

**Studying the Relationship between Business Strategy and
Internal Control Quality:
A Theoretical Study**

Omnia Farouk Abd-Elsamia Mohamed Elsokhary

Assistant Lecturer – Accounting Department

Faculty of Commerce - Port. Said University

Supervisors

Dr. Kamel Elsayed Ashmawy

Lecturer of Accounting

Faculty of Commerce, Cairo University

Prof. Dr. Ahmed Abd Almawla Alsabbagh

Professor of Auditing

Faculty of Commerce, Cairo University

Abstract:

The main objective of this study is to theoretically investigate the relationship between business strategy (BS) and internal control quality (ICQ). To achieve this objective, the researcher presents the theoretical framework for both BS and ICQ, in addition to reviewing previous studies that examined this relationship, to identify the key theoretical findings and determine the direction of their relationship. The researcher reached several results. First, the literature highlights the importance of considering firm strategy when evaluating internal controls. Second, although some literature

showed that effective control systems are found in firms focused on innovation and R&D, others suggested that prospector firms are more likely to report internal control weaknesses than defender firms. Finally, based on these findings, the researcher reveals a gap in studies addressing the link between BS and ICQ. Consequently, it is suggested that there is a need for more empirical evidence on this concern.

Keywords: Business Strategy (BS) and Internal Control Quality (ICQ).

دراسة العلاقة بين استراتيجية العمل وجودة الرقابة الداخلية: دراسة نظرية

المخلص:

الهدف الرئيسي لهذه الدراسة هو التحقق نظرياً في العلاقة بين استراتيجية العمل (BS) وجودة الرقابة الداخلية (ICQ). ولتحقيق هذا الهدف، اعتمدت الباحثة على الدراسة النظرية من خلال مناقشة الإطار النظري لكل من استراتيجية العمل وجودة الرقابة الداخلية. بالإضافة إلى مراجعة الدراسات السابقة التي بحثت العلاقة بين هذه المتغيرات وتحليلها، وذلك من أجل تحديد النتائج النظرية الرئيسية وتحديد اتجاه هذه العلاقة. وتوصلت الباحثة إلى عدة نتائج؛ أولاً- أكدت الدراسات على أهمية مراعاة استراتيجية الشركة عند تقييم ممارسات الرقابة الداخلية. ثانياً- على الرغم من أن بعض الدراسات أظهرت أن أنظمة الرقابة الفعالة توجد في الشركات التي تركز على الابتكار والبحث والتطوير، إلا أنه قد اقترحت دراسات أخرى أن الشركات التي تتبع استراتيجية المنفيين أكثر عرضة للحصول على نقاط ضعف في تقرير الرقابة الداخلية مقارنة بالشركات التي تتبع استراتيجية المدافعين. وأخيراً، بناءً على هذه النتائج، تستنبط الباحثة

وجود فجوة في الدراسات التي تناولت العلاقة بين استراتيجية العمل وجودة الرقابة الداخلية. وبالتالي، يُقترح تقديم مزيد من الأدلة التجريبية في هذا الصدد.
الكلمات المفتاحية: استراتيجية العمل، جودة الرقابة الداخلية.

1. Introduction and Research Problem

Literature outlined various business strategies (BS) that organizations can implement to compete in the market based on organizational theory (Dalwai & Salehi, 2021). For instance, Porter (1980) characterized strategies based on either price or quality (Cost-Leadership) versus (Product-Differentiation), another believed taxonomy which was provided by Miles & Snow (1978, 2003), as they provided four strategic-styles: "Reactors, Defenders, Analyzers, and Prospectors". However, the literature heavily concentrated on exploiting the impact of two opposite extreme strategies: Defenders versus Prospectors.

In defenders' strategy, firms are efficiency-oriented, maintain a reduced R&D intensity, concentrate more on a limited and reliable product base, and reveal a constant growth model within existing product lines. As a result, firms implement a conservative approach to growth, pay low priority to innovation, and are less susceptible to environmental uncertainty and operational complexity. In contrast, Prospectors are identified as R&D-intensive businesses that emphasize innovation and quickly alter their product mix. To stay competitive, they use riskier techniques to maximize stakeholders' wealth through rapid

growth, and have managers who prioritize pioneering projects. The result is increasing future performance uncertainty.

From the view of business-strategic heterogeneity, numerous studies provided evidence on the impact of BS on both firms' policies and outcomes: Tax Planning and Avoidance (Husnain & Hashmi, 2021; Chen et al., 2022); Dividends Policy (Cao et al., 2022; Dang et al., 2022); Cash Holding (Magerakis & Tzelepis, 2020); Compensation Structure, (Akindayomi et al., 2020); Earnings Management Practices (Wu et al., 2015); Financial Performance (Dalwai & Salehi, 2021; Rudiawarni et al., 2022); Investment Efficiency (Lin et al., 2021); Stock-Crash (Safi et al., 2022); Insider Trading (Chen & Keung, 2019); Quality of Financial Reporting (Bentley et al., 2013).

As well as, strategy is “greater than the sum of its parts” (Bentley et al., 2013, P. 805), hence, BS of a company must be a fundamental factor while constructing its Internal Control System (ICS) (Bentley-Goode et al., 2017). With respect to strategy theorists, control systems vary between companies regarding to the strategy adopted. Hence, the BS of a company must be a fundamental factor while constructing its Internal Control System (ICS) (Bentley-Goode et al., 2017). An early contribution has been provided in this concern by Simons (1987), who claimed that firms should modify their accounting control system to be fit with the attributes of their strategy. Moreover, he stated that prospectors adjust their ICS far more frequently than defenders.

Especially after the issuance of SOX 2002, IC has gained great attention, as it obligated all U.S publicly traded companies to set adequate ICS and required management to report their responsibility for its effectiveness, and the external auditor's role is to attest management's assurances. Along with COSO, "*the most widely adopted control framework*", the effectiveness of control activities is crucial in maintaining companies' sustainability, promoting their competitiveness, and achieving their strategic and innovation intention for their development (Akhmetshin, 2017).

As was previously mentioned, control systems are adopted in different ways depending on the chosen strategy. In this regard, scholars and researchers revealed evidence about the variation in IC activities according to the chosen strategy. For instance, Bentley et al. (2013) showed that prospectors have a greater propensity to misreport their results than defenders. Bentley-Goode et al. (2017) disclosed that prospectors are more likely to get internal control material weakness reports than other strategy types. In addition, Chen et al. (2022) revealed that prospectors charged higher auditing fees and were more likely to report violations than defenders. *Therefore, such evidence reflects deficiencies in reporting controls in prospectors' firms.*

Further, Herusetya & Suryadinata (2022) determined that, even though prospectors are suffering more from agency costs, and then must seek to alleviate those costs by increasing their

governance mechanisms, the internal governance's role in this type of concentrated more on implementing BS rather than implementing their control practices. *Consequently, more deficiencies in monitoring activities have been noticed in prospectors' firms.*

However, on the other hand, a part of Soltanizadeh et al.'s (2016) research illustrated that although there are differences in risk appetite through the two opposite strategies, cost leadership firms have a larger propensity toward applying earnings management practices than the differentiation strategy. Further, Herusetya et al. (2023) indicated that defenders have more accrual earnings management and real-activities manipulation than prospectors. *Hence, deficiencies in risk assessment and control activities of defenders' firms could be monitored.*

Also, it has been argued that, resulting from their risky nature, prospectors tend to maintain more efficient control system than defenders, for example; Ma et al. (2022) promoted that, without implementing an effective control practices, firms which have an innovative attitude will not be capable of avoiding risks associated to them (Li, 2020; Ma et al., 2022). *This indicates that to increase the effectiveness of their innovation prospects, prospectors are strengthening their risk management environment by implementing more efficient control systems.*

Moreover, literature provided evidence that, richer information environment is more closely associated with firms

that follow a prospector strategy, as these firms seek to reduce uncertainty and information asymmetry by increasing their disclosures to maintain the confidence of interested parties. (Bentley-Goode et al., 2019; Yan-Kun et al., 2021; Arianpoor & Sahoo, 2022; Weber & Mubig, 2022), *To improve such disclosure practices, it is essential to have a robust governance mechanism in place, which requires a high level of control activities.* Thus, Dong et al. (2021) argue that prospectors are more likely to target Big4 audit firms compared to defenders, as they seek to maintain an effective external corporate governance mechanism.

Concluded from the above, it is noticed that, according to the contingency theory perspective, the effectiveness of ICQ is significantly impacted by the chosen BS. This implies that companies may need to align their control systems with their chosen competitive strategy in both design and maintenance. That is why differences in control practices through the prior studies have been highlighted.

Therefore, the primary goal of this research is to provide a theoretical analytical study for the relationship between business strategy (BS) and internal control quality (ICQ), through illustrating the underlying concepts of both BS and ICQ, reviewing the related literature, for providing insights into how BS can impact ICQ. The rest of this research is planned as follows: Section 2- provides a brief theoretical background about

the study variables; Section 3- reviews the prior literature that addressed the relationship between the study variables; Section 4- discussion; and Section 5- includes the study conclusion.

2. The Theoretical Background

During this section, the researcher will illustrate the theoretical background of the research's variables: business strategy in section 2.1, and internal control quality in section 2.2.

2.1. Business Strategy

Respecting to the theory of organization, the firm's BS should be decided in an early stage of the firm's life cycle (Li et al., 2022). Since it is a crucial element of a company's identity, it shapes the approach a company takes to compete in a specific market. Hence, for remaining competitive and maintaining its position in the minds of the consumers, the company must decide on a suitable strategy (Chelanga et al., 2017). Rudiawarni et al. (2022) argued that strategy plays a critical role in a company's success, as it directs all actions taken by the organization to achieve its goals. Hence, for business continuity, every organization must have a well-defined strategy in place.

According to Miles et al. (1978), BS defines the technique that firms select to compete in the market through managing three main managerial aspects: the entrepreneurial problem, the engineering problem, and the administrative problem. The first - "Deciding its goods or services and targeted markets". Second –

"Picking and realizing the operational explanation to solve the entrepreneurial problem. Third- Defining the appropriate activities for addressing both the first and second aspects (Hsu et al., 2018).

For Porter (1980), BS is considered a range of activities that a company should apply to get, adjust, and generate its position in the market for achieving high performance. Further, BS is a set of procedures and policies employed by an organization to select how it will compete in a specific industry, especially in terms of how it will gain a competitive advantage over its rivals (Wahyuni et al., 2019). Collectively, business strategy is a series of coordinated actions targeted at accomplishing long-term goals and increasing the company's competitiveness.

Different typologies of strategies have been provided in management literature, for example, Porter (1980), who distinguishes between "Cost Leadership" and "Differentiation". In addition, March (1991) classified strategies as either "Explorative" or "Exploitative". Also, Treacy & Wiersema (1995) identified three types of BS, including operational leadership, product leadership, and customer confidence. Furthermore, the most widely tested classification in accounting literature, Miles & Snow's (1978: 2003) BS patterns, which involve "Prospectors", "Defenders", "Analyzers", and "Reactors" (Habib et al., 2023). The main focus during this research will be on the two contradictory strategies: Defenders versus

Prospectors, since they are the most recognizable in terms of organizational traits, as they differentiate businesses that operate at opposite ends of the strategic spectrum. (Bentley-Goode et al., 2017; Herusetya et al., 2023)

On one hand, Prospectors are described as firms that seek innovative products (Herusetya et al., 2023), focus mainly on marketing, and change their product mix rapidly (Habib et al., 2024). They operate an exhausting a diverse model of decision makers and target a wide range of products and markets (Bentley et al., 2013). So, they were categorized as decentralized with a high degree of organizational structure flexibility to facilitate and direct their diverse and various operations (Bentley et al., 2013). Therefore, to quickly adapt to their uncertain environment, they frequently make adjustments to their internal controls. (Bentley-Goode et al., 2017).

They tend to invest extensively in R&D, hence, such investments enable them to quickly adapt to developments and enter new markets (Chen et al., 2017), and are much better at adapting to risk resulting in more uncertainty in outcomes, greater firm complexity, and profit volatility (Herusetya et al., 2023) leading to higher business risk and instability in information environment (Park et al., 2021). Given their outcomes' inherent uncertainty, auditors are likely to be more conservative in their opinion toward them as they face difficulties

in future performance prediction based on past performance (Chen et al., 2017).

On the other hand, Defenders are cited as having a contrary feature, as they possess low technology concentration characteristics, and they prioritize cost reduction while maintaining a stable product range and consistent performance. (Higgins et al., 2015). To promote efficient production, tend to have a narrow set of decision makers (Bentley et al., 2013) with a strong organizational structure and centralized control systems.

Furthermore, they adopt a conservative approach, aiming to minimize their exposure to risk and uncertainty. Due to their risk aversion, they invest minimally in R&D (Safi et al., 2022) and compete primarily through product pricing (Kim et al., 2019). This strategy leads to slow and steady growth patterns with low performance volatility (Chen et al., 2017). As a result, they are associated with lower business risk (Choi & Park, 2021).

2.2. Internal Control Quality

The main factor contributing to the accuracy of reporting is a company's efficient Internal Control (IC). Because a weak ICS makes it easier for managers to influence their estimates, they may purposefully give false financial and profit information to further their self-interests. Therefore, the efficacy of IC is crucial for improving accountability and transparency, which in turn increases the trust of the parties involved.

Conferring to International Standard on Auditing (ISA) 315, IC is a process which designed, implemented and maintained by those who charged with governance, BOD and other personnel to provide a reasonable assurance about the achievement of firm's objectives regarding to reliability of financial reporting, efficiency and effectiveness of operations and compliance with obligated laws and regulations (*IFAC, 2012*). The same meaning phrased differently by COSO as IC described as "a process, effected by an entity's BODs, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance" (*COSO, 2013*).

The main arguments for why companies must implement a suitable ICS could be explained from the standpoint of several basic theories. For instance, regarding to the principle-agent theory "Agency Theory" (Jensen & Meckling, 1976), the existing and optimizing of ICS as an internal monitoring mechanism could mitigate the agency costs that raising from the separation between ownership and management, which reflecting a conflict in interest's problem (Hu & Yang, 2022; Wang & Cui, 2023).

Also, from the view of "Positive Accounting Theory", an efficient ICS contributes to cutting the opportunistic behavior of management, as it is used as a monitoring tool over managers who aim to maximize their interests. Further, it contributes to the

alignment of managers' interests with the stockholders' interests (Kisanyanya, 2018).

With respect to the "Theory of Signal", good performance will enhance management's reputation and position. Disclosure of IC information is considered one of the aspects of their good performance, as when a company reaches a certain level of profitability, this means that it has a relatively complete governance structure and adequate ICS. Hence, it motivates to disclose of information about its ICS (Chouaibi & Boulhaga, 2020).

Thus, ICSs are crucial for businesses' internal decision-making procedures and the accuracy of their external financial reporting. Despite the widespread belief regarding to the benefits of implementing a suitable ICS (For instance, the first COSO report was in 1992), the concept of IC has been shined and attracted the attentions of regulators and academics only in the last two decades after a series of financial scandals and collapsing that happened in many of large publicly traded firms in US,"i.e. Enron, Worldcom, Steinhoff, and Royal Ahold", as a result of the absence of effective internal monitoring and controlling.

Hence, regulatory bodies in different countries are centered on the importance of strengthening the key monitoring and governance mechanisms to enhance the quality of ICS. To restore the confidence of the third party in the security market and improve the quality of financial reporting, the most stringent and

organized policy has been issued, which is the act of SOX (2002) in the US, that has been put into effect by the SEC in 2003. Concerning this Act (SOX 2002), all publicly traded listed firms are required to construct and maintain an effective ICS and report on its effectiveness. Following this report, an attestation report on management's assessment must be issued by an independent auditor.

Regarding the Egyptian environment, the Cadbury Report (1992), the Hampel Report (1998), and the Combined Code (2000) in the UK served as the foundation for the Egyptian Corporate Governance Code (ECGC), which was established in late 2005 (khlif & Samaha, 2016). According to the third edition of ECGC (2016), management of all listed companies should construct their ICS, which should be periodically monitored by audit committee members and report their recommendations to BOD members (Abdelhakem et al., 2016). However, neither Egyptian accounting and auditing standards nor the securities exchange market enforced the listed companies to report on the effectiveness of IC structure, and IC disclosure was still voluntary (Rumaili, 2020). Also, with respect to the requirements of auditing standard No.315, the auditee should design its own ICS for protecting the interest of related parties and ensuring the reliability of financial reporting (Abdelfattah, 2021).

3. Literature Review

In this section, the researcher displays the literature that studied the BS and ICQ relationship.

Despite the significant impact of BS type on many organizational aspects, the nexus between BS and the effectiveness of firms' IC (Internal Control) has been overlooked in academic research. Only a limited contribution has been provided in this regard. In examining whether BS is considered a determinant for the strength of IC over financial reporting and the accuracy of auditors' assurance for IC reports., Bentley-Goode et al. (2017) concluded that firms with prospector firms are more likely to receive material weakness reports about their IC than firms that follow other types. Further, in their analysis for the impact of selected BS on the audit report quality over IC, their results provided that auditors' IC reporting quality is lower among auditees with a prospector's strategy. They supported this result by suggesting that innovative firms may have more flexibility in modifying their intellectual capital, which can make it more challenging for auditors to assess whether the company has implemented appropriate and effective control measures. While the stability in defender companies' IC could decrease the opportunity of auditors failing to appropriately assess and identify omissions in the control system. They based their conclusions on a sample of 19,350 observations, and the study was applied to U.S.-listed firms and covering the period from 2004-2014.

Although there is a paucity in the literature that has discussed the BS and IC nexus, in contrast, there is a stream of research that has addressed the impact of the ICQ system on the tendency to be involved in innovation and R&D activities, as innovation is essential to business success and expansion, enabling companies to maintain their competitiveness in their sector (Miller 2022). For example, Li et al. (2019) documented a negative influence of IC on innovation, and they advocated that high-quality IC probably discourages managers from being involved in risky innovative projects, which, in turn, restricts innovation. Specifically, because of the agency problem, managers could hardly comply with IC obligations. Further, control may generate an overly restrictive bureaucratic atmosphere that may mitigate the tendency for innovation. So, managers' incentives to innovate are constrained when more objective monitoring is imposed and subjective decisions are restricted by improved internal control. These results are based on a sample of 1917 observations belonging to listed Chinese firms during the period from 2007 to 2014.

In contrarily to the results of a previous study, a part of Li's (2020) results revealed that effectiveness in the ICS significantly promotes the innovation performance. This result was reached by using data belonging to the Chain's listed firms during the period from 2012 to 2017. Consistent with the findings of Li (2020), based on data of 15,531 firm-years during a period expanded from 2006 to 2017, Chan et al. (2021) supported the positive

impact of ICQ on firm innovation. However, they indicated that the magnitude of ICS's impact on innovation varies across its different components.

Further, Hu & Yang (2022) examined the relationship between the ICQ and the level of research and development (R&D) investment, using cash holdings as an intermediary variable. Their analysis is based on data from China's listed companies between 2010 and 2019. They found that IC quality (ICQ) positively impacts R&D investment, both directly and indirectly. High-quality IC enhances cash holdings, which in turn support greater investment in R&D activities. Therefore, improving the quality of internal control plays a significant role in fostering R&D innovation.

In the same venue, based on data from China's listed companies between 2007 and 2017, a part of Ma et al. (2022), findings verified that IC significantly enhances the value of innovation inputs. A proper ICS can alleviate the agency problems with better risk management for uncertain R&D activities that represent a part of innovation investment. Also, in the U.S., Miller et al. (2022) measured the impact of ICQ on the innovation level, depending on a sample containing 8,429 observations during a period expanded from 2004 to 2014. Their results support the existence of a positive relationship between the ICQ and the innovation level. Moreover, Wang & Cui (2023) emphasized on that Corporate technological innovation is

positively impacted by the level of internal control, depending on the CSMAR database's 2009–2019 listed company data. Table 1 illustrates a literature summary.

Table (1): Summary of the Previous Literature

No	Researcher/s (year)	Objective(s)	Sample, Country, Period	Results
1	Bentley-Goode et al. (2017)	Investigating whether a firm's BS is considered a determinant for the strength of its IC over financial reporting and the auditor's reporting quality.	(19,350) Obs. U.S 2004: 2014	BS is a significant determinant of the strength of IC. Prospectors are associated with higher likelihoods of reporting MWs and lower likelihoods of remediation.
2	Li et al. (2019)	Investigating whether and how ICQ affects firms' innovation decisions.	(1917) obs. China 2007–2014	Companies with high-quality ICS are linked to fewer innovation activities.
3	Li (2020)	Analyzing the impact of IC on innovation performance and CSR, and examining the intermediary effect of CSR on this relationship.	(4308) Obs. China 2012:2017	Effectiveness in the ICS significantly promotes the innovation performance.
4	Chan et al. (2021)	Examining the impact of IC on firm innovation.	(15,531) Obs. China 2006:2017	IC positively impacts firm innovation. The magnitude of ICS's impact on innovation varies across its different components.
5	Hu & Yang (2022)	Inspecting the correlation between the quality of IC and the intensity of R&D investment.	(7530) Obs. China 2010:2019	Their findings verified that IC significantly fosters R&D activities.
6	Ma et al. (2022)	Investigating the link between innovation investment and IC.	(9060& 9094) Obs. China 2007:2017	IC significantly enhances the value of innovation inputs.
7	Miller et al. (2022)	Evaluating the impact of ICQ on the level of innovation	8,429 Obs. USA 2004:2014	An effective IC system is associated with more innovation.
8	Wang & Cui (2023)	Exploring the influence of IC on corporate technological innovation.	(15,487) observations China 2009:2019	ICQ has a positive impact on the technological innovation of the corporation.

4. Research Discussion

From analyzing previous studies, it was observed that there is a paucity in the literature that has discussed the nexus between BS and ICQ. Also, results revealed that considering firm strategy while evaluating internal controls (ICs) is essential, even

after addressing other well-established determinants of material weaknesses in IC, since strategy can impact the effectiveness of a company's IC, according to Bentley-Goode et al. (2017) findings.

Further, Bentley-Goode et al. (2017) exposed that companies with innovation attributes (i.e., Prospectors) are more probably to receive weaker IC reports. As flexibility in prospectors permits them to respond to the changes quickly. Therefore, their control activities are decentralized and more adjustable to sustain such flexibility. This challenges the external auditor when evaluating the effectiveness of the control system of their client.

In a connected context, Li et al. (2019) documented a negative influence of IC on innovation, as they argued that the bureaucratic atmosphere associated with high-quality control systems may hinder the tendency for innovation.

However, another perspective has emerged from a different stream of research, which suggests that the existence of an effective internal control system (ICS) promotes involvement in innovative activities. In this context, Li (2020) stated that a sound ICS is necessary to mitigate risks arising from uncertainty and untimeliness in the output of such investments. As a result, firms should prioritize their ICS to enhance their capacity for innovation. Hu & Yang (2022) supported this conclusion, as they showed that the effectiveness of internal controls greatly increases the innovation activities. This positive impact was also confirmed by Ma et al. (2022). Besides, Miller et al. (2022)

indicated that ineffective IC procedures make it more difficult to translate R&D investments into innovative outcomes, as inefficient controls may force managers to focus on reforming the control system, shifting their focus away from promoting innovation. Again Wang & Cui (2023) emphasizes this positive impact. Further, Hu & Yang (2022) provided evidence that high ICQ can improve the level of cash-holding, which in turn increases R&D investment intensity.

Moreover, in studying how contingency factors could impact fraud risk management in financial reports, Lamptey & Singh (2018) reported that companies with a prospector strategy have a stronger IC, which improves their ability to manage their fraud risk. On the other side, when a company employs a defense strategy, it finds it difficult to control the risk of fraud, as unlike a prospector, defenders tend to have centralized and rigid controls that do not quickly respond to changes in their environment, hence, not effectively prevent fraud activities.

Overall, based on the evidence reviewed above, the researcher could conclude that the relationship between ICQ level and BS has been debated. On the one hand, firms classified as prospectors are more likely to be associated with ICMW, while on the other hand, there is some evidence in the literature suggesting that innovative companies (i.e., prospectors) will not be able to improve their innovation performance without maintaining an adequate and effective control system.

In the researcher's view, the variation in strategies, which also generated variance in the risks associated with them, forces firms to design and operate their control systems to better fit the characteristics of their competitive situation. This view is aligned with the assumptions of contingency theory, as it argues that there is no ideal structure for a firm, as it depends on both internal and external factors. Thus, depending on the organizational setting, different ICS requirements may apply (Akinleye & Kolawole, 2020). Thus, regulatory bodies aren't enforcing firms to track a specific pattern of ICS.

5. Conclusion

The researcher aimed, through this study, to examine the relationship between BS and ICQ. To achieve this objective, the researcher presented the theoretical framework for both research variables, as well as reviewed previous studies that addressed the relationship between them to identify the key findings of these studies and to understand the emerging research trends in this field.

According to the theoretical study findings, it could be concluded that there is a scarcity in the literature that has discussed the nexus between BS and ICQ. Also, results revealed that considering firm strategy while evaluating internal controls (ICs) is essential. Further, results provided that although there is a group of researchers have been founded evidence on the existence of effective control system in firms that seeking

innovations and R&D activities, in examining the impact of BS on ICQ, Bentley-Goode et al. (2017) provided evidence that prospector more probably to get internal control material weakness reports than defenders. Therefore, based on the previous analysis, in the researcher's view, there is a need for more empirical contributions to be conducted on this concern.

References

- Abdel-Fattah, H. (2021). The Impact of the Characteristics of the Audit Committee, The Experience of the Executive Director and The Ownership Structure on Disclosing the Weakness of Internal Control (An Applied Study). *Scientific Journal of Financial and Commercial Studies and Research*, 2 (second issue-part two), 1169-1227.
- Abdul Hakim, M. M., Arafa, N. T. and Abdel Halim, A. H. M. (2016). Determinants of Internal Control Weakness and Its Impact on the Level of Accounting Conservatism in Financial Reports: An Applied Study in The Egyptian Business Environment. *Accounting Thought*, 20(8), 329-395.
- Akhmetshin, E. (2017). The System of Internal Control as a Factor in the Integration of the Strategic and Innovation Dimensions of a Company's Development. *Journal of Advanced Research in Law and Economics (JARLE)*, 8(28), 1684-1692.
- Akindayomi, A., Aktas, E., and Amin, M. R. (2020). Business Strategy and CEO Compensation: Evidence from the Hospitality and Tourism Industry. *Available at SSRN 3539942*.
- Akinleye, G. T., and Kolawole, A. D. (2020). Internal Controls and Performance of Selected Tertiary Institutions in Ekiti State: A Committee of Sponsoring Organizations (COSO) Framework Approach. *International Journal of Financial Research*, 11(1), 405-416.
- Arianpoor, A. and Sahoo, Z. (2022). The Impact of Business Strategy and Annual Report Readability on Financial Reporting Quality. *Journal of Asia Business Studies*, Vol. ahead-of-print No. Ahead-of-print, Auditing: A Journal of Practice and Theory, 36, 45–62.
- Bentley, K., T. C. Omer, and N. Sharp. (2013). Business Strategy, Financial Reporting Irregularities, and Audit Effort. *Contemporary Accounting Research*, 30 (1), 780–817.

- Bentley-Goode, K. A., Newton, N. J., and Thompson, A. M. (2017). Business Strategy, Internal Control over Financial Reporting, and Audit Reporting Quality. *Auditing: A Journal of Practice and Theory*, 36(4), 49-69.
- Bentley-Goode, K. A., Omer, T. C., and Twedt, B. J. (2019). Does Business Strategy Impact a Firm's Information Environment?. *Journal of Accounting, Auditing & Finance*, 34(4), 563-587.
- Chan, K. C., Chen, Y., and Liu, B. (2021). The Linear and Non-Linear Effects of Internal Control and Its Five Components On Corporate Innovation: Evidence from Chinese Firms Using The COSO Framework. *European Accounting Review*, 30(4), 733-765.
- Chelanga, K. E., Rono, L., and Boit, R. (2017). Effect of Differentiation and Focus Strategies on the Financial Performance of Small and Medium Enterprises. *Journal of Strategic Management*, 1(1), 29-41.
- Chen, C., Jia, H., Xu, Y., and Ziebart, D. (2022). The Effect of Audit Firm Attributes on Audit Delay in The Presence of Financial Reporting Complexity. *Managerial Auditing Journal*, 37(2), 283-302.
- Chen, Y., Eshleman, J. D., and Soileau, J. S. (2017). Business Strategy and Auditor Reporting. *Auditing: A Journal of Practice and Theory*, 36(2), 63-86.
- Choi, J., and Park, H. J. (2021). Business Strategy and Audit Efforts-Focusing on Audit Report Lags: An Empirical Study in Korea. *Journal of Asian Finance, Economics and Business*, 8(7), 525-532.
- Chouaibi, J., and Boulhaga, M. (2020). The Effect of the Board of Directors and Audit Quality On Disclosure of Internal Control Practices: Evidence from European Companies. *Journal of Modern Accounting and Auditing*, 16(4), 171-189.

- Dalwai, T., and Salehi, M. (2021). Business Strategy, Intellectual Capital, Firm Performance, and Bankruptcy Risk: Evidence from Oman's Non-Financial Sector Companies. *Asian Review of Accounting*, 474-504.
- Dang, M., Puwanenthiren, P., Hoang, A., Nguyen, T. H., and Vo, X. V. (2022). Do Prospector Firms Pay More Dividends in Times of High Policy Uncertainty?. *Available at SSRN 4042825*.
- Dong, X., Cui, Y., and Gao, J. (2021). Strategic Deviance and Auditor Selection. *China Journal of Accounting Studies*, 9(1), 81-112.
- Farag, H. K. (2021). Studying and Testing the Effect of Fundamental Weaknesses in The Internal Control Structure on the Auditor's Modified Opinion on Going Concern - Evidence from Companies Listed on the Egyptian Stock Exchange. *Alexandria Journal of Accounting Research*, 5 (3), 1-56.
- Habib, A., Ranasinghe, D., and Perera, A. (2024). Business Strategy and Strategic Deviation in Accounting, Finance, and Corporate Governance: A Review of the Empirical Literature. *Accounting & Finance*, 64(1), 129-159.
- Herusetya, A., and Suryadinata, M. (2022). Business Strategy Typologies: Do The Board of Commissioners and Audit Committee Concern About Prospector-Type Strategies?. *Asian Journal of Accounting Research*. 7(3), 266-278.
- Herusetya, A., Sambuaga, E. A., and Sihombing, S. O. (2023). Business Strategy Typologies and the Preference of Earnings Management Practices: Evidence from Indonesian Listed Firms. *Cogent Business and Management*, 10(1), 2161204.
- Higgins, D., Omer, T. C., and Phillips, J. D. (2015). The Influence of a Firm's Business Strategy on Its Tax Aggressiveness. *Contemporary Accounting Research*, 32(2), 674-702.

- Hsu, P. H., Moore, J. A., and Neubaum, D. O. (2018). Tax Avoidance, Financial Experts on the Audit Committee, and Business Strategy. *Journal of Business Finance and Accounting*, 45(9-10), 1293-1321.
- Hu, S., and Yang, H. (2022). The Correlation Between Enterprise Internal Control Quality and Research and Development Investment Intensity. *Computational Intelligence and Neuroscience*, 2022(1), 1788142.
- Khlif, H., and Samaha, K. (2016). Audit Committee Activity And Internal Control Quality In Egypt: Does External Auditor's Size Matter?. *Managerial Auditing Journal*, 31(3), 269-289.
- Kim, H. T., Lee, S., Park, S. J., and Lee, B. (2019). Audit Fees and Corporate Innovation: Auditors' Response to Corporate Innovation, (No. 101081). University Library of Munich, Germany.
- Kisanyanya, G. A. (2018). *Internal Control Systems and Financial Performance of Public Institutions of Higher Learning in Vihiga County, Kenya* (Doctoral dissertation, Doctoral dissertation, Kenyatta University).
- Lamptey, E. K., and Singh, R. P. (2018). Fraud Risk Management Over Financial Reporting: A Contingency Theory Perspective. *Journal of Leadership, Accountability and Ethics*, 15(4), 66-75.
- Li, P., Shu, W., Tang, Q., & Zheng, Y. (2019). Internal control and corporate innovation: evidence from China. *Asia-Pacific Journal of Accounting & Economics*, 26(5), 622-642.
- Li, X. (2020). The Effectiveness of Internal Control and Innovation Performance: An Intermediary Effect Based on Corporate Social Responsibility. *Plops one*, 15(6).
- Li, Y., Li, X., Xiang, E., and Djajadikerta, H. G. (2020). Financial Distress, Internal Control, and Earnings Management: Evidence from

- China. *Journal of Contemporary Accounting and Economics*, 16(3), 100210.
- Li, Z., Li, P., Zhao, X., and Tu, Z. (2022). Business Strategy and Environmental Information Disclosure Quality: Empirical Evidence from Chinese Heavy Pollution Listed Firms. *International Journal of Environmental Research and Public Health*, 19(14), 8325.
- Ma, Q., Ju, L., and Zhang, Z. (2022). Innovation Input and Firm Value: Based on the Moderating Effect of Internal Control. *Sustainability*, 14(18), 11156.
- Meckling, W. H., and Jensen, M. C. (1976). Theory of the Firm. *Managerial Behavior, Agency Costs and Ownership Structure*.
- Miller, B. P., Sheneman, A. G., and Williams, B. M. (2022). The Impact of Control Systems On Corporate Innovation. *Contemporary Accounting Research*, 39(2), 1425-1454.
- Rudiawarni, F.A., Tjahjadi, B., Agustia, D. and Soewarno, N. (2022), Business Strategy and Industrial Competition: The Case of Manufacturing Companies, *Int. J. Business Environment*, 13(1), 35–59.
- Rumaili, S. M. R. (2020). The Effect of Management's Disclosure of the Internal Control Structure and The Auditor's Confirmation of It On the Decision to Invest in Shares of Companies Listed On the Egyptian Stock Exchange, An Experimental Study. *Alexandria Journal of Accounting Research*, 4(1), 163-246.
- Safi, A., Chen, Y., Qayyum, A., and Wahab, S. (2022). Business Strategy, Market Power, and Stock Price Crash Risk: Evidence from China. *Risk Management*, 24(1), 34-54.
- Soltanizadeh, S., Rasid, S. Z. A., Golshan, N. M., and Ismail, W. K. W. (2016). Business Strategy, Enterprise Risk Management and Organizational Performance. *Management Research Review*, 39(9), 1016-1033.
-

- Wahyuni, L., Fahada, R., and Atmaja, B. (2019). The Effect of Business Strategy, Leverage, Profitability, and Sales Growth on Tax Avoidance. *Indonesian Management and Accounting Research*, 16(2), 66-80.
- Wang, N., and Cui, D. (2023). Internal Controls and Corporate Technological Innovation: Empirical Evidence from Chinese Listed Companies. *Journal of Information Economics*, 1(2), 65-79.
- Weber, V., and Müßig, A. (2022). The Effect of Business Strategy on Risk Disclosure. *Accounting in Europe*, 19(1), 190-225.
- Yan-Kun, X. U., Yu-Ting, L., Lu, Y., and Yu-En, L. (2021). The Impact of Business Strategy on Information Environment. *Revista Argentina de Clínica Psicológica*, 30(1), 853.