figure 4.3 above shows that 17.2% and 44.8% strongly agree and agree respectively that AFCO offers quality products/services that are commensurate with the charged prices; hence customers get value for their money.

The respondents were asked to state whether AFCO offers a variety of goods and services and the results are shown in the fig 4.4 below:

Figure 4.4 AFCO offers a variety of goods and service



Source: researcher (2012)

Figure 4.4 above shows that only 27.9% agree that AFCO offers the greatest assortment/variety of goods and services that match with customers needs (taste and preference). However, 31% disagree and remain neutral to the above.

The respondents were asked to state whether AFCO stores layout clearly shows location of all merchandise department, they are well lit and ventilated. The results are shown in the table 4.6 below:

Table 4.6: AFCO's stores are well laid out, well lit and ventilated

Response	Frequency	Percent
Strongly Agree	1	3.4
Agree	10	34.5
Neutral	8	27.6
Disagree	10	34.5
Total	29	100.0

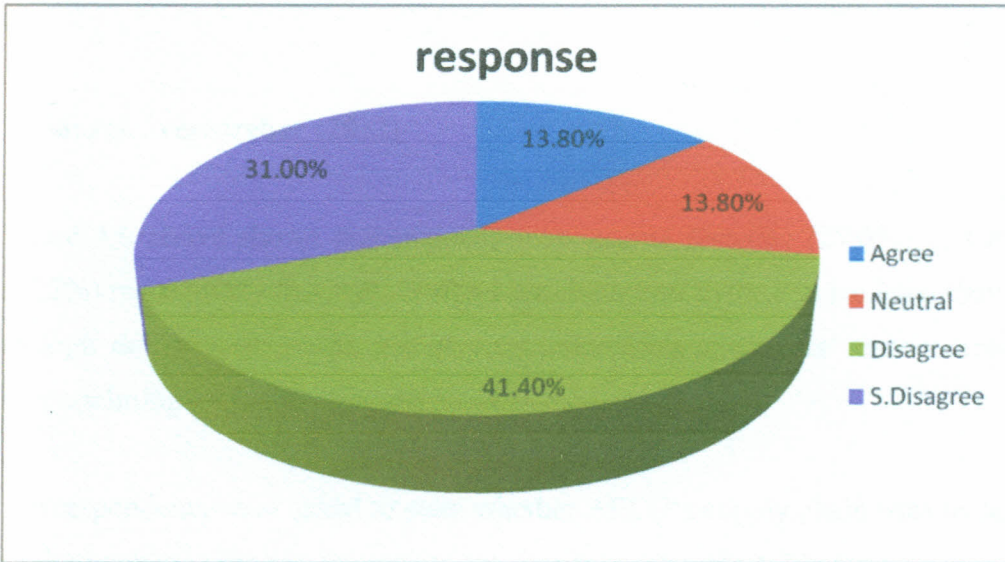
Source :researcher (2012)

According to table 4.6 above, 3.4% and 34.5% strongly agree and agree respectively that AFCO'S stores layout clearly shows location of all merchandise department based on their

sales returns and that the walkways allow easy customer movement, and that they are well lit and ventilated and has well priced item tags and signs to provide much needed information to customers on how to shop. However, 34.5% disagree to that.

The respondents were asked to state whether AFCO stores have super sales persons who are well appraised and the results are shown in the fig 4.5 below:

Figure 4.5 AFCO has super sales persons who are well appraised

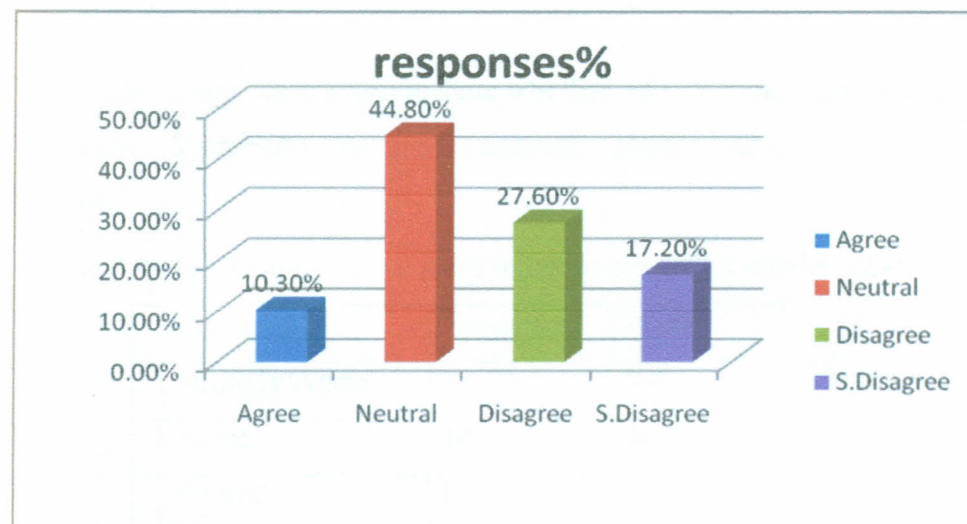


Source: researcher (2012)

According to figure 4.5 above, 41.4% and 31% disagree and strongly disagree respectively that AFCO has super sales associates (salespersons) with well specified job description who regularly undergo performance appraisal and review and who have their morale boosted for higher sales through identified training and development, constant compensation and promotion.

The respondents were asked to state whether AFCO stores offer consideration to the service level and the results are shown in the fig 4.6 below:

Figure 4.6 AFCO offers consideration to the service level



Source : researcher (2012)

Figure 4.6 above shows that majority respondents disagree (27.6%) and strongly disagree (17.2%) respectively that AFCO offers consideration to the service level they offer customers through delivery of goods and services exceeding customers' expectations. However, an overwhelming 44.8% remained neutral.

The respondents were asked to state whether AFCO's supply chain uses technology and team work to create value and the results are shown in the table 4.7 below:

Table 4.7: AFCO's supply chain uses technology & teamwork to create value

Responses	Frequency	Percent
Strongly Agree	2	6.9
Agree	10	34.5
Neutral	8	27.6
Disagree	4	13.8
Strongly Disagree	5	17.2
Total	29	100.0

Source: researcher (2012)

According to table 4.7 above it shows that 34.5% and 6.9% agrees and strongly agrees respectively that AFCO'S supply chain uses technology and teamwork to create value to its customers through reduced product costs and improved service.

The respondents were asked to state whether AFCO stores maintains a good relationship with a number of suppliers who are transparently chosen and the results are shown in the table 4.8 below:

Table 4.8: AFCO maintains a good relationship with a number of suppliers

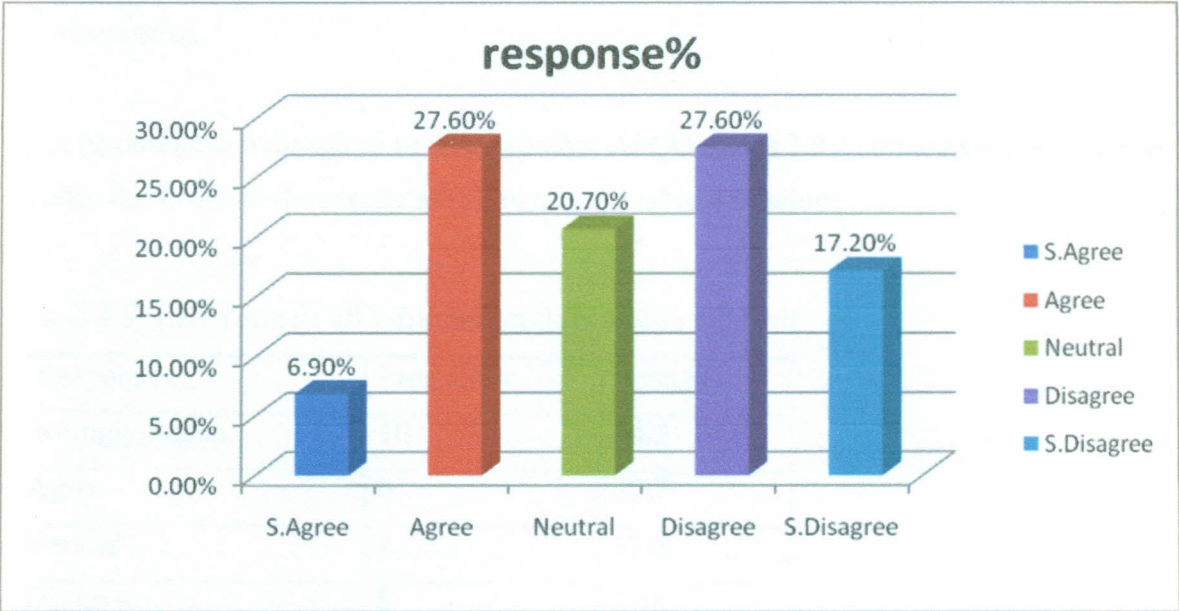
Responses	Frequency	Percent
Strongly Agree	1	3.4
Agree	14	48.3
Neutral	8	27.6
Disagree	3	10.3
Strongly Disagree	3	10.3
Total	29	100.0

Source: researcher (2012)

Table 4.8 above shows that a majority 48.3% of the respondents agrees that AFCO maintains cordial relationship with a manageable number of suppliers (supplier base) who are transparently chosen and who provide quality, low cost and competitive products that suit customer tastes and preferences. However, 10.3% disagree and strongly agree to that.

The respondents were asked to state whether AFCO stores have enhanced its supply chain management through integrations and development and the results are shown in the fig 4.7 below:

Figure 4.7 AFCO has enhanced its supply chain management through integrations and development

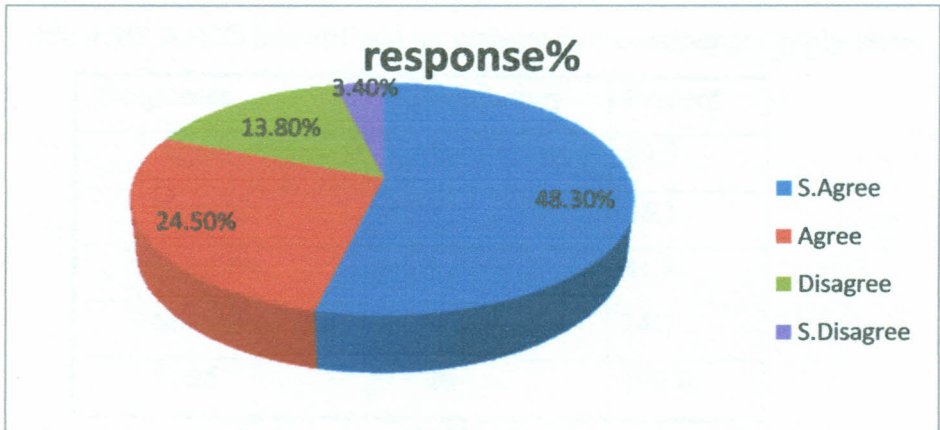


Source: researcher (2012)

According to figure 4.7 above, 27.6% agree and disagree respectively that AFCO has enhanced its supply chain management through simultaneous development and integration of its human resource and technology.

The respondents were asked to state whether AFCO stores should outsource some of its services and concentrate on its competencies and the results are shown in the fig 4.8below:

Figure 4.8 AFCO should outsource some of its services and concentrate on its competencies



Source: researcher (2012)

According to figure 4.8 above, a majority strongly agrees (48.3%) and agrees (24.5%) respectively that AFCO should outsource some of its services and concentrate on its core competencies.

The respondents were asked to state whether AFCO stores ERP connects all information flow within the firm and the results are shown in the table 4.9 below:

Table 4.9: ERP connect all information flow within the firm

Responses	Frequency	Percent
Strongly Agree	10	34.5
Agree	6	20.7
Neutral	4	13.8
Disagree	8	27.6
Strongly Disagree	1	3.4
Total	29	100.0

Source: researcher (2012)

Table 4.9 above shows that a majority agree (34.5%) that AFCO's ERP connect all information flows within the firm through integration of suppliers and customers, thus enhancing efficiency and effectiveness in its operations.

The respondents were asked to state whether AFCO stores has utilized its website in e-commerce supply chain and the results are shown in the table 4.10 below:

Table 4.10: AFCO has utilized its website in e-commerce supply chain

Responses	Frequency	Percent
Agree	3	10.3
Neutral	7	24.1
Disagree	12	41.4
Strongly Disagree	7	24.1
Total	29	100.0

Source :researcher (2012)

Table 4.10 above shows that a majority disagrees and strongly disagree (41.4% & 24.1%) that AFCO has utilized its website in e-commerce supply chain to increase its sales and reduce costs.

The respondents were asked to state whether AFCO's stores ERP is the answer to all its human inventory problems and the results are shown in the table 4.11 below:

Table 4.11: AFCO's ERP is the answer to all it human, inventory problems

Responses	Frequency	Percent
Strongly Agree	13	44.8
Agree	12	41.4
Neutral	1	3.4
Disagree	2	6.9
Strongly Disagree	1	3.4
Total	29	100.0

Source: researcher (2012)

According to table 4.11 above, 44.8% and 41.4% strongly agree and agree respectively that AFCO'S ERP is the answer to the vast array of human, inventory, facility and equipment management problems facing AFCO today. Only a few disagree.

The respondents were asked to state whether AFCO stores ERP has enabled it seamlessly integrate its systems with suppliers and customers and the results are shown in the table 4.12 below:

Table 4.12: ERP has enabled it seamlessly integrate its systems with suppliers and customers

Responses	Frequency	Percent
Strongly Agree	2	6.9
Agree	8	27.6
Neutral	10	34.5
Disagree	7	24.1
Strongly Disagree	2	6.9
Total	29	100.0

Source: researcher (2012)

According to table 4.12 above, 34.5% response remain neutral while 27.6% agree that AFCO's ERP system has enabled it seamlessly integrate its systems with suppliers and customers through reliable information storage, protection, processing, transmission and subsequent retrieval.

The respondents were asked to state whether AFCO stores internal audit is an independent, objective and consulting department and the results are shown in the table 4.13 below:

Table 4.13: Internal audit is an independent, objective and consulting department

Response	Frequency	Percent
Strongly Agree	1	3.4
Agree	9	31.0
Neutral	4	13.8
Disagree	10	34.5
Strongly Disagree	5	17.2
Total	29	100.0

Source: researcher (2012)

Table 4.13 shows that 34.5% of the respondents disagrees that internal audit are an independent, objective and consulting department. However, 31% agree to the above.

The respondents were asked to state whether AFCO stores internal audit assist BOD and management achieve sound managerial control over all departments and the results are shown in the table 4.14 below:

Table 4.14: Internal audit assist BOD and management achieve sound managerial control over all Departments

Responses	Frequency	Percent
Strongly Agree	3	10.7
Agree	9	32.1
Neutral	6	21.4
Disagree	5	17.9
Strongly Disagree	5	17.9
Total	28	100.0

Source: researcher (2012)

From table 4.14 above, it shows that a majority strongly agree and disagree (32.1%) that AFCO’S internal audit assists BOD and management achieve sound managerial control over all its aspects of operations (accounting, financial control, information management and control systems). However, a significant percentage also strongly disagree (17.9%) to the above.

The respondents were asked to state whether some AFCO stores internal audits need to be reviewed and the results are shown in the table 4.15 below:

Table 4.15: Some AFCO internal auditing practices need to be reviewed

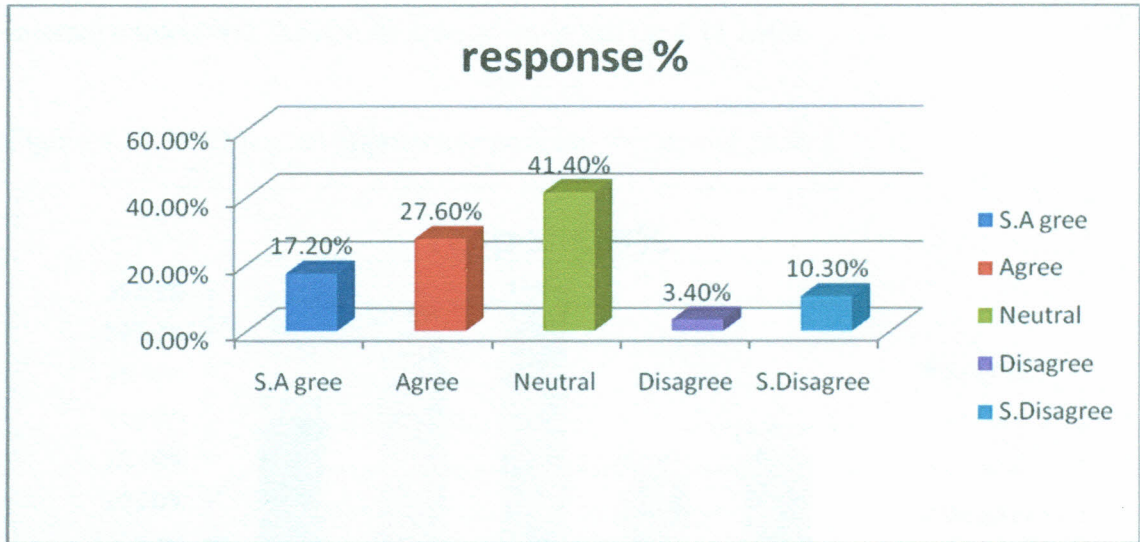
Responses	Frequency	Percent
Strongly Agree	21	72.4
Agree	5	17.2
Strongly Disagree	3	10.3
Total	29	100.0

Source: researcher (2012)

From the table 4.15 above, shows that a majority of the respondents strongly agree (72.4%) that some AFCO internal auditing practices need to be reviewed such as the formation of audit committee where audit reports will be channeled to rather than to the managing director which somehow compromise the department’s independence.

The respondents were asked to state whether AFCO internal auditors play a major role in fraud detection and prevention and the results are shown in the fig 4.9below:

Figure 4.9 AFCO internal auditors play a major role in fraud detection and prevention

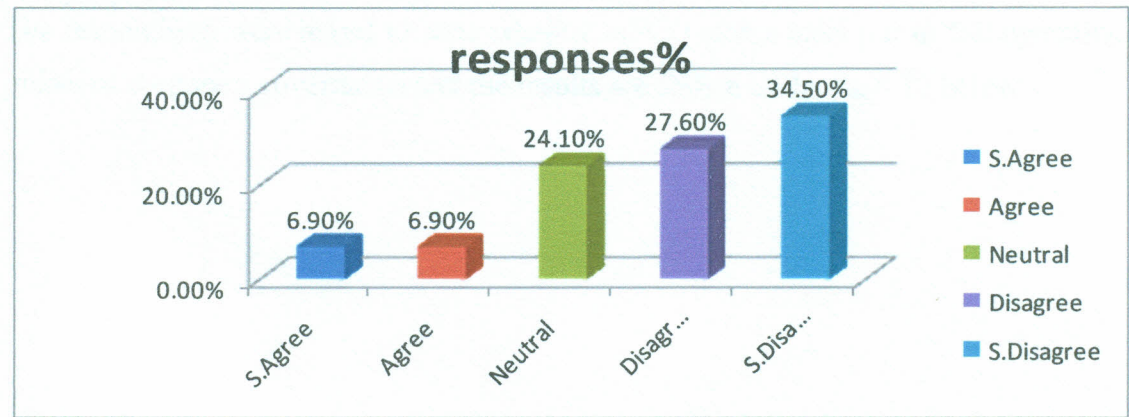


Source: researcher (2012)

According to figure 4.9 above, a majority agree that AFCO’S internal auditors play a major role in fraud detection and prevention through assessment of control, design and determination of audit steps to follow. However, 41.4% remain neutral.

The respondents were asked to state whether AFCO stores internal audit is professionally managed and the results are shown in the fig 4.10below:

Figure 4.10 Internal audit is professionally managed

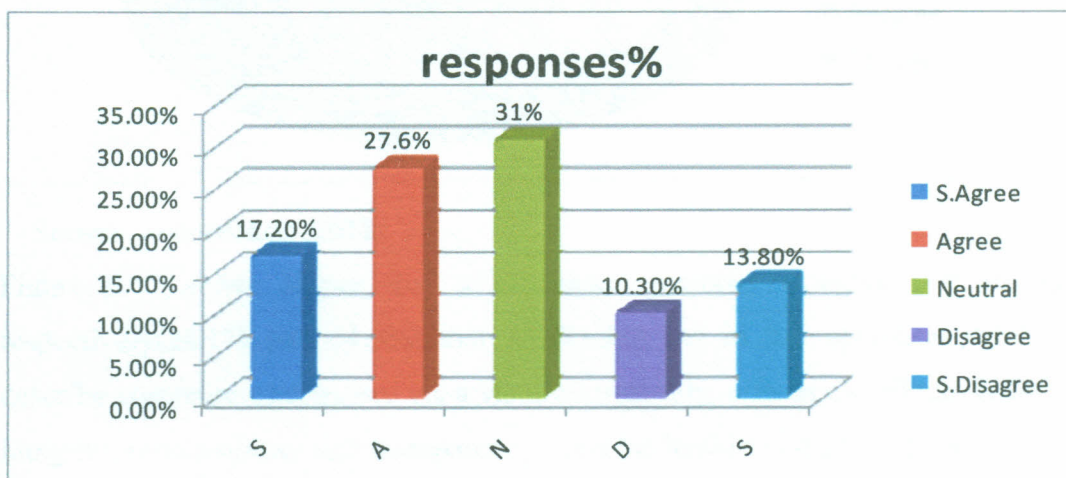


Source: researcher (2012)

According to figure 4.10 above shows that a majority disagrees and strongly disagree respectively (27.6% and 34.5%) that the internal audit department is professionally managed; its staff highly qualified and has low staff turnover to enhance its effective operations.

The respondents were asked to state whether AFCO stores BOD has appropriate policies on internal control and the results are shown in the fig 4.11 below:

Figure 4.11 BOD has set appropriate policies on internal control

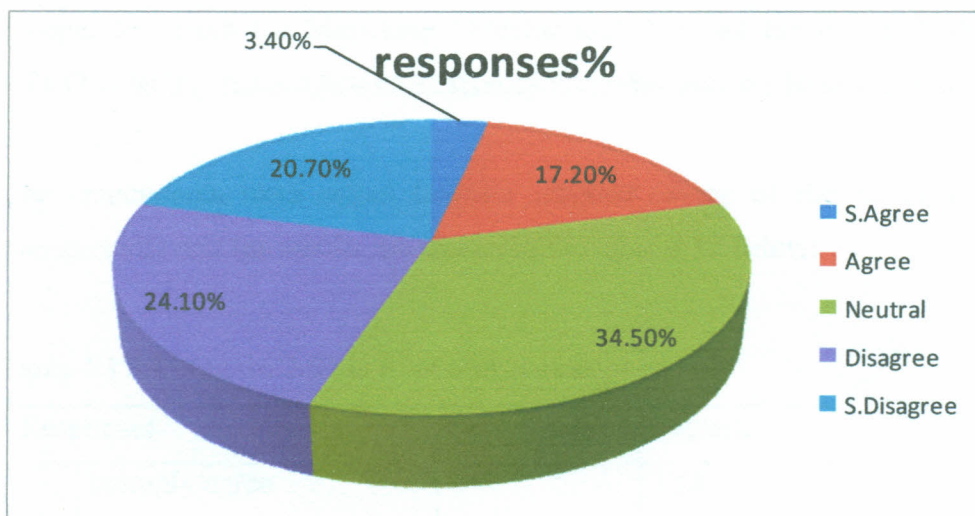


Source :researcher (2012)

According to figure 4.11 above, a majority strongly agrees (17.2%) and agrees (27.6%) respectively that the BOD has set appropriate policies on internal control and assured itself that they are functioning effectively to monitor risks AFCO is exposed to and these internal control systems are effective in reducing those risks to acceptable level. However, 31% remain neutral.

The respondents were asked to state whether AFCO stores have put in full operation the six pillars of corporate governance and the results are shown in the fig 4.12 below:

Figure 4.12 AFCO has put in full operation the six pillars of corporate governance



Source: researcher (2012)

Figure 4.12 above shows that a significant majority disagree and strongly disagree respectively(24.1% and 34.5%) that AFCO has put in full operation the six pillars that describe corporate governance vis a vis accountability, efficiency, effectiveness, honesty and integrity, responsibility and transparency open leadership and accurate and timely disclosure of information. However, an overwhelming majority remained neutral on this issue.

The respondents were asked to state whether AFCO stores BOD is independent from the managing director and is not part of the problem facing AFCO and the results are shown in the table 4.16 below:

Table 4.16: BOD is independent from the MD and is not part of the problem facing AFCO

Responses	Frequency	Percent
strongly agree	4	13.8
Agree	8	27.6
Neutral	7	24.1
Disagree	7	24.1
strongly disagree	3	10.3
Total	29	100.0

Source: researcher (2012)

Table 4.16 above shows that 27.6% and 13.8% agree and strongly agree that the BOD is independent from the Managing Director and it is not the major factor of any problems AFCO is facing that hinders its efficiency and effectiveness in its business.

The respondents were asked to state whether hiring of the managing director is done transparently and the results are shown in the table 4.17 below:

Table 4.17: hiring the MD is done transparently

Responses	Frequency	Percent
strongly agree	4	13.8
Agree	6	20.7
Neutral	4	13.8
Disagree	7	24.1
strongly disagree	8	27.6
Total	29	100.0

Source: researcher (2012)

According to table 4.17 above, a majority strongly disagree (27.6%) that hiring of the Managing Director is done transparently and the MD given authority to run AFCO and select good business in which to operate with BOD's advice and consent.

The respondents were asked to state whether AFCO stores corporate governance ensures long term strategic objectives are achieved and the results are shown in the table 4.18 below:

Table 4.18: corporate governance in AFCO ensures long term strategic objectives are achieved

Responses	Frequency	Percent
Strongly Agree	4	13.8
Agree	5	17.2
Neutral	7	24.1
Disagree	8	27.6
Strongly Disagree	5	17.2
Total	29	100.0

Source: researcher (2012)

Corporate governance in AFCO ensures long-term strategic objectives and plans are established and proper management structures are put in place to enable AFCO attain its objectives; AFCO's structures are functioning to maintain its integrity, reputation and accountability to its relevant constituents. However, from the responses above, only 13.8% and 17.2% strongly agree and agree respectively to this.

The respondents were asked to state whether AFCO's BOD has a collection of directors with different skills, knowledge and talents and the results are shown in the table 4.19 below:

Table 4.19: BOD has a collection of directors with different skills, knowledge & talents

Responses	Frequency	Percent
strongly agree	2	6.9
Agree	5	17.2
Neutral	6	20.7
Disagree	11	37.9
strongly disagree	5	17.2
Total	29	100.0

Source: researcher (2012)

From the above table, a majority (37.9%) disagree that AFCO's BOD has a heterogeneous portfolio/collection of directors with exceptional talent, knowledge and wisdom pertaining to risk management that enables them runs the firm efficiently and effectively.

The respondents were asked to state whether AFCO stores have a dedicated risk committee to oversee and mitigate the risks it faces and the results are shown in the table 4.18 below:

Table 4.20: AFCO has a dedicated risk committee to oversee and mitigate the risks it faces

Responses	Frequency	Percent
strongly agree	1	3.4
Neutral	7	24.1
Disagree	10	34.5
strongly disagree	11	37.9
Total	29	100.0

Source: researcher (2012)

According to table 4.17 above, 34.5% and 37.9% disagree and strongly disagree respectively that AFCO has in place a dedicated risk committee to oversee and mitigate the risks it faces. However, only 3.4% strongly agree to the above whereas 24.1% remain neutral.

4.4 CONCLUSION

The researcher also found out that apart from the above factors, there are other factors that negatively affect AFCO's operations; Poor staff pay and failure to review staff remuneration to cushion inflations makes staff morale to be low, high labor turnover imparts negatively on the organization's image and lack of union to voice staff grievances.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATION

5.0 INTRODUCTION

The purpose of this study was to find out the effects of internal control on sales performance in the retail industry in Kenya. The study was intended to uncover the many effects of internal control on sales performance in the retail industry in Kenya. The respondents of the study were the management staff of the armed forces canteen organization from Accounts, Internal Audit and Supplies departments. After data analysis, the findings of the study are outlined below.

5.1 SUMMARY OF THE FINDINGS

From the case study, all the 29 respondents from Accounts, Internal Audit and Supply departments responded to the research questions. This represents a response rate of 100%. This justifies the validity and reliability of the information collected and analyzed. The organization staff in the three departments involved in the study are the direct managers on the ground who ensure that the implemented internal controls by AFCO's top management level are well implemented. Above all, they are used by the board of management to gather weekly performance data from its countrywide retail outlets and compiling any issues raised by all the retail outlets in their daily operations which inhibit their operations. The respondents as well have adequate knowledge on the topic being investigated. AFCO processes its financial statements at headquarter level in MAB from its countrywide retail outlets. The data from the retail outlets usually come in the form weekly returns for these departments to analyze the same and prepare management reports for the BOD's perusal and ultimate decision making. From the response gathered by the researcher, the following were the findings:

5.2 INCULCATING PRUDENT BUSINESS PRACTICES IN THE RETAIL INDUSTRY

From the study AFCO charges low prices for its goods and services compared with its competitors and its general, selling and operating expenses have drastically reduced through computerization. However, an equal number of the respondents disagree that the prices are lower. Most of the respondent agrees (44.8%) that AFCO offers quality products/services that are commensurate with the charged prices; hence customers get value for their money. From the findings, only a few agree that AFCO offers the greatest assortment/variety of goods and

services that match with customers' needs. However, 31% remained neutral and disagree to the above. AFCO's stores layout clearly shows location of all merchandise departments based on their sales returns, the walkways allowing easy customer movement, they are well lighted and ventilated and have well priced item tags and signs to provide much needed information to customers on how to shop. This was confirmed by 34.5% respondents. However, an equal number also disagree to the above. From the findings a majority disagree that AFCO has super sales associates with well specified job description who regularly undergo performance appraisal and review and who have their morale boosted for higher sales through identified training and development, constant compensation and promotion. Most of the respondents disagree that AFCO offers consideration to the service level and the services they offer customers through delivery of goods and services exceeding customers' expectations. However, 44.8% remained neutral.

5.2.1 SUPPLY CHAIN MANAGEMENT

From the findings, AFCO's supply chain uses technology and teamwork to create value to its customers through reduced product costs and improved service and that AFCO has enhanced its supply chain management through simultaneous development and integration of its human resource and technology. An overwhelming majority agree and strongly agree that AFCO should outsource some of its services and concentrate on its core competencies.

5.2.2 INFORMATION TECHNOLOGY

From the findings, 34.5% and 20.7% agree that AFCO's ERP connect all information flows within the firm through integration of suppliers and customers, thus enhances efficiency and effectiveness in its operations. However, they overwhelmingly disagree (41.4%) that AFCO has utilized its website in e-commerce supply chain to increase its sales and reduce costs. Forty four point eight percent and forty one point four percent strongly agree and agree respectively that AFCO'S ERP is the answer to the vast array of human, inventory, facility and equipment management problems facing AFCO today. However, most of the respondents remain neutral on if AFCO's ERP system has enabled it seamlessly integrate its systems with suppliers and customers through reliable information storage, protection, processing, transmission and subsequent retrieval.

5.2.3 INTERNAL AUDIT RESPONSIBILITIES

A majority of the respondents disagree that AFCO's internal audit is an independent, objective and consulting department designed to add value and improve the organization's operations. The findings show that AFCO'S internal audit assists BOD and management to achieve sound managerial control over all its aspects of operations. However, an overwhelming 72.4% strongly agree that AFCO internal auditing practices need to be reviewed such as the formation of audit committee where audit reports will be channeled to rather than to the managing director which somehow compromise the department's independence. In addition, majority respondents agree that AFCO'S internal auditors play a major role in fraud detection and prevention through assessment of control, design and determination of audit steps to follow and that the internal audit department is not professionally managed, their staffs are not highly qualified and the department has high staff turnover. This affective operations of the department.

5.2.4 CORPORATE GOVERNANCE

From the findings it shows a majority agree that the BOD has set appropriate policies on internal control and assured itself that they are functioning effectively to monitor risks AFCO is exposed to and these internal control systems are effective in reducing those risks to acceptable level. However only 3.4% and 17.2% strongly agree and agree respectively that AFCO has put in full operation the six pillars that describe corporate governance vis a vis accountability, efficiency, effectiveness, honesty and integrity, responsibility and transparency open leadership and accurate and timely disclosure of information. Majority of the respondents remain neutral on whether the BOD is independent from the Managing Director and it is not the major factor of any problems AFCO is facing that hinders its efficiency and effectiveness in its business. The findings show that 27.6% of the respondents disagree that corporate governance in AFCO ensure long-term strategic objectives and plans are established and proper management structures are put in place to enable AFCO attain its objectives, AFCO's structures are functioning to maintain its integrity, reputation and accountability to its relevant constituents. However, a significant 24.1% remained neutral.

In addition, 37.9% respondents disagree that AFCO's BOD has a heterogeneous portfolio/collection of directors with exceptional talent, knowledge and wisdom pertaining to risk management that enables them runs the firm efficiently and effectively and that AFCO has in place a dedicated risk committee to oversee and mitigate the risks it faces.

5.3 CONCLUSION

In conclusion, the researcher found out that AFCO need improve it services, upgrade its information technology, and improve its corporate governance. They should also make their audit system independent and objective. The researcher also found out that their supply chain uses technology and teamwork to create value to its customers through reduced product costs and improved service. The researcher also found out that most employees would like to see a change of some of the methods.

5.4 RECOMMENDATION OF THE STUDY

After undertaking the research, analyzing data collected and interpreting the findings, it is clear that some remedial measures were obligatory in effects of internal control on sales performance in the retail industry in Kenya. These measures are vital especially in the areas pointed above in the conclusion where it was noted that there were deficiencies and recommendations include: AFCO should outsource some services like, baking of bread, outsourcing merchandize transportation to the retail outlets rather than buying and maintaining its fleet of vehicles. AFCO should also look at the resistance to change syndrome on some personnel integral in ERP system and Lack of proper staff training on specialized needs. In the Audit department, lack of proper training in Computer Aided Auditing Techniques (CAATS) in ERP, lack of professionalism due lack of audit training seminars and registration to recognized audit membership bodies like ICPAK should be addressed. On corporate governance, lack of proper training (both internal and external to all staff categories), lack of professionalism in organization's operations as it is almost a one man show, staff recruitment is done unprofessionally, best business practices not embraced immediately due to the hierarchical ladder in the organization's operations are some of the issues to be addressed.

5.5 SUGGESTIONS FOR FURTHER STUDY

This research was based on primary data collected through questionnaires from various staff members at AFCO. As the data collected was of self report nature, there is a possibility that it is prone to some degree of subjectivity. Consequently further research can be done on the same area but in this case multiple sources of data in the form of quantitative and qualitative data can be used. This may be data from archival records to provide concrete examples and information on effects of internal control on sales performance in the retail industry in Kenya.

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APPENDICES

Appendix: A. SPECIMEN LETTER OF INTRODUCTION TO THE RESPONDENTS

Date: 18/05/2012

Dear respondent,

REF: EFFECTS OF INTERNAL CONTROL ON SALES PERFORMANCE IN THE RETAIL INDUSTRY IN KENYA (A CASE STUDY OF THE ARMED FORCES CANTEEN ORGANIZATION).

I am a post-graduate student at Kenyatta University pursuing a master's degree in Business Administration. You have been selected to take part in the study as a respondent.

Attached is a questionnaire aimed at gathering information, which will be vital for the above research. I am kindly requesting you to respond to the questionnaire items as honestly as you can and to the best of your knowledge. The questionnaire is for the purpose of research only and therefore the responses shall be absolutely confidential and anonymously given. Do not include your name in the questionnaire.

In case the study would be of interest to your organization it can be availed once the study is complete.

Your participation in this survey is highly appreciated.

Thank you

Isaac Okemwa Omenge.

School of Business, Kenyatta University.

Appendix B: Research Questionnaire

This questionnaire is intended to gather general information about yourself and your organization. The study focuses on how system of internal control impacts organizational sales turnover in the armed forces canteen organization (AFCO).

The questionnaire has two sections. Kindly respond to all questionnaire items. Thank you.

SECTION A:

1. Name department.....

Job group held in the department
Job title held in the department
2. Gender (a) Male (b) Female
3. Highest level of education achieved (please tick appropriately)
 - a. Diploma level ()
 - b. Degree level ()
 - c. Masters level ()
 - d. PhD level ()
4. How long have you served AFCO? (Please tick appropriately)
 - a. Less than 10yrs ()
 - b. Between 10yrs-20yrs ()
 - c. Between 20yrs-30yrs ()
 - d. 30yrs and above ()

SECTION B:

A: Inculcating prudent business practices in the retail industry

To what extent do you agree the following prudent business in the retail industry affect AFCO'S sales performance? (Please circle the numbers on the right of the statement)

(1-Strongly Agree, 2-Agree, 3-Neither agree or disagree, 4-Disagree, 5-Strongly Disagree).

1. AFCO charges low prices for its products/services compared with its competitors and its general, selling and operating expenses have drastically reduced through reduced its computerization. (1) (2) (3) (4) (5)
2. AFCO offers quality products/services that are commensurate with the charged prices, hence customers get value for their money (1) (2) (3) (4) (5)
3. AFCO offers the greatest assortment/variety of goods and services that match with customers needs(taste and preference) (1) (2) (3) (4) (5)
4. AFCO'S stores layout clearly shows location of all merchandise department based on their sales returns, the walkways allow easy customer movement, they are well lighted and ventilated and has well priced item tags and signs to provide much needed information to customers on how to shop. (1) (2) (3) (4) (5)
5. AFCO has super sales associates (salespersons) with well specified job description who regularly undergo performance appraisal and review and who have their morale boosted for higher sales through identified training and development, constant compensation and promotion. (1) (2) (3) (4) (5)

6. AFCO offers consideration to the service level and the services they offer customers through delivery of goods and services exceeding customers' expectations. (1) (2) (3) (4) (5)

B: Supply Chain Management

To what extent does an efficient and effective supply chain management affect AFCO's sales performance? (Please circle the numbers on the right of the statement)

(1-Strongly Agree, 2-Agree, 3-Neither agree or disagree, 4-Disagree, 5-Strongly

Disagree

1. AFCO'S supply chain uses technology and teamwork to create value to its customers through reduced product costs and improved service (1) (2) (3) (4) (5)
2. AFCO maintains cordial relationship with a manageable number of suppliers(supplier base)who are transparently chosen and who provide quality, low cost and competitive products that suit customer tastes and preferences (1) (2) (3) (4) (5)
3. AFCO has enhanced its supply chain management through simultaneous development and integration of its human resource and technology. (1) (2) (3) (4) (5)
4. AFCO should outsource some of its services and concentrate on its core competencies. (1) (2) (3) (4) (5)
5. What services should AFCO outsource?
(a) Baking of bread (b) Outsourcing merchandize transportation to the retail outlets rather than buying and maintaining its fleet of vehicles (c) others (mention them)

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C. Information Technology

How efficiently and effectively has IT enhanced AFCO'S sales performance?

(1- Strongly Agree 2- Agree 3- Neither agree or disagree agree 4-Disagree 5-Strongly disagree)

- 1. AFCO's ERP connect all information flows within the firm through integration of suppliers and customers, thus enhances efficiency and effectiveness in its operations (1) (2) (3) (4) (5)
 - 2. AFCO has utilized its website in e-commerce supply chain to increase its sales and reduce costs (1) (2) (3) (4) (5)
 - 3. AFCO'S ERP is the answer to the vast array of human, inventory, facility and equipment management problems facing AFCO today (1) (2) (3) (4) (5)
 - 4. AFCO's ERP system has enabled it seamlessly integrate its systems with suppliers and customers through reliable information storage, protection, processing, transmission and subsequent retrieval. (1) (2) (3) (4) (5)
 - 5. Any other factors that affects AFCO's IT department from undertaking its activities efficiently and effectively
-
.....
.....

D: Internal Audit responsibilities

To what extent do you agree the following internal audit issues impart/convey on AFCO's business operations? (Please circle the numbers on the right of the statement)

(1- Strongly Agree 2- Agree 3- Partly agree 4-Disagree 5-Strongly disagree)

1. AFCO's internal audit is an independent, objective and consulting department designed to add value and improve the organization's operations. (1) (2) (3) (4) (5)
2. AFCO'S internal audit assists BOD and management achieve sound managerial control over all its aspects of operations (accounting, financial control, information management and control systems) (1) (2) (3) (4) (5)
3. Some AFCO internal auditing practices need to be reviewed such as the formation of audit committee where audit reports will be channeled to rather than to the managing director which somehow compromise the department's independence (1) (2) (3) (4) (5)
4. AFCO'S internal auditors play a major role in fraud detection and prevention through assessment of control, design and determination of audit steps to follow (1) (2) (3) (4) (5)
5. The internal audit department is professionally managed, its staff highly qualified and has low staff turnover to enhance its effective operations (1) (2) (3) (4) (5)
6. What other factors affects AFCO's internal audit department from undertaking its activities efficiently and effectively?

E: Corporate Governance

To what extent do you agree the following issues affects how the organization's BOD run the firm? (Please circle the numbers on the right of the statement)

(1-Strongly agree 2-Agree 3-Neither agree or disagree 4-Disagree 5-Strongly disagree)

1. The BOD has set appropriate policies on internal control and assured itself that they are functioning effectively to monitor risks AFCO is exposed to and these internal control systems are effective in reducing those risks to acceptable level. (1) (2) (3) (4) (5)
2. AFCO has put in full operation the six pillars that describe corporate governance vis a vis accountability, efficiency, effectiveness, honesty and integrity, responsibility and transparency open leadership and accurate and timely disclosure of information. (1) (2) (3) (4) (5)
3. The BOD is independent from the Managing Director and it is not the major factor of any problems AFCO is facing that hinders its efficiency and effectiveness in its business (1) (2) (3) (4) (5)
4. Hiring of the Managing Director is done transparently and the MD given authority to run AFCO and select good business in which to operate with BOD's advice and consent (1) (2) (3) (4) (5)

- | | |
|---|---------------------|
| 5. Corporate governance in AFCO ensure long-term strategic objectives and plans are established and proper management structures are put in place to enable AFCO attain its objectives, AFCO's structures are functioning to maintain its integrity, reputation and accountability to its relevant constituents | (1) (2) (3) (4) (5) |
| 6. AFCO's BOD has a heterogeneous portfolio/collection of directors with exceptional talent, knowledge and wisdom pertaining to risk management that enables them run the firm efficiently and effectively? | (1) (2) (3) (4) (5) |
| 7. AFCO has in place a dedicated risk committee to oversee and mitigate the risks it faces | (1) (2) (3) (4) (5) |

E: Any other factors other than the above discussed four variables that negatively affect AFCO's operations?.....

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Thank you for your co-operation.

APPENDIX C: JOB GROUP DESCRIPTION

Department	Job Group	Employee Designation	Management level
Accounts	12	Chief Accountant	Top management
	11	Senior information system manager	Top management
	10	Accountant	Middle
	9	Assistant accountant	Middle
	8	Accounts assistant	Lower
Supplies	12	Chief commercial services officer	Top management
	11	Senior supplies officer	Top management
	10	Supplies officer	Middle
	9	Assistant supplies officer	Middle
	8	Senior supplies assistant	Lower
Internal Audit	12	Chief internal auditor	Top management
	9	Assistant internal auditor	Middle
	8	Audit Assistant	Lower

Source: Researcher (2012)

Appendix D: PROPOSED TIME PLAN OF THE STUDY

EVENT	TIME
Development of proposal and defense	JANUARY-APRIL 2011
Data collection	APRIL 2012
Data analysis	MAY 2012
Report writing	MAY 2012
Defense of research project report	JUNE 2012

Source: researcher (2012)

Appendix E: BUDGET FOR THE STUDY

Item	Description	Projected Quantity	Projected cost per Unit/item (k.sh)	Total cost (k.sh)
Secretarial services	1.proposal typing	55 pages	20/= per page	1,100
	2.Proposal printing	55 pages	10/= per page	550
	3. Proposal Photocopying	55 pages x 6 copies	3/= per page	990
	4.Report Project typing	79 pages	20/= per page	1,580
	5.Report project Printing	79 pages	10/= per page	790
	6. Report project photocopying	79 pages x 6 copies	3/= per page	1,422
	7.Binding of report project			3,000
Research materials	1.Text books and stationery			10,000
	2.Data handling instruments			2,500
Field research resources	1.Internet	6 months	900/= per month	5,400
	2.Library membership	3 months	1,000/= per month	3,000
Sub-total				30,332
Contingencies			10% of total expenditure	2,927
Grand total				33,259

Source: Researcher (2012)

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