American Journal of Humanities and Social Sciences Research (AJHSSR)
e-ISSN : 2378-703X
Volume-09, Issue-11, pp-49-54
www.ajhssr.com
Research Paper Open Access

Challenges in Implementing Internal Control Systems in the Shipping Industry (A Case Study at PT PM)

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ABSTRACT : Internal control plays an important role in ensuring operational efficiency, mitigating risks, and supporting business sustainability. However, in practice, various challenges often hinder its effective implementation. This study was conducted in the shipping industry at PT PM with the aim of understanding the condition of internal control and the challenges faced in its implementation. The research employed a qualitative approach using a case study method. The findings reveal that internal control at PT PM has not been implemented optimally. The control environment is still influenced by the dominance of top management, a permissive culture, and subjective performance evaluations. Risk assessment remains inadequate, as the company continues to rely heavily on the coal sector with limited efforts in diversification. Control activities are not yet effective, as indicated by the prevalence of unofficial expenses that exceed official costs. In terms of communication, the flow of information is uneven due to the formation of exclusive groups closely connected to management. Meanwhile, the monitoring function is inconsistent, marked by high employee turnover and weak supervisory mechanisms. The discussion shows that weaknesses across these aspects are interrelated and form systematic barriers. This condition not only leads to inefficiencies and reduces operational effectiveness, but also hinders the realization of business diversification strategies needed to reduce the company's dependence on the coal sector. This research is expected to provide practical insights for management in strengthening internal control systems, as well as academic contributions to enrich the understanding of internal control implementation challenges in resource based companies.
KEYWORDS : *Internal Control, Implementation Challenges, Organizational Culture, Business Diversification, Shipping Industry*

I. INTRODUCTION

The shipping industry plays a vital role in supporting global and domestic trade, contributing significantly to Indonesia's economic growth through revenue generation and employment opportunities (Amin & Jufrin, 2020). To remain competitive, shipping companies must not only ensure operational efficiency but also strengthen managerial practices, particularly internal control systems (Munifah, 2023). In line with digital transformation, the sector is expected to deliver services that are efficient, transparent, and accurate through platforms such as Inaportnet (Rasyad et al., 2024). However, the effectiveness of such systems depends largely on internal readiness. PT PM illustrates these challenges, as its internal control mechanisms function merely as formalities without consistent implementation. Key issues include centralized decision-making that undermines hierarchical supervision, subjective performance appraisals that reduce employee motivation, the emergence of exclusive groups that restrict information flow and foster discriminatory practices, and weak monitoring reflected in the lack of sanctions against ethical violations. These conditions have cultivated a permissive organizational culture, leading to high employee turnover and weakened financial control. As a result, PT PM struggles to diversify its business, faces shortages of competent human resources, and remains vulnerable to unpredictable external cost fluctuations.

II. LITERATURE REVIEW

2.1 Institutional Theory

Berthod (2016) explains that institutional theory views norms, rules, and social practices as fundamental in shaping organizational structures and behaviors. Organizations tend to adopt practices deemed institutionally appropriate through regulative, normative, and mimetic pressures to gain legitimacy and ensure sustainability (Alvesson, 2019). Institutional theory emphasizes that organizations are not solely driven by technical efficiency but are also influenced by social pressures, regulatory rules, and prevailing norms, which affect behavioral patterns and structural arrangements (Greenwood et al., 2017).

a. Internal Control

According to Mulyadi (2016), internal control encompasses the organizational structure, methods, and measures designed to safeguard assets, ensure the reliability of accounting information, improve efficiency, and secure compliance with management policies. The COSO framework (2013) defines internal control as a process involving the active participation of the board of directors, management, and all personnel, aimed at providing reasonable assurance of achieving organizational objectives in three domains: operations, reporting, and compliance. COSO further outlines five key components of internal control: Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring.

b. Business Diversification

Business diversification has the potential to strengthen corporate performance. Wang (2024) highlights that information technology enables diversification by creating synergies across new business lines, thereby enhancing firm performance. In the logistics and shipping sector, Sulzbach et al. (2022) found that diversification strategies among logistics providers positively affect financial outcomes. Similarly, Sulistyo (2014) indicates that business diversification exerts a positive influence on a company’s capital structure.

c. Firm Performance

Firm performance serves as a measure of organizational success in achieving its objectives through the optimal utilization of resources. Almatrooshi et al. (2016) argue that performance is shaped by a combination of internal factors, such as leadership, organizational culture, and the effectiveness of internal controls, as well as external factors, including industry competition and government regulation. Nwachukwu et al. (2018) further emphasize that performance is increasingly dependent on an organization’s ability to adapt to environmental changes and strengthen competitive advantage. Kaplan (2018) adds that firm performance should be assessed holistically, encompassing financial, customer, internal process, and learning-and-growth perspectives.

III. METHODOLOGY

a. Operational Definition

The evaluation of internal control implementation in this study is defined as an assessment of the extent to which control procedures and policies are applied in accordance with the COSO framework. The internal control system is understood as a set of policies, procedures, and mechanisms designed to ensure that company activities are conducted effectively, efficiently, in compliance with regulations, and with adequate protection of assets. Firm performance is defined as the outcomes achieved by the organization in managing resources effectively and efficiently to meet its objectives. At PT PM, firm performance is measured by operational stability, cost efficiency, employee turnover rates, and the success in developing business diversification strategies.

b. Research Design

This study employs a qualitative approach with a case study method within an interpretive paradigm. The interpretive paradigm was chosen as it views reality as a social construct shaped by the experiences, perspectives, and interactions of organizational actors (Wijayanti et al., 2022). Through this paradigm, the researcher aims to capture the subjective meanings of informants, including executives, managers, and operational staff, enabling the findings to reflect the actual conditions at PT PM, particularly the technical, ethical, and structural aspects influencing decision-making.

c. Research Object

The research was conducted at PT PM, a shipping company operating in Samarinda. This location was selected due to several observable phenomena, including an unhealthy work environment, high employee turnover, indications of weak internal control, and fluctuating ship traffic data over the past several years.

d. Research Subjects and Informants

The research subject is PT PM, a shipping company in Samarinda facing challenges in implementing its internal control system. Informants were selected using purposive sampling, targeting individuals considered most knowledgeable about the phenomena under investigation. Selection was based on their direct experience and strategic positions within the organizational structure, allowing the researcher to capture a comprehensive understanding from multiple perspectives. Key informants included executives, finance staff, operations personnel, general employees, and external stakeholders such as shipping agents. This selection was intended to provide in-depth insights into the internal and external dynamics affecting the company’s internal control system.

e. Data Collection Techniques

In this qualitative case study, data collection techniques were designed to provide an in-depth understanding of the social, cultural, and organizational dynamics within PT PM. The primary techniques used were semi-structured interviews, direct observation, and document analysis (Heriyanto, 2018).

f. Data Trustworthiness

To ensure data trustworthiness, the study applied the principles of credibility, transferability, dependability, and confirmability as outlined by Sutriani (2024). Credibility was ensured through triangulation of sources and methods, as well as member checking with informants. Transferability was supported by providing thick descriptions of the research context, while dependability and confirmability were maintained through systematic documentation of the research process.

IV. RESULTS AND DISCUSSION

a. Control Environment

Within the COSO framework (2013), the control environment is understood as the foundation that shapes the tone and direction of an organization in implementing internal control. In other words, the control environment represents the "tone at the top," guiding how rules are enforced and how organizational culture is formed, thereby serving as the basis for the functioning of other internal control components. According to COSO (2013), the control environment consists of five fundamental principles: commitment to integrity and ethical values, independence of the board of directors, appropriate establishment of structure and authority by management, commitment to competence, and accountability for performance related to internal control responsibilities.

1) Centralization of Authority

The study revealed that PT PM's internal control system has not functioned optimally due to weak supervision, unclear separation of functions, and excessive centralization of authority. In daily operations, decision-making remains heavily concentrated in the hands of top management. Many frontline employees prefer to wait for instructions from superiors rather than take initiative based on existing procedures. This condition undermines accountability, which should have been established through a structured system, and results in biased control mechanisms that are difficult to apply consistently. Consequently, managerial dominance weakens not only the foundation of the control environment but also the effectiveness of other internal control components.

2) Permissive Culture

Beyond issues of structure and authority imbalance caused by centralization, weaknesses in the control environment are also reflected in PT PM's permissive organizational culture. Violations are often tolerated without firm sanctions, leading to the inconsistent enforcement of accountability. From the perspective of COSO's control environment (2013), this indicates a lack of commitment to integrity and ethical values, as well as the failure of both individuals and management to uphold their responsibilities. In light of institutional theory, this permissive culture can be understood as a process of habituation: what begins as minor violations gradually becomes normalized and eventually accepted as organizational routine. Over time, this erodes the foundations of control and opens opportunities for risks that may harm the company.

3) Subjective Performance Evaluation

When performance appraisal is dominated by subjectivity, it signals weaknesses in the control environment. Assessments based on personal relationships or managerial preferences demonstrate the inconsistent application of ethical standards and objectivity. This condition fosters perceptions of unfairness, reduces employee motivation, and undermines trust in the internal control system. Within the COSO framework, such practices highlight weak enforcement of integrity, ethics, and objectivity, and indicate a lack of leadership commitment to serving as ethical role models. Instead of reinforcing positive values, leaders perpetuate permissiveness and exclusivity. Consequently, subjective performance evaluation diminishes the effectiveness of the internal control system by allowing bias, injustice, and inefficiency to persist.

b. Risk Assessment

In the COSO framework (2013), risk assessment is defined as a systematic process used by organizations to identify, analyze, and manage risks that may hinder the achievement of objectives. This process is continuous and dynamic, as risks can emerge from both internal and external factors and evolve alongside the business environment. Risk assessment, therefore, serves as an early mechanism to ensure that organizations can anticipate uncertainties and design appropriate mitigation strategies.

1) Dependence on the Coal Sector
In the case of PT PM, one of the primary strategic risks is its heavy reliance on the coal sector. While plans for business diversification exist, their implementation remains very limited. This dependence exposes the company to external risks, including commodity price fluctuations, environmental regulations, and global transitions toward renewable energy.
2) Limited Diversification Strategy
At the same time, the company's diversification strategy has not been effectively executed. As a result, PT PM remains highly vulnerable to risks associated with coal price volatility and regulatory shifts. The slow pace of diversification ultimately leaves the company in a fragile position, particularly in the event of a significant downturn in the coal market.

c. Control Activities

According to COSO (2013), control activities are guided by three main principles. First, organizations should select and develop control procedures relevant to the risks they face, such as transaction authorization, segregation of duties, and reconciliation. Second, general controls over technology are essential, given that information systems now serve as the backbone of business operations. This includes ensuring access security, data integrity, and system reliability. Third, policies and procedures must be clearly documented, communicated, and consistently applied across all organizational levels. The findings indicate that PT PM's internal controls exist only as symbolic measures without the strength to enforce compliance. This has allowed irregular practices to persist, leading to ineffective use of resources. Weak cost control, combined with the company's dependence on the coal sector, exacerbates financial risks and prevents the organization from achieving sustainable operational efficiency.

d. Information and Communication

Within the internal control framework, information and communication are vital to ensuring that messages, directives, and reports are received and understood by the appropriate parties. The effectiveness of this system significantly influences the quality of managerial decision-making and the reliability of monitoring processes. However, findings from PT PM reveal that formal communication channels do not function as intended. Instead of fostering transparency, communication is influenced by personal relationships, social dynamics, and an unhealthy work environment. This not only weakens the flow of information but also fosters a culture of pressure and discrimination. The study found that communication issues in PT PM are driven by unhealthy competition among employees. Staff compete to appear more influential, as operational groups are perceived as holding greater organizational power. This has led to the formation of exclusive groups that protect their own interests. Employees outside these groups must adapt for self-preservation, as lacking group affiliation leaves them vulnerable to exclusion from vital information flows. As a result, the information reaching top management is often biased, shaped by internal rivalries rather than accurate organizational realities. Consequently, the internal control system is undermined, as information can no longer be relied upon as a basis for supervision or decision-making. Instead of fostering transparency and accountability, communication has become a tool for competition and the preservation of group interests.

e. Monitoring

Monitoring is a crucial component of internal control, ensuring that established controls remain effective and responsive to changes. COSO (2017) emphasizes that monitoring should be conducted through both ongoing evaluations and separate assessments to detect and correct weaknesses in a timely manner. Similarly, Herliana and Kuntadi (2023) argue that monitoring enhances internal control performance by continuously assessing control quality. In the case of PT PM, two major issues highlight weaknesses in monitoring. First, the high employee turnover rate signals a failure to monitor job satisfaction and employee motivation. Many employees have left the company due to perceptions of unfair performance evaluations and limited opportunities for career development. This situation has resulted in unbalanced workloads, the loss of experienced personnel, and increased recruitment and training costs. Second, the company has not effectively followed up on evaluation results, weakening the corrective function of monitoring. Ideally, PT PM should develop a fair and sustainable human resource management system. However, persistent turnover issues indicate that monitoring has failed to identify and address the root causes. This not only increases costs but also prevents accurate detection of performance and financial problems. Consequently, PT PM's monitoring system fails to strengthen internal control and instead undermines the effectiveness of its corrective strategies.

V. CONCLUSION

a. Conclusion

Based on the findings and discussion of this study, it can be concluded that the control environment at

PT PM has not functioned effectively. The centralization of authority places top management as the main source of legitimacy and decision-making, resulting in a top-down control system that lacks participation. The permissive organizational culture further weakens rule enforcement, as violations and non-compliant practices are often tolerated. In addition, subjective performance evaluations reinforce inequality and injustice, thereby reducing objectivity in appraisal processes. Risk assessment at PT PM remains inadequate in anticipating business dynamics. The company's heavy dependence on the coal sector makes it highly vulnerable to commodity price fluctuations and regulatory changes. At the same time, limited diversification strategies restrict its ability to adapt and develop alternative sources of revenue. These conditions demonstrate that PT PM's risk management remains reactive, leaving the company exposed to significant risks to business sustainability. Control activities at PT PM are also weak, particularly in cost management. This is reflected in the prevalence of unofficial expenditures that exceed official costs, as well as the absence of strict oversight procedures in operational activities. Such conditions indicate that control mechanisms are not functioning optimally, resulting in inefficiencies, resource wastage, and the potential for practices that deviate from sound governance principles. The aspect of information and communication at PT PM also reveals significant weaknesses. The formation of exclusive groups with close ties to management prevents information from being distributed evenly across employees. Consequently, information has not been fully utilized as a basis for decision-making, thereby hindering the effectiveness of internal control. Monitoring reflects the recurring issues identified across other components. High employee turnover disrupts the continuity of procedure implementation, preventing consistent adherence to established standards. This is exacerbated by a monitoring system that remains partial and fragmented, leaving many activities unevaluated. As a result, irregularities often go undetected at an early stage, and corrective actions tend to be reactive rather than preventive. Taken together, weaknesses in monitoring are not isolated but interconnected with deficiencies in the control environment, inadequate risk assessment, weak control activities, and ineffective information and communication due to exclusivity. These interrelated weaknesses collectively demonstrate that PT PM's internal control system has not functioned comprehensively or sustainably. In other words, weak monitoring is part of a cycle of internal deficiencies that reinforce one another, ultimately reducing the overall effectiveness of the company's internal control system.

b. Recommendations

1) Strengthening Digital Systems Gradually and Inclusively, the development of an integrated digital system is an important initial step. However, it is essential to ensure that all employees are engaged and understand the process. Continuous training, technical assistance, and socialization sessions should be provided to foster not only administrative compliance but also a sense of ownership toward the new system.
2) Reforming Organizational Culture with a Focus on Ethics and Professionalism, the existing culture, which has been shaped by subjective evaluations and informal practices, needs to be gradually replaced with a culture rooted in performance, ethics, and professional accountability. This shift will strengthen fairness, integrity, and consistency across organizational practices.
3) Strengthening the Role of Middle Management and Organizational Hierarchy, to avoid excessive centralization in the hands of the Chief Executive Officer, PT PM should empower middle management. Each manager must be given clear authority to make decisions, conduct evaluations, and mentor their teams. This distribution of authority will promote accountability and enhance organizational resilience.
4) Optimizing the Internal Control System, firm policies are required for all financial requests and disbursements, including mandatory documentation of transactions and transparent use of funds. Clear procedures and consistent enforcement will strengthen financial discipline and minimize the risk of inefficiency or misuse.
5) Developing and Diversifying Business Strategically, planned and well-structured business diversification is necessary to reduce dependence on a single sector and mitigate external risks. Diversification efforts should be accompanied by adequate resource allocation, risk assessment, and alignment with long-term strategic goals.
6) Creating a Psychologically Safe Work Environment, conflict management should be conducted openly and fairly, supported by forums for dialogue and feedback where employees can voice their concerns without fear. Employees who feel valued and psychologically safe are more likely to be loyal, motivated, and productive.
7) Ultimately, the success of a company is not solely determined by capital strength or past experience but also by its willingness to learn continuously, reform its practices, and restructure its operations with honesty and thoroughness.

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