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Internal Control Strategies for Compliance with the Sarbanes-Oxley Act of 2002

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This is to certify that the doctoral study by

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Abstract

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by

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MAcc., Case Western Reserve University, 1993

BS, Bethany College, 1991

Doctoral Study Submitted in Partial Fulfillment

of the Requirements for the Degree of

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Abstract

Publicly traded corporations have dedicated time and money to adhering to the requirements of the Sarbanes-Oxley Act (SOX) of 2002; however, some companies face challenges in internal control compliance with SOX. Using the transformational leadership theory as the conceptual framework, the purpose of this multiple case study was to explore the strategies chief financial officers (CFOs) used to comply with corporate financial internal control policies. Data were collected using face-to-face, semistructured interviews with 3 CFOs of publicly traded manufacturing companies in Michigan and a review of documents. The selection criteria for participants included CFOs who have experience in SOX implementation and compliance in a manufacturing industry and who had successful strategies that they used to comply with corporate financial internal control policies. Transcript evaluation and member checking ensured the reliability of the data collected. Data were analyzed using qualitative data-analysis software and triangulation to interpret data collected from multiple sources. Four themes emerged from the study: (a) internal control process and financial reporting, (b) control process accountability, (c) compliance challenges, and (d) risk assessment. The findings could contribute to social change by providing internal-control best practices to help mitigate the elements of the fraud, confirm ethical behavior of employees, and impact positive growth and progress in communities.

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Dedication

I would like to dedicate this study to my wife Susan and my seven children. This has been an incredible journey with challenges along the way and I certainly received unwavering support from my entire family from the start of my study to completion. I also dedicate the completion of my study to my late mother, Dr. Jung Min Lee, who always stressed the importance of education and recognized my passion for teaching.

Acknowledgments

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I am also thankful for the unwavering support my colleagues at Davenport University have given me throughout the past seven years. Many of them shared their own experiences in their doctoral journey, which inspired me to continue to work diligently to reach this accomplishment.

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Section 1: Foundation of the Study

Ineffective company financial and accounting internal controls attributed to questionable accounting practices and corporate misconduct between the years 2000 to 2008 (Kanagaretnam, Lobo, Ma, & Zhou, 2016), which resulted in significant instances of financial scandals. The United States Congress enacted the Sarbanes-Oxley Act of 2002 (SOX) as a response to control fraudulent corporate financial malfeasance. Section 404 of the Sarbanes-Oxley Act requires managers to assess, and their auditors to express an opinion on, the overall effectiveness of internal controls over financial reporting (ICFR; Chen, Krishnan, Sami, Heibatollah, & Zhou, 2013). Managers and CFOs must thoroughly review the internal control implementation for accuracy and effectiveness as individuals depend on the accuracy of financial statements. All significant stakeholders and regulatory authorities rely on the company's financial statements to make important decisions as it provides critical information for evaluating factors such as liquidity, financing needs, and risk attributes (Van Auken & Yang, 2014).

Background of the Problem

The United States Congress enacted SOX in response to fraudulent corporate acts. The purpose of the Act was to increase accountability of corporations and the accounting firms they employ by imposing financial penalties and criminal sanctions on those parties who participate in fraudulent acts (Wilbanks, 2016). Section 404 of the Sarbanes Oxley Act of 2002 (SOX 404) required companies' independent auditors to perform 404 audits, where the audit team provides an opinion on their clients' internal control over financial reporting (ICFR) to measure operating effectiveness. Upon completion of an audit, publicly traded companies are required to publish information in their annual reports about the scope and effectiveness of their internal control structure (Yuping, Bedard, & Hoitash, 2017).

Companies have realized it is safer and cheaper to establish their internal control systems as they represent a protective barrier against various kinds of data manipulation and fraud inside their companies (Dimitrijevic, Milovanovic, & Vesna, 2015). Companies that have implemented effective internal controls over their financial reporting have stronger earnings quality (He & Thornton, 2013). Companies without a healthy internal control system in place are more likely to experience challenges, such as impairments in their financial reporting (Feng, Li, McVay, & Skaife, 2015). Companies with internal control weaknesses typically experience declines in their stock prices and capital as well as more negative credit ratings (Balsam, Jiang, & Lu, 2014). Businesses must continue to implement strategies to meet the requirements for effective internal control in all of their processes.

Problem Statement

The enforcement mechanisms surrounding SOX 404 fail to provide strong incentives to detect and disclose existing control weaknesses, which results in investors having limited awareness of potential accounting problems (Rice, Webber, & Wu, 2015). Companies who experience significant material internal control weaknesses in 404 audits will have misstatements in financial information compared to companies without a history of reported material internal control weaknesses (Myllymaki, 2014). The general business problem is that some CFOs fail to comply with SOX 404, which may likely result in ineffective internal controls over financial reporting and overall adverse audit opinion. The specific business problem is that some CFOs lack leadership strategies to ensure organizational SOX compliance with corporate financial internal control policies.

Purpose Statement

The purpose of this qualitative multiple case study design was to explore the leadership strategies CFOs use to ensure organizational SOX compliance with corporate financial internal control policies. The study population was three CFOs from different manufacturing companies in Michigan. The selected CFOs were appropriate for this study because they understood the scope of SOX 404 and had implemented efficient company internal controls. Results of this study could benefit external users of a company's financial statements, such as shareholders and creditors. These groups can benefit from a company's stable internal controls structure, which reduces the risk of asset loss and increases the reliability of financial statements. The findings of this study may also contribute to social change as CFOs become increasingly aware of the need for strong ethical practices as they develop strategies to implement SOX. The increase in ethical behavior due to SOX has changed the corporate culture and employee behavior. The change in ethical behavior points to a positive alteration in behavior patterns and cultural values, which can help mitigate the elements of the fraud and decrease the likelihood of fraud from occurring in the corporate environment. This positive change in corporate culture and employee behavior can have a positive impact on the corporation's reputation and continue to instill community growth, such as providing employment opportunities and building strong relationships with customers, suppliers and other stakeholders.

Nature of the Study

The three research methods include qualitative, quantitative, and mixed methods. (Raich, Müller, & Abfalter, 2014). In my study, I explored the strategies CFOs use to be compliant with SOX 404. I chose the qualitative method. The researcher uses qualitative means when there are no preselected or close-ended answers, which suggests the use of interrogative strategies to answer the what, how and why questions (Barnham, 2015). My research was exploratory as I utilized these types of questions to further explore individuals' experiences without having to prove a theory. The quantitative method involves the formulation of hypotheses to test theories and provide an objective method for studying phenomena of scientific interest (Lock & Seele, 2015). I did not check an approach or confirm a hypothesis about a phenomenon. Thus the quantitative method was not appropriate. Researchers use mixed methods research when they collect, analyze, and integrate both quantitative and qualitative data within a study (Ivankova & Wingo, 2018). A mixed method approach was not a plausible method, as I did not test a hypothesis, which is part of a quantitative study or the quantitative portion of a mixed methods study.

The design of this research was a case study. A case study approach allows the researcher to investigate into a real-life phenomenon of an individual or group and within its environmental context (Ridder, 2017). The case study design was appropriate as I planned to interview CFOs to obtain an understanding of strategies to improve internal control as it relates to SOX 404. I explored alternative research designs including a phenomenological study and an ethnographic study. A phenomenological design is the exploration of lived experiences (Alfakhri, Harness, Nicholson, & Harness, 2018). The objective of a phenomenological design is to examine unusual circumstances when this study looked at business as usual practices. The purpose of an ethnographic model is to look at the phenomena study in its social and cultural context (Baskerville & Myers, 2015). This plan did not fit the focus of my study as I was not concerned with the role of culture.

Research Question

The overarching research question for this study was: what are the leadership strategies CFOs use to ensure organizational SOX compliance with corporate financial internal control policies?

Interview Questions

1. What financial internal control strategies did you develop and implement?
2. How do you reinforce strategy for financial internal control compliance with all employees?
3. How does the internal control process affect the financial reporting and disclosure preparation process?
4. What are the consequences to employees who fail to adhere to internal control policies and procedures?
5. What are the roles of the audit committee and board of directors as it pertains to internal control implementation?

6. What are the compliance challenges you face most frequently in your role as the Chief Financial Officer?
7. What ways can the company improve its compliance policies?
8. How can company employees report issues or potential violations of compliance policies?
9. What additional information would you like to share regarding your company's internal controls?

Conceptual Framework

The conceptual framework theory for this study was the transformational leadership theory. Burns developed the method of transformational leadership in 1978 (Sun & Henderson, 2017). Transformational leadership fosters a profound change in that new cultures and value systems take place of the former approach as leaders champion and inspire followers (Burns, 2003). The transformational leadership model fostered pro-organizational employee behavior (Effelsberg, Solga, & Gurt, 2014). Leaders can influence followers by highlighting different aspects of social self-concept and changing their views (Kark, & Shamir, 2002). Transformational leaders stimulate interest from their employees to view their work differently in order so that the group receives the benefits.

The strategic decision process affects the future financial stability of any company. Management continues its efforts in following financial controls and the assurance of complying with SOX. The decision process takes many forms, which includes both long-range strategic planning and short-range executive problem solving

(Sibony, Lovallo, & Powell, 2017). A high level of transformational leadership assists in the formation and implementation of complex strategic decisions (Colbert, Barrick, & Bradley, 2014). The expectation exists that the transformational leader will continue to implement financial controls and ensure SOX compliance due to their perception of being action-oriented, trustworthy and ethical. Transformational leaders act as role models who are forthright about organizational plans and prospects (Cotton & Stevenson, 2008). Transformational leadership recognizes the need to coordinate diverse interest within the organization and the necessity of successful implementation of strategic decisions.

Firms set up financial internal control systems to identify and manage risks and financial fraud (Länsiluoto, Aapo, Jokipii, & Eklund, 2016). Companies utilize internal controls as a tool to ensure strategic decision making while controlling risk and increasing shareholder wealth. The passage of stricter regulations provides firms with internal control systems the ability to give assurances of effective risk management (Länsiluoto et al., 2016) through reliable management data and financial reporting and compliance with laws and regulations. Unfortunately, there is an apparent risk that companies can experience a failure of the internal control mechanism (Aziz, 2013).

This study, based on using the transformational leadership theory as a framework, may provide CFOs with strategies that can help them ensure that the company complies with internal control processes. Transformational leaders exhibit ethical behaviors, consider the needs of their employees, and treat their employees fairly (Cotton & Stevenson, 2008). CFOs should provide employees with an awareness of expectations in internal control implementation and SOX compliance so that there exists employee accountability in all areas. Transformational leadership positively impacts the enforcement of internal controls. Transformational leadership represents a value-based framework and involves a leadership style that leads to a beneficial follower and organizational outcomes (Zacher, Pearce, Rooney, & McKenna, 2014). Leaders cannot afford complacency when it comes to company transformation to achieve strategic and operational objectives (Schroeder, 2015). The successful implementation of internal controls provides management with growth opportunities as well as sound financial statements. Transformational leaders provide inspirational motivation by articulating a clear and stimulating vision (Caillier, 2015). The internal control process can improve, which can benefit a company's operations. Transformational leaders provide their followers with individual consideration, such as support, mentoring and coaching (Caillier, 2015). Transformational leaders who provide attention to their employees can assist the employee in his role as it relates to internal control.

Operational Definitions

Financial and accounting managers use the following terms to discuss internal control strategy. An understanding of these definitions is needed to comprehend adequate internal control procedures.

Corporate Governance: A system of rules and processes, which ensures an active relationship between a company and its stakeholders. Corporate governance includes the accountability for business decisions, and risk management which proves that the company is operating fairly (Chitimus, 2015).

COSO Internal Control Framework: Components necessary for a well-designed system of internal control include a controlled environment, robust risk assessment, a method to identify risks, information and communication which facilitates internal control responsibilities, and ongoing monitoring activities (Dickins & Fay, 2017).

Internal audit: An independent consulting activity designed to assist an organization to meet its goals and objectives efficiently and effectively. One of its values is the ability to identify transgressions in daily operating processes and procedures such that critical damage is prevented (Ma'ayan & Carmeli, 2016).

Internal control: Companies use internal control systems to measure a company's ability to initiate, authorize, record, process and report external financial data per generally accepted accounting principles. A set of internal controls will ensure that there is not more than a remote likelihood that a misstatement of a company's financial reports is more than inconsequential will not be prevented (Kanagaretnam et al., 2016).

Risk management: Risk management is a systematic framework for applying psychological theories and concepts to judgments and behaviors associated with the practice of risk management (Shefrin, 2016).

SOX Section 404: SOX Section 404 is designed to improve corporate controls by requiring company management and external auditors to document and test Internal Controls of Financial Reporting (Graham & Bedard, 2013).

Assumptions, Limitations, and Delimitations

The Sarbanes-Oxley Act of 2002 and its compliance requirements for an adequate internal control system address significant issues. The following sections explain the assumptions, limitations, and delimitations of this study to clarify the complexity of the overall internal control framework of a manufacturing company. The explanation of assumptions, limitations and delimitations provides the reader with a clear understanding of the facts of the study.

Assumptions

Assumptions are things researchers believe to be true but lack evidence to prove (Ellis & Levy, 2009). In this study, I made some assumptions regarding the strategies for compliance with internal control processes. First, I assumed participants in this study would answer my questions honestly, completely, and independently without bias. Second, I assumed the results of the study can be shared with different manufacturing companies, regardless of the industry. Finally, I assumed the outcomes could be valuable to those corporate managers that desire to participate in internal control strategies.

Limitations

Restrictions in the research process are due to limitations. There exist specific limits on the collection of evidence because of the different outcomes selected as tests of usefulness or differences in the samples studied (Teixeira, 2014). One limitation of this study was the geographical region selected for this study. The chosen participants from manufacturing companies were located only in western Michigan, and this may not be entirely representative of all manufacturing businesses in the United States. Another limitation was the size of the companies selected to participate in this study. I chose to research only medium to large-sized manufacturing companies and to omit small businesses. A third limitation was the type of industry chosen for my research. I selected the manufacturing industry while realizing that internal control strategies vary across all kinds of industries.

Delimitations

Delimitations provide restrictions to characteristics of a study (Rufin & Medina, 2014). In this study, I explored internal control strategies directly with certified public accountants (CPAs) and certified financial officers (CFOs) of the organization. The participants in my study were limited to medium to large-sized corporations in western Michigan. The scope of my research included a literature review of peer-reviewed sources from 2013 – 2018. Finally, I interviewed CFOs who are familiar with their company's internal controls and financial reporting processes and procedures. I did not question staff level employees who deal with internal control processes daily, which might have been problematic as I might not have gathered sufficient information on employee compliance with internal control procedures.

Significance of the Study

The strength of a company's internal control system depends on key personnel to carry out the functions. Employees should understand the purpose of internal control and how it impacts a company's operations. If a company has the necessary number of employees required to operate its internal control system, management must ensure control by implementing targeted internal controls, such as proper segregation of duties, timely review, and an overall monitoring system for the accounting function (Peltier-Rivest, 2018).

Contribution to Business Practice

CFOs of manufacturing companies continue to face challenges in both weak internal control and financial reporting compliance. Inadequate internal controls represent a risk to the overall company performance. Jahmani, Ansari, and Dowling (2014) stated that 27% of firms with weak internal control issued restated statements, which potentially harmed the company's reputation. Ineffective internal control over financial reporting has implications for a company's operations as firms with weak inventory related controls have lower inventory turnover ratios and likely to report impairments (Feng, Li, McVay, & Skaife, 2015). The results of this study may contribute to improved business practice by revealing insights on the efficiency and benefits of compliance, which will enhance corporate capabilities, efficient management and the overall company's ability to create value and maximize its shareholders' wealth (Aziz, 2013).

The corporate controller monitors the internal control system. An adequate internal controls system requires time for complete implementation and development. The longer the controller's length of employment with the company and is responsible for the internal control system, the lower the likelihood of control weakness (Campbell, Li, Yu, & Zhang, 2016).

Implications for Social Change

The purpose of this study was to explore the strategies that CFOs use to implement adequate internal control. The impact of positive social change includes the awareness and understanding by nonaccounting employees of both the inefficiencies and the risks that may occur from the noncompliance of internal controls and SOX 404. By increasing awareness of how controls can positively affect a company's financial position, management may experience a sense of urgency to continue to implement best practices for compliance. Management must ensure its employees understand the importance of internal control. One of the objectives of internal controls includes the improvement of operating efficiency (Duh, Chen, Lin, & Kuo, 2014) as it relates to the overall company reporting requirements. An efficient internal control system reduces risk-taking behavior and provides a business with a strategy to successfully reach its performance targets and minimize failure (Kofi & Gene, 2016). Stakeholders of companies who comply with SOX requirements maintain a level of confidence in the company's financial reporting, operations, and future. Society and communities can benefit from SOX compliance companies through employment opportunities and the company's relationship with its customers, suppliers, and other stakeholders.

A Review of the Professional and Academic Literature

A literature review is a summary of the business problem, the theory related to the business problem, the research findings of other authors, and a conclusion of the results. The literature review includes critical analysis and synthesis of current research from the peer-reviewed journal, published from 2014 to 2018. I searched the literature using accounting subject matter such as internal controls, along with pertinent data about the Sarbanes Oxley Act. I used the results of this literature review to provide an analysis of leadership strategies within the context of ensuring SOX compliance with corporate financial internal control policies. I referred to The Ulrich's Periodical Directory to ensure I had selected peer-reviewed articles. The review of the academic literature provides an overview of the evolution of internal control, with a focus on transformational leadership strategies. Search terms included *transformational leadership, internal controls, Sarbanes Oxley Act, COSO framework,* and *404 audits.* I used 124 references in my literature review, and 122 (98%) of the total sources are peer-reviewed. I used 226 references for my doctoral study and 194 resources have a publication date less than 5 years from the date of CAO approval. The literature review contains the following sections:

- The Transformational Leadership Theory
- Fraud Risk
- Sarbanes Oxley Act of 2002
- Sections 302 and 404
- Internal Control over Financial Reporting
- Effects of Internal Control over Financial Reporting
- 404 Audit Compliance
- Internal Controls
- The COSO Framework
- Internal Control Compliance.

The Transformational Leadership Theory

The purpose of the study was to explore internal control methods and processes in manufacturing industries. The research question was: what strategies CFOs use to ensure organizational SOX compliance with corporate financial internal control policies? Many authors have written topics about internal control. My research findings of internal control practices may assist other CFOs efforts in leading their employees' initiative in the actual performance of internal control procedures, resulting in confident SOX 404 audit results.

The transformational leadership theory served the conceptual framework for my study. The development of global leaders represents a critical aspect of personnel management for multi-national corporations (Ramsey, Rutti, Lorenz, Barakat, & Sant'anna, 2017). Global leaders lead organizations to maintain a competitive advantage. A company's internal control system represents a critical element in its sustainability. Goal setting is becoming a prominent component of sustainability strategies (Palmer &Flanagan 2016). Every organization has measurable goals, which proves beneficial to the business when achieved under management leadership. Leaders focus on initiatives that lead to positive team dynamics, and they should efficiently manage team dynamics to achieve high performance (Webber & Webber, 2015). Leaders must develop effective teams, which consists of the coordination of individuals' skills and competencies in line with goals. The transformational leadership theory explains the forms of leadership in which companies are managed around a purpose in ways that transform and inspire employees (Khalili, 2016). The efforts needed to inspire and motivate employees effectively varies depending on the situation. The evaluation of leaders depends on several factors, including (a) how transformational they need to be considering the complexity of the task, (b) the radicalness of change, (c) the complexity and speed of change, and (d) the demand on followers (VanWart, 2015).

The transformational leadership theory consists of four dimensions, which include (a) idealized influence, (b) inspirational motivation, (c) intellectual stimulation, and (d) individualized consideration (Arnold, 2017). Each type of transformational leadership theory describes how leaders empower their employees in their pursuit of high performance. Transformational leadership aims to direct individual efforts by transforming and motivating their employees by appealing to the importance of organizational outcomes (Bro, Anderson, & Bollingtoft, 2017). Key objectives in the design of internal control systems exist, including the reliability of financial reporting, the practical use of resources to optimize company goals, and the compliance with laws and regulations (Al-Thuneibat, Al-Rehaily, & Basodan, 2015). Management must ensure its employees possess the necessary tools, which would allow the achievement of the internal control system objectives.

The idealized influence style describes leaders as those who avoid using their power for personal interest or gain (Zineldin, 2017). These transformational leaders urge their followers to focus on the organizational goals rather than individual goals (Pradhan & Pradhan, 2015). The leader’s actions are appropriate for followers, and their efforts display traits of a robust role model. The inspirational motivation attribute depicts leaders as those who communicate high expectations and encourage others to remain committed to the company vision (Zineldin, 2017). Management recognizes that all parties interested in economic prosperity and corporate continuity to look for a robust internal control system (Al-Thuneibat et al., 2015). The CEO of an entity bears the responsibility of ensuring that employees understand and comply with the requirements of an internal control system. Transformational leadership includes intellectual stimulation, where leaders will listen to their followers with respect, and promote intelligence, and particular problem solving while remaining calm and relaxed (Zineldin, 2017). The leader realizes there are different ways of accomplishing tasks (Arnold, 2017). The concept of innovation and creativity surfaces as followers discover alternative approaches for the completion of a job. Leadership recognizes the innovative methods of reaching goals and further promotes motivation and performance in their employees. Finally, those leaders who possess the individualized consideration trait play the role of a coach or an advisor who provides personal attention to their employees to develop specific competencies (Zineldin, 2017). The leader works diligently with followers on a path to success.

As the global market continues to change, it is critical that management reacts in a timely manner to change through transparency and monitoring of business processes (Koetter & Kochanowski, 2015). Publicly traded companies continually face challenges as they prove their processes are compliant with internal rules and legislatures (Koetter & Kochanowski, 2015). Employees represent the source of knowledge required for process compliance.

Transformational leaders instill a knowledgeable and supportive work environment, which helps employees develop a set of values and beliefs related to knowledge (Le & Lei, 2017). Transformational leaders play a key role in managing knowledge, resulting in an increase in employee understanding of process and compliance. Trust represents an integral part of the relationship between leaders and their followers (Le & Lei, 2017). As employees increase their knowledge base in the business, the trust level between the transformational leader and employee improves for the betterment of the company.

Alternative theories. Greenleaf described servant leaders as individuals who motivate followers by prioritizing employee needs before satisfying their own needs (Liden, Wayne, Chenwei, & Meuser, 2014). This model portrays a servant leader through many characteristics, including authenticity, humility, and accountability (Coetzer, Bussin, & Geldenhuys, 2017). An authentic leader displays true intent and motivates followers in a consistent behavior (Coetzer et al., 2017). Humility defines a leader as one who acts with a humble attitude and values the talent of others (Coetzer et al., 2017). A leader with accountability ensures transparent practices while holding others accountable (Coetzer et al., 2017). This leader provides consistency in performance by the monitoring the actions of others.

The servant leader plays an integral role in ensuring the adherence of company internal controls. The useful servant leader displays initiative traits, assumes the risk, and takes ownership of actions (Sousa & Dierendonck, 2017). The servant leadership theory, (Coetzer et al., 2017), depicts the leader as an individual who desires to serve, lead and develop others, and to achieve higher purpose objectives for the employees.

The servant leadership theory and transformational leadership theory have common traits as they relate to organizational learning and performance **(**Choudhary, Akhtar, and Zaheer, 2013). Employees perform and grow through organizational learning. Both theories promote an approach where the focus on relationships and communication provides tools for high levels of performance and organizational learning.

All organizations strive for high-performance to sustain competitive advantages in the global environment (Choudhary et al., 2013). High-performance indicators include profits, sales, and cost reduction. Both the servant leadership and transformation leadership influence overall performance of their employees through effective communication and consistent encouragement.

Transformational leaders motivate and inspire followers to perform beyond their expectations for the collective goal of the team through their influence (Aw & Ayoko, 2017). Management hopes that motivation can promote commitment and drive within their employees to ensure consistent compliance with internal controls. Transformational leaders provide inspirational motivation by giving meaning and challenges to their followers as they continue to encourage their followers (Aw & Ayoko, 2017).

Burns (1978) developed the transactional leadership theory, which conflicts in various areas with the transformational leadership theory (Doucet, Fredette, Simard, & Tremblay 2015). Both styles of leadership styles differ in the process by which the leader motivates his employees (Keskes, 2014). Transactional leaders motivate their followers by providing only praise and rewards in exchange for their efforts (Doucet et al., 2015). Furthermore, transactional leaders display a form of punishment toward their followers when behavior fails to meet expectation (Tyssen, Wald, & Spieth, 2014). The transactional leadership theory lacks the essential elements that promote and encourage trust and commitment to a common goal. Transformational leaders foster motivation through trust (Aw & Ayoko, 2017). Transformational leaders inspire employees to trust by allowing them the opportunity to share opinions and resolve conflict through problem-solving.

Both the transactional leadership theory and the transformational leadership theory differ in approach in both qualitative and quantitative creativity (Herrmann, & Felfe, 2014). Transformational leaders excel in qualitative creativity as they display intellectual stimulation when they encourage their employees to both think unconventionally and to challenge the status quo (Herrmann, & Felfe, 2014). Transactional leaders are limited in creativity when tasks lack direction (Antonokis & House (2014).

According to Burns (1978), the difference between transformational and transactional leadership is what leaders and their subordinates offer one another (Keskes, 2014). The transformational leadership style involves engagement between individuals, resulting in levels of motivation, collaboration, and morality (Keskes, 2014). The transformational leadership theory supports an ongoing process of cooperation with unselfish concerns. The transactional leadership style lacks a collaborative effort, as only one individual makes contact with the other for an exchange (Keskes, 2014). The emphasis placed on individual goals as opposed to collective goals tends to reduce cooperation within teams (Hamstra, Van Yperen, Wisse, & Sassenberg, 2014).

Transformational leadership will play a significant role in the future of the U.S. workplace as a substantial demographic shift of 75 million workers enters retirement, and younger workers will fill these vacant positions (Bodenhausen & Curtis, 2016). This workplace shift represents a significant organizational change, and transformational leaders must interact and build relationships with employees as they begin to identify with the leader (Bodenhausen & Curtis, 2016). With this change comes the demand for increased accounting contributions from leadership beyond the traditional role of financial reporting. Management that has a transformational leadership style stimulates and inspires followers by offering a compelling vision of the future (Nguyen, Mia, Winata, & Chong, 2017). The complexity of accounting rules and regulations often require management innovation.

Fraud Risk

There are two different types of fraud, including fraudulent financial reporting and misappropriations of assets. Fraudulent acts committed by employees can have a significant financial impact on a company. Companies counter risks of fraud by implementing internal controls with the goal of diminishing dishonest behavior.

History of fraud. Historically, there were significant instances of fraudulent crimes referred to as the white-collar crime. Sociologist Edwin Sutherland in 1939 defined white-collar criminals as individuals who devote substantial portions of their time and energy to criminal offenses and they have acquired and developed personal identities as criminals (Unithan, 2016). Studies prove that the values, attitudes, and neurophysiology of corporate actors are central to the proclivity of crime (Fligstein & Roehrkasse, 2016). More recently, other scholars defined white-collar crime as the violation and manipulation of the norms of trust-of disclosure, disinterestedness and role competence – represent the modus operandi of white-collar crime (Dearden, 2016). The breach of trust results in the disassociation of the company involved in the related white-collar crime.

There are some types of fraudulent acts committed by corporations. Two of the more common types of fraud included bribes and corruption, which usually occurs in any phase of an economic cycle. The financial impact of a fraudulent act can be financially devastating to any company's financial well-being.

During the period 2000-2008, some public companies within the global community experienced significant accounting scandals and fraudulent acts, due to individual businesses lacking adequate internal controls (Kanagaretnam et al., 2016). Several impactful accounting scandals involved companies such as Waste Management, Enron, WorldCom, and the Lehman Brothers scandals. Each of these scandals involved inflated assets, billions of dollars of fake earnings, and many lost jobs.

From 2007 to 2009, fraudulent acts occurred within the mortgage securitization industry. In 2008, a corporation experienced an average loss of $375,000 per deceptive act (Tackett, 2010). Mortgage originators deceived borrowers about loan terms and eligibility requirements (Fligstein & Roehrkasse, 2016). The number of instances of predatory lending increased as the supply of good mortgages diminished. The Federal Deposit Insurance Corporation (FDIC) defines predatory lending as the act of imposing unfair and abusive loan terms on borrowers through aggressive sales tactics (Fligstein & Roehrkasse, 2016). There exist various theories explaining the causes of mortgage fraud during this period. One of the common arguments states that firms in industries who face a crisis of profitability experience a higher chance of generating profit through illegal behavior (Fligstein & Roehrkasse, 2016).

Fraudulent acts have a significant impact on the present accounting rules and regulations that public and private corporations are required to follow. Corporate deceptive actions, such as those committed by WorldCom and Enron, have taught the corporate world and the public about the importance of clearly understanding all the financial aspects of the business. The unethical behavior of employees may lead to a decrease in company performance, low job satisfaction and high employee turnover (Omar, Nawawi, & Puteh, 2016). Many companies implement the practice of modeling its businesses by the tone at the top model, where management's characteristics exercise a significant influence on a company's practices (Patelli & Pedrini, 2015).

During this particular period where companies and investors experienced the effects of fraudulent acts, it appears evident that businesses lacked proper controls in its processes and procedures. Substantial evidence suggests that the absence of appropriate systems and methods contribute to the occurrence of fraudulent activities (Akkeren & Buckby, 2017). Additionally, weak internal controls with an ineffective audit committee contributed to asset misappropriation from company employees.

Fraud triangle. According to the Ethics & Compliance Initiative's Global Business Ethics Survey of more than 13,000 employees in 13 countries, one-third of all workers have observed misconduct in their workplace over the past 12 months (Steffee, 2016). The risk of fraud should be a concern to management, auditors, and the public. Any business entity experiences a negative impact both financially and in reputation, if they experience any level of fraudulent acts. Any level of fraud risk assessment involves the use of the fraud triangle. The risk of fraud increases within an organization when the elements of the fraud triangle exist. (Murphy, & Free, 2016). The fraud triangle includes (1) incentives and pressures, (2) opportunity, and (3) attitudes and rationalizations.

There are financial motivators, which relate to incentives and pressures. Examples include poor economic performance, excessive high expectations to meet targets, rapid growth and significant performance-based compensation (Roden, Cox, & Kim, 2016). Companies who experience business challenges and have difficulties in achieving objectives are those entities which tend to borrow more significant amounts of cash through external financing options. Organizations who encourage stock option compensation may be in a position that aligns with shareholder and managers' interests, thereby resulting in motivating behavior that enhances the firm's stock price (Roden et al., 2016).

There exist opportunities for fraudulent acts within any business. Chances for deceptive acts may occur for various reasons, including the pressures and incentives for employees to commit fraud, and the opportunity to commit fraud due to weak internal controls (Reinstein & Taylor, 2017). Examples of opportunity include ineffective monitoring of managers by an incompetent board of directors, high turnover rates, and the domination of management by a single person (Roden et al., 2016). Members who serve on the board of directors of an entity tend to lose their independence over time and favor managements' interest over shareholders, which can be problematic (Roden et al., 2016).

The element of rationalization supports fraudulent behavior. Examples include nonfinancial management's participation in the selection of accounting principles, aggressive or unrealistic forecasts, and strained relationship with the current or predecessor auditor (Roden et al., 2016). Managers may rationalize the justification for a fraudulent act if there is a need for a change in auditors due to a strained relationship with the predecessor auditor (Lou & Wang, 2009).

Additional risk factors for fraudulent activity include corporate ethical climate, tone at the top and corporate governance and accountability (Soltani, 2014). A company which practices ethics in practice and its culture promotes fair and positive organizational outcomes. Firms who institute standards for moral values will undoubtedly guide the ethical behavior and decision making of its employees by communicating codes of conduct and behavioral guidelines (Jacobs, Belschak, & Hartog, 2014). Unfortunately, an organization's ethical climate environment and its influence on individual's professional behavior can affect and promote an unethical workplace behavior (Domino, Wingreen, & Blanton, 2015). A dishonest workplace can contribute to employee behavior as employee's levels of job satisfaction fluctuate depending on the work environment. It is possible for employees, who disagree with their organizations' value, may be less committed to the company resulting in unethical behavior. From a management perspective, an ethical culture within a company can promote a perception that management has the freedom to act in any way desired, which can be a source of managerial misconduct (Soltani, 2014).

Financial reporting scandals committed by high-level executives at Enron and WorldCom raised concerns regarding tone at the top within organizations (Lail, MacGregor, & Stuebs, 2015). Soltani (2014) defines the term tone at the top as the manner in which the company's board of directors, senior management and CEO perceive their responsibilities in setting the pulse of an organization. Thus, the management team influences their employees' behavior. Leaders who instill a positive tone at the top attitude for their companies promote transparent and full disclosure of financial reporting. Management sets the overall position of the organization toward creating and maintaining an ethical culture in the workplace (Warren, Peytcheva, & Gaspar, 2015).

Some methods gauge the effectiveness of an entity's tone at the top attitude toward ethics and the handling of fraudulent events such as the handling of customer complaints, the manner in which management communicates, and employee surveys. Due to the financial crisis of 2008, companies have focused its attention on its process of customer complaint handling, which requires fairness and ethical practices (Chalmers, 2016). If company management demonstrates poor customer complaint handling, it could be an indication of potential fraudulent acts by the administration. The tone of management's communication to its employees may promote ethical practices. Employee surveys serve as a convenient tool for companies to retrieve immediate feedback from its employees. Recent employee surveys indicate that there exists a positive correlation between ethical practices and trust (Bulatova, 2015). The tone at the top attitude represents a key ingredient in the maintenance of an efficient internal control system (Soltani, 2014). The ethics and values demonstrated by corporate leadership will shape the overall company attitude, which impacts a company's internal controls.

Corporate governance assists in the determination of established policies and measurement of managerial and financial performance. Enforceable contracts and effective management require reliable information that can be verified (Admanti, 2017). Ineffective corporate governance raises concerns about the adequacy and effectiveness of internal controls and the reliability of financial reports, resulting in doubt about the integrity and ethical conduct of top executives (Halbouni, Sawsan, Obeid, & Garbou, 2016). Management has violated corporate governance in instances where financial compensation ties to overall performance. Unethical managers often act in a manner that appears as though they exceed financial targets (Admanti, 2017). Dishonest acts become particularly damaging to the corporation as corporate fraud or misrepresentation can remain hidden for an extended (Admanti, 2017). Ineffective corporate governance leads to questions about the integrity of management, and the reliability of the internal control system (Halbouni et al., 2016). Administration violating corporate governance can decrease a firm's value as their risky investments may lead to distorted investments and possible bankruptcies (Admanti, 2017).

The current state of ethical culture and the corporate environment result in the necessary preventative measures for fraud (Murphy & Free, 2016). Company management desires its employees to act with integrity as they perform their daily job responsibilities. An ethical culture should provide the management team with guidance on unfortunate situations where necessary intervention addresses wrongful acts (Rodgers, Soderbom, & Guiral, 2015). Employee awareness of illegal actions increases as the disclosure and effective corporate governance prevails due to the number of fraudulent corporate acts committed during the global financial crisis.

The whistleblowing act allows the disclosure by current and former employees of illegal, immoral or illegitimate practices under the control of their employers (Taylor, 2018). The whistleblowing act is an effective method of deterrence against fraud. Employee witnesses constitute a reliable source in support of the combat against illegal corporate actions. A high quality audit committee implements a strong internal whistle-blowing system, which has an impact on internal reporting (Lee & Fargher, 2018). Effective whistleblowing programs provide governance and control mechanisms for communicating all forms of wrongful acts for effective corrective implementation (MacGegor, Robinson, & Stuebs, 2014). The transformational leader's relationship with his employees proves beneficial under a company's whistleblowing program. Employees who perceive organizational leaders and managers actively practicing transformational leadership will likely participate in a company's whistleblowing program (Callier, 2013). Employees of transformational leaders often receive encouragement to confront and challenge problems that may surface (Collier, 2013) through the act of whistleblowing. Transformational leaders encourage work environments that are supportive of disclosing wrongful acts.

Employees who share common beliefs and values shape corporate culture. (Liu, 2016). The transformation leader plays a vital role in the development of corporate culture, and it begins with the hiring decision of employees. Employees often model similar values and behaviors of their leaders, which helps in the development of corporate culture. Usually, corporate corruption culture significantly affects corporate misconduct such as earnings mismanagement and accounting fraud (Liu, 2016). An unethical business environment results in poor employee performance and reported feelings of alienation from work (Enciso, Milikin, & O'Rourke, 2017). Sound corporate culture encourages and supports ethical acts and decision making by employees. Ethical cultures allow the safeguarding of long-term performance success of any company (Enciso et al., 2017).

Sarbanes Oxley Act of 2002

The Sarbanes Oxley Act of 2002 (SOX) consists of several critical sections that focus on internal control compliance. Section 404 of SOX includes two parts. Section 404(a) relates to the internal controls over financial reporting, and to the output of the accounting and control system of the company (Schroeder & Shepardson, 2016). Section 404(b) requires the auditor to express an opinion on such internal controls (Munsif, Raghunandan & Rama, 2013). As companies continue to comply with section 404, its shareholders will realize its benefits (Schroeder & Shepardson, 2016). Shareholder confidence increases as internal control compliance equate to higher quality financial statements. Successful companies recognize the importance of an internal control system as a tool in ensuring the overall achievement of company objectives and in increasing shareholders' value (Aziz, 2013). Section 302 of SOX requires the quarterly certification of an entity's internal control structure by the CEO and CFO (Munsif et al., 2013). This section requires the reporting of an entity's disclosure controls and any significant changes in internal controls over financial reporting (Munsif et al., 2013).

Internal control compliance. A lack of internal control compliance can cause detrimental effects on a company's overall financial position. Companies that disclose ineffective internal controls experience an increase in adverse abnormal stock returns in the year of the disclosure (Ge, Koester, & McVay, 2017). Research results show that companies with ineffective internal controls fail to realize a present value of $1.7 million in earnings in the three years following the disclosure (Ge et al., 2017). Noncompliance with internal controls often leads to reported material weaknesses. U.S. regulators repeatedly raise concerns that managers fail to detect and communicate material inadequacies to stakeholders timely (Bentley-Goode, Newton, & Thompson, 2017). Material weaknesses can adversely affect a company's financial position. In fact, entity-wide controls weaknesses result in a higher risk of reporting fraud (Donelson, Ege, & McInnis, 2017).

Both internal auditors and external auditors perform significant duties and responsibilities in measuring the success of corporate controllers in leading employees in internal control compliance. The analysis of internal controls represents only a portion of what an external auditor must perform throughout an audit. Auditor involvement in the testing and reporting of internal controls assists investors in gathering relevant information regarding an entity's internal controls (Munsif et al., 2013). The internal auditor's in-depth knowledge of internal controls serves the external auditor well because they are often involved in the testing of internal controls required by SOX (Burt, 2016). The internal auditor's relationship with employees and management provides critical perspectives in the day-to-day activities of the business.

The cost of internal controls compliance remains a concern for many companies, as the actual number of businesses who incur costs for internal control continue to increase. The impact of internal control deficiencies, such as material weaknesses, associates with greater borrowing costs for municipal bonds (Park, Matkin, & Marlowe, 2017). Companies continue to support SOX compliance, but also believe these benefits do not outweigh the costs (Alexander, Bauguess, Bernile, Gennaro, Yoon-Ho, & Marietta, 2013).

Sections 302 and 404

Studies previously completed by scholars on company internal control and its related financial statement results have similarities and differences from my research. The participants of my study are CFOs who work in manufacturing industries where the metric focuses on manufacturing cycle time. The dispute about prior research is the equity scope of the company. It is common for past research to examine enterprises whose public float of common equity is higher than $700 million.

My study focuses on the leadership strategies CFOs implement to ensure organizational SOX compliance with corporate financial internal control policies. I will examine the Sarbanes Oxley Section 404 audit results of my participants of my study, as it is a clear indicator of the strength of a company’s internal control structure. Although all organizations differ in its manufacturing process, every section 404 audit examines the underlying internal control structure of an entity and has an impact on the short term and long term future of business. Each 404 audit opinion expresses the effectiveness of internal control over financial reporting.

Key sections of SOX. The financial market underwent several high profile business scandals between 2001 and 2003, which included management misconduct and fraudulent financial reporting (Soltani, 2014). SOX implemented some critical changes in the regulation of the economic practice and corporate governance. SOX implemented some reforms to support and promote both corporate responsibility and financial disclosure (Earle & Madek, 2007). Many consider SOX as a critical organizational disclosure and governance reform as it intends to protect investors by improving the accuracy and reliability of corporate disclosures (Arping & Sautner, 2013).

The restoration of investor confidence in the financial markets represented the primary goal of the creation of SOX. After the SOX implementation, investors gained confidence in the effectiveness of internal controls over the financial statement reporting process, which helped reduce both the overall risk of the U.S. capital market and the cost of capital (Vega, Smolarski, & Zhou, 2015).

Section 302 and 404 of the Sarbanes Oxley Act. The Sarbanes-Oxley Act of 2002 (SOX) consists of some segments, which all publicly traded companies must be in full compliance. These compliance requirements represented an apparent shift from a self-regulated profession to one of government regulated (Franklin, 2016). Section 302 and section 404 apply directly to internal control compliance. Section 302 mandates that the SEC requires the CEO and CFO certify about internal control quarterly (Munsif et al., 2013). The completed evaluation of internal control is required 90 days before the issuance of the report.

Despite the intent of Section 302, CFO's play a significant role in accounting manipulations in conjunction with their CEO's (Bishop, DeZoort, & Hermanson, 2017). Accountants expect to follow ethical guidelines created for their profession, but many of them breach the moral contract. For instance, a CEO may have high expectations for success and often may influence the CFO to misrepresent data. Usually, the CEO exerts pressure on the CFO to misstate financial statements to meet the target (Bishop et al., 2017). The act of one employee influencing another employee into an unethical or questionable action occurs when there is a substantial difference in authority between both parties and the pressure to adhere to directions forces the CFO to make unfavorable decisions. The two essential types of constraints include obedience pressure and compliance pressure (Bishop et al., 2017). Obedience pressure results from an individual being expected to follow instructions from those in positions of authority (Clayton & Staden, 2015). Accountants often receive obedient influence and likely will make wrong decisions (Clayton & Staden, 2015). Individuals who feel obedient pressure may probably behave in ways, which are inconsistent with their values. Individuals who are affected by compliance pressure choose to act in specific ways and make decisions based on the opportunity for potential gain for rewards or approval (Bishop et al., 2017).

Section 404 of SOX required management and the external auditors to report on the adequacy of internal controls over financial reporting within an organization (Franklin, 2016). Companies recognize the importance of a sound and efficient internal control system. A capable internal control system can significantly enhance the success of any organization (Urbanik, 2016). Advantages of an efficient internal control system include greater accountability and transparency. Increased accountability and transparency helps improve the effectiveness of the company's overall operations. The process of internal controls enhances the reliability of a company's financial statements, and its adherence to existing laws and regulations (Kulikova & Satdarova, 2016).

Section 404 of the Sarbanes-Oxley Act of 2002 requires evaluation by both the companies' management and independent auditors of internal controls over financial reporting along with the disclosure of control weaknesses leading to material misstatements in financial reporting (Yuping, Bedard, & Hoitash, 2017). Section 404 required a revision to the audit process because it required two parts to the audit, including a financial statement audit and an internal controls audit, referred to as 404(a) and 404(b). The internal control over financial reporting provides assurance regarding the reliability of both financial reporting and the financial statement preparation (Yangyang & Chan, 2017). Section 404(a) describes management's responsibility to adhere to internal control policies, along with including a report on internal control in the company's annual report (Yangyang & Chan, 2017). Key requirements in Section 404(a) include the required signature from the chief accounting officer (CAO) verifying that the company tested financial controls and they appeared to be accurate. Section 404(b) detailed the auditor's responsibility for reporting the company's internal control over financial reporting (Yangyang & Chan, 2017). The unique relationship between the client and the auditor often can be beneficial as auditors may be susceptible to the influence of the transformational leader (Svanberg, Ohman, & Neidermeyer, 2017). Transformational leaders possess a strong record of affecting behavior in many contexts and possible influences on auditor objectivity. The transformational leader utilizes its relationship with the auditors as a platform supporting its strategies to ensure SOX compliance with corporate financial internal control policies.

Transformational leaders use idealized influence, individualized consideration, intellectual stimulation, and inspirational motivation to build relationships, model values, and share a vision (Martin, 2017). Transformational leaders play a crucial role in motivating and inspiring employees in job performance. The expectation exists that employees comply with SOX regulations, including internal control and financial reporting compliance which may pose challenges in implementation. Transformational leaders play a crucial role when organizations undergo significant change and need inspiration (Martin, 2017).

Cost of compliance. The costs of compliance with SOX and Section 404 remain high for many companies including smaller companies. The cost of SOX compliance became an increasing concern for all companies who experienced significant unexpected fees from Section 404 material weaknesses (Albring, Elder, & Xiaolu, 2018). The 404 (b) audits created a greater demand for audit services, which enabled audit firms to charge higher prices for all filers (Ettredge, Sherwood, & Sun, 2018).

The concept of benefits versus cost is essential in SOX discussion as it measures its worthiness. The direct costs to complete a 404 audit vary with the size of the client. The auditor industry specialization is negatively related to the change in audit fees during the first year of (SOX) compliance (Fleming, Hee & Romanus, 2014). It was also found that there were no significant **cost** savings associated with auditor industry specialization in the second year of SOX compliance (Fleming, Hee & Romanus, 2014). Businesses need more accounting personnel to fulfill the increased requirements of SOX guidelines. SOX requires companies to implement segregation of accounting duties. Companies comply with the internal controls requirement by meeting with the entity's external auditors at least on a quarterly basis to ensure a thorough review of current internal control policies. The auditor's goal is to make sure that proper controls do exist. The demand for a time from the employees is evident in this area as employees devote a significant amount of their time to the external auditors. Payroll costs increase significantly due to Section 404 of the Sarbanes-Oxley Act. Many corporations have chosen to pay its employees overtime benefits to complete routine daily responsibilities and successfully meet the demands of the external auditors. Small and large firms incurred increased audit fees due to compliance with SOX and estimate average annual increase in costs for publicly traded corporations at $4.36 million (Shaw & Terando, 2014).

Internal Control Over Financial Reporting (ICFR)

SOX of 2002 requires that publicly traded companies have an auditor's report on its financial statements and an audit on the effectiveness of internal control over financial reporting (Wedemeyer, 2014). The Public Company Accounting Oversights Board (PCAOB) regulates and monitors the audit quality inspection process of publicly traded companies, while inspecting auditors with publicly held clients and penalizing auditors who fail to comply with standards (Acito, Hogan & Mergenthaler, 2018). The PCAOB continues to maintain the highest standards of performance by demanding more rigor and more precision in the audit of internal control, even though the restatements of financial statements have become less severe in recent years (Files, Sharp, & Thompson, 2014).

The ICFR audit consists of five phases: planning, scoping, testing, evaluation, and reporting. The planning phase of the ICFR audit focuses on the high-risk areas of the review. Auditors must identify the controlled high-risk areas, and the failure to do so may result in the material misstatement of the entity's financial statements. Improper risk assessments can compromise the efficacy of the ICOFR audit.

The scope of an ICFR audit involves a top-down approach to select the controls to test. The scoping phase allows the gathering of sufficient evidence to support management's testing of the internal controls. Evidence may be obtained through the examination of accounting records as well as from other sources such as observations and confirmations (Kyunghee, Hoogduin, & Lucas, 2015). Unfortunately, there are challenges in the collection of evidence during the audit. One issue surrounds the social interaction between staff-level auditors and the client management and how face-to-face communication enhances the professional skepticism of auditors' inquiries (Kachelmeier, 2018).

During the review, multiple meetings between staff-level auditors and client leadership occur. The CFO and leadership team should resolve any challenges which arise during interactions between the staff-level auditors and the client. Transformational leaders increase follower task performance and encourage organizational citizenship behavior, which helps improve corporate functions (Kopperud, Martinsen, & Humborstad, 2014). This corporate attitude results in a positive relationship between transformational leaders and positive outcomes of work engagement (Kopperud et al., 2014). Work engagement involves employees giving high levels of effort and personal investment in tasks, which includes ensuring SOX compliance with corporate financial internal control policies.

The testing phase of the ICFR audit focuses on the test of controls that are critical to support the auditor's assessment of risk to each relevant assertion. Both the auditor attributes and client attributes affect the testing phase of the audit. The auditor's experience determines the effectiveness and outcome of the testing phase of the ICFR audit. Professional skepticism exists regarding the ability of auditors to interpret evidence and the associated risks appropriately (Glover & Prawitt, 2014). The testing phase of the audit increases in effectiveness as the auditor gains knowledge through his audit experiences. The condition of the client's ICFR audit affects the testing phase of the ICFR audit. Clients who have stronger internal controls over their financial reporting require less testing, resulting in a lower overall audit fee.

The evaluation phase of the ICFR audit assesses the severity of each identified control deficiency. Auditing Standard No. 5 (AS5) determines whether the shortfall represents a material weakness in the assessment of management's internal control over financial reporting. Furthermore, AS5 assists in the reduced audit work by eliminating unnecessary excessive testing in the audit of internal controls, which results in a decrease in the restatement of financial statements (Draeger, Herrmann, & Lawson, 2016).

The reporting phase of the ICFR audit determines the severity of each identified control deficiency. The reporting phase concludes whether or not the level of seriousness of the reported internal control deficiencies should be considered a material weakness. The audit firm measures the seriousness by determining whether the company's internal controls fail in detecting a misstatement. Senior management must lead by example and adopt an ethical tone in their communications and actions (Peltier-Rivest, 2017). Internal control deficiencies can have adverse effects on a company's overall financial position. CFOs must actively use transformational leadership as an avenue for promoting the moral development of subordinates and the alignment of interests (Peltier-Rivest, 2017). Furthermore, CFOs supporting anti-fraud training programs increases the awareness of internal control strategies.

Transformational leadership theory supports that leaders can transform followers in a couple of ways. The first way is by increasing their awareness of task importance (Neufeld, Zeying, Yulin, 2010). Adequate internal controls in each aspect of the business process helps protect the overall financial condition. Transformational leaders must have a valid business strategy that solidifies the company's internal control over financial reporting. Leaders transform their followers by focusing them on the team or organizational goals through effective leadership communication and emphasize the qualities of leadership that engage, align, inspire and move people to act (Bates & Atkins, 2017).

Effects of the Internal Control over Financial Reporting

The Public Company Accounting Oversights Board (PCAOB) annually inspects the audit performance of large audit firms (Nagy, 2014). The PCAOB findings include a list of any identified audit deficiencies and a detailed description of the audit firms' quality controls. The PCAOB addresses the weaknesses of the ICFR audits and its outcomes (Nagy, 2014) and its outcomes.

The PCAOB inspection reports affect the perceived quality of audit firms (Robertson, Stefaniak, & Houston, 2014). All inspected audit firms offer feedback and conclusions regarding their inspection report. The majority of companies provide mixed reactions by both accepting criticism and defending their audit quality. Despite the positive results of the PCAOB inspection reports, those businesses who actively support the PCAOB criticism of their reported audit quality deficiencies potentially result in the client's change in auditors. On the other hand, those audit firms who concede to critique will likely elicit a smaller decreased in perceived audit quality (Robertson et al., 2014).

404 Audit Compliance

Section 404 requires the client and the auditor to report on internal control over financial reporting (Yunhao, Smith, & Jian, 2014). Management frequently encounters significant weaknesses with a company's internal control system, which may likely prevent the entity from adequately assessing the internal control over its financial reporting. These flaws could adversely affect the company's 404 audits. A failed 404 review typically results in the negative portrayal of the company to both its present and potential investors. These weaknesses represent threats to full section 404 compliance, which can also negatively affect the integrity of the internal control system.

Management often deals directly with the complexity of transactions, such as estimates and other unusual transactions. The complexity usually results in the discovery of inadequate controls. Complex accounting estimates increase the risk of financial reporting quality (Glendening, 2017). Complex accounting estimates may include fair values, impairments, and valuation allowances. Accounting estimates represent items included in the financial statements for which the measurement of some amounts is uncertain (Glendening, 2017). Uncertainty in an organization's general ledger accounts can promote potential fraudulent events. Many companies may not employ the right individuals who possess sufficient accounting knowledge required for the proper recording of complex transactions. The incorrect record of accounting transactions results in the reinstatement of financial reporting, which represents a significant SOX 404 failure. A restatement constitutes a violation of a firm's commitment to capital providers for providing materially accurate financial statements (Adams, Hayunga & Rasmussen, 2017). Adverse effects of a restatement of financial reporting include higher costs of financing, greater monitoring of costs and potential residual losses in financial arrangements (Adams et al., 2014).

Another challenge is the lack of a company-wide internal control management program. A sound internal control system results in successful compliance with the section 404 audit. It is critical that an entity's management team take full accountability and responsibility for the development of an efficient internal control system. It is crucial that a business must hire and develop individuals with the capability of producing a secure control environment. The human resource management practice represents essential antecedents of various types of organizational climates (Guerci, Radaelli, Siletti, Cirella, & Rami Shani, 2015). It is critical that the human resource function selects and assists in the growth of individuals who serve as 404 control specialists.

Information technology (IT) controls represent technology security measures that protect the company's assets from misappropriation and fraud, while enhancing performance through formal and informal controls (Liu & Deng, 2015). Material weaknesses and lack of compliance in the internal controls related to information technology (IT) represents threats to any organization (Haislip, Peters, & Richardson, 2016). IT internal controls assure that technical systems operate as intended to provide reliable data and comply with regulations (Liu & Deng, 2015). The noncompliance with IT internal controls can have a significant impact on any company (Liu & Deng, 2015). An organization may experience adverse outcomes affected by a drop in stock prices. Furthermore, a breakdown in IT-related controls likely results in weaknesses in the company's financial statements (Haislip, Peters, & Richardson, 2016).

Every company needs an effective IT governance, which ensures its efficiency and effectiveness related to the internal control system (Rubino, Vitolla, & Garzoni, 2017). The standard IT governance framework is the Control Objectives for Information and related Technology (COBIT). Many companies adopted COBIT to ensure an adequate internal control system (Rubino et al., 2017). Management leaders have a significant responsibility to ensure full compliance with the IT internal control process. Managers should ensure their team examines all potential risks associated with the IT internal control process (Kerr & Murthy, 2013). There must be continued monitoring and reviewing of the IT internal control process by management.

Companies often lack consistent and complete accounting policies and procedures, which can adversely affect section 404 compliance. Management must review documents regularly and provide updates where necessary. The five components of COSO represent the foundation for internal control (Rae, Sands, & Subramaniam, 2017) and reflects the importance of effective accounting policies and procedures. The control activities represent policies and procedures that occur throughout the company and need implementation. The monitoring of these events over time ensures the control activities efficiently operate (Rae, Sands, & Subramaniam, 2017). Thus, the company must prescribe controls for all financial operations, and there should be periodic reviews as a reflection of regulatory and business changes.

As a company expands the scope of its risk assessment, the role of the monitoring function increases (Rae, Sands, & Subramaniam, 2017). This expanded responsibility allow management the opportunity to efficiently monitor and evaluate the ways risks are managed (Rae, Sands, & Subramaniam, 2017). Management must ensure that the company's accounting policies and procedures align with all risk assessment results.

Internal Controls

The purpose of corporate disclosure ensures the mitigation of information asymmetry between management and shareholders while allowing all stakeholders equal access to material information (Rubin, Segal, & Segal, 2017). Shareholders and potential investors of any company make their financial decisions based on the company's financial statement results. Over time, the level of investor confidence remains at a high level as long as companies continue to have sound business statements. Given recent high-profile frauds, investors experience an increased need for fraud risk assessment as part of their investment decision making (Brazel, Jones, Thayer, & Warne, 2015).

Shareholders must trust that management maintains a degree of integrity and efficiency in its operations, as they do not have the expertise nor are they in a position to observe and monitor company activities. Unfortunately, recent occurrences of accounting scandals involving large corporations have adversely affected the global economy, along with reducing investor confidence in the market (Lin, Wang, Chiou, and Huang, 2014). When a company commits financial improprieties, it also has an impact on its relationship with both present and potential investors.

Internal control is a crucial business function to the success of any company. A company's internal control over operations comprises of policies and procedures intended to improve the effectiveness and efficiency of a firm and safeguard its assets (Feng, Li, & Skaife, 2015). Internal controls represent a process established by management with the objective of providing reasonable assurance regarding the achievement of operation efficiency, financial reporting reliability, and compliance with regulations (Radojeciv & Radovic, 2014). Internal control monitors and analyzes business processes to compare planned and actual business results (Radojeciv & Radovic, 2014). Companies create and set up internal control systems to identify and manage risk (Lansiluoto et al., 2016). The implementation of additional vital regulations has assisted entities in the formation of efficient internal control systems, which help in controlling overall risk management. The Committee of Sponsoring Organizations (COSO) framework proposes that an entity with an adequate internal control system will run an efficient operation, with reliable financial data (Lansiluoto et al., 2016).

Shareholders and potential investors of any company make their financial decisions based on the company's financial statement results. Over time, the level of investor confidence remains at a high level as long as companies maintain financial statements that are free from material misstatements. Unfortunately, recent occurrences of accounting scandals involving large corporations have adversely affected the global economy, along with reducing investor confidence in the market (Lin, Wang, Chiou, and Huang, 2014). When a company commits financial improprieties, these actions have a direct impact on the trust of present and potential investors. An efficient internal control system provides a foundation for a company's ability to produce reliable financial data per generally accepted accounting principles (Kanagaretnam et al., 2016). A well-functioning internal control system assures the proper authorization, recording, and processing of transactions through compliance with policies and procedures intended to enhance operating efficiency and safeguards assets (Feng et al., 2015).

The strength of a company's internal control system depends on having sufficient personnel with the expertise and work ethic to provide adequate, timely review and monitoring of accounting functions, but also how the company frames the purpose for implementing the control (Liu, Wright, & Wu, 2015). An efficient internal control system is a critical element in corporate governance and financial statement audits. Internal control improvements benefit management by (a) improving the outcome of its financial reporting, (b) developing the financial examination, (c) mitigating audit risk, and (d) leading to efficient business practices (Singleton, 2008). Unfortunately, many companies lack the proper internal control structure.

Internal control is a crucial business function to the success of any company as it ensures the production of reliable financial statements (Dickins, & Fay, 2017). Internal control over operations consists of policies and procedures intended to improve the effectiveness and efficiency of a company and safeguard its assets (Feng et al., 2015). A company may implement an internal control system, but there is no guarantee of its effectiveness (Kofi, & Gene, 2016). Inherent limitations in internal controls exist in any company (Zakaria and Nawawi, 2016). If weak internal controls exist within an organization, there will be an increased opportunity for fraudulent activity. The chance for fraud increases as employees gain access to company assets and information (Zakaria and Nawawi, 2016). The effects of fraud can pose adverse financial consequences to a company. For instance, companies may experience a loss in sales, which leads to weaker future performances. It can also influence a company's efforts to reach goals. An efficient management system is a precondition for achieving company goals (Dimitrijevic et al., 2015).

An ineffective internal control system can hurt the decision-making abilities of both present and potential investors (Clinton, Pinello, & Skaife, 2014). Issues such as unreliable financial reporting and information uncertainty can result from weak internal control systems. Dilemmas such as inaccurate forecasts can occur (Clinton et al., 2014).

An internal control system represents the first step in the process of protection against fraud (Dimitrijevic et al., 2015). A system that protects a company's assets must be part of a company's overall management plan. Unfortunately, even the most efficient internal control techniques will not be a remedy for all wrong solutions or inefficient management (Dimitrijevic et al., 2015). A competent management team correctly identifies and addresses improper acts, with the goal of controlling wrongful conduct. Furthermore, management must educate their employees on the purpose of internal controls and its benefits.

An ineffective internal control system not only affects the current operations of a business, but it can also have adverse operational implications for acquisition performance (Harp & Barnes, 2018). Internal control weaknesses impact management's ability to forecast potential opportunities for acquisition accurately. Additionally, poor quality internal control information likely will impede the development and execution of an integration plan after acquisition (Harp & Barnes, 2018).

The COSO Framework

Internal control is a process aimed to improve the effectiveness of operational activities of the company, to increase the reliability of financial statement and to achieve consistency of company's business to existing laws and regulations (Kulikova, & Satdarova, 2016). A company's internal control system must meet the requirements of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). COSO is a joint initiative established to provide leadership to executive management in essential areas such as internal control systems. A company's management and its auditors referred to the COSO framework of 1992 as appropriate guidance for internal controls compliance. The original framework consists of five components of internal control, including the control environment, control activities, risk assessment, information and communication, and monitoring as well as the three categories of control objectives

(Janvrin, Payne, Byrnes, Schneider, & Curtis, 2012). The revised COSO framework of 2013 provides additional guidance for implementation and greater efficient internal controls at a lower cost (Rittenberg, 2013). Necessary revisions to the original COSO framework occurred in response to the constant changes in the corporate business environment. The control environment sets the foundation for control within the entity and provides a basis for the other components of internal control. The control activities represent policies and procedures that ensure the successful execution of management directives. The risk assessment identifies all risks relevant to the achievement of company objectives. Pertinent information is communicated timely, which enables successful work output. The monitoring of a process ensures and assesses the quality of the internal control system's performance over a period (Frazer, 2016).

The COSO framework provides a standard structure and approach for internal auditors when assuring primary stakeholders on internal control and risk management (Interview, 2015). The COSO internal control integrated framework addresses the operating effectiveness and efficiency, reliability of financial reporting, applicable laws and regulations compliance, and the safeguard of assets (Frazer, 2016). Every company differs regarding size, industry, culture environment and operations. Companies adhere to the COSO framework in all areas of their business for sustainability of legitimacy as the framework is designed to provide reasonable assurance regarding the effectiveness of operations and the reliability of financial reporting (Chen, Dong, Han, & Zhou, 2017).

Corporations experience severe consequences if their internal control systems fail at any level. Weak internal control systems can increase the risk of financial fraud (Donelson, Ege & McInnis, 2017).

There are critical changes in the revised 2013 COSO framework. Each of these changes helped increase the effectiveness of internal controls. For instance, the new structure required an increase in financial reporting including both within and outside of the entity (Rittenberg, 2013). Another change included the development of 17 principles about the framework's five components of internal control (Rittenberg, 2013). These policies made employees accountable for their role in ensuring compliance with internal controls. If a system did not exist supporting one of the five components, then internal control was deficient (Rittenberg, 2013). Additionally, the revised 2013 COSO framework addressed the scope of fraud risk (Shapiro, 2014).

Internal Control Compliance

Public companies continue to encounter significant SOX compliance challenges. Section 404 requires management and the auditor to report on internal control over financial reporting (Yunhao, Smith, & Jian, 2014). The demand for SOX compliance continues to increase, which places additional responsibility and accountability on the corporation's financial leaders. CFOs must have strategic plans in place to meet the increasing demand for SOX compliance. CFOs face challenges as their own companies continuously strive to become SOX compliant. CFOs need to employ individuals who support and believe in the purpose of SOX. In a recent survey, only 19% of respondents perceive a net benefit from Section 404 compliance (Alexander et al., 2013).

Additionally, the majority of respondents recognize compliance benefits, but do not believe these benefits outweigh the costs (Alexander et al., 2013).

Public companies also face a challenge from the Public Company Accounting Oversights Board inspections of their auditing firms. The Public Company Accounting Oversights Board (PCAOB) represented a significant provision of SOX. Congress established the PCAOB as a nonprofit corporation to manage the audits of public companies with the mission to oversee the audits of public companies. The supervised review of public companies would result in the protection of investor interests and further the public interest in the preparation of accurate and independent audit reports (King, & Case, 2014). The PCAOB maintained specific responsibilities, including the registration of public accounting firms to conduct audits of corporations, and the creation of standards in the areas of auditing, ethics independence and quality control (King & Case, 2014). Before the implementation of SOX, the AICPA governed the review process of public accounting firms through mandatory peer reviews. Post SOX, the PCAOB took control of the review process, which placed stronger reigns on the regulation of accounting firms (Church & Shefchik, 2012).

All public accounting firms that provide audit services to publicly traded companies are required to register with the PCAOB (King & Case, 2014). Public accounting firms must complete application forms to the PCAOB. Also, accounting firms are required to pay both application fees and annual fees to the PCAOB. A firm’s annual fees paid to depend primarily on the accounting firm’s clientele size. The most significant fee amount paid is by public accounting firms with more than 500 clients. These companies pay an annual fee of approximately $10,000 (King & Case, 2014). The PCAOB has the authority over registration, standard-setting and inspection of public accounting firms that audit publicly traded companies (Tanyi & Litt, 2017).

The PCAOB establishes and modifies auditing standards for public companies. The purpose of these rules is the improvement of audit processes. The PCAOB recently adopted some new audit standards, which addressed how auditors should deal with the risks of material misstatement in financial statements. These particular measures focused on the minimization of the chance that auditors will fail to detect material errors. The PCAOB reports on how efficient auditors fulfill their oversight duties and in making auditor acceptance and retention decisions (Acito, Hogan, & Mergenthaler, 2018).

The PCAOB annually inspects all registered public accounting firms with more than 100 clients. The inspection includes the firm's performance of audits, issuance of audit reports and related matters (Aobdia, 2018). The frequency of review depends on specific factors, primarily the size of the firm's clientele. The PCAOB performs reviews every three years for those business which have less than 100 clients per year (King & Case, 2014). As of 2013, only nine public accounting firms received annual inspections. The PCAOB prepares a summary report upon completion of each audit firm examination. Depending on the specific content, certain portions of the summary findings are available to the public.

The conclusions of these inspections vary regarding the degree of severity. The number of restatements of financial statements have risen as a result of PCAOB inspections. The failure on the part of the auditors to sufficiently test the internal controls over financial reporting can result in financial restatements. In particular, the PCAOB acknowledged that the accounting field needs to revisit the statement of cash flows as the percentage of cash flow restatements have increased from 8.7% of all restatements in 2009 to 20.2% of all restatements in 2015 (Alfonso, Christie, Hollie, & Yu, 2018).

The PCAOB publishes two types of inspection reports, including a clean report with no audit deficiencies and a report disclosing audit deficiencies related to Generally Accepted Accounting Principles (GAAP) violations (Son, Song, & Park, 2017). The PCAOB can enforce penalties and corrective action against all parties who are in direct violation of rules and regulations. Studies have proven that the majority of infractions were against smaller companies. More importantly, enforcement actions against all corporations resulted in negative repercussions for both the audit firm and client.

The violation of rules and regulations varies. One common abuse is the disregard for independence. The PCAOB views the independence violation as an extreme violation. It is common for the firms to receive fines and to undertake remedial measures to satisfy independence criteria (Son, Song, & Park, 2017). Another violation is the failure to address the risks of material misstatement (Son, Song, & Park, 2017). The PCAOB disciplined the partner of Grant Thornton Taiyo ASG LLC for not acting appropriately on the risk factors related to the improper acceleration of revenue.

Compliance costs can influence the company's overall perception and attitude toward SOX. The price for SOX compliance has affected many of the smaller companies, which caused the diversion of resources from other value-added activities of the corporate operation (Franklin, 2016). Surveys continue to indicate that SOX's costs remain increasing in firm size, but at a decreasing rate, which means that larger firms pay less for SOX-related services as a percentage of firm size than do smaller companies (Coates & Srinivasan, 2014). Some public corporations chose to delist from the stock exchange because of the compliance costs.

The costs of compliance with SOX and Section 404 remain high for many companies including smaller companies. The cost of SOX compliance became an increasing concern for all public companies as it relates to compliance costs resulting from Section 404 audits, increased audit fees, and increased director remuneration costs. (Cohen, Hayes, Krishnamoorthy, Monroe, & Wright, 2013). Survey results show that the audit fees have increased by 74 percent for industrial firms during the post-SOX period (Shaw & Terando, 2014).

The concept of benefits versus cost is essential in SOX discussion as it measures its worthiness. The direct costs to complete a 404 audit vary with the size of the client. Businesses need more accounting personnel to meet SOX guidelines. SOX requires companies to implement robust segregation of accounting duties. Companies comply with the internal controls requirement by meeting with the entity’s external auditors at least on a quarterly basis to ensure a thorough review of current internal control policies. The auditor’s goal is to make sure that proper controls do exist. The demand for a time from the employees is evident in this area as employees devote a significant amount of their time to the external auditors.

Payroll costs increase significantly due to Section 404 of the Sarbanes-Oxley Act. Many corporations have chosen to pay its employees overtime benefits to complete routine daily responsibilities and successfully meet the demands of the external auditors. Small and large firms incurred increased audit fees due to the response of new audit regulations requiring additional audit work and compliance with SOX (Dey & Lin, 2018),

The awareness of increased disclosure and effective corporate governance prevails due to the number of fraudulent corporate acts committed during the global financial crisis. Whistle-blowing, defined as the disclosure by former or current employees of illegal, immoral, or illegitimate practices (Lee & Fargher, 2013), represents an effective method of deterrence against fraud. Individuals who witness fraudulent acts constitute a reliable source in support of the combat against illegal corporate actions. Effective whistleblowing programs provide governance and control mechanisms for communicating all forms of wrongful acts for effective corrective implementation (MacGegor & Stuebs, 2014). Positive results occur from corporate whistle-blower programs as white collar crime detection came from whistle-blowers. Whistleblowing laws instill ethical behavior while deterring various wrongdoings from occurring and the discovery of deficiencies (Yeoh, 2014).

Transformational-oriented leadership increased the extent to which employees in agencies felt they could disclose wrongdoing without encountering retaliation (Caillier, 2017). Transformational leaders promote and encourage prosocial behaviors and a mutually trusting relationship between the employees (Caillier, 2017). As a result, there is a positive effect on employees reporting wrongdoings. Transformational leaders promote a work environment of open communication and influence toward the employees while encouraging employees to properly address unethical acts.

Transition

The purpose of this case study was to explore the strategies corporate financial controllers follow to comply with corporate internal control policies. Internal control implementation and compliance are integral to the successful operations of a company. I provided the basis of my study by introducing the problem statement and purpose statement in Section 1. Further in Section 1, I included a discussion of the transformational leadership theory as the conceptual framework. The transformational leadership theory consists of the leadership traits of management that successfully perform in strategic planning and implementing processes. Also, included in this section is the nature of the study and research question for my research. In the review of the literature, I presented a historical perspective of corporate fraud, including the implementation of the Sarbanes Oxley Act of 2002. I reviewed vital areas of the SOX legislation such as internal control, internal control over financial reporting, and Section 404 audits. The literature review concluded with a summary of concerns over the implementation of Section 404 audits.

In Section 2, I describe the project, including the choice of the qualitative method and research design. In this section, I describe the role of the researcher and the necessary strategies to engage with the participants. I determine the number of participants in my study, including the selection process. I describe the informed consent process and other critical attributes of ethical research, along with a review of the primary approach to data collection, including the data collection instruments and data techniques.

In Section 3, I share the findings of this study as it relates to the transformational leadership theory. I apply my results as they relate to professional practice, along with noting all the implications for social change. Additionally, I outline any recommendations for action and suggestions for further research on my study along with reflections and conclusions on the completion of my investigation.

Section 2: The Project

In Section 2 of this study, I provide a detailed description of the research and the methods used to complete this review. Section 2 begins with a restatement of my purpose statement, along with a description of the role of the researcher. Other topics covered include the research method and research design of this study. Finally, I discuss information related to data collection instruments, data collection techniques, reliability, and validity.

Purpose Statement

The purpose of this qualitative multiple case study design was to explore the leadership strategies CFOs use to ensure organizational SOX compliance with corporate financial internal control policies. The study population was three CFOs from different manufacturing companies in Michigan. The selected CFOs were appropriate for this study because they understood the scope of SOX 404 and had implemented efficient company internal controls. Results of this study could benefit external users of a company’s financial statements, such as shareholders and creditors. These groups can benefit from a company’s stable internal controls structure, which reduces the risk of asset loss and increases the reliability of financial statements. The findings of this study may also contribute to social change as CFOs become increasingly aware of the need for strong ethical practices as they develop strategies to implement SOX. The increase in ethical behavior due to SOX has changed the corporate culture and employee behavior. The change in ethical behavior points to a positive alteration in behavior patterns and cultural values, which can help mitigate the elements of the fraud and decrease the likelihood of fraud from occurring in the corporate environment. This positive change in corporate culture and employee behavior can have a positive impact on the corporation's reputation and continue to instill community growth, such as providing employment opportunities and building strong relationships with customers, suppliers and other stakeholders.

Role of the Researcher

The researcher is integral in analyzing data and drawing meaningful insights (Moon, 2015). The researcher must gain the trust with participants as mistrust often relates to the fear of unfair treatment, or the relinquishment of their rights upon signing the informed consent form (George, Duran, & Norris, 2014). The researcher has ethical responsibilities toward the participants (Miller, 2015). I served as the primary data collection instrument for this research. I am familiar with the internal control framework and strategies as I worked for more than 20 years in various management positions in internal audit and manufacturing accounting. I have substantial knowledge of fundamental subject matter regarding the implementation and compliance of internal control processes and procedures. My prior work experiences with employees on internal control strategies assisted me in my dealings with participants in my present study.

Researchers must follow the protocol regarding the ethical treatment of participants in a study. The Belmont Report described respect for persons as enacted in the open communication of information relevant to study participation, aiming to practice honor, truthfulness, and free choice with enrolled and potential participants (Bromley, Miesell, Jones & Khodyakoy, 2015). The participants in this study possessed valuable years of knowledge and experience. I ensured my actions were ethical and respectful at all times with the research participants. The principles of respect toward the participant means the researcher provides a careful, informed consent process (Bromley et al., 2015). I minimized all potential harm toward the participant by assuring they were aware of their right to refuse to participate at any time during the study, even after the completion of data collection. I asked questions to each of the participants, who have sufficient experience and knowledge to assess and judge every question. I informed all participants of measures to protect their identities and maintain the confidentiality of all information they provide for the study. I presented the results in a fair manner. The code of conduct and ethical guidelines play a critical role in research settings (Giorgini, Mecca, Gibson, Medeiros, & Mumford, 2015). The ethical guidelines assist in creating standards for researchers.

My goal for this research was the presentation of results from an unbiased view. Researchers share a concern regarding the differences between the observed patterns and the actual patterns and the ability of stated preference data to predict real behavior (Whitehead, Weddell, & Groothuis, 2016). As a former controller in the target population, I encountered potential participants who were prior acquaintances. To mitigate bias and avoid viewing data through a personal lens, I used an interview protocol (see Appendix A). The utilization of interview protocols by evaluators occurs during the development of a program’s services and outcomes (Gugiu & Rodriguez-Campos, 2007). An interview protocol is critical when attempting to gain a clear understanding of a historical topic and finding different methods of evaluating the subject (Briggs &

Murphy, 2011). An interview protocol helps limit inconsistency and omission (Morton, Rivers, Charters, and Spinks (2013). An interview protocol outlines the procedures for conducting interviews. An interview protocol was appropriate for my study because it assisted in organizing the interview questions to get a clearer understanding of the strategies the participants use for their internal controls.

A useful qualitative research interview allows the interviewee to become a valuable resource while providing an opportunity for expressions of prior experience (Janson, 2015). An interview protocol requires a pre-interview process where there is a determination of the types of open-ended questions needed to obtain a clear understanding of the subject. Open-ended questions encourage more in-depth responses and to avoid any level of bias. I asked probing questions if I felt it was necessary to obtain further information from replies, which are insufficient in content. The interview protocol requires organization in interview questions. The logical layout of participant inquiries allows for the efficient gathering of data from the participant.

Participants

The target population encompassed three CFOs from different manufacturing companies in Michigan. The participants met the eligibility requirement within the scope of the population. The eligibility requirement would be CFOs who had successful strategies that they used to comply with corporate financial internal control policies. The criteria I used for participant selection was critical to the success and validity of my research. My past and current professional network represented viable sources for potential participants for my study, and I made inquiries of these connections for possible participant selection.

It is necessary to establish a productive working relationship with the participants to gain knowledge from their experiences. There exist obstacles in developing working relationships due to the close personal contact with the participants, the implications of research design and the imposition on participants (Wallace & Sheldon, 2015). Upon identification of the potential study participants, I completed verification of credentials, including experience and certification. The relationship between the interviewer and the participants is integral to the quality of the research results (Blackwood et al., 2015). There exist strategies for establishing a working connection with participants. The central research issue must be relevant to the participant (Hinkin, Holtom, & Klag, 2007). As the participants understand the purpose of the research, they will have a better understanding of how it impacts their overall operations. Another strategy is the obtaining of top management support for the research initiative (Hinkin et al., 2017). Employees at different levels of an entity likely would provide the support needed for the research as directed by top management.

Researchers have an ethical responsibility toward the participants during any aspect of the research (Miller, 2015). If at some point researchers need to reply to the participants, they must act ethically during the process. The participants will possess a thorough and complete understanding of the study through the informed consent form. I shared the purpose of my research to the participants. I informed the participants that this was strictly voluntary and they can choose to withdraw at any time during the process.

The overarching research question of this study was: what are the leadership strategies CFOs use to ensure organizational SOX compliance with corporate financial internal control policies? The chosen participants for my study possessed significant experience in internal controls. The selected CFOs were appropriate for this study because they understood the scope of SOX 404 and had implemented efficient company internal controls.

Research Method and Design

Research Method

Researchers apply research methods to explore business issues. Methods include a qualitative, quantitative, and mixed method of research. I studied each research option and determined that the qualitative method was the appropriate method to explore internal control compliance strategies. The qualitative approach focuses on applied and theoretical discoveries based on questions through field study in natural conditions (Park & Park, 2016). I made observations and interpretations as the collection of data takes place in predictable situations. I observed the actual activity flow of company processes and how controllers created and implemented strategies to comply with internal control processes. The goal of a qualitative method is the exploration of the descriptive accounts (Park & Park, 2016). Qualitative methods capture and describe the depth and richness of the phenomena (Arino, LaBaron, & Milliken, 2016). The qualitative researcher uses interrogative strategies to achieve broader levels of knowledge about the subject matter (Barnham, 2015). The qualitative method assisted in my understanding of the strategy

CFOs used to comply with internal control processes through semistructured questions of "why" and "how."

I did not use the quantitative method as it is a deductive process that elicits numbers and percentages that have the status of facts (Barnham, 2015). Quantitative results examine relationships between variables as it relates to a hypothesis. In my study, I explored a phenomenon and not a correlation of variables. I did not use the mixed method. A mixed method requires the use of both qualitative and quantitative methods within a single project (Carins, Rundle-Thiele & Fidock, 2016). While the study of internal control strategies required in-depth analysis and research, it did not have a high level of complexity requiring the use of multiple methods.

Research Design

The case study design served as the practical research design for my study. The case study design helps the researcher understand the intricate complexity of a particular case investigation (Park & Park, 2016). The purpose of my study centered on the real-life events of the strategies controllers use to comply with internal control processes. A case study approach provides a researcher with a view of an analysis of the context and processes involved in the phenomenon under study (Awasthy, 2015). I chose the case study design over other research designs. The generalized case-cohort design picks sub cohorts from the underlying cohort by simple random sampling (Cao & Yu, 2017). The narrative design provides the researcher with an increased understanding of real-life individual and implicit behavior that encourages moral action by professionals (Smit, 2017). Neither of these models fit the purpose of my study.

Through my study, I ensured data saturation. Data saturation represents the point at which no new information or themes presents itself in the data from the completion of additional interviews (Boddy, 2016). I demonstrated that data saturation exists because no further information became available. It is critical that data saturation occurs because data saturation impacts the quality of the research conducted and hampers content validity (Fusch and Ness, 2015). I performed continuous cycles of data collection and data analysis until no further new findings exist.

Population and Sampling

Snowball sampling begins with a sample of primary subjects, who serve as seeds for participant selection (Heckathorn & Cameron, 2017). A series of network linkages allows the growth of the sample size until the target size has been attained (Heckathorn & Cameron, 2017). In my study, this method involved the use of networking of CFOs of manufacturing companies. I used available network options, such as the Institute of Management Accountants, to obtain contact information for additional names of referred controllers for my sample size.

The number of participants chosen represents the best option for efficient data collection because of the range of different types of manufacturing businesses represented. My study demonstrated the importance of internal control strategies in manufacturing companies. The quality of the research results reflects the appropriate amount of data collected, referred to as data saturation. I reached data saturation once new themes no longer presented itself. I continued to interview until new topics no longer existed, which meant the achievement of data saturation.

The interview of the participant took place at a selected conference room in the facility. This setting was appropriate for this study for the convenience of the participant. The environment also represented an ideal opportunity for a facility tour and observation of processes.

Ethical Research

I used an informed consent form to inform the participants of the study and obtain their agreement to participate. I included instructions for each participant explaining:

- The background of my research study
- A statement about the participant voluntary rights
- Instructions on withdrawing from the study.

In the case that the participant decides to leave the review, they would either send me an email or call me to inform me of their decision. In the event of withdrawal, the participant would receive a withdrawal form. I maintain all completed withdrawal documents from the research project in a secure place. No type of compensation was available for the participants in my study.

The protection of vulnerable research participants is the reason for consideration. Throughout the research process, those participants susceptible to undue influences need assurance of adequate protection (Gennet, Andorno, & Elger, 2015). The concept of confidentiality is associated with anonymity, insofar as anonymity is one way to apply secrecy by ensuring that individuals are not identified (Lancaster, 2017).

All agreement documents reside in the appendices. See Appendix A for the interview protocol and Appendix B for the interview questions. I have secured the collected data from my study in a safe place in my residence for five years, preserving the confidentiality of all participants. Additionally, I complied with the Institutional Review Board requirements established by Walden University, and the Walden IRB approval number is 04-10-18-0306225. I have protected the participants and preserved the individual identity by assigning each a number, which matches with their name.

Data Collection Instruments

I am the primary data collection instrument in this study. I used the semistructured interview as my data collection method. A semistructured interview allows the researcher to ask the participants a series of open-ended questions about their career, job profile, managerial level and role (Shah, 2017). These inquiries may provide more significant in-depth discussion about the company's internal control process and the strategic plans of compliance.

The semistructured interview method allows for the collection of detailed insights, which is unavailable when using only publicly available data (Viscelli, Hermanson, & Beasley, 2017). I ensured the validity of the data collected by the following protocol. I included a list of predetermined questions, which may be necessary during the interview in the event of unanticipated topics of discussion. I shared the purpose of the meeting and my use of the data with the participants. All participants' responses remain confidential and anonymous. I obtained permission from each participant for the usage of tape recording during the interview.

The credibility of the research results depends on the validity of the data collection instrument. The reliability of data often is measured by whether different researchers will produce similar results when applying similar methods when using the same data (Sorenson & Stanton, 2016). Validity considered as the extent to which a measurement technique measures what it sets out to measure (Sorenson & Stanton, 2016). I enhanced the reliability and validity of the semistructured interview method by performing a transcript review. A transcription of audio data is widespread in qualitative research as it assists in the analysis of data (Meredith, 2016). A transcript review took place upon completion of the interview to verify accuracy and to provide clarification. I also used member checking to ensure the accuracy of the data collected. Using member checking helps to reduce discrepancies and achieve consistent documentation (Erlingsson & Brysiewicz, 2013). I used the interview questions (see Appendix B) to probe participants in my study.

I examined secondary sources, in particular internal control processes with the purpose of gathering data to understand company compliance with SOX. In addition, I accessed and reviewed documents describing company ethics and compliance programs, corporate governance, and leadership and supervisor responsibilities regarding SOX compliance. I reviewed company annual reports to analyze performance in financial statement and internal control over financial reporting.

Data Collection Technique

I used the semistructured interview technique for data collection. An interview technique elicits facts and knowledge about the phenomenon under investigation using a series of interview questions (Mojtahed, Nunes, Martins, & Peng, 2014). Researchers commonly use interviews for data collection as it represents a useful technique in revealing the story behind a participant's experiences (Doody & Noonan, 2012). The advantage of this method allows the researcher the opportunity for further information and responses from the participants at a low cost. The interviewer must maintain a level of social negotiation of meanings with the interviewee (Mojtahed, Nunes, Martins, & Peng, 2014). Being able to see an interviewee may give more ready access to signs of confusion, discomfort or distressed provoked by a line of inquiry (Irvine, Drew, & Sainsbury, 2013). The participant may not respond appropriately if the researcher fails to provide necessary input, which would assist in answering questions (Irvine, Drew, & Sainsbury, 2013). There are some disadvantages of the semistructured interview technique, including less control over the process than crucial informant interviews and potential difficulty in the collection of sensitive information. Additionally, it may be time-consuming to assemble groups for the interview process.

I examined secondary sources, such as internal control process documentation, with the purpose of gathering data to understand company compliance with SOX. I also observed corporate governance guidelines, to analyze the evaluation of management's focus on internal control. I gained a clearer understanding of the company ethics policy by examining the ethics and compliance program guidelines.

Concerns with the issues of validity in qualitative research have increased (Barnham, 2015). I used transcript review as it represents an integral part of validity measurement. This process provides the interviewees with verbatim transcripts of their interviews to verify accuracy and correcting errors (Hagens, Dobrow, & Chafe, 2009).

Data Organization Technique

Qualitative methods present challenges to the researcher such as managing, organizing and analyzing the data (Vaughn, & Turner, 2016). Researchers use systems for keeping track of data, such as research logs, reflective journals, and catalog systems. Research logs represent a story or memoir describing the entire research process (Fluk, 2015). Reflective journals can be valuable through the process as it allows the researcher to use journals as an examination of personal assumptions and clarify individual belief systems (Ortlipp, 2008). Reflective journals enact potential validity criteria by recording reflections, which provides evidence of transparency (Vicary, Young, & Hicks, 2016). A catalog system assists in collecting the robust data and documenting the research procedures (McLellan, MacQueen, & Neidig, 2003). I used research logs to ensure the complete documentation of the entire research process. Furthermore, the research logs will record the data directly from each of the participants.

I maintain all gathered data using password protected files and all documents in a locked cabinet. I am the only individual with access to records. I will keep all records for five years, as required by Walden University. I will destroy all documents after this period, which protects the participants’ identity and personal information.

Data Analysis

Triangulation represents the appropriate data analysis process for this case study. Triangulation refers to the use of multiple, different approaches generating a better understanding of a given phenomenon (Turner, Cardinal, & Burton, 2017). I used methodological triangulation by involving more than one method to gather data. I used methods such as interviews and observations to increase my understanding of the phenomenon.

I followed a logical and sequential process for the data analysis. Upon completion of the interview process with the participants, I recorded the participants' responses in a Word document. I used computer programs and applications to categorize the collected data. I also collected my secondary data from internal controls policies, company ethics and compliance programs, and financial annual reports and organized my findings in categories of themes. Qualitative data analysis software has the potential of making data analysis more explicit and transparent (Paulus, Woods, Atkins, & Macklin, 2017). NVivo is a type of qualitative data analysis software, which allowed me to perform coding, mind-mapping and identifying themes. The software provides for the classification, sort, and arrangement of a vast amount of information while examining complex relationships in data (Paulus, Woods, Atkins and Macklin, 2017).

I focused on analyzing the collected data and synthesize critical themes, which directly relate to the research question. The topics become the categories for analysis. Thematic analysis is a qualitative method for uncovering a collection of ideas within a data set (Fugard & Potts, 2015). Key themes developed early in the analytic process, through engagement with data or theory (Braun & Clarke, 2016). I analyzed the data collected and organize the information into themes. My analysis on the findings from each theme in my study had a direct correlation to the transformational leadership framework and the CFOs' leadership characteristics.

Reliability and Validity

Qualitative research embraces multiple standards of quality, known as validity, credibility or trustworthiness (Morrow 2005). The goal of reliability analysis and triangulation is to assess both the stability and efficacy of qualitative findings (Watts, Todd, Mulhearn, Medeiros, Mmford, & Connelly, (2017). The criteria for reliable and valid data include dependability, creditability, transferability, and confirmability. Reliability represents a critical element in ensuring consistency in research data and findings. Careful design and rigor are vital elements to the dependability of research (Stratford & Bradshaw, 2016). I ensured reliability through a thorough review of participant transcripts. I followed a process of both capturing and transcribing participant responses with the objective of presenting well-executed results and findings.

It is critical that all qualitative researchers incorporate strategies that enhance the credibility of the study during research design (Noble & Smith, 2015). Qualitative research is credible when its results are recognizable to individuals who share the experience (Hammarberg & Kirkman, 2016). The credibility of the study further enhances the participant's belief in the study. The researcher performs an initial review of the transcript to familiarize oneself with the data and to identify potential analytic categories (Cornelissen, Mitton, Davidson, Reid, Hole, Visockas, & Smith, 2014). Method triangulation involves the gathering of data through interviews, observations, ongoing discussions and document analysis (Cornelissen et al., 2014).

Furthermore, the participants of the study are the individuals who are in a position to judge the credibility of the results. I ensured credibility in my research by using transcription review. The accuracy of the transcription plays a role in determining the accuracy of the data analyzed and the degree of dependability (Stuckey, 2014). I used a recording device to ensure the complete recording of participants' responses. Each participant maintains an assigned number that provides identity protection throughout the interview process.

Transferability of the research findings is the criterion for evaluating external validity (Hammarberg, & Kirkman, 2016). A study meets the standard of applicability when the qualitative results can fit into contexts outside the study situation and when researchers view the findings as meaningful and applicable to their own experiences. (Hammarberg, & Kirkman, 2016). Transferability in research shows that the results have applicability in other contexts (Erlingsson & Brysiewicz, 2013). I ensured transferability by providing appropriate descriptions of my study so that the reader gains sufficient understanding to make decisions applicable to their context.

Confirmability represents another element of reliability and validity in research. Confirmability describes the extent to which the results of the study are determined by the respondents and not by individual researcher bias, motivation, or interest (Erlingsson & Brysiewicz, 2013). I addressed confirmability through an audit trail. An audit trail is a technique, which involves the systematic recording and presentation of information about the material gathered and the process involved in the project (Bowen, 2009). I used an audit trail to record the research process and all decisions made.

Data saturation represents an integral part of the research, as it is a tool used for ensuring quality data collection. The point of saturation occurs when the participants can no longer provide any new perspectives on the overall research question (Boddy, 2016). I ensured data saturation at the point where further aspects no longer are a part of the data.

Transition and Summary

The purpose of this study is to examine the strategies corporate controllers use to comply with corporate internal control. In Section 2, I provided an overview of the role of the researcher and the requirements of the participants. In Section 2, I discussed the research method and research design of the study. I justified the number of participants. I provided insight into the ethical aspects of the research and the data collection instruments and techniques. Lastly, I gave an overview of the reliability and validity of the study.

In Section 3, I present my research findings. I also apply my results to professional practice. In Section 3, I discuss any implications for social change, along with recommendations for action and further research. I conclude this section with my reflections on my experience within the doctoral study process along with a concluding statement.

Section 3: Application to Professional Practice and Implications for Change

Introduction

In Section 3, I provide a thorough description of the findings of the research study on strategies CFOs use to comply with corporate financial internal control policies. In this section, I present (a) the presentation of the findings, (b) application to professional practice, (c) implications for social change, (d) recommendations for action, (e) recommendations for further research, (f) reflections, and (g) a conclusion. The purpose of this qualitative multiple case study design was to explore the strategies CFOs use to comply with corporate financial internal control policies. I chose the case study design as it allows the researcher the opportunity to ask and explore the how and why of a phenomenon (Awasthy, 2015).

I interviewed three participants who work with publicly traded manufacturing companies in Michigan using face-to-face semistructured interviews with open-ended questions. I met each participant in their offices to help ensure privacy and confidentiality. My research data came from participants who had sufficient experience and knowledge in their position as CFO to be able to provide adequate and accurate answers to all interview questions. Each participant signed a consent form, which indicated their willingness to participate in the study. I assigned a number to each participant to protect each of their identities throughout the entire process.

The semistructured interviews contained nine questions. I audio recorded each conversation with the participant, which lasted no longer than 45 minutes. I asked the same questions to each of my participants to confirm the reliability of the study.

Throughout the interview process, I maintained a high level of respect and transparency toward each participant. I also displayed a high level of competency in each of the interview discussions. As a previous financial accounting controller, I was able to utilize my prior experience to interact with each participant on the subject matter effectively. I achieved data saturation once the information became repetitive and the participants shared no additional new information. Upon completion of each interview, I transcribed the audio interview into a Word document, I then emailed the complete transcription to each participant to ensure accuracy. I used the NVivo Pro Software to analyze the data and organize into themes while having the ability to retrieve necessary information efficiently.

I also collected data from secondary sources, which included internal control policies. I accessed and reviewed documents describing company ethics and compliance programs, corporate governance, and leadership and supervisor responsibilities regarding SOX compliance. I reviewed company annual reports to analyze performance in financial statement and internal control over financial reporting.

Presentation of the Findings

The overarching research question for this study was the following: What are the leadership strategies CFOs use to ensure organizational SOX compliance with corporate financial internal control policies? I used the following interview questions to explore strategies on how CFOs promote the importance of internal control processes and financial statement integrity.

1. What financial internal control strategies did you develop and implement?

2. How do you reinforce strategy for financial internal control compliance with all employees?
3. How does the internal control process affect the financial reporting and disclosure preparation process?
4. What are the consequences for employees who fail to adhere to internal control policies and procedures?
5. What are the roles of the audit committee and board of directors as it pertains to internal control implementation?
6. What are the compliance challenges you face most frequently in your role as the CFO?
7. What ways can the company improve its compliance policies?
8. How can company employees report issues or potential violations of compliance policies?
9. What additional information would you like to share regarding your company's internal controls?

Upon completion of data analysis and coding, four themes emerged. These themes included internal control process and financial reporting, control process accountability, compliance challenges, and risk assessment. I coded the participants in my study as P1, P2, and P3. I identified emergent themes through an analysis of the information shared by each participant during their interview. These emergent themes appeared to be relevant in further analyzing the strategies CFOs implement to ensure SOX compliance with corporate financial internal control policies.

Theme One: Internal Control Process and Financial Reporting

Management has the responsibility for designing, implementing, and maintaining effective internal controls (Grambling, & Schneider, 2018). The first theme to emerge was the internal control process and its effects on financial reporting. In Table 1, I reported the number of times the participants provided a reference to each interview question. Questions 1, 3, and 5 related to this theme. Question 1 pertained to the development and implementation of financial internal control strategies. All of the participants shared their extensive experiences in internal control development and agreed that periodic reviews of internal controls could ensure consistency and effectiveness. P1 explained:

> The company has grown, and we have beefed up our systems quite a bit so that now we have specific resources tied to internal controls and our employees have the responsibility in maintaining the internal control framework and to review and test the output from the other folks in the group.

P1 further elaborated on the status of the company controls by stating, "Through a review of our internal controls, we can answer what controls we say we had and did we do the controls and perform them?" P2 mentioned, "We focus on the process and objectives of internal control as we implement our internal control system." P3 stated, "Internal controls are reviewed twice a year, and then we perform a review of operating effectiveness on internal controls twice a year, with the results included in our year-end management assertion over internal controls."

All of the participants in the study mentioned that management plays a critical role in the design, implementation and annual review of the internal control process. P1 elaborated on the critical importance of reviewing specific balance sheet accounts that need greater attention. P1 indicated that the company internal control review process includes management's analysis of accounts and reconciliation of bank statements to ensure proper account reconciliations.

Question 3 pertained to the effects of internal controls on financial reporting. SOX 404 required management to file a report on the company's internal control over financial reporting (Chen, Dong, Han, & Zhou, 2017). This report includes a statement by the CFO stating management's responsibility for financial reporting and their assessment on the effectiveness of the internal control over financial reporting. The CFO has accountability to the company's internal control effectiveness and must report on the effectiveness of internal control over financial reporting (Grambling, & Schneider, 2018). All of the participants in this study indicated the importance of effective internal control process as it directly relates to financial reporting. P1 said, "Our internal control systems have strengthened over time, and we have specific resources tied to internal controls and maintaining the internal control framework is vital for strong internal controls over financial reporting." P2 stated, "The internal control process is key as it interjects into the overall financial reporting of our company. The internal control process affects our overall financial statement review process."

Section 302 of SOX requires executive officers to evaluate the effectiveness of internal controls and report conclusions (Church & Schneider, 2016). Section 404(b) of

SOX requires the auditor to opine on the effectiveness of internal control over financial reporting for companies with a public float greater than $75 million (Church & Schneider, 2016.). All participants shared the same viewpoint that the key for successful SOX 302 and SOX 404 results is proper planning and preparation. This means regular meetings with staff and management with the goal of ensuring proper compliance with internal control procedures. P3 reflected on the requirements of Section 302 and Section 404 certification process "as a critical component of the internal controls process and reporting."

Question 5 pertained to the roles of both the audit committee and Board of Directors as it relates to internal control implementation. All participants shared a common opinion of the importance of the work of the audit committee and the Board of Directors as it relates to internal control implementation and compliance on a daily basis and in preparation for the annual audits. P1 said:

> The audit committee is there from an oversights perspective, and they receive an update on a quarterly and annual basis from our external auditors as it relates to internal control compliance. The audit committee stays updated on all issues related to internal control.

P2 indicated that, the audit committee oversees the company to ensure processes and procedures are being followed. P2 further explained that both the board of directors and the audit committee monitors the internal control process, ensures the internal control framework is in place and confirms every employee understands their obligations and responsibilities. The CFOs are responsible for managing the internal control process and providing updates to the audit committee. P3 said:

> The audit committee receives quarterly updates from the corporate controller about financial reporting. They receive an update from the director of internal audit on compliance findings and the audit process. Additionally, they receive a summary of SOX results as it relates to operating effectiveness testing. Both the audit committee and the Board of Directors play very critical roles in internal control implementation and compliance.

Table 1

Internal Control Process and Financial Reporting

	Interview Questions	Total References
Participant 1	1,3,5	7
Participant 2	1,3,5	6
Participant 3	1,3,5	6

The key findings from the first theme included (a) management's periodic review of internal control processes, (b) management's role in the implementation of internal control processes, (c) sound internal controls affects financial reporting, and (d) proper planning and preparation by management to ensure compliance with internal controls. I analyzed company documents, which explained internal control processes. I reviewed company annual reports, including the Report of Independent Registered Public Accounting Firm. The external auditors provided their opinions on the company's financial statements and internal control over financial reporting.

The transformational leadership theory ties to these findings based on how leaders measure performance value from their followers. Transformational leaders have a significant impact on individual and team performance (Rao & Kareem Abdul, 2015). My participants expected each of their employees to understand the purpose of internal control processes and the importance of these controls as it pertained to the business. My participants held each of their employees accountable for their actions to ensure compliance with internal controls.

Theme Two: Control Process Accountability and Training

The value of capable processes and effective internal controls results in accountability, integrity, and transparency in governance processes (Rendon, & Rendon, 2016). As companies gain a better understanding of internal control systems, they will enhance their corporate governance practices that lead to the achievement of financial and compliance objectives (Rae, Sands, & Subramaniam, 2017). Internal corporate governance controls help to improve financial reporting while preventing the occurrence of fraudulent acts.

The second theme to emerge from the study involved controlled process accountability and training. In Table 2, I reported the number of times the participants provided a reference to each interview question. Questions 1 and 2 related to control process accountability. All of the participants in this study indicated the importance of employees owning the internal control processes. Selected employees have the responsibility for ensuring areas under their control follow proper internal control procedures. Each participant in the study shared a similar opinion of employee accountability regarding internal controls. P1 stated:

> Employees are aware of adhering to internal controls because it is part of their job, but I also have to make sure supervisors are reviewing it, or someone else is reviewing it from a controls perspective so that we are doing all that we can do from a check and balanced perspective.

P2 stated, “The strategy is to be compliant, and to have employees account for all of the processes in place to keep the Balance Sheet clean.” P3 said:

> We have a compliance program, with a controls framework, and we have identified process owners who are typically managers in the area that owns and executes the controls. They review controls twice a year, and they work in a system with an application where they can make the necessary changes. Adequate internal controls should be implemented to prevent the occurrence of fraud.

Questions 4 related to the training element of this theme. Question 4 dealt with the consequences for employees who fail in internal control compliance. Each participant believed that compliance training was necessary for all employees who would ensure successful internal control compliance. P1 stated, “Employees address the internal controls because it is part of the job, they receive the necessary training on internal controls, and the supervisor reviews from a control perspective to make sure there are a check and balance.” P2 stated, “Compliance training in internal controls is necessary for areas such as monthly cycles, accounts payable.” P2 also stated, “We provide training on particular topics involving internal controls.” P3 mentioned, “To address accountability, we schedule training with employees who execute more of the transactional controls. Our goal is to make sure employees know what to do with internal controls, and how to feel accountable and empowered."

Table 2

Control Process Accountability and Training

	Interview Questions	Total References
Participant 1	1,2,4	5
Participant 2	1,2,4	4
Participant 3	1,2,4	6

The key findings from the second theme included (a) employee accountability of internal controls, (b) employee training on internal controls. I reviewed company documents which explained internal control processes, along with training manuals for internal control implementation.

The transformational leadership theory ties to these findings based on how leaders redesign the perception of their followers and creating new expectations. The transformational leader can inspire their followers to adjust their value systems for the purpose of working together and not for self-interest (Verissimo & Lacerda, 2015). Each of my participants made all of their employees aware of the importance of internal controls to company performance. My participants expected each of their employees to understand the purpose of internal control processes and the importance of these controls as it pertained to the business. My participants held each of their employees accountable for their actions to ensure compliance with internal controls. Each of them expressed the need for employee training and for additional training on a needed basis. Each participant agreed that there are consequences to employees who violate internal control policy, including loss of employment.

Theme Three: Compliance Challenges

The third theme to emerge from the study was compliance challenges. In Table 3, I reported the number of times the participants provided a reference to each interview question. Questions 6 and 7 related to compliance challenges and methods to improve internal control compliance. Question 6 directly relates to the internal control compliance challenges each participant faces in their role as the CFO. One problem that often arises is the necessary work needed to meet the needs of external auditors. P1 mentioned, “A compliance challenge is the work my staff and I have to complete to meet the compliance requests from our external auditor.” The challenge lies in what controls appear applicable to a company’s situation and what controls are unnecessary. P1 added, “From an internal controls perspective, always battling our auditors’ request to have exhaustive controls, to have reasonable but yet effective controls so that I do not have to have fifty people, who address internal control and that is all that they do.” P2 stated, “It is often a challenge to find the resources to complete the requests from auditors.” P3 added, “There is so much pressure from the Public Company Accounting Oversights Board (PCAOB) and our external auditors, which results in pressure on us to stay very close to all of our processes to meet the auditor’s needs.”

Another challenge participants shared is the lack of formalized control activities, which makes it challenging to measure compliance. P1 stated, “We need to make sure that what we do is what we have to do, but not be burdensome for people to get bogged down in internal controls just to do internal controls." P2 mentioned, "There are difficulties involved in the understanding of how to meet compliance standards and what are the correct interpretations of the rules of compliance." A lack of formalized control activities often occurs during the introduction of new products. P3 mentioned, "Compliance challenges surface around the introduction of new products into emerging complex markets. When we bring in new businesses on, what levels of compliance are we expected to complete?"

Each participant shared a common opinion that the CFOs must possess the leadership traits for companies to implement internal control compliance and overcome any compliance challenges. P1 and P3 both used the term "tone at the top" to describe their leadership and commitment to maintain effective internal controls. All of the participants shared similar opinions on the role of the CFO in internal control compliance. P1 and P2 both described the CFO as" an individual who demonstrates the commitment to be honest and act ethically when dealing with internal control compliance." Each participant believed that the CFO must effectively lead employees by teaching the purpose of internal controls and how to implement internal controls in the day to day functions.

Question 7 involved processes and procedures companies have implemented to improve its compliance policies and address compliance challenges. Each participant agreed that the improvement of compliance policies is a continuous process and they continue to look for more efficient processes. P1 stated, "We listen to our external auditors about what new testing methods are out there and how can we make our processes more efficient. P2 stated, “We continue to review our processes to make them better, for instance improving our monthly reconciliation process.” P3 stated, “There is always room for improvement, especially in our experienced workforce. We have lower level employees who may not have enough work experience to recognize potential compliance violations and are uncomfortable reporting them. We need to continue to provide the necessary training to assist our employees in their understanding of internal control compliance.”

Table 3

Compliance Challenges

	Interview Questions	Total References
Participant 1	6,7	5
Participant 2	6,7	4
Participant 3	6,7	5

The key findings from the third theme included (a) challenges to meet the compliance requirements, (b) the leadership of CFOs to ensure SOX compliance. I reviewed corporate governance guidelines, which provided valuable information about management’s focus on overseeing and evaluating the internal control system, financial reporting, and public disclosure. I examined Audit Committee Charters, whose responsibilities included reviewing the effectiveness of disclosure controls, and the effectiveness of internal controls over financial reporting.

The transformational leadership theory ties to these findings based on how leaders continue to challenge their followers to meet goals and perform. Transformational leadership behaviors are more effective when employees have a greater need for leadership (Breevaart, Bakker, Demerouti, & Derks, 2016). The transformational leader can accomplish this by using their own traits and personality to make a change by example. The transformational leader practices taking personal accountability for their actions. Each of my participants recognized that CFOs must lead by example and continuously teach their employees the value of internal control.

Theme Four: Risk Assessment

Corporate risk management and the achievement of internal control through compliance with a legal framework reinforces governance provisions (Aziz, 2013). Risk assessment associates with the control activities, including the monitoring of activities (Rae, Sands, & Subramaniam, 2017). The fourth theme to emerge from my study was the importance of risk assessment. In Table 4, I reported the number of times the participants provided a reference to each interview question. Questions 8 and 9 related to risk assessment. Question 8 asked participants how employees report issues or potential violations of compliance policies. All participants shared a common view of the importance of monitoring internal control compliance to limit the risk of fraudulent employee acts. All participants stated their companies have an anonymous service where employees can freely report any concerns about potential violations of compliance policies. P1 stated:

> Our company website makes it possible for any employee to submit anonymously any complaints confidentially. The employees should feel comfortable reporting any concerns or issues. We communicate to our employees the anonymous service and reminds all employees that their names will remain confidential.

P2 stated, “Our Company has an ethics hotline, and company management always encourages employees of open lines of communication on any issue.” P3 said:

> Our company hotline is available to all employees. Everyone is made aware of it, and we hope all employees feel comfortable using it for any concerns they feel should be reported. We encourage our employees to speak openly with their supervisors, but if they do not feel comfortable doing this, they can always utilize our company hotline.

Participants also discussed company procedures once they learned of the shared concerns on the company hotline. P1 stated:

> The audit committee and the Board of Directors are notified by the CFO of any potential internal controls violations. Potential action items include additional testing on the financial statements that would help us determine if there is any significant impact on our financial reporting results.

P2 stated, “We work closely with the audit committee on any possible compliance concern.” P3 stated, “Any concerns and comments go directly to the audit committee director. The Vice President of Internal Audit is involved in the investigative process of noncompliance.”

All participants were asked to provide any additional information regarding their company’s internal control. All participants mentioned the need for an increase in assessments of internal controls in higher risk areas. A shared opinion among the participants involved the need to increase internal controls in the field of Information Technology. The need for internal control compliance in IT evolved due to the way advances in IT altered the methods in how companies run their business and prepare its financial statements (Han, Rezaee, & Zhang, 2016). All three participants agreed that companies use a lot of data and management and other departments depend on the data for their financial reporting. They share a concern around what Information Technology controls exist that ensures accurate and completion of data entry.

Additionally, participants were concerned about IT controls over the maintenance and storage of accounting information. P1 stated:

> We are building up our internal controls around our IT system because companies now a day use a lot of electronic data. To have reliance around your financial statements, you need to rely on your computer systems that generate the data. We have gone through and worked with another third party, not our auditor to help us beef up our internal controls related to the IT side.

P2 expressed the need for IT controls around complex IT software which handles all company data. P2 mentioned the transformation of IT software over time and the need for effective controls to ensure that all data is collected and analyzed.

All participants shared the concern that the internal controls of information technology must be tested frequently to keep up with its rapid development and its impact on the company business. P1 stated, “We do a lot toward system-related controls on the IT side and when it comes to program changes that is a big one from an internal controls perspective as well.” P1 mentioned the need for testing and documentation around all company IT procedures and processes. P2 stated, ‘The need for internal control compliance around the implementation of significant information technology software”.

P2 further mentioned company should benefit from the documentation of internal control process of complex IT software. P3 stated, “Information technology is changing the compliance efforts and employee skill set. The advancement of IT and its impact on internal control compliance forces us to take a look at IT skills an employee may possess.” P3 also mentioned how technology will change the future execution of controls and how IT will impact SOX and control compliance.

Table 4

Risk Assessment

	Interview Questions	Total References
Participant 1	8,9	5
Participant 2	8,9	5
Participant 3	8,9	6

The key findings from the fourth theme included (a) the monitoring of internal control compliance to limit the risk of fraudulent acts, and (b) the need for assessments of internal controls in high risk areas. Each participant shared the online resource for employees to report any acts of internal control noncompliance. Each participant also shared the need to develop more immediate resources to assist in IT controls.

The transformational leadership theory ties to these findings based on how leaders continue to react to high risk areas of the business. Managers consistently face the complexity of the technological and informational environment (El Toufaili, 2018). Dynamic and efficient leadership is needed to ensure that organizations have a favorable environment for employees to optimize productivity (El Toufaili, 2018). My participants expressed concern about the complexity of critical areas, which could potentially affect both the current and future status of their company.

Applications to Professional Practice

The findings from this study are relevant to improved business practice as the study provides critical insight into the strategies CFOs implement to ensure organizational SOX compliance with corporate financial internal control policies. The specific business problem is that some CFOs lack leadership strategies to ensure organizational SOX compliance with corporate financial internal control policies. The CFOs can benefit from the awareness of findings of this study as they develop and implement strategic processes specific to compliance with internal control policies. These financial leaders can gain valuable insight into specific processes that will contribute to accurate financial reporting. Using the results of this study can provide CFOs with information on (a) how to improve financial reporting results, (b) how to develop effective corporate governance on internal controls, and (c) internal control compliance and (d) the identification of risk in internal controls.

The data I collected and the corresponding themes supported key preliminary findings from my literature review. A finding from my study was the necessity of an effective internal control system. A strong systems of internal control over financial reporting (ICFR) are critical to the production of reliable financial statements (Dickens & Fay, 2017). Effective internal control procedures contribute to accurate financial reporting and an unqualified audit opinion on the financial statements. Companies with weak internal control processes result in unreliable financial statements, which can be detrimental to stakeholder perception. Weaknesses in entity-wide controls, not process-level controls, are associated with a higher risk of reporting fraud (Donelson, Ege, & McInnis, 2017). Publicly traded corporations are audited annually by external accounting firms. Specifically, the auditors perform multiple audits for the company including a financial statement audit and a SOX compliance audit. The accounting firm conducts a SOX compliance audit to examine and validate the company's compliance efforts in internal control procedures. A key result from my findings proved that adequate internal controls over financial reporting demonstrate reliable financial statements which can be beneficial to all internal and external users.

A second key finding from my study was the type of leadership needed for effective corporate governance on internal controls. Leaders of corporate governance must advance the goals of identifiable stakeholder groups, such as customers, suppliers, employees, and the local community (Siegel, 2015). The CFOs' leadership qualities represent an essential element to ensure company employees adhere to internal control policies and maintain efficiency and effectiveness. CFOs can use the study's conceptual framework of the transformational leadership model for implementing strategies for continued internal control compliance. A CFO shares valuable information to employees about the importance of internal control compliance and its effects on the company. Knowledge sharing is the process of exchanging knowledge between employees in an organization to create new and valuable insight for each other (Le, & Lei, 2018). The perception of the CFO is one of a role model who possesses credibility by leading by example, promoting ethics and maintaining trustworthiness with employees. Williams, Raffo, & Clark (2018) define credibility as the degree to which followers perceive their leader is worthy of trust, and how well followers regard their leader as competent with the necessary expertise and skills to do the job. The findings from my study supported the CFOs' accountability in the overall internal control structure. The CFOs need to demonstrate a high degree of influence on their employees' actions and behaviors as it relates to internal control compliance.

Another key finding from my study was internal control compliance. Organizations implement internal controls as a strategy to prevent and detect financial fraud, and to ensure employees comply with laws, accounting standards, and organizational policies (Park, Matkin, & Marlowe 2017). Researchers and corporations may apply these findings to other publicly traded corporations to adopt effective strategies of compliance to internal control processes. Publicly traded companies wish to promote the financial health of their finances to the public. By considering the strategy of internal control compliance, CFOs and other management leaders have a starting point in the development of not only sound and accurate financial statements, but a sustainable and prosperous economic future. The findings from my study supported the need for internal compliance and also address the various challenges companies face in internal control compliance. Corporate management should continue to review the effectiveness of the implementation of internal control requirements, such as information, communication, and monitoring (Al-Thuneibat, Al-Rehaily, & Basodan, 2015).

The final key finding from my study was the overall risk in internal controls. There exist material weaknesses and lack of compliance in the internal controls of specific areas of the business, which represents a risk to any business entity (Haislip, Peters, & Richardson, 2016). The findings from my study addressed the necessity to identify potential high-risk areas of internal control noncompliance, such as in information technology (IT). IT advancement has positively changed the way companies conduct their operations and prepare its financial statements. The complexities of IT introduces additional unconventional risks for companies by creating challenges for auditors when auditing the effectiveness of a company's internal controls and detecting accounting irregularities (Han, Rezaee, & Zhang, 2016).

Implications for Social Change

Researchers may utilize the results of this study in a manner that could benefit and affect social change and behaviors. Society can benefit from this study as SOX instills strong corporate governance. A solid corporate governance promotes employee accountability and responsibility in the decisions made by every individual. Businesses who possess a high degree of corporate governance promotes strong ethical values. The management team promotes high ethical values to its employees. The emulation of ethical behavior leads to effective processes and sound financial results, which benefits society and communities at large. As employees continue to demonstrate ethical value in their performance, the level of trust among all employees will improve. Self-motivation for high performance should improve the awareness of actions that adversely affects company reputation. Furthermore, a company who displays ethical behavior and is financially strong has a positive impact on society through reasonable employee wages, timely material purchases from suppliers, and fair prices charged to customers.

The findings of my study could further impact positive social change by the effect of behaviors of nonaccounting employees. Societal ethical standards continue to evolve and the understanding of ethical values is an important step in improving ethical standards (Perryer & Scott-Ladd, 2014). SOX compliance potentially impacts the awareness and understanding by nonaccounting employees of adverse outcomes and risks associated with the noncompliance of internal controls. Individuals who do not have accounting responsibilities should have a clear understanding of the importance of internal control compliance as it shapes the behaviors and actions of all employees. The opportunity for all employees to anonymously report possible acts of noncompliance of internal controls further solidifies positive social change and strong ethical principles.

Recommendations for Action

The findings of my research can lead to some suggestions for actions of CFOs in publicly traded companies to develop strategies to comply with corporate internal control policies in conjunction with SOX. Other individuals who should pay attention to the results of this study include accountants who are responsible for account reconciliations and financial statement preparation and reporting. This group may consist of staff accountants, accounting clerks, accounting managers, and controllers. Another critical group comprises of nonaccountants, who often play an important role in SOX compliance and internal controls. These individuals play an essential role in the daily operations and processes of a company.

Some recommendations derived from reviewing the data findings and themes include:

1. Management develops strong training programs for new employees, which helps educate the SOX requirements and how it relates directly to the company’s overall financial reporting.
2. Management provides annual training programs for all process control owners on the SOX requirements. External auditors actively test all areas of internal controls, and process control owners need to demonstrate SOX compliance.
3. Management promotes the importance of SOX and internal control compliance to all employees.
4. Management prepares their company for multiple audits, including the annual financial reviews and the audit of internal controls, through proper planning.
5. Management establishes accountability by allowing employees who are responsible for areas of SOX compliance take ownership of the process. These individuals would have the opportunity to contribute to the overall internal control process of their areas and own the process.
6. Management monitors all reported deficiencies closely and reports them immediately to the audit committee and its external auditors.
7. Management reassesses overall company risk often throughout the year as changes within operations and processes can result in significant changes to the control environment resulting in reported control deficiencies.
8. Management increases its efforts in understanding how information technology can have a significant effect on the overall company internal control structure.

I will share the results of my study through accounting literature or during conferences held by the Institute of Internal Auditors to increase the awareness of strategies needed to comply with corporate internal control policies. I will share these results with both business and academic leaders to promote the importance of a sound internal control structure within every organization. I will continue to recommend that management continue to provide quarterly training sessions focusing on the internal control accountability of all process owners of a company and not limited to only accounting and finance personnel. Additional training on the understanding of process flow and documentation is necessary to ensure proper preparation of annual SOX audits.

Recommendations for Further Research

This qualitative multiple case study intended to explore strategies CFOs use to comply with corporate internal control policies in conjunction with SOX. Compliance of internal control procedures represents a critical factor in the financial growth and long-term outlook of any public corporation. The compliance audits results in a thorough approach to financial reporting.

Future research opportunities can result from this study. Researchers can use the findings from this study to develop a set of best practices for compliance with internal control procedures. Also, researchers can implement processes to implement an overall risk assessment, recognizing which areas of SOX compliance represent the most significant risk to a company. Researchers can also examine the current internal control structure of a corporation and provide additional information on what owners of specific processes within the internal control structure need to work on to meet SOX requirements and understand the benefits.

Future research opportunities may expand outside the geographical location of Michigan. My participants in my study worked primarily in the manufacturing sector. Researchers can use the findings from my study as a starting point and look into other types of businesses to determine whether or not CFOs use the same strategy for internal control compliance with SOX.

Reflections

In the process of completing this DBA doctoral study, I acquired valuable knowledge and a more precise understanding of the strategies CFOs use to comply with corporate financial internal control policies. Each participant shared their own opinions and experiences freely in the compliance of financial internal control policies and procedures and provided numerous real-life examples. I possess many years of internal controls experience. To mitigate any possible personal biases or preconceived ideas and values, I refrained from bias during the interview by ensuring that I do not offer any opinion that might have influenced the interview outcomes. Therefore, I used an interview protocol for each of my participants, which assisted me in not showing bias and treating the participants in the same manner.

Each study participant has the accountability to ensure the integrity of the company's financial position. As the CFO, they must provide not only the accuracy and validity of the company's financial statements but the overall company compliance with SOX. All of them are very knowledgeable about the Sarbanes-Oxley Act of 2002 and understand the importance of compliance. Each company incorporates multiple training sessions for their employees to confirm SOX compliance within the workforce. Each participant demonstrated a passion for their jobs and was very open and willing to share their experiences as it relates to their strategies to ensure SOX compliance.

After completing my study, I gained a stronger knowledge base on SOX law and the company’s strategy toward internal control compliance. I gained a greater appreciation of the CFO and their leadership skills that enable them to successfully direct their teams in implementing solid internal controls and a stable financial position. They each displayed an ideal portrait of a role model as they shared high expectations with their employees and kept their employees focused on the goals of the company.

This experience allowed me to learn how to implement the process in my research effectively. I learned the importance of reliability and validity in the research process, along with data collection instruments and data collection techniques. I learned how to interview, transcribe, and code data. I gained insight on the proper treatment of participants, who play a valuable role in the overall research process, findings, and conclusions. I believe my experience in this research study has adequately prepared me to be successful in future research endeavors.

Using the findings from my doctoral study could provide present and future CFOs with additional information to help develop strategies that would ensure SOX compliance with corporate financial internal control policies. These strategies can help improve the awareness of internal control policies, prevent unnecessary restatements of financial statements, and protect the overall integrity of the company’s financial statements.

Conclusion

Some CFOs lack the strategies to ensure organizational SOX compliance with corporate financial internal control policies. The purpose of this qualitative multiple case study design was to explore the strategy CFOs use to comply with corporate financial internal control policies. The four emerging themes from the data collection included (a) internal control processes and financial reporting, (b) control process accountability and training, (c) compliance challenges, and (d) risk assessment. The implications for positive social change includes awareness by all employees of how internal controls can affect a company’s financial position. An effective internal control system emphasizes employee accountability for all processes, which results in efficient process control and enhanced reliable financial statement reporting. Accurate financial statement reporting will increase the confidence of both current and potential stakeholders of the company.

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Appendix A: Interview Protocol

Interview Protocol	
What you will do	**What you will say—script**
Introduction	Hello, my name is Grant Lee and I want to thank you for agreeing to be a part of my study. Before we get started, I would like to review the informed consent form with you and give you an opportunity to ask me any general questions.
• Interview questions • Follow up questions	1. What strategies did you develop and implement for internal control? **Follow up question**: Describe your prior experiences, which you used that helped you develop your strategies for the development and implementation for internal control.
	2. How do you reinforce strategies for internal control compliance with all employees? **Follow up question**: Describe any moments when attempts to reinforce strategies for internal control compliance did not work and how did you fix this.
	3. How does the internal control process affect the financial reporting and disclosure preparation process? **Follow up question**: Describe your experiences with SOX 404 audits and what effects it has on your company's

	financial reporting.
	4. What are the consequences to employees who fail to adhere to internal control policies and procedures? **Follow up question**: Is the failure to adhere to internal control policy due to a lack of training? Describe the employee training on internal control processes.
	5. What are the roles of the audit committee and board of directors as it pertains to internal control implementation? **Follow up question**: Are these groups involved in the review of internal control processes?
	6. What are the compliance challenges you face most frequently in your role as controller? **Follow up question**: How does your team help you address these challenges?
	7. What ways can the company improve its compliance policies?
	8. How can company employees report issues or potential violations of compliance policies? **Follow up question:** How are employees protected from reporting issues or violations of compliance policies?
	9. What additional information would you like to share

	about your company's internal controls?
Wrap up interview thanking participant	I want to thank you for your time and your responses to my questions. Do you have any final questions or comments you would like to discuss with me?
Schedule follow-up member checking interview	A follow up member checking interview will be scheduled

Appendix B: Interview Questions

1. What strategies did you develop and implement for internal control?
2. How do you reinforce strategies for internal control compliance with all employees?
3. How does the internal control process affect the financial reporting and disclosure preparation process?
4. What are the consequences to employees who fail to adhere to internal control policies and procedures?
5. What are the roles of the audit committee and board of directors as it pertains to internal control implementation?
6. What are the compliance challenges you face most frequently in your role as controller?
7. What ways can the company improve its compliance policies?
8. How can company employees report issues or potential violations of compliance policies?
9. What additional information would you like to share about your company's internal controls?