

Research Trends of Internal Control in Recent Years - A Literature Review

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ABSTRACT

After combing the internal control research literature in recent years, it is found that the internal control quality of the company is still the research hotspot of scholars, mainly focusing on the influencing factors and economic consequences of the internal control quality. Relevant research conclusions prove that macro policies and corporate characteristics affect the quality of internal control. At the same time, with the continuous innovation and application of internal control system, internal control, as an effective means to alleviate agency problems, plays a role in promoting the development of the company.

KEYWORDS: *internal control; influence factor; economic consequences*

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INTRODUCTION

Most of the literature in this paper comes from 《Accounting Research》. It is found that internal control quality has attracted the attention of many scholars. On this hot topic, we combed and read the literature from SCI, CSSCI, core level magazines of Peking University, a total of 24 domestic and foreign literatures.

1. THE QUALITY OF INTERNAL CONTROL

The article on the quality of internal control is divided into three aspects: the first is the impact of the macro environment on internal control, the second is the impact of corporate characteristics on internal control, and the third is the economic consequences of the quality of internal control.

Domestic and foreign scholars' research on internal control quality was involved before 2010, and it is still a hot issue that many scholars focus on today. Domestic and foreign scholars' research on internal control quality is mainly divided into three perspectives. The first is based on the macro environmental perspective to analyze the impact of environmental factors and issued new policies on the quality of internal control of enterprises. The second

is based on the perspective of micro companies to study the impact of internal factors of companies on the quality of internal control of companies. The third point of view is to analyze the economic consequences of the quality of internal control, such as the impact on enterprise investment efficiency, enterprise risk and product competition market. At present, there are many literatures on the internal factors of companies. At the same time, because China is a large cultural country, the government intervention is relatively strong, and the policies issued are very timely, listed companies will be affected by the national culture and the policies issued by the government. Therefore, in the future, my research can use the double difference model to conduct some in-depth research on the impact of the latest policies on the quality of internal control of enterprises. At the same time, internal control quality can evaluate the quality of enterprise operation, and will also affect all aspects of enterprise development and survival. The economic consequences involve many aspects. Future writing can also start from the perspective of "economic consequences of internal control quality".

The influence of macro factors on the company's internal control

Bo Cheng and Fei Pan (2016) studied the relationship between Confucian culture, information environment and internal control quality from the perspective of Chinese traditional culture, and found that Confucian culture will optimize the information environment to a certain extent and improve the internal control quality of enterprises, but this impact is more significant in Listed Companies with low information symmetry. At the same time, there are also scholars studying the impact of policies on the quality of internal control. Now the mixed ownership reform policy of state-owned enterprises has been promulgated. Yue Cao, Li Sun and other scholars (2020) studied the relationship between the "mixed reform of state-owned enterprises" and the quality of internal control. The research found that when the mixed reform policy of enterprises with diverse equity has no significant impact on the quality of internal control, it can significantly promote the quality of internal control only when a certain equity balance is formed. Further research found that if there is a certain relationship between state-owned shareholders and non-state-owned shareholders, this relationship will weaken the positive impact of mixed reform on the quality of internal control.

The influence of internal factors on internal control

Based on the problem of internal control quality of enterprises, foreign scholars have done some research on the impact of internal factors on internal control quality. For example, Cassar and Gerakos investigated the impact of the company's basic characteristics on the quality of internal control. Chinese scholars Mingxia Hu and Shengdao Gan (2018) studied the relationship between enterprise life cycle effect, CEO power and internal control quality. Scholars divided enterprises according to life cycle. The greater the CEO power in the growth period, the better the internal control quality; However, in non-growth enterprises, there is a significant negative correlation. The smaller the CEO's power, the better the quality of internal control. Further research found that the CEO and the actual controller have a kinship, and the stronger the kinship, the more power will increase the inhibitory effect on the quality of internal control. Foreign scholars also have some research on the relationship between CEO power and internal control. Skaife et al. (2013) believe that the degree of internal control is significantly negatively correlated with minority shareholders and other market interveners, but when CEO power increases, CEO will arrange family members to serve in the company's management or board of directors. At the

same time, scholars continue to study from the perspective of executive characteristics. Guohua Chi, Jin Yang and other scholars (2014) believe that the background of different executives has different effects on the quality of internal control. Scholars Jianhua Liu and Ning Xu (2011) also identify the sensitivity of executive compensation performance as an explanatory variable from the perspective of executive characteristics, and study the relationship between internal control, property rights and the sensitivity of executive compensation performance. They believe that there is a significant positive correlation between the quality of internal control and the sensitivity of management compensation performance. Compared with non-state-owned holding companies, the positive correlation between the quality of internal control of state-owned holding companies and the sensitivity of management compensation performance is more significant. Further research found that with the advance of time, the quality of Listed Companies in China has also been improving, and this sensitivity relationship is also closer. At the same time, scholars such as Junli Yu and Xin Jin (2018) based on previous studies believe that the geographical relationship between the chairman and the general manager is negatively related to the quality of the company's internal control. The stronger this geographical relationship, the lower the quality of the company's internal control. At the same time, compared with non-state-owned enterprises, the effect of state-owned enterprises is more significant.

Economic consequences of internal control quality

According to the option theory, there is also a certain relationship between the quality of internal control of enterprises and the efficiency of enterprise investment. Scholars Jialin Li, Guangming Wang and others (2015) found that compared with companies with more effective internal control, the problem of inefficient investment of companies with poor internal control quality is more serious. Further research found that when the quality of internal control of enterprises is improved, the investment efficiency of enterprises is also improved to a certain extent. Scholars such as Shuzhen Wang and Jun Yu (2016) believe that poor quality of internal control will lead to efficient investment. Inefficient investment is common in China's listed companies, and insufficient investment is more than excessive investment. Internal control can effectively inhibit inefficient investment behavior of enterprises. At the same time, scholars Sheng Zhou, Zhengying Luo and other scholars (2017) found that companies with good internal control quality can seize good investment opportunities, improve the company's investment

efficiency, and reduce inefficient investment, especially over investment. At the same time, many scholars take the quality of internal control as a regulating variable. Scholars Aiqun Wang and Jun Shi (2016) found that the higher the accounting conservatism, the lower the over investment of enterprises, the higher the underinvestment, and the higher the quality of internal control, which significantly inhibits this inefficient investment. Scholars Yigang Liao and Xiankun Deng (2016) believe that environmental uncertainty will affect the efficiency of enterprise investment, and is significantly positively correlated with enterprise inefficient investment, while high-quality internal control will effectively link this significant positive correlation. To sum up, the quality of internal control has a certain impact on the investment efficiency of enterprises. The conclusions drawn by domestic and foreign scholars are basically the same. The quality of internal control is significantly positively correlated with investment efficiency and negatively correlated with inefficient investment.

Based on the economic consequences of internal control quality, Chinese scholars Yunjiang Geng and Liqiong Wang (2019) found that internal control quality will also affect the level of risks faced by enterprises. In terms of A-share listed companies, internal control quality is positively correlated with the risks faced by enterprises, which provides a theoretical basis for enterprises to strengthen internal control, better achieve the goal of "cost reduction" in supply side structural reform, and prevent and deal with enterprise risks. Zheng Huang and Guoping Wu (2017) subdivided this risk into the risk of share price collapse. They believed that with the improvement of the internal control quality of listed companies, the risk of share price collapse would be smaller and smaller. Further research found that high-quality internal control will reduce agency costs and improve the quality of information disclosure to reduce the risk of stock crash. Meng Li and Jin Wang (2020) based on previous studies, they believe that the quality of internal control is significantly negatively correlated with the cover of corporate debt default, and the higher the quality of internal control, the less likely the enterprise will default.

The quality of enterprise internal control will also affect the competitive market of products. Chuancai Zhang and Hanwen Chen (2017) found that there is a significant positive correlation between the market competition of first products and the quality of internal control. Other scholars take the quality of internal control as the adjustment variable. Su Hu (2019) found that the higher the quality of internal

control of listed companies, the larger the scale of enterprise financing. Further research found that when the degree of product competition is high, enterprises at a competitive disadvantage improve the scale and duration of enterprise debt financing by improving the quality of internal control, and attract creditors to finance with high-quality internal control.

2. Research on the combination of internal control quality and other fields Some scholars have studied the relationship between internal control and supply chain, media attention and media supervision.

Scholars such as Haoyang Yu and Man Wang (2017) combined the quality of internal control with the supply chain, and found that the concentration of suppliers will affect the information mechanism to adjust costs, while high-quality internal control can aggravate the impact of supplier volatility on Cost Stickiness. Peng Fu, Dan Yang and other scholars (2015) combined the quality of internal control with media types and media attention, and found that the attention of the network, government and media can improve the quality of internal control of enterprises. This significant positive correlation is more significant in central state-owned enterprises and private listed companies, but not in local state-owned listed companies. At the same time, Taoying Peng (2014) believes that the quality of media supervision and internal control can reduce the agency cost of enterprise management. The stronger the media supervision, the higher the quality of internal control, and the lower the agency cost of enterprises. Lida Zhang and Junke Feng (2016) also reached a similar conclusion that the continuous media coverage will attract the high attention of the management and improve the quality of internal control from improving the effectiveness of internal control.

3. CONCLUSION

This literature review is mainly aimed at the key research issues of internal control scholars in the journal 《Accounting Research》. After reading it, we can find that the quality of internal control is still the current research hotspot. Internal control quality domestic and foreign scholars have a lot of research long ago. Foreign research is earlier than domestic research. The relevant research has been very rich, covering macro and micro directions. In particular, the literature on the economic consequences of internal control quality is relatively sufficient, and future thesis writing can continue to consider these issues and deepen research. Bo Cheng, Fei Pan, Jianling Wang (2016). Confucian culture, information environment and internal control [J]. Accounting Research, 2016, (12): 79-84.

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