

# INTERNAL CONTROL EFFECTIVENESS: A STUDY OF MEDICAL INSTITUTIONS

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## Abstract

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As a healthcare organization, hospitals should professional service to their clients. Therefore, hospitals have obligation to improve overall service quality. In exploring the relationship between hospital budget control and organizational effectiveness, the hospital's management staff has rich professional medical knowledge, they still have not received the training of general corporate organization and the management technology of corporate management. To improve the effectiveness of the organization, managers in hospitals should have enough experience in management control and rely on peer control. Therefore, internal control is a management process that integrates various management control and evaluation measures within the hospital, this study believes that the management staff of medical institutions should use common standards to evaluate the degree of a hospital operation, management efficiency, and medical quality. An internal control system can be simultaneously built and implemented by the topmost level of management in a hospital. It involves the commercial and business experiences related to an organization's control, financial, and other systems. It regularly and effectively ensures compliance with management policies while safeguarding assets as well as the completeness and accuracy of safety records. Internal control is an indispensable aspect of the governance norms and methods of many companies. The hospital can also achieve value enhancement and sustainable existence through the continuous operation of the internal control system designed, and the supervision of external audit firms.

**Keywords:** Internal Control, Bureaucratic Organization, Organizational Effectiveness

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## 1. INTRODUCTION

The Taiwan Corporate Governance Association defines corporate governance as a mechanism and process for directing, managing, and fulfilling the responsibilities of business managers by enhancing a company's performance while taking into account the interests of other stakeholders, so as to protect the rights and interests of shareholders.

The purpose of establishing a company is, without a doubt, to gain growing profits, and corporate governance assists business managers to identify the best way of managing and operating a company in order to maximize the interests of shareholders. Corporate governance has become a goal that many companies strive to achieve, as good corporate governance is essential for optimizing a company's business. In comparison, a company's internal

control system is often overlooked because much of it entails business management strategies. However, internal control is integral for achieving good corporate governance as it involves not only the top-level management of an organization, but the entirety of the organization. Top-level management is merely one of many factors that influence a company's internal control environment. Even though the importance of internal control has been highlighted during the operation of a hospital, the attention paid to it is rather inadequate and there is much room for improvement. Internal control can be regarded as the core of a system, as its adequacy is a crucial factor that affects the sustainability of a hospital. Internal control ensures a hospital's normal operations, involves the appropriate adaptive measures for various management risks and reduces the impacts on a hospital's operations.

Because the hospital governance system is the core of the operation management system, well-designed hospital governance helps to improve the efficiency and effectiveness of operations. It is necessary to strengthen the organization and management based on a good internal control system. Past research documented that internal audit processes driven managerial excellence and effective governance (Koutoupis & Pappa, 2018). Under the impact of the national health insurance system and the transformation of the medical market, medical institutions are becoming more and more important to the quality of their medical services and management performance. In recent years, many cases of serious financial loss incurred due to the failure of the internal control system. In particular, these frauds even occurred in medical institutions. After examining the relationship between hospital budget control and organizational effectiveness, we find that although the hospital's management staff doesn't have rich professional medical knowledge, they have not gotten proper training in general corporate organization and the management technology of corporate management. Therefore, the management level in a hospital is considered as an enterprise system with a control mechanism. To enhance the effectiveness of internal control, hospitals should primarily rely on their own highly autonomous management and professional control of peer review control.

As organizations today face increasingly complex, dynamic, and threatening environments, attention has been focused on both the running of daily business affairs and the adaptation of the organization to changing environmental conditions (Obeidat, Al-Suradi, Masa'deh, & Tarhini, 2016; Al-Sarayrah, Tarhini, Obeidat, Al-Salti, & Kattoua, 2016). Internal control is a management process that integrates various management control and evaluation measures within the hospital, including control environment, risk assessment, control operations, information and communication, and supervision operations. This study believes that the management staff in a hospital should use proper standards to evaluate the hospital operation, management efficiency, and the quality of medical care. The hospitals can achieve their goals of value enhancement through the continuous operation of the well-designed internal control system, implementation of operating activities, and supervision of external audit firms.

This study aimed to explore the impacts on organizational effectiveness that arise following the implementation of an internal control system in a medical institution, so as to elucidate the status and effectiveness of a hospital's implementation of a robust internal control system, as well as further analyzing its impacts on the personnel within the organization. This study focused on four major issues as follows:

1. To understand whether the implementation of an internal control system in a medical institution assists in enhancing organizational effectiveness.

2. To understand whether the establishment of an internal control system affects organizational effectiveness through the pressure exerted by the top-level management.

3. To investigate whether the implementation of internal control by institutional workers enhances the bureaucratic operations of a medical institution.

The structure of this study is as follows. Section 2 introduces the literature review. Section 3 describes the research methodology. Next, Section 4 reports the results. Finally, Section 5 presents the conclusion and suggestions for future research.

## 2. LITERATURE REVIEW

### 2.1. Internal control

Internal control originated from the definition of internal control issued by the American Institute of Certified Public Accountants (AICPA) in 1963 by "Accounting Review of Financial Statements". This is also the initial stage of the development of "internal control". It is only required to reduce and prevent the occurrence of errors and abuses and is based on the division of labor, separation, and verification. 1958 Statement on Auditing Procedure (SAP) No. 29, further aimed at internal control according to its management characteristics, divided into "Accounting Control" and "Management Control", which have two meanings. Moreover, the 1988 American Auditing Standards Bulletin No. 55 defines the responsibility of internal control as: "all policies and procedures established to reasonably achieve organizational goals"<sup>1</sup>. It is the basic achievement of internal control theory.

In Taiwan, in 1985, the Accounting Development Fund Committee of the Republic of China announced the Auditing Standards Bulletin No. 5 "Investigation and Evaluation of Internal Accounting Control". The communiqué defines internal control as "the organization of the subject and the various coordination methods and measures used by it to protect asset safety, improve the reliability and integrity of accounting information, improve operating efficiency, and promote compliance with management policies to achieve expected goals, generally divided into internal accounting control and internal management control"<sup>2</sup>. The internal accounting control is defined as "control to protect the safety of assets and to improve the reliability and integrity of accounting

<sup>1</sup> Accounting Research and Development Foundation (2013), Statement of Auditing Standards (SAS) No. 55: Consideration of Internal Control in a Financial Statement Audit.

<sup>2</sup> Accounting Research and Development Foundation (1985), Statement of Auditing Standards (SAS) No. 5: Investigation and Evaluation of Internal Accounting Control.

information”<sup>3</sup>. The internal management control is defined as “to enhance operating efficiency and promote Compliance with management policies to achieve control of expected goals”<sup>4</sup>.

The internal control system is a comprehensive management system that integrates various management activities within the organization. It mainly needs to emphasize the substantive meaning. Only formal writing of internal control could not help to achieve the organization’s goals. In fact, internal control is a management process, which is planned and designed by the management, approved by the head of the agency, and followed accordingly. The employees at the hospitals, on the other hand, have a duty to undertake the internal control actions as established by management (Njagi, 2018). It is a comprehensive management system that eliminates the disadvantages of the intangible and improves performance and resource utilization efficiency through profit and system management. There are few regulations on the control environment and risk assessment. The creation of the control environment, including ethics and values, commitment to competence, management philosophy and business style, organizational structure, etc., is the cornerstone of the internal control structure of the entire organization (Weber Tao, 2005). It influences the quality of a sound internal control system by ensuring that internal control is embedded into the structure and thinking of the company on both the management and staff levels. It can be characterized as the “control consciousness” of the organization (Herz, Monterio, & Thomson, 2017, p. 21).

As for the organizational aspect, it is necessary to consider the internal control staff of the agency and the establishment of internal audit units. Additionally, for the technical aspect, it is necessary to consider how internal control is promoted and operated, whether to design a proper internal control system, and whether the staff has an experience of internal control system design and well-training of internal auditing competence, how to issue a statement to ensure the effectiveness of the internal control system, and how to implement the internal control. It is also necessary to consider how to supervise the internal control, how to continue communication, education, training, and review through appropriate mechanisms. Meanwhile, it is important to reduce the repulsive psychology and resistance behaviors of members in the hospital.

Internal control is critical in enterprises worldwide. Internal control in the United States is based on the transaction cycle, evaluating each link, and finally, the internal control is evaluated by the transaction results (mainly financial statements). In Taiwan, the government adopts the function category, which is different from the cycle category. The cross-function category is the most prone to internal control problem and is also the key point. Therefore, in the business execution process, each agency still considers safety and efficiency based on actual conditions and needs, integrates internal

control into each operation process, specifies and reviews in detail, and identifies through the internal control mechanism established in the operation process analyze and evaluate the main risks. Most institutions in Taiwan currently adopt the practice of designing internal control by function, and it is advisable to follow the recommendations on the implementation of built-in control in the operating process. Using operations as the analysis basis of business processes, the concept of linking internal operations and external operations can provide more flexibility of the operational process, and provide a basis for operations through the causality of process performance between resource input and output in the management structure.

## 2.2. Bureaucratic organization

The bureaucratic organization was created by the German classical sociology scholar Weber (1864-1920). Weber believed that a bureaucratic organization is a perfect ideal type that allows organizations to make decisions that are both rational and efficient. However, most business organizations and even educational organizations after the 20th century have applied this theory proposed by Weber.

There are several characteristics of the bureaucratic organization as follows:

1. *Hierarchy of offices*: the organization is hierarchical like a pyramid, with various specialized members responsible for different levels, and each person’s responsibilities are clearly defined so that members can clearly understand the scope of work, strengthen the proficiency of the work, thus improve the work efficiency. The organization can also provide on-the-job training to improve the knowledge and skills of members, and the organization can move forward.

2. *Specialized tasks*: there is a strict power subordination relationship between different levels of the organization. Except for the top executive, each member has only one direct supervisor, and the lower-level positions need to be subordinate to the superior. It also has the power to direct work.

3. *Rules and regulations*: In order to maintain the operation of the power class, organizations should formulate a set of strict and complete laws and regulations to stipulate powers and obligations, and define the relationship between superiors and subordinates. Only by acting in accordance with the law can the group operate in a harmonious, stable, and fair manner.

4. *Files and records*: all activities in the organization and employee data should be recorded and written through certain procedures for future reference. It can be used as a basic system for rewards, punishments, and promotion.

5. *Impersonality*: any decision in the organization should be based on rationality and everything should be administered in accordance with the law to achieve fairness and reasonableness.

6. *Salary system*: salary adjustments are often used in organizations to evaluate personal work performance.

Weber’s “The Theory of Bureaucracy” provides a basis for research on organizational structure. What Weber concerned about is the issue of social governance, which is, how a small group of people rule a large group of people?

<sup>3</sup> Accounting Research and Development Foundation (1985), Statement of Auditing Standards (SAS) No. 5: Investigation and Evaluation of Internal Accounting Control.

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Weber distinguishes three types of authority: 1) *Charismatic authority*: the dominant power comes from the personal charm and unique attraction of the leader to guide a large number of followers. This category is most obvious with religious leaders. The biggest shortcoming of this authority lies in the loss of a charismatic leader, and most organizations face the danger of disintegration. 2) *Traditional authority*: ruling power comes from a hereditary position passed down from generation to generation, such as an imperial king or tribal leader. The biggest drawback of this authority is that it opens up without knowing the progress of the times, and sticks to conventions without knowing improvement. 3) *The legal authority*: the way of governance comes from laws and regulations, and is supported by the appropriate legal institutions in the society. The advantage is that it is not bound by tradition. As long as there are complete laws and regulations, the system will still exist after people leave. Therefore, the authority in the bureaucracy mainly refers to the authority of jurisprudence.

Additionally, the advantages of the bureaucratic system are as follows:

1. *Hierarchical moderation*: the organizational system is arranged by different positions from upper and lower levels, and all positions are arranged hierarchically. Each staff in a lower position is under supervision and controlled by the staff in a higher position and all the staff has clear responsibilities and clear affiliation.

2. *Procedure system*: to handle business, the staff under the bureaucratic system must follow certain procedures. All the staff must follow administrative procedures and must not be disrupted. This is the spirit of the procedural system.

3. *Acting in accordance with the law*: the organization and execution of business need to act in accordance with the established legal system. This kind of legal system can ensure the continuity of the organization's operations when personnel changes occur. In other words, rules and regulations can ensure the consistency and stability of each staff actions.

4. *Fairness and selflessness*: Weber especially emphasized that the working atmosphere of the bureaucracy should provide a spirit of ruling operation, that is, formalization and impersonal orientation. It could not be mixed with personal prejudices and emotions. Before the regulations, everyone is equal and selfless, avoiding emotional impulses and personal preferences.

5. *Professional division of labor*: according to Weber's view, the purpose of the hierarchical system needs to be achieved through regular activities, and these regular activities need to be assigned to various roles in the organization. Therefore, a clear division of labor in positions can enhance the organization's effectiveness. With this kind of professional division of labor, well-trained staff in the organization can be assigned to a suitable department.

6. *Employing people based on merit*: the organization does not ask about its political or social-economic background, but only asks for its merits, seeking the professionalization of members. Members can obtain appointments from the organization through two channels: examinations or professional training certificates.

7. *Salary and employment, promotion based on seniority or contribution*: the staff should be paid a suitable salary, and the salary depends on the level of the position. The organization has also established a system of promotion based on seniority and contribution.

8. *Guaranteed tenure*: once staff is appointed to a job, his or her position should be guaranteed in accordance with the law, and the organization could not arbitrarily dismiss it.

9. *Resource control*: the operation of the bureaucratic system and organizational structure requires resources from the outside world. After the resources are obtained, they are controlled by the organization's officials. The amount of resources that the staff owns is completely determined by the allocation of upper-level officials. Since the upper structure controls the lower organization, it can effectively assign the resources of the entire organization. Therefore, one of the characteristics of bureaucracy is the control and distribution of resources.

10. *Emphasis on efficiency*: the main purpose of the bureaucratic organization is to emphasize efficiency. Through a hierarchical and temperate organization system, strict supervision and control can avoid staff from slack in work. Emphasis on efficiency is the main goal of such organizations.

11. *Written files*: that is, any related activities, decisions, or regulations inside and outside the organization are archived in written records, so that there is information as evidence.

12. *Ideal type*: although the concept of Weber's hierarchy is an ideal type, there may be no such ideal type in the real world; but it also attaches great importance to the basic trends of actual organizations. As an ideal form, the bureaucracy is used to analyze the complex phenomena of social organization, which is indeed quite useful.

However, there are several disadvantages of bureaucratic organization, which presents as follows:

1. *Reduce efficiency*: the purpose of establishing files is to improve efficiency, but it may be to save records, which makes a lot of power spent on unnecessary writing work, which reduces efficiency. For example, in the era of information technology development, e-mail can effectively transmit information, but the lack of records does not conform to the principle of bureaucratic management.

2. *Lack of creativity*: in terms of stability, bureaucratic management is relatively suitable for a stable environment. However, because it encourages employees to obey, it may cause the organization to become rigid due to lack of creativity. If a person in the organization attempts to find a new and better way of doing things, it will inevitably against the organization's power structure, and may even seek it out. In a crowd service organization that is engaged in problems arising from changing society, this characteristic of bureaucratic management seems to be inconsistent with the characteristic of emphasizing flexible work.

3. *Create indifference*: in terms of work safety, job stability can improve staff's work performance, but it may also cause indifference and complacency of those who lack motivation or dedication, especially work conditions or restrictions. It may cause a higher employee turnover rate in the organization.

4. *Increase the load:* in the growth of the organization, the organization sets up a temporary task force in response to additional work, but it may continue to use meetings to prove its long-term existence because staff proposes some additional work or topic discussions. Necessarily, it could lead to a situation of easy establishment and difficult dissolution and then institutionalized. This will make the organization, personnel, and even programs lack efficiency and even eventually cause the organization to be overwhelmed and collapse.

5. *Turn the cart before the horse:* in the inversion of the goal, the bureaucracy's emphasis on the evaluation of documents, files, and performance can make the originally designed to achieve the goal more quickly and efficiently but instead, become the goal itself. Goal - the special type of inversion of means is the so-called "means-end displacement", which often happens in organizations.

Finally, institutional managers should avoid the shortcomings of the bureaucratic system.

There are two channels that institutional managers can avoid the shortcomings of the bureaucratic system. Firstly, in order to respond to social work, what they face or must respond to is the changing political, economic, and social macroscopic environment, as well as the microscopic environment of the special needs of individual cases. Hierarchical organizations tend to cause social work to fall into the bureaucratic/professionalism gimmick, so that the judgments made by employees based on their professions are not reflected in the established rules set by the organization. This kind of "bureaucratic" and "professional" dilemma, it may cause employees to fall into the situation of "street-level bureaucrats", and it is difficult to demonstrate their professional autonomy and discretion. Therefore, the manager of the organization should make good use of the contingency theory, and be able to use a "depending on the situation" situational management method to commit to the practice of its mission, goals, and tasks.

Secondly, bureaucratic organizations often hinder the operation of professional teams or networks due to their standardization. Therefore, the relevant formal rules of the bureaucracy must be adjusted to meet the needs of the environment at any time to achieve the expectations of society and the organization.

### 2.3. Organizational effectiveness

Organizational effectiveness is a structure, which is so-called "construction" in the social sciences is an abstract object that gives meaning to the conception of the mind. It does not have an objective "entity" (Cameron, 1985). In an organization, management is the decision-makers, organization members, or stakeholders who are equally concerned about how to improve organizational effectiveness. The original meaning of "efficiency" refers to the effective utility energy contained in things, which is mainly manifested in the four aspects of ability, efficiency, quality, and benefit. Organizational effectiveness refers to the actual results of the organization's achievement of predetermined goals, including the output of group production (quantity, quality, speed, customer satisfaction, etc.), the group's

influence on its members (results), and the improvement of organizational workability. Organizational effectiveness is a critical concept, and it is also the core of the organization, which is the most important dependent variable in organizational research (Lawler, 1986).

Organizational effectiveness can explain the meaning of organizational effectiveness from four perspectives: first, from a static point of view: organizational effectiveness is the process by which an organization achieves its goals. Etzioni (1985) suggests organizational goals as the state or result of organizations to achieve predetermined expectations. If organizational activities meet or exceed organizational goals, we indicate that the organization is effective (Zammuto, 1982; Daft, 2003). Second, from a dynamic point of view, because an organization is an open natural system that emphasizes organizational innovation and creativity, organizational effectiveness allows the organization to obtain rare but important resources in a specific context (Singh, 2004). This ability can only survive by the organization (Dawkins & Frass, 2005). Siu (2003) defines organizational effectiveness as the most common situation in the organization's use of the environment, obtaining scarce and valuable resources from the bargaining position. When the organization maximizes its resources, the organization achieves the best performance (Rodsutti & Swierczek, 2002). Third, from the perspective of mentality: organizational effectiveness is the process of meeting the needs of members or participants and benefiting (Feather & Rauter, 2004). Zammuto (1982) suggests that effective organizations must meet the needs of constituent molecules; Keely (1984) also indicates that organizational effectiveness is the ability to fairly reflect the satisfaction of various benefits of the organization's parties or constituents (Quinn, Anderson, & Finkelstein, 1996). Fourth, from the ecological point of view: organizational effectiveness is the process of adapting, achieving goals, unifying, and potential functions of an organization taking into account factors, such as time level, organizational level, constituents, and performance standards (Hoy & Miskel, 1982).

There is no evidence that organizational effectiveness can fully cover all situations or apply to all organizations. Therefore, it can be summarized as four models by scholars: rational goal model, open system model, human relations model, and internal process model. The rational goal model is the pursuit of maximization of output, emphasizing profit and loss. This model includes the basic principles of sexual activities and assumes that mission planning and goal setting are the keys to production and efficiency. After clarifying the goal, the manager can set the goal and take activities to meet the expectation (Cameron, 1985; Denison, 1990). The open system model is an open system that uses its environment, and defines organizational effectiveness as an organization's position in the environment to obtain a negotiated position, thereby obtaining the necessary resources (Siu, 2003). Effective organizations allocate resources to departments that have competition and control. Therefore, employee morale, innovation, enthusiasm, and spontaneity are all important indicators for evaluating organizational effectiveness

(Ilies, Scott, & Judge, 2006; Litwin & Stringer, 1968). Additionally, in the human relations model, the staff are regarded as the center of the organization, including the morale of the organization members, harmonious relations, and education and training are all valued by the organization managers (Daft, 2003). This process also assists in timely decision-making, ensures accountability, and provides the basis for evaluation and learning (Sera & Beaudry, 2007; Masa'deh, Obeidat, Al-Dmour, & Tarhini, 2015; Obeidat et al., 2016). The effectiveness of this model is determined by whether the organization can meet various needs. The efficiency standard is changed from an objective organizational goal to a sense of belonging to the organization by the members of the organization, the staff gets along well, and the subjective evaluation of the warm relationship between the organization and the staff (Etzioni, 1985). Finally, the internal process model emphasizes that the organization is an open system with goal-oriented characteristics. Walton and Dawson (2001) indicate that each model creates its unique value for an organization. Hence, the goal is not static, but changes with time. Effective organizations can achieve both organizational goals and individual needs.

### 3. RESEARCH METHODOLOGY

In order to have a deeper understanding of the impact of hospital internal control policies on organizational effectiveness and bureaucratic system, this study used the qualitative in-depth interview method for data collection. In-depth interviewing is a method used in case studies, which is a type of descriptive research akin to the historical method in which a specific event, object, or characteristic is narrated or described. Nonetheless, some scholars regard the case study method as an empirical inquiry and a research strategy that focuses on studying real-life scenarios and uses various types of evidence for verification. Moreover, diverse methods such as observations, interviews, and inquiries are employed to identify factors related to the process in order to collect comprehensive data. The final outcome of a case study is a detailed and descriptive report of the topic in question. In the field of research pertaining to management and strategies, Eisenhardt and Graebner (2007) advocated the method of theory building and testing from cases, which renewed its popularity among scholars. For instance, in order to understand the nature of managerial work, Mintzberg (1973) conducted interviews with managers and used the data collected throughout the interviews to build the manager's role theory as well as delineating the types and essence of managerial activities. The theory has continuously been tested by means of interviews and questionnaires. Therefore, case studies are a form of qualitative research in which questions are answered based on the researcher's previous experiences. Pettigrew, Woodman, and Cameron (2001) pointed out that organizational change is no longer a simplified relationship between the independent variables and the dependent variables, but is rather an interactive relationship between the context and the activities that take place over time. In this

regard, this study employed the case study method in order to present the structural characteristics in a more complete manner as well as to overcome the limitations of cross-sectional studies. The interviewees in this study were mainly the levels of management of three private community hospitals in Taipei City, Taiwan, with the same level of accreditation.

The interviews were conducted from August 1 to 20, 2020. There are a total of 11 subjects, including the dean (3), deputy dean (5), and director (3). In the interview invitation, the researcher used e-mail and telephone to invite the management cadres of the hospital to accept interviews for the staff. All interviews were conducted in the conference room of the hospital. Each interview lasted from 1.5 hours to 1 hour.

During the interview, the interview questions were open-ended, and the hospital's management cadres freely discussed the hospital's operating strategies, as well as the hospital's current internal control strategies and organizational effectiveness. After the interview, two researchers discussed the interactive influence between the events based on the results of the interview and plotted the initial causal feedback diagram. Then the causal feedback diagram was discussed with the two hospital vice presidents and then revised to complete the final cause and effect.

### 4. RESULTS

According to the relevant literature and interview results, the effectiveness of internal control management in this study on the organizational effectiveness of the hospital can be divided into six parts to be discussed, namely, hospital control environment, hospital risk assessment, hospital control operations, information and communication performance, and hospital monitoring, and discussion.

*1. The control environment of the hospital:* according to the interview results, the control environment is an integral part of internal control. It includes factors such as integrity, ethical values, the ability of workers, and the ideas of management in the organization. It is a component that provides the required foundation for other components in the internal financial control system. The control environment is the core of any hospital, including the staff and their working environment. Human operation is in a certain environment, and human attributes (ethics, values, abilities) are the engine that promotes the efficiency of the hospital's organization and are also tied to everything else. The control environment shapes the hospital culture, influences the sense of control of the hospital staff, and provides discipline and structure. It is the foundation of other elements, including the ethics, values, and capabilities of the hospital staff, the management philosophy and business style of the management, and the management assigns powers and responsibilities. The hospital provides organization structure, well-trained staff, and guidance to create a controlled environment. However, although the personal knowledge in the hospital will enhance, it also could disappear and lower the efficiency because of outdated governance and knowledge.

2. *Hospital risk assessment*: the manager must understand the various risks and how to deal with in the hospital. They must set goals that integrate treatment, purchase, sales and inventory, marketing, and finance operations and establish well-designed mechanisms that can identify, analyze, and manage related risks. Any organization should pay more attention to the risks it may be suffering from. The so-called risk refers to the reason that the goal cannot be achieved. The goal is achieved by undertaking the business. Since each hospital could face a variety of risks from inside and outside, the managers should determine the level of risk in advance.

When the risk assessment of a hospital is well-designed, it will increase the reputation of the hospital, and patients will have confidence in this hospital. This will attract more patients for medical treatment, which can improve the hospital's profitability. In terms of investment, the organizational efficiency of the hospital can be increased. In addition, although the efficiency of hospital organization will grow with the increase of risk assessment, for medical science, the elapse of time will cause the expiration and timing of organizational knowledge, and reduce the effectiveness of organizational knowledge.

3. *Hospital control operations*: the hospital must formulate and implement control policies and procedures to help the management to ensure that the hospital's goals can be achieved, and the necessary actions to identify and deal with risks have been implemented. That is, in response to the assessment of risks, the necessary instructions are required to be executed by the staff, such as the hospital business activity cycle, to help the management to ensure that the staff effectively implements the policies and procedures of the operating activities.

According to the results of the interview, the professional competence of doctors in hospitals is a major factor in attracting patients to seek medical treatment. As far as hospitals are concerned, the more personal knowledge of doctors, the more patients will be cured, and the effect of word-of-mouth will make them more attractive. Therefore, the hospital's control over the doctor's professional knowledge can increase work efficiency, and because the doctor's professional knowledge enhance, the hospital's organizational efficiency also increases.

4. *Information and communication in the hospital*: the information and communication system surrounding the control activities enables relevant persons to obtain and exchange information necessary for the execution, management, and control of the operation of the hospital. The so-called related persons include employees, as well as individuals outside the hospital, such as medical material suppliers, patients, and family members. Staff can communicate upwards and with the outside world.

5. *Hospital supervision*: the entire internal control process of the hospital must be supervised and amended if necessary, so that it can respond dynamically to changes in the situation. The process of assessing the quality of operations and control activities over time, with the purpose could ensure that hospital operations and internal controls

continue to operate effectively. The procedures for continuous supervision should be integrated into the daily operational activities of the hospital; individual assessments are carried out by internal auditors to check whether the internal control system is effective.

From the interview, it could be found that hospital finance will increase with the number of patients due to the increase in dynamic response, and then enhance the efficiency of the hospital's organization, which make better hospital's reputation, attract more patients for medical treatment, and lead to better financial performance. Therefore, the improvement of the quality of evaluation operations and control activities will have a long-term impact on the increase of organizational effectiveness, enhance the hospital's reputation and attract more patients, thereby increasing financial performance.

6. *Managers' roles and perceptions*: the interviewees perceived that an organization's morals and ethics are of utmost importance and their organizations' workplace rules had clearly stated the morals and ethics that employees must have and must avoid violating while carrying out their tasks. There is widespread belief among the interviewees that they must identify with the organization to some degree, this includes identifying with the organization's mission and values as well as being passionate toward their job, so as to sustain and secure their employment within the organization. The interviewees also revealed that an annual meeting would be held to amend the workplace regulations and work ethics, and the relevant reports of general meetings, annual budget discussions, and meetings on major shortcomings would be submitted to the board of directors or supervisory committee. Managers often play the important role of a supervisor, whose tasks include reviewing financial reports, making budget-related decisions, setting up the organization's visions, and making annual proposals. Furthermore, almost all new business opportunities or proposals must be approved by the top-level management before they are implemented. Therefore, managers exert a significant impact on an organization's operations and future developments. The board of directors or various levels of management of the interviewees' institutions come from diverse professional backgrounds such as physicians and professionals with medical or legal knowledge, who could provide many professional suggestions throughout an organization's development. The interviewees also concurred that the most important approach in management is communication. Managers must ensure that the vertical communication between supervisors and supervisees as well as the horizontal communication between employees remain unobstructed such that the organizational values and work rules can be transmitted to the members of the organization and receive their feedback and responses. In addition, before making decisions, leaders must focus on vertical communication within an organization and take into account and respect the suggestions of frontline workers.

Internal control can ensure the safety of asset entities, ensure the accuracy of the information, or improve performance. Based on the research

results, this study puts forward three suggestions. First, at the hospital management application level, build an internal control index system to let colleagues understand the performance index items and set work goals according to the order. Second, at the management control level, the implementation of the hospital's internal control system is an important key element, and the organization's laws and regulations are procedures, functions rather than structures. The operation of the system is the result of personnel interaction. This kind of thinking and behavior does not need to rely on regulations and procedures to achieve, which can reduce the generation of formalism and bureaucracy. The focus of the reform is to make modern bureaucratic organizations more flexible, more adaptable, pay more attention to cost-effectiveness and service quality, and pay more attention to the needs of society. Third, the management must delegate downwards. Similarly, policies and guidelines are from top to bottom. Based on the audit, the manager obtains the information that already exists and may have an impact on effectiveness, reduces the risk caused by the failure of internal control, and achieves an effective control mechanism.

In terms of follow-up research recommendations, the scope of internal control should be expanded and comprehensive for hospital operation, and four aspects of medical quality, finance, internal processes, and learning and growth should be considered in terms of overall management. Subsequent research can be conducted on the integrity of the four dimensions of internal control indicators, so as to truly achieve the effectiveness of the comprehensive internal control system.

## 5. CONCLUSION

This study explores the dynamic impact of internal control on the organization's effectiveness of the hospital and provides a systematic view for those who are in charge of the hospital when they enter the hospital. According to the results of the interview, the internal control strategy is a dynamic process of influence for the organization, not just the effect of the final organization. The performance of the hospital's departmental organization is closely related and affects each other. The departmental organization characteristics of hospitals are similar to those of the general corporate world. Medical knowledge is highly specialized and inclined to implicit knowledge. However, in the process of hospital management, there is less interactive learning with peers, and most of them are independent and independent.

Based on the theoretical background of internal control theory and organizational effectiveness, this study confirms the connotation of hospital governance mechanism and hospital governance effectiveness proposes a theoretical model of hospital governance and empirically demonstrates the impact of hospital governance mechanism on hospital governance effectiveness. The quality of control will have a positive impact on the efficiency of hospital governance. The study finds that although the development and management

technology of hospital organization governance follows in the footsteps of enterprises, hospital governance is a complex system, and the nature of hospital governance is different from for-profit corporate governance. Under the constraints of the highly institutionalized medical environment, the medical organization structure seems to have failed to exert the expected impact and effect like corporate governance. In addition, the role positioning of the various stakeholders involved in hospital governance, including deans, employees, patients, and suppliers, etc. will indirectly regulate or influence the hospital governance mechanism, our results can provide a basic understanding for the hospital's reference to the governance structure. Through the influence of internal control, the hospital can not only establish a completed and efficient governance mechanism, but also shape the hospital culture of voluntary disclosure, and assure the efficiency of social responsibility, which helps to understand the hospital's operating philosophy and organizational value goals recognition. To standardize the hospital appraisal system, the hospital must have a sound accounting system and a reasonable financial structure. Moreover, to improve the hospital's operation performance, the hospital should allocate a dedicated person or unit to be responsible for a proper internal control system according to the organization's scale, and manage it in accordance with clear internal control principles.

Followings are the limitations of this research:

1. Sample: due to limitations in terms of feasibility, this study merely sampled the levels of management of three private community hospitals in Taipei City, Taiwan. Consequently, the results may be affected by sampling bias which hinders the representativeness of the sample as well as the deduction derived from the findings.

2. Questionnaire: the reliability and validity of the questionnaire were affected by the latent differences between eastern and western cultures that exist within the items in the questionnaire used during the interviews, as well as the differences among the interviewees and other factors. Furthermore, a questionnaire should be modified appropriately in accordance with the current status of each hospital. In terms of hospital governance, self-evaluations were used in this study, which caused the levels of management to give themselves better evaluations. As a consequence, the actual conditions may have been exaggerated or manipulated (through window dressing) to the extent that overestimation or modesty bias are present.

3. Research methodology: this study is mainly survey research which aimed to understand the nature of managerial work through interviews with top-level managers. The data collected from the interviews were then used to build the managers' role theory and to uncover the types and essence of managerial activities. This theory has constantly been tested through interviews and questionnaires. However, due to time and feasibility-related factors, the depth of the quantitative findings remains insufficient and the true opinions of low-level workers could not be obtained, which limited the results of this study.



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