

Organizational Culture as a Basis for Strengthening Internal Control System

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ABSTRACT

This research aims to investigate how organizational culture strengthen internal control system of a company. The study describes how an effective internal control is crucial for company operations, including inventory management. PT. Anugerah Media Data Nusantara (AMAN ISP), which faces challenges in inventory management before implementing Standard Operating Procedures (SOP). The method used is Participative Action Research (PAR), which involves observation, training, and evaluation. Researchers provided training on implementing SOP for inventory management to improve operational efficiency and the reliability of inventory reporting. The results show that the implementation of SOP for inventory management improves efficiency, accuracy of records, and inventory control and supervision. Despite challenges such as resistance to change and limited resources, positive impacts began to be felt, including a reduction in inventory discrepancies. The implementation of SOP brings sustainable positive impacts on the company's operational performance.

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1. Introduction

Internal control plays an important role in ensuring that company activities run according to procedures, including in inventory management. SOP or Standard Operating Procedure in inventory management is very important to help ensure that all necessary devices are always available and in good condition, so that they can support the company's overall operational activities[1]. For internet service providers (ISPs), inventory management includes managing hardware such as modems, adapters, and cables which are very crucial to support operations. In addition, effective SOPs improve the accuracy of inventory recording and reporting and strengthen internal control, which can increase customer and stakeholder trust[2]. It is explained that organizational culture is also significantly positively

related to organizational commitment [3]. Therefore, in strengthening the internal control system, a better culture development is also needed. In order to achieve sustainable results, organizations must encourage the development of a culture that can give rise to innovation and circular practices [4].

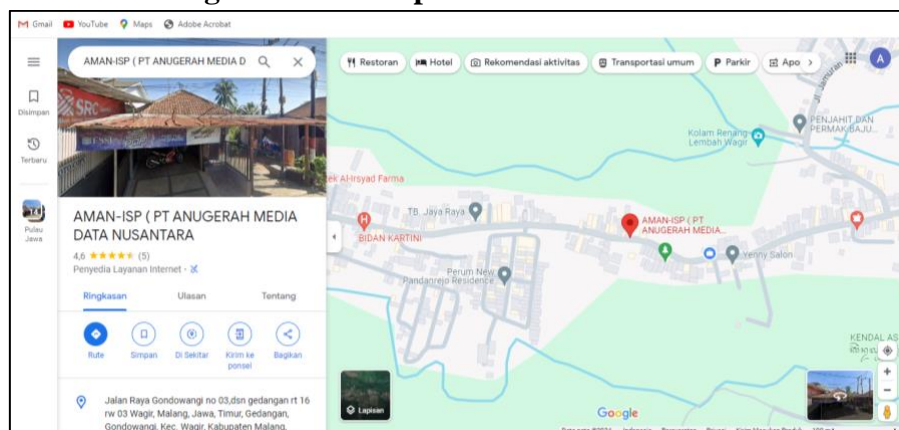
PT. Anugerah Media Data Nusantara (AMAN ISP) which was established in 2023 has not implemented an inventory SOP, even though good inventory management is very important to maintain quality and customer trust. Poor management can result in losses and fraud. Therefore, training and implementation of SOPs are needed to improve internal control and reduce possible risks [5]. The various types of inventory and frequent mutations are very prone to fraud if optimal supervision is not carried out. Therefore, management and supervision of the inventory warehouse are very necessary to reduce all possible risks. The availability of abundant inventory requires efficient management, supervision, and control to minimize the risk of loss and damage.

Thus, this participative action research was implemented to provide training on the implementation of SOP Inventory including how to record goods mutations in the Warehouse and Admin sections and how to properly conduct stock *opname*. Through this training, it is expected to identify the impact of the implementation of SOP inventory on the internal control of the ISP company and provide recommendations to overcome the obstacles faced, so as to improve operational effectiveness and maintain the quality of the company's services .

2. Method

This participative action research program was implemented o PT. Anugerah Media Data Nusantara (AMAN ISP), Jl. Raya Gondowangi RT.16 RW.03, Gondowangi Village, Malang Regency. The map of the KNDJH Nursing Home can be seen in Figure 1.

Figure 1. The Map of Research Site



The implementation Participative Action Research (PAR) approach includes the following steps:

1. Preparation Stage

At this stage, the team of researchers conducted an observation approach by conducting a location survey and interviews with the Head of Warehouse Section, administrative staff, and the President Director to find out how far the Inventory SPI was running and what obstacles were faced.

2. Core Stage

At this stage, the team of researchers conducted training on the Implementation of Inventory SOPs to several staff and the head of the Warehouse section. Furthermore, assistance was provided for a trial implementation of the SOP for 3 months from May - June 2024. Hence, obstacles that may occur in the implementation of the SOP can be identified and solutions or recommendations can be designed to overcome these obstacles.

3. Evaluation Stage

The form of evaluation activities was carried out with a comprehensive internal evaluation system for the can be identified and through FGD for a comprehensive evaluation related to the implementation of the SOP for inventory.

This PAR method involved all stakeholders involved in activities held at PT. Anugerah Media Data Nusantara or AMAN ISP. The informants in this research were: Angga (the head of the warehouse), and other staffs of PT AMAN ISP relating to inventory.

3. Results and Discussion

The implementation of this research activity began on May 14, 2024 to July 13, 2024 with the following implementation schedules. Starting from a survey of warehouse management conditions, it was found that there was no stock of goods stored in the warehouse without arrangement. According to Angga as the Head of Warehouse, he stated that due to the unclear arrangement, technical staff had to spend more time looking for the goods needed.

Figure 2. Warehouse Conditions at First Survey



Next, training was conducted for several related staff to disseminate information on how the SOP procedures must be implemented. The following are several SOPs that have been prepared.

Figure 3. Warehouse Condition After Training



Inventories Receiving SOP outlines the steps involved in receiving goods into the inventory. The process begins with the receipt of goods. This is the initial stage where the arrival of inventories is acknowledged. A delivery note is created to document the receipt of goods. The received goods are inspected to verify quantity and quality. If the inventories conform to the order, the process moves to "*Input Data Barang Masuk*" (Input Goods Receipt Data). If the goods do not conform, a "*Retur Pembelian*" (Purchase Return) is initiated to return the goods to the supplier. A "*Nota Debet*" (Debit Note) is then issued to the supplier for the discrepancy. Data related to the received inventories (quantity, description, etc.) is entered into the system. The inventory card in the warehouse is updated to reflect the incoming inventories. The received inventories are stored in the designated warehouse location. The warehouse confirms the receipt of goods to the administrative department. The administrative inventory card is updated with the received inventories information. The goods receiving process is completed. Overall, this SOP ensures that: inventories are received and inspected properly, discrepancies are identified and addressed promptly, Accurate records are maintained for inventory management, and communication between warehouse and administration is effective.

Inventory Storage Process SOP outlines the steps involved in storing inventory to ensure proper organization, stock rotation, and accurate record-keeping. The process begins with the receipt of inventories. Received items are labeled with appropriate identification information (e.g., product name, quantity, batch number, expiration date). A list of product codes is then maintained for easy reference and tracking. Inventory is stored using the First-In, First-Out (FIFO) method. This ensures that items with earlier expiration dates are used

first. Periodically, a physical count of inventory is conducted to verify actual stock levels. The warehouse inventory card is updated to reflect the physical inventory count. If the physical count matches the inventory card, the process moves to "*Konfirmasi Saldo dengan Bagian Admin*" (Confirmation of Inventory Balance with Administration). If discrepancies are found, "*Verifikasi dengan Staff Bagian Gudang dan Teknisi*" (Verification with Warehouse Staff and Technician) is conducted to investigate the cause. If discrepancies are found, the warehouse inventory card is adjusted to reflect the actual stock levels. The warehouse confirms the reconciled inventory balance with the administrative department. If the reconciled inventory balance matches the administrative records, the process moves to "*Surat Pernyataan Stock Opname*" (Stock Opname Statement). If discrepancies still exist, "*Rekonsiliasi (Tindakan Korektif) pada Kartu Stok Bagian Admin*" (Reconciliation (Corrective Action) on Administrative Inventory Card) is conducted. A formal statement is prepared documenting the results of the stock *opname*. The inventory storage process is completed. Overall, this SOP ensures that inventory is stored in an organized and secure manner, stock rotation is maintained to prevent spoilage or obsolescence, accurate inventory records are maintained, and discrepancies are identified and resolved promptly.

Inventories Picking Process SOP outlines the steps involved in fulfilling requests for the withdrawal of goods from inventory. The process begins with a request for goods. A request is made for the withdrawal of specific items from inventory. The availability of the requested items in inventory is checked. If the goods are available, the process moves to "*Penyerahan Barang*" (Goods Delivery). If the goods are not available, "*Penolakan Pengambilan Barang*" (Rejection of Goods Pick-up) occurs. If the goods are not available, a "*Surat Purchase Order*" (Purchase Order) is created and submitted to the administrative department to request the procurement of the required items. The requested goods are picked from inventory and prepared for delivery. The inventory card is updated to reflect the withdrawal of goods. The warehouse inventory card is updated to reflect the withdrawal of goods. The goods picking process is completed. Overall, this SOP ensures that requests for goods are processed efficiently, the availability of goods is verified before pick-up, accurate inventory records are maintained, and backorders are managed effectively.

Inventory Replenishment Process SOP outlines the steps involved in restocking inventory when stock levels fall below a predetermined minimum. The process begins with the identification of items with low stock levels. Inventory records are reviewed to identify items with stock levels below the minimum threshold. The warehouse inventory card is used to track stock levels and identify items that need replenishment. A purchase request is submitted to the administrative department for the required items. The administrative department generates a formal purchase order for the supplier. The administrative department places the order with the supplier. The ordered goods are received from the supplier. The inventory replenishment process is completed. Overall, this SOP ensures that stock levels are monitored and maintained at appropriate levels, inventory replenishment is triggered timely to avoid stockouts, purchase orders are generated and processed efficiently, and inventory records are updated accurately.

In addition, the team of researchers also provides training on how to organize a good warehouse and label it. The purpose of labeling is to make it easier to find goods so that goods can be clearly identified according to the label on the storage box. In addition, labels on the inventory also function to distinguish new goods from old goods according to their respective areas based on the warehouse layout [6].

Figure 4. Training at PT Anugerah Media Data Nusantara



Next, training was provided on preparing Stock Cards for the Warehouse and Admin sections. The stock card aims to monitor (control) the number of goods available in the warehouse in real time so as to minimize the occurrence of shortages or excess goods and make it easier to detect potential fraud. The warehouse stock card is a hard copy that should be attached to the storage box in the warehouse, but because the warehouse space is narrow, employees cannot record the movement of goods in the warehouse. Therefore, this warehouse stock card is placed on the admin desk. While the admin stock card is a soft file using the Microsoft Excel application. The admin section will record the addition of stock every time a purchase is made and record the expenditure of goods periodically or once a month based on the warehouse stock card.

Next training was on the Stock *Opname* process or checking stock of goods in the warehouse. Stock *Opname* is the process of physically counting goods in the warehouse to ensure that the physical number of goods matches the number recorded on the stock card. Stock *Opname* plays an important role so that the business can run smoothly to ensure the availability of the right products according to the records [7]. During the trial period, it was carried out *inventory taking* times, namely on May 21, 2024 to check the effectiveness since the first time the Inventory SOP was implemented; June 03, 2024 to calculate the inventory balance as of June 1, 2024 and assess the implementation of the Inventory SOP (Evaluation 1); June 29, 2024 to calculate the inventory balance as of July 1, 2024 and assess the implementation of the Inventory SOP (Evaluation 2).

Figure 5. Evaluating Activities through FGD



During the evaluation through FGD with several staff and the main director of AMAN ISP, several obstacles were found in the implementation of the Inventory SOP at AMAN ISP, including resistance to habit change:

"I feel the same way. There is a sense of discomfort because the process is like forcing us to get out of old habits."

From several FGD results, it can be concluded that initially staff felt uncomfortable with the SOP which they felt added more work and thus required a slow adaptation process, but practitioners had limited time to communicate effectively. Lack of understanding and carelessness of staff in filling out warehouse stock cards often results in many errors in writing and signing. Supervision that has not been fully implemented optimally in accordance with the SOP, namely periodic checks by the head of the warehouse section which should be carried out once a week, in reality does not work due to the limited time of the head of the warehouse section who also serves as a technician. Supervision is very important to maintain the effectiveness and efficiency of the inventory SOP that has been created [8].

The narrow warehouse space makes the storage layout per type of goods and brands unapplicable because in practice, one storage box usually contains two types of goods. In addition, stock cards that should be attached to the storage box cannot be made to make it easier for staff to record and keep stock cards from being damaged.

"If you want to make a stock card, yes you can, it's just a bit difficult because our space is limited, usually one box is for storing two types of goods."

The implementation of SOP Inventory has been proven to have a significant impact on company operations, including increased operational efficiency. SOP Inventory provides

clear procedures in stock management, from receiving goods, storing goods, taking goods, to purchasing goods. This helps keep stock organized and easily accessible. With structured storage procedures, the time needed to find and take goods is shorter. This increases employee work efficiency.

Further, there was increased report reliability. SOP ensures that every inventory transaction is recorded accurately and consistently. With clear guidelines, errors caused by employee negligence can be reduced. This can certainly help in maintaining the accuracy of inventory data. Accurate inventory data results in more reliable reporting. This is very important for performance analysis and proper business decision making. In addition, structured recording makes it easier for companies to demonstrate transparency and accountability in managing their assets, thereby increasing stakeholder trust.

There was also an evidence of increased control and supervision. Inventory SOPs include control procedures that ensure that every step in inventory management is carried out correctly. The goal is to facilitate the detection and prevention of errors and even fraud. Irregular physical supervision can lead to undetected shrinkage and damage to goods [9]. In addition, internal and external audit processes become easier because optimal control allows all inventory activities to be tracked and verified [10].

Standard Operating Procedure (SOP) for inventory can increase the efficiency of the warehouse management process so that warehouse activities can be optimized to reduce costs [11]. One of the SOPs for Inventory is regarding inventory storage procedures. If the goods storage procedure can be carried out optimally, the company can reduce the risk of damaged or lost goods. SOP provides strict procedures that help identify and resolve inventory problems before they cause losses to the Company.

The implementation of SOPs has an impact on all processes related to inventory becoming standardized, ensuring that every employee follows the same procedure and improving consistency and quality of performance. Thus, SOPs provide clear guidance for employees, reduce confusion, and increase work efficiency. The implementation of Standard Operating Procedures (SOPs) has a significant impact on employee performance. The better the implementation of SOPs, the better employee performance will be because employees better understand each step taken so that operational activities run smoothly [12].

Therefore, the implementation of SOP Inventory is very important because it provides many positive impacts on company operations. Although it is felt to be burdensome when first implemented, the impact will be felt later and is sustainable, especially related to service quality.

The Kaizen approach, which focuses on continuous improvement and the involvement of all members of the organization, can be an effective strategy in strengthening a company's internal control [13]. This principle emphasizes the importance of systematic problem identification, consistent small steps, and periodic evaluation to improve operational efficiency. In the context of implementing inventory SOPs at PT. Anugerah Media Data Nusantara, Kaizen elements can be applied through continuous training, active involvement of all staff in filling and monitoring stock cards, and developing creative solutions to overcome warehouse layout constraints. This is in line with the practices implemented by

companies such as Toyota, which utilize the concepts of "Just-In-Time" and "5S" (Sort, Set in Order, Shine, Standardize, Sustain) to ensure smooth operational processes and inventory management. By adopting this approach, companies can be more effective in improving reporting accuracy, minimizing waste, and increasing customer trust.

3. Conclusion

Internal control plays an important role in the company's operations, especially in ensuring the reliability of financial reporting, operational efficiency, and compliance with applicable laws and regulations. Through the implementation of inventory SOPs, the company experienced a significant increase in operational efficiency and reliability of inventory reports. SOPs provide detailed guidance for each step of inventory management, improve data accuracy, and increase external party confidence in the company's inventory reports. Although there were obstacles at the beginning such as resistance to change, lack of staff understanding, and limited resources, positive impacts began to be seen, one of which was the reduction in the number of types of goods that experienced differences based on stock *opname* results.

Some suggestions to improve the implementation of inventory SOPs are to conduct further socialization regarding the procedures for filling out stock cards in the Warehouse section so that all staff understand the implementation of SOPs well. In addition, to improve efficiency, it is recommended to update procedures by using a software-based system, which will facilitate inventory monitoring and reporting. There also needs to be a supervisor or section head who is fully responsible for inventory supervision and ensures that the implementation of SOPs runs smoothly. Rearranging the warehouse, such as using vertical shelves or adding storage space, can also help optimize space limitations. Finally, it is important to maintain effective communication between management and staff in order to evaluate and improve the implementation of inventory SOPs.

Organizational culture plays in enhancing the effectiveness of internal controls within an organization. A culture that emphasizes ethical conduct, integrity, and transparency fosters a mindset where employees prioritize doing the right thing and complying with rules and regulations. This reduces the likelihood of fraud, errors, and unethical behavior. An open and transparent organizational culture encourages employees to report any concerns or irregularities without fear of retaliation. This allows for early detection and resolution of issues.

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