



**INTERNAL CONTROL AND COST  
MANAGEMENT: ANTIDOTE TO THE DEMISE  
OF MICRO AND SMALL ENTERPRISES?**

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**Abstract:**

The study investigates how Internal Control (IC) and Cost Management (GC) contribute to the reduction of death in the first years of life and optimize the operating costs of Micro and Small Enterprises (MSE's). To this end, 127 MSEs in the retail, wholesale, and service segments were investigated in the period 2014 to 2022, through the descriptive method with the application of semi-structured questionnaires and analysis of financial and management statements. The motivation for the study was due to the fact that it is a business segment responsible for 27% of the national Gross Domestic Product (GDP), for generating an average of 83% of employment, growth of 5% per year, and 68% of mortality in the first two years (SEBRAE, 2010; 2015). The results suggest that IC and GC are unknown to managers in this segment and that accountants (mostly accounting technicians) are not interested in offering advice on this subject because there are no positive effects on accounting fees. On the other hand, managers understand that accounting is limited to the preparation of payroll and the issuance of tax guides. For this reason, they make their decisions based on their experiences gained over time. The study also identified that the managers' schooling corresponds to incomplete primary and secondary education, except, with rare exceptions in the service segment, with complete higher education.

**Keywords:** internal control; internal control system; death of micro and small enterprises

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## 1. Introduction

MSEs are organizations that contribute to a high rate of employment and income throughout the national territory, in addition to boosting the result of the national GDP (SEBRAE, 2014). However, there are relevant records of mortality in the first years of operation, which is attributed to the lack of efficient management (Lima, Melo, Reis, Lima, and Oliveira, 2012).

According to the newspaper *Estadão* (2016), about 1.8 million MSEs closed their activities in the same year of their incorporation, due to lack of management in their operations. For SEBRAE (2016), this occurrence is the result of little or no experience in management, operational and financial control.

This premature mortality can be minimized as a result of the adoption of IC (Lima *et al.* 2012) because they have mechanisms that help managers in the operational and financial control of the organization, as well as in more assertive decision-making, and consequently, greater protection of assets (Crepaldi, 1998; Gil, 2002; Floriano & Lozecky, 2006). However, it will only be useful and effective if it is correctly fed with operational and financial data (Attier, 1998; Scott & Godoy, 2014).

However, there are managers who attribute to IC similarity to internal auditing, and for this reason, distance themselves from its use and planning techniques for the execution of the processes and plans adopted by the organization (Yoshida & Reis, 2005; Calaveiro & Flores, 2007).

In view of the above, this study aims to analyze how IC and KM minimize death in the first years of life and optimize the operating costs of MSEs, respectively.

The research is justified by fostering discussions about a business segment that is responsible for 27% of the national GDP, 98% of the services segment, 99% of the commerce segment, and 52% of formal jobs (SEBRAE, 2014). Also, according to Serasa Experian (2015), the cumulative number of these organizations operating in Brazil increased by 5.3% in 2015 compared to the previous year, from 1,865,183 to 1,963,952 MSEs.

## 2. Theoretical Framework

### 2.1 Micro and Small Enterprises (MSE)

In accordance with Complementary Law (LC) No. 123, of December 14, 2006, micro or small companies are considered to be the business company, the simple company, the individual limited liability company, and the entrepreneur referred to in article 966 of Law No. 10,406/2002, duly registered in the Registry of Mercantile Companies or in the Civil Registry of Legal Entities, that reaches the annual billing ranges shown in Table 1.

In general, in Brazil, the classification to establish the size of companies is limited to the criteria of revenue and number of employees. However, the criterion adopted for taxation purposes is based on the revenue range (see Table 1).

Figure 1 shows the reality and optimistic and pessimistic projections about the survival rate for companies up to two years of life. In both the optimistic and pessimistic scenarios, for the period 2014-2018, there is little variation in improvement. This demonstrates that the mortality of these companies is still relevant.

**Table 1: Economic classification by size**

Annual Gross Revenue	Company size
Up to R\$ 2.4 million	Microenterprise
From R\$ 2.4 million to R\$ 16 million	Small Business
From R\$ 16 million to R\$ 90 million	Medium-sized business
From R\$ 90 million to R\$ 300 million	Medium-large enterprise
Above R\$ 300 million	Large companies

**Source:** Adapted from LC no. 123 (2006); Law No. 10,406 (2006) and BNDES (2016).

For SEBRAE (2013), the classification of MSEs is based on the number of employees and branch of activity, see Table 2.

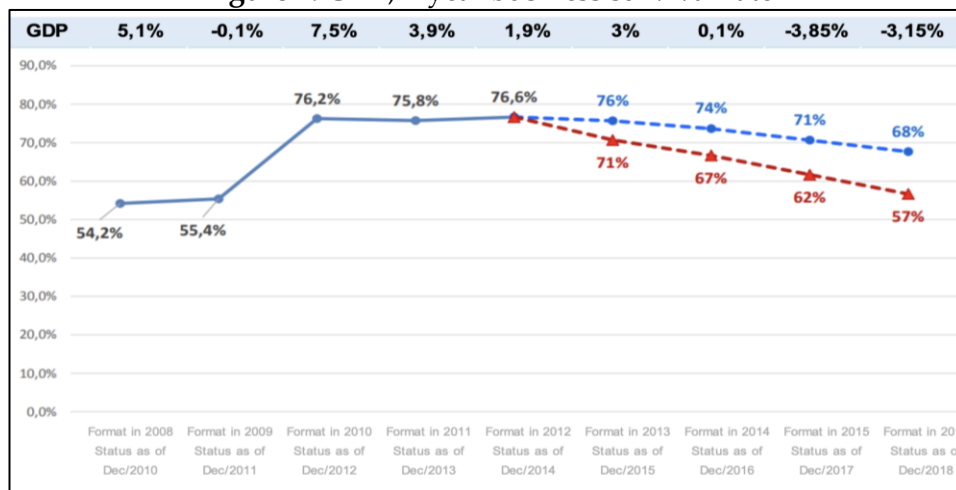
**Table 2: Economic classification by segment and number of employees**

Segment	Qte Employees	Classification
Retail trade and service	Up to 9	Microenterprise
Industry and construction	Up to 19	Microenterprise
Retail trade and service	Between 10 and 49	Small Businesses
Industry and construction	Between 20 and 99	Small Businesses

**Source:** SEBRAE (2013).

Based on field research carried out among two thousand micro and small companies (SEBRAE, 2016), the items lack of experience in "negotiation with suppliers and fundraising in financial institutions", "lack of knowledge of the partners in management", "high tax burden", "high costs and expenses" and "sales strategy to support strong competition", are the main contributions to the operational discontinuity of these companies.

**Figure 1: GDP, 2-year business survival rate**



**Source:** SEBRAE (2016).

## 2.2 Internal Control (CI)

Used since the year 1,600 (Migliavacca, 2003), it emerged with the purpose of assisting the operational and financial management of the business (Rolim, 2010; Lima *et al.*, 2012). Market changes and the advancement of technology after the Industrial Revolution (Almeida, 2003) forced companies to adapt and improve their controls, aiming for greater organization and reliable and accurate information, as a mechanism of competitive advantage (Attie, 1998; Crepaldi, 1998; Borsa, 2012).

The American Institute of Certified Public Accountants (AICPA) has published information highlighting the important contribution of IC in the expansion of organizations, as well as in the inhibition of errors and fraud and operational, financial, and logistical planning (Franco and Marra, 2000; Dias, 2008).

NBC TA 315 provides that the IC corresponds to an organizational plan coordinated with the company's own methods and measures, with the objective of safeguarding its assets and promoting operational and financial efficiency and effectiveness.

Chiavenato (1993) states that control is one of the principles defended by Taylor in 1911 and that the current manager must make sure that the work is being carried out in accordance with the established internal rules, and following the planned planning. Scott and Godoy (2014) state that every organization needs systems that structure its decision-making processes at all times, and that is effective in supporting decision-making.

Franco and Marra (2000) state that CI has a mechanism to standardize actions, processes, and methods, and that, in addition to minimizing waste and avoiding internal fraud, it reduces operating costs, increases profitability, and the company's expansion in the market.

They envision the operational control of the companies, aiming to assist in the achievement of the established goals, as well as to maintain the continuity of management strategies (Carioca, 2008; Farias *et al.* 2009). To this end, some models have been developed to provide greater reliability and clarity of the companies' operational information, namely: (i) COSO (Committee of Sponsoring Organization of the Treadway Commission); (ii) CoCo (Criteria of Control); (iii) Turnbull Report; (iv) King Report; and (v) COBIT (Control Objectives for Information and Related Technology).

COSO was developed in 1985 at the initiative of five independent private sector organizations in the United States (AAA - American Accounting Association; AICPA - American Institute of Certified Public Accountants; FEI - Financial Executives International; IIA - Institute of Internal Auditors; IMA - National Association of Accountants) with the purpose of measuring the efficiency of IC, corporate risk management and fraud (Carioca, 2013).

CoCo was created in 2008 by CICA - Canadian Institute of Chartered Accountants, with the objective of assisting senior management in the improvement and control of the environment, consequently, smoothing the achievement of the operational and strategic objectives established (Carioca, 2008; Farias *et al.* 2009).

Turnbull Report is a model that ascertains the financial risks that the company may have, for this it involves analysis of assets and shareholders, information collected from processes, operational activities, and others that directly or indirectly affect the financial part (Alves, 2014).

King Report was created with the aim of developing corporate governance standards in South Africa. This system determines that those responsible for the management of the company must establish a form of CI aiming at reducing risk and growing the company (Carioca, 2008).

Finally, COBIT, similar to the COSO model, focuses on information technology, with regard to the protection of data and the company's administrative processes (Alves, 2014)

According to Faria *et al.* (2009), each of these models was created with the objective of assisting companies in their operations (waste control, fraud, strategic maintenance of the company, and cost optimization, among others).

Based on this objective, Alves (2014) states that some software has been developed to automate these operational and financial controls, including KCMS Intelligent Solutions (Brazil), Compiere (USA), ERP5 (France), SAP AG (Germany), Primavera (Portugal).

Among these objectives, the literature highlights some, see Table 3.

**Table 3:** Some internal control objectives

Authors	Objectives
Attie (1998)	Protect the company's interests. You need accurate and reliable information regarding accounting, financial, and operational reports. It should encourage operational efficiency. You must accept the current policies.
Crepaldi (1998)	Protect assets. Analyze the accuracy and reliability of accounting and operational data. Promote efficiency in your operations. Provide and encourage the implementation of the stipulated norms, and administrative policies.
Peter and Axe (2003)	Analyze legal norms, normative processes, and regimes. Ensure that your information of any kind is accurate, reliable, and complete. Analyze and promote the anticipation of errors, abuses, frauds, and uneconomic practices. Provide reliable and appropriate information, whether of an administrative or operational nature, in relation to its achieved goals; Protect your financial and/or physical assets, as to their best utility and aim at the legitimacy of the liability. Grant the implementation of activities, plans, and operations, with the objective of obtaining the effectiveness and efficiency of resources. Enable the practice of standards, processes, and methods in the company.

**Source:** Survey data.

As we can see, the literature is vast in IC, and in some way, it offers organizations, regardless of their size, guidelines, and techniques for implementation/development or acquisition of a model.

The lack of implementation/development or adoption of an IC model in the MSE segment may be related to a lack of clarification to managers, packages offered without

the flexibility to adapt to the particularities of each business, and acquisition/maintenance costs. These difficulties constitute a niche market, in specific ICs for MSEs.

In view of the facts listed, it is possible to infer that the IC in an organization is comprised of several factors, such as method, routines, objectives, and procedures in the production of reliable data, and to assist managers in decision-making.

These data, a consequence of the company's operational and financial reality, imputed in the IC model adopted, will contribute to the analysis of the established goals in order to provide maintenance or adjustment of the planned items (Alves, 2014).

The adoption of IC, in addition to providing security for managers in decision-making, helps in the audit work, which, after testing the results produced, speeds up the conclusion of the auditors' investigation (Castro, 2013).

### **2.3 Planning and Strategic Decisions**

Planning is an instrument to project in advance the way to implement and determine the objectives desired by the organization (Farah *et al.*, 2008) and covers four fundamental points: (i) analysis of the situation; (ii) environmental analysis; (iii) internal analysis; and (iv) definition of the strategic plan (Maximiano, 2012).

Planning makes the goals to be followed by the company more visible, identifying strengths and weaknesses (Kotler & Keller, 2006), and in this sense, IC has a strong contribution to the business operating system (Floriano & Lozecky, 2006).

The IC is linked to planning and is an auxiliary tool to achieve business objectives (Vicente, 2014), and the absence of these leads the company to misallocation and application of financial and non-financial resources (Machado *et al.* 2010; Bortoli Neto, 1980), despite the lack of knowledge of managers about operating costs in the MSE segment (Petti, 2009; Anholon *et al.*, 2007).

Kotler and Keller (2006) suggest that these management tools (CI and Planning) assist managers in assertive decision-making and that their absence ensures that any results are acceptable (Floriano & Lozecky, 2006).

Management decisions based on concrete, reliable information in real-time, from a reliable source, make managers more confident in the action taken (Bortoli Neto, 1980).

#### **2.3.1 Measurement and Management of Costs in SMEs**

Leone (2000) suggests that cost accounting helps managers when companies establish objectives, goals, and budgets. And most of the time, MSE managers focus on sales activities, launching new products and services, without worrying about costs and operational controls (Petti, 2009). For Souza and Clemente (2007), the difficulty lies in the adoption and implementation of an IC and cost accounting.

In Brazil, the most commonly applied costing methods are (i) absorption costing, (ii) direct costing and cost-volume-profit analysis, and (iii) activity-based costing (Souza & Clemente, 2007; Clemente *et al.* 2013).

In the first (i), all realized costs (direct or indirect) must be part of the stocked value, regardless of whether it is a finished product or a product being prepared. And it

should only be recognized in the profit or loss when the sale actually occurs. This costing method also allows the identification of inefficiency and idle costs, as well as managing the production process, identifying failures, and removing operational bottlenecks.

In the second (ii), only variable costs (CV) are attributed to the products or services offered, since they would not have occurred if they were not produced. And, fixed costs (CF) are recorded in the results because they are conceptualized as expenses necessary for the maintenance of the organization. The cost-volume-profit analysis, on the other hand, is based on the direct cost attributed to the product or service. Thus, it is possible to simulate different results through sales price and variable expenses, as well as the break-even point between revenue and expenses.

In the third (iii), the business is understood as a set of processes involving a series of activities. In this method, the costing object is not the product or the service, but the consumption at each stage of the production process. It covers the expense of suppliers, customers, production lines, and market segments (sales).

Petti (2009) suggests that any adoption of one of these models, which is in harmony with the company's operation, cooperates in the assertive disclosure of results, and greater magnitude in the formation of sales prices.

KM, among other contributions, guides managers in the formation of the sales price of the product or service, in the visualization of waste in the production line or other similar sector, in market competition, better bargaining with suppliers, decision to produce or buy, optimization of results, among others (Petti, 2009; Clemente *et al.* 2013; Castro, 2013).

### **2.3.2 Sales Price Formation**

It is common among the managers of MSEs the difficulty to separate the expenses of the legal entity from those of the partners, due to the ignorance of management and accounting principles, thus hindering the correct attribution of the expenses pertinent to the formation of the sales price (Cezarino & Campomar, 2006).

The more precarious the information on product or service costs, and the less managerial skills the manager has, the more sales prices tend to move away from market practices (Santos, Schimidt & Pinheiro, 2006).

In this sense, Shank and Govindarajan (1997) suggest that the cost control strategy, added to the quality of the product or service, provides more competitive sales prices in the market.

The formation of sales prices, in fierce competition, demands from managers, especially MSEs (as a consequence of their size and sales volume), competitive prices and quality (Kotler & Keller, 2006). And for this, greater visibility of the expenses that aggregate the product/service to its point of sale with accuracy is necessary in the constitution of the sales price (Clemente *et al.* 2013). In this understanding, managers lack timely and accurate information for decision-making. Hence the contribution of ICs (Santos, Schmidt & Pinheiro, 2006).

### **3. Methodology**

The research is classified as bibliographic, documental, and descriptive, as it is based on materials collected from the literature (books and periodicals), from the companies researched (financial statements and management reports), and from the phenomena that occurred (report on the practices of the companies). As for the method adopted, it is a case study, as it is a deep research, which allows greater knowledge and detail of the object studied.

#### **3.1 Data Collection and Analysis**

Data were collected through a closed and semi-structured questionnaire, sent to the managers of each company, in the period of March and April 2022. This submission took place in two stages. In the first stage, prior contact was made by telephone to schedule the delivery of the questionnaire. In the second stage, the objective of the research was explained in person and the questionnaires were hand-delivered.

Access to the financial statements and CI, corresponding to the period 2014 to 2022, was carried out in the months of May and June 2022, in the investigated companies and in the accounting offices (in loco).

The sample population comprises 27 companies in the retail and wholesale trade segments, as well as services provision. Of these, 44% are in the retail trade segment, 22% in wholesale trade, and 34% in service provision. Together, they correspond to 72% of the tax collection of the municipalities of Itaberaí and Taquaral in the state of Goiás.

The collected data were analyzed using an Excel spreadsheet, tabulated according to similarities of the answers to the questionnaires, and by size according to current legal guidelines (LC no. 123, 2006; Law No. 10,406, 2006; SEBRAE, 2010; BNDES, 2016).

### **4. Analysis and Interpretation of Results**

The focus of the research is to investigate the contribution of IC in the optimization of operational costs and in the inhibition of mortality of MSEs in the first years of life. And also, to present how the managers of these companies use the information generated by the IC in operational, patrimonial, and financial decisions, and cost management in sales operations.

For this purpose, the study is divided into three parts. In the first (4.1), there is the profile of the companies investigated, such as segment, size, revenue, number of employees, time of operation, the relationship of managers with the company, and the level of education of these managers. In the second (4.2), the results found in each company are listed. And in the last and third part (4.3), the discussion about the results was found.



#### 4.1 Profile of the Companies Surveyed

14% of the companies surveyed operate in the wholesale trade segment, 68% in the retail trade segment, and 18% in the service segment. Companies in the first segment cover apparel, food, beverages, and household items. Those in the second segment comprise supermarkets, locker room stores, beverage distributors, mineral water, cooking gas and agricultural products, auto parts, pharmacies, wineries, butchers, ironmongers, and bakeries. Finally, the service provision segment involves bars and restaurants, accounting offices, agribusiness consultancies, mechanical workshops, gymnastics, and car wash.

As for the size of the companies based on annual revenue, in the wholesale segment, on average, 11% are micro-enterprises and 89% are small enterprises. In the retail trade and service segments, 100% are micro-enterprises.

However, if analyzed by the number of employees, in the wholesale trade segment, 33% in the years 2014/215, and 11% in 2016/2017 are small companies. 67% in 2014/2015 and 89% in 2016/2017 are micro-enterprises. In the retail segment, in the first three years, 17% are small companies and 83% are micro companies. In the last period analyzed, the number of small businesses increased to 20%. Finally, in the service segment, 100% are micro-enterprises (see Table 4).

**Table 4:** Classification of companies according to revenue and number of employees

Companies (%)	Industry	Annual billing	Billing postage	No. of employees	Carry by employees
18 (14%)	Attacking trade	Up to R\$ 402.4 thousand	1* & 2**	Up to 8	1* & 2**
86 (68%)	Varejista trade	Up to R\$ 3.6 million	1*	Up to 9	1* & 2**
23 (18%)	Service	Up to R\$ 517.5k	1*	Up to 7	1*

**Note:** No. = Number; 1\* = Microenterprise; 2\*\* = Small business.

**Source:** Survey data.

Table 5 shows the time of activity of the companies, the relationship of the managers (whether owner or employee), and their level of education. It can be seen that 55% of the companies analyzed are up to five years old, and 76% of the managers of these companies are owner partners. It is worth noting that the level of education of the managers, in its majority (94%), comprises up to high school. On the other hand, the concentration of employed managers (78%) is in the wholesale trade segment.

**Table 5:** Operational time of the company, relationship and level of education of managers

Operating Segment	Company / Age	Company / Manager	Manager / Schooling
Attacking trade	07 = up to 5 years	05 = members	16 = EF/MS
	11 = + 5 years	13 = employee	02 = ESI/ESC
Varejista trade	49 = up to 5 years	74 = members	85 = EF/MS
	37 = + 5 years	12 = employee	01 = ESI/ESC
Service provision	14 = up to 5 years	20 = members	18 = EF/MS
	09 = + 5 years	03 = employee	05 = ESI/ESC

**Note:** EF - Elementary School; EM - High School; ESI - Incomplete Higher Education; ESC - Complete Higher Education.

**Source:** Survey data.

## 4.2 Result Found

It is organized by segment (wholesale trade, retail trade, and service provision) and summarized in the descriptive analysis (see Table 6) for better understanding.

### A. Attacking Trade

The majority of managers in this segment are employees (72%). The contribution margin, without significant changes, is similar throughout the period (2014 - 2017), with an average of 73%. Asset turnover, less than 1.0 (one integer), averaging 0.35, had its best performance in 2016 (0.40) due to the sale of assets to supply cash flow.

Settlement of personal expenses (of partners) was identified, with tax documents in the name of the company. It was also possible to verify that 39% of the companies in this segment do not have any type of IC and that the decisions made by the managers, most of whom have incomplete and complete elementary education, are based on individual "experience", without the use of any business information.

All of these companies lack strategic planning, budgeting, and cost management. And financial control is carried out through the movement of the bank account (account statement) in an electronic spreadsheet.

There is no analysis of average buying and selling time. Obligations are paid off when they fall due. When there is insufficient cash and cash equivalent, a bank loan (escrow account – overdraft) is resorted to.

Inventory control is carried out based on the scheduled visit of suppliers or the lack of the product. The sales price is made up of purchase, taxes, and desired profit, adjusted to the market price (competition) around you.

The accounting of these companies is outsourced, and the accounting records occur upon the presentation of tax documents. The inventory balance is aligned through annual inventory. Financial reports, presented annually, are the balance sheet, income statement, and cash flow statement.

## **B. Variance Trade**

86% of the managers in this segment are owner-partners, and the contribution margin is constant in all the periods analyzed, on average 50%. Asset turnover, less than 1.0 (one integer), averaging 0.63, had its best performance in 2016 (0.71).

The IC, present in 33% of the companies, is restricted to accounts payable and receivable (credit card sales), inventory, and daily cash flow (cash inflow and outflow). Purchases of goods are made when their lack or low stock is identified. The focus of managers is on cash flow (cash inflow and outflow).

Decision-making is based on the manager's experience and knowledge of the business, especially in the acquisition of new products and promotion of idle stock. And no operational strategies or budget planning were found. The costs of goods sold are equivalent exclusively to the purchase price.

Accounting is also outsourced, for the most part, and is limited to the issuance of payroll, tax slips, and monthly income statements based on the tax documents received monthly by accounting firms. And the sales price formation is made up of purchase price, taxes, and profit margin.

## **C. Service Provision**

57% of these companies have some type of IC, especially for accounting and consulting firms in agribusiness. The majority of managers (87%) are co-owners with up to high school education.

Despite small fluctuations in the contribution margin, it can be said to be constant in all periods, an average 58%. On the other hand, the turnover of the asset presented satisfactory results, above 1.0 (one point), see Table 6A and Table 6B.

Financial decisions are based on cash flow (accounts receivable and payable). There is annual budget planning, but no strategic planning and cost management have been identified.

It was also identified, in some companies, confusion of personal expenses with legal entity expenses. The services provided by accounting firms are limited to payroll, tax assessment, and social obligations, as well as advisory and tax obligations. And managers don't turn to accounting for decision-making, and any necessary financial reports are requested.

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**Table 6A: Descriptive analytics**

Description	2014			2015		
	Wholesale Trade	Retail Trade	Service Provision	Wholesale Trade	Retail Trade	Service Provision
<b>Billing</b>						
Accumulated	17.290.465	7.509.326	1.476.820	19.925.250	7.784.187	1.476.494
Bigger	3.250.000	302.287	132.237	3.570.255	3.570.255	129.592
Minor	319.587	24.963	22.796	343.812	22.217	24.526
Medium	960.581	87.318	64.210	1.106.958	90.514	64.195
<b>Cost</b>						
Accumulated	12.584.147	3.718.018	860.084	14.476.084	3.858.331	853.121
Bigger	2.437.500	151.144	95.211	2.677.691	186.485	93.306
Minor	223.711	9.985	9.118	240.668	8.887	9.810
Medium	699.119	43.233	37.395	804.227	44.864	37.092
Margin	72,80%	49,50%	58,20%	72,70%	49,60%	57,80%
<b>Active</b>						
Accumulated	6.642.107	4.493.665	2.779.440	6.642.107	4.493.665	2.779.440
Bigger	1.200.000	500.000	1.259.700	1.200.000	500.000	1.259.700
Minor	56.100	5.500	5.100	56.100	5.500	5.100
Medium	369.006	52.252	120.845	369.006	52.252	120.845
Lap	0,38	0,6	1,88	0,33	0,58	1,88
<b>Employees</b>						
Accumulated	143	399	86	143	399	84
Bigger	12	16	6	12	16	6
Minor	5	2	2	5	2	2
Medium	8	5	4	8	5	4

Source: Survey data.

**Table 6B: Descriptive analysis**

Description	2016			2017		
	Wholesale Trade	Retail Trade	Provision of Services	Wholesale Trade	Retail Trade	Provision of Services
<b>Billing</b>						
Accumulated	14.746.796	6.349.088	1.343.906	19.327.452	7.083.611	1.387.904
Bigger	2.827.500	272.058	120.336	3.463.147	86.818	121.817
Minor	262.061	19.471	20.744	1.078.073	20.218	23.054
Medium	819.266	73.827	58.431	1.073.747	82.368	60.344
<b>Cost</b>						
Accumulated	10.741.072	3.145.961	782.676	14.041.801	3.511.081	801.934
Bigger	2.120.625	139.029	86.642	2.597.361	169.701	87.708
Minor	183.443	7.788	8.298	233.448	8.087	9.222
Medium	596.726	36.581	34.029	780.100	40.827	34.867
Margin	72,80%	49,50%	58,20%	72,70%	49,60%	57,80%
<b>Active</b>						
Accumulated	5.892.107	4.493.665	2.376.440	5.892.107	4.493.665	2.376.440
Bigger	858.500	73.000	879.700	858.500	500.000	879.700
Minor	56.100	5.500	9.500	56.100	5.500	9.500
Medium	327.339	52.252	103.323	327.339	52.252	103.323
Lap	0,4	0,71	1,77	0,3	0,63	1,71
<b>Employees</b>						
Accumulated	112	361	63	113	382	63
Bigger	10	12	3	9	12	3
Minor	5	2	2	5	2	2
Medium	6	4	3	6	4	3

Source: Survey data.

#### 4.2.1 Difficulties in the Implementation of the IC

Table 7 shows the results pointed out by the managers about the adoption of the IC, their knowledge about cost management (KM), and the contribution of accounting in the management of the business, from the questionnaire applied.

**Table 7:** Difficulty in implementing IC and KM

Description		Varejista trade	Attacking trade	Service Provision	Total
Knowledge about (CI)	Yes	22	6	18	46
	No	64	12	5	81
Willing to invest in internal control (CI) software	Yes	7	3	10	20
	No	79	15	13	107
Willing to increase accountant's fee for more managerial information	Yes	-	-	-	-
	No	86	18	23	127
Knowledge of strategic planning	Yes	15	3	10	28
	No	71	15	13	99
Knowledge of budget planning	Yes	58	18	23	99
	No	28	-	-	28
Knowledge about managerial costs for decision making	Yes	28	6	5	39
	No	58	12	18	88

**Source:** Survey data.

The variable with the greatest impact is the "lack of belief in accounting contributions". When asked about the willingness to increase accounting fees, to receive more managerial information, the result was unanimous, accounting is already well remunerated for the services they provide. The second variable "strategic and budgetary planning", with some exceptions, is not used by the companies investigated.

As for the knowledge about "KM" for decision-making and business management, a very low level was identified. However, a greater perception was found in the service segment provided.

It is possible to identify that 84% of managers are not willing to invest in CI, either due to lack of knowledge or because they deem it unnecessary to the size of the company. This propensity may be associated with low knowledge about strategic planning or the absence of management advice by accounting firms.

When the accountants were asked about the absence of this advice in IC and KM, as well as the generation of other information to support decision-making, the answer was unanimous: because these are companies with a low level of regulatory and fiscal rigidity, managers are not willing to increase fees to obtain more qualified services, which discourages any initiative to offer these services.

Linking the offer of "qualified" services to the increase in accounting fees by MSEs corroborates the dogma "accounting is necessary only to prepare payroll and prepare tax slips for payment". Perhaps, this change should occur at the initiative of accounting professionals, offering services without immediate compensation of financial fees.

To ratify the partial results of the research, the COSO control techniques were applied to investigate the degree of adherence to IC by the 558 employees of the investigated companies. Of this total, 16% did not respond to the questionnaire. The results are shown in Table 8.

**Table 8:** Result of the questionnaires applied

Description	1	2	3	4	5
<i>About Ambiente</i>					
Does the company demonstrate commitment and ethical values in its operations?		17%		66%	17%
Does the company have any conduct relationships for employees?		17%		33%	50%
Does the administration have hierarchical levels aiming to achieve the objectives?			17%	33%	50%
Does the organization hold people accountable for their roles?		17%		17%	66%
Does the company provide training programs to its employees?	17%	17%		17%	49%
<i>About Information &amp; Communication</i>					
Does the organization obtain or use meaningful information to support the functioning of internal control?	66%	17%	17%		
Does the organization internally disclose the information necessary to support the functioning of internal control?	83%	17%			
The company makes information available to everyone involved in the company.	62%	34%	6%		
<i>About Monitoring</i>					
Do you have any knowledge about internal control?	96%	4%			
Do you think it's important for the company to have internal control?	42%	58%			
Does internal control prevent unnecessary expenses, fraud, errors?	38%	62%			
Does the adoption of internal control improve profitability and competitiveness?	54%	33%	13%		
Do you think an internal control specialist would improve the company's bottom line?			12%	41%	47%
Would you increase the company's expenses by hiring an internal control specialist?	83%	17%			
Does the organization assess and communicate deficiencies in internal control, promptly to take corrective action?	78%	22%			
Do you have control of the documents that prove your expenses?			15%	33%	52%

**Note:** Grade: 1 and 2 - Unsatisfactory; 3 - Indifferent; 4 and 5 - Satisfactory.

**Source:** Survey Data.

As for communication and monitoring, it is found that the companies are not distressed by these items, especially the second (monitoring). This corroborates the lack of adequate knowledge and clarifications, perhaps, by accounting professionals, because they are common to them.

### 4.3 Discussion of Results

The lack of knowledge about IC and KM may be related to the managers' level of education and the condition of the owner, as is the case of the retail trade and service provision segments.

The low result of asset turnover in the wholesale and retail trade segments, presented in the analyzed period, is indirectly related to the lack or deficiency of IC since it can help in the acquisition of assets, as well as more aggressive billing. The rare positive reactions of asset turnover, except for the service segment, which presented indicators higher than 1.0 (one integer), were a consequence of the sale of some assets.

The difficulty in separating the expenses of the person of the partner with the business, common in some companies, may be related to the absence of guidance from the accountants, who instead of guiding and presenting the remedy, such as withdrawal by partner salary, seek a tax document capable of justifying the accounting record.

Although the wholesale segment has a greater number of employee managers, the results presented are not different from the others. The influence of the owners may limit the actions of these managers.

The lack of analysis of the average purchase and sale period has forced some companies to resort to loans to honor their commitments. And the lack of application of inventory control has been corroborating obsolete products and promotions in the face of an upcoming expiration date. These actions lead the company to achieve unexpected results.

The sales price made up of purchase, taxes, and desired profit, adjusted to the market price (competition), camouflages the operating result of the business. It may even present a wrong contribution margin and force the company to resort to working capital frequently, as is the case with some companies in the retail segment.

Outsourced accounting seems to focus exclusively on accounting fees, as it is limited to offering only what was contracted, contributing to misinterpretations by several managers (employees or owner) about the real contribution of accounting to business.

## 5. Conclusion

The study was developed to identify the contributions of the IC to inhibit the mortality of micro and small companies in the first years of operation, as well as to present how the managers of these companies use the information generated by the IC in decision-making.

There is ample literature to demonstrate the contributions offered by ICs to decision-making by business managers. And that once the data is well-imputed, accurate information will be generated, and more assertive decisions will be made.

MSEs in the retail and wholesale trade segments do not use any internal control, cost management, planning, and budgeting systems. That the managers, mostly co-owners, use their experiences for decision-making. And accounting is underutilized at its

core since only payroll services and tax slips are requested. However, accounting professionals accept it without any objections.

It was also found that managers, in general, do not know the contributions of ICs and GCs, except for some managers in the service provision segment.

In this sense, it is concluded that the investigated companies do not have CI, KM, strategic, and budgetary planning (with rare exceptions for accounts payable and receivable and treasury controls, in manual format). That accountants are not encouraged to advise managers in decision-making because they are not well-paid. And because there is no contradiction among accountants, managers see accounting as a generator of payroll and tax payment guides.

Finally, the internal control, cost management, and accounting advice aimed at the operational continuity of MSEs, guided by planning and budgeting, will certainly lead this business segment to its market permanence, and consequently, inhibition of early mortality.

For future research, it is suggested: to identify the impact on tax collection due to the mortality of these companies; and what the effective actions taken by the non-governmental agency (SEBRAE) to inhibit the mortality of these companies in their first years of activity.

### **Conflict of Interest Statement**

The authors declare no conflicts of interest.

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