

The Effect of Internal Environment on the Performance of Small and Medium Scale Enterprise in Kano Metropolis

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Abstract: The study presented in this paper analyzes the effect of internal environment in Kano State, a sample size of 85 will be selected and used for the purpose of this study. This was arrived at using Slovene's formula used to determine the minimum sample size. The finding will show the length at which internal environment factors has significant effect on the performance of small and medium scale enterprises in Kano metropolis.

Keywords: SMEs, Performance, internal environment and internal environmental factors.

1. INTRODUCTION

Sandberg Vinberg and Pan (2002) says that performance of SMEs is their ability to contribute to job and wealth creation through Enterprises start-up, survival and growth. Also, Komppula (2004) identify some constrained by two major factors: internal factor such as entrepreneur competencies, commitment, resource, strategic choice and external factor like competitors, culture, technology, infrastructure and government policy. Understanding determinant factors of SMEs performance is considered an important area of focus in Enterprises (Rosli, 2011). Driver et al (2001) suggested that the link of SMEs performance and economic growth remains complex, and that entrepreneurial ability remains a necessary component of a country's capability to support economic development. The performance and growth of small and medium enterprises (SMEs) is a major driver and indices for the level of industrialization, modernization, urbanization, gainful and meaningful employment for all those who are able and willing to work, per capital income, equitable distribution of income, and the welfare and quality of life enjoyed by the citizenry Aremu and Adeyemi {2011}, because SMEs contribute to employment growth at a higher rate than larger firms Farouk and Saleh {2011}. Odekunle (2001) says that investment in human capital has significant end on the impact of entrepreneurial ventures and technological innovation. The reasons for identification of SMEs performance include: provision of knowledge about the present characteristics of SMEs performance while the knowledge gained would assist the SMEs to track their position, verify priorities as well as communicate and improve performance Neely, (1998) cited in (Rosli, 2011). Jamil and Mohamed (2011) in their research study that focused on performance of measurement system in small medium enterprises (SMES): A practical modified framework indicates that developed countries like the USA and the UK have been using both quantitative and qualitative criteria to define SME.

Duncan (1972) and Williams (2009) assert that the internal environment of any organization comprises firm-related factors that influence its capacity to achieve set objectives, develop and implement a viable plan, which consequently contributes to its performance (Amoako-Gyampah, 2003; Ghani, Nayan, Ghazali & Shafie, 2010). Waterman, Peters and Julien (1980) describe internal environment as key internal aspects that need to be aligned within an organization for improved performance or effective change implementation. Internal environment can also be described as those internal controllable forces operating within the organization itself that have a direct impact on an organization's performance. These include financial resources, information and knowledge, firm's capabilities, incentives, organizational

demographics such as size, inter-institutional linkages, company's objectives, goals and employees' skills (Freeman & Reid, 2006).

Whereas the operationalization of an organization's internal environment remains varied, there is consensus among scholars that internal environment is a key determinant of an organization's performance. Internal environmental forces provide strengths and weaknesses to the business

(Tolbert and Hall, 2009). The aspects forming the internal environment of an organization provide an enabling environment for an organization to achieve its objectives. McKinsey's conceptualization of organizational internal environment highlights strategy, structure, skills, staff, systems, shared values and style as the key internal factors that influence performance of

Organizations (Waterman et al., 1980). Consequently, firms' are said to operate within a social framework of norms, values and assumptions, which eventually influences their performance and competitive advantage (Oliver, 1997). A business internal environment plays the most significant part in charting out the direction and the unique qualities that define it from others (Aldrich, 1979). Each of the internal factors whether tangible or not are significant to the success of the business, based on how each firm employs and maintains them (Nzomo, 1995). All these translate into sales, profit and size of a business which effectively define the business success or failure (Karingiti, 1999). Distribution as an internal factor is vital in deciding the extent to which the firm's product can reach (Kibera, 1996).

However, Despite the existence of many SME support programmes that provide backing to SMEs in the country continue to weaken (not all SMEs are experiencing positive growth) (Baloyi 2010). More so, there are other SMEs that have stagnated at the survivalist stage (Bidzakin 2009). This raises questions on whether the SME owner/managers have the adequate and requisite skills, competences and capacity to manage the SMEs in a manner that enhances growth and survival or not and the Technological Capacities of SMEs and their Competitive intensity. This paper shall examine and assess the effect of internal environment on the performance of small and medium scale enterprise in Kano, metropolis.

2. LITERATURE REVIEW

Akinruwa, Awolusi and Ibojo (2013), examine the Determinants of Small and Medium Enterprises (SMEs) Performance in Ekiti State, Nigeria: A Business Survey Approach. The result finds that government focus should be on provision of all determinants that will enhance the thriving of SMEs performance, creates avenue that will give room for sharing experience among business owners finally, adequate information should be made to create awareness and need to patronize the home made product. Aworemi, Abdul-Azeez, and Opoola (2010) examined the Impact of Socio-Economic Factors on the Performance of Small-Scale Enterprises in Osun State, Nigeria. The result finds that integrated approach to the development of individual entrepreneurial capacity and promotion of sustainable small-scale enterprises. Donglin (2009) Measured the Performance in Small and Medium Enterprises in the Information and Communication Technology Industries. The result shows that an effective PM system for ICT SMEs should help the companies to formulate right strategies that can especially manage the uncertainty of the external environment in their development. Krishna et al (2012) A Study on Factors Affecting the Performance of SMEs in Malaysia. The result proved that there is a significant positive relationship between the use of marketing information as well as the application of information technology and the performance of SMEs. Eniola (2014) examined The role of SME firms performance in Nigeria. The result shows that the role SMEs performance in the national growth in Nigeria cannot be overemphasized. The performance of SMEs and its contributions has manifested and shown that they are a major area to be researched to assist the policy makers and the SMEs, owners to encourage an enabling and conducive environment for SMEs to perform more. Siti Nur and Nelson (2011) explored a literature analysis on business performance for SMEs – Subjective or Objective Measures?. The result shows that examining and expanding the taxonomy of business performance and in shedding light on future research in any discipline that focuses on measuring performance. Eniola, Entebang and Sakariyau (2015) Small and medium scale business performance in Nigeria: Challenges faced from an intellectual capital perspective. The result will increase the savoir faire about the present concern relating to Small and medium enterprises in Nigeria and human capital value creation.

Cirikovic (2008), examined Internal factors of organizational structure. The result illustrate the internal factors of organizational structure, but also point out how changes in these factors concomitantly cause the changing of the organizational structure, which leads to the fact that the organizational structure is a flexible category and that the degree

of its successful realization is reflected in that flexibility. Shiamwama, Ombayo and Mukolwe (2014) examined the Internal Factors Affecting the Performance of Businesses of Retirees in Kakamega Municipality. The result revealed that the major factors affecting performance of retirees' businesses include financial stability, physical and mental strength, entrepreneurial skills and family base which accounted for significant failure of businesses of retirees of finance and communication sector of the larger public corporations in Kakamega municipality. Yu and Zhang (2010) examined Internal factors affecting the organizational internationalization process: Evidence from Huawei case study. The result illustrate the relationship of some organizational internal factors and the firm's internationalization. Hove and Tarisai, (2013) examined the Internal Factors Affecting the Successful Growth and Survival of Small and Micro Agri-business Firms in Alice Communal Area. The result the significant to policy makers (that is government and quasi-government agencies), SMEs and other researchers.

In Nigeria, the Small and Medium Scale Enterprises (SMEs) is the driving force and establish an important mainstay of the Nigerian economy. A few years ago SME represent about 90 percent of the industrial sector in terms of the number of enterprises (NIPC, 2002). This sector economically, holds the key to sustainable development of the country and its importance can be put in proper aspect in relation to the structure of the Nigerian economy with many performance contributions as the source of technology innovation and new products (Jocumsen 2004: 659).

In spite of the exploitation of petroleum oil, SMEs provide gainful employment for about 70% of the Nigerian population. Available reports suggest that the agricultural sector accounts for close to 35% to 40% of the nation's gross domestic product (GDP). Most of the operators in the agricultural sector are small-scale self-employed individuals engaged in agro-allied processing activities such as farming, handicraft, fishing, agro forestry and livestock rearing. In achieving optimal economic development and to reduce dependency on crude oil for redistribution of economic wealth, the government seeks rescue from the SME sector by employing economic diversification.

The function of government in the performance of entrepreneurship in Nigeria became significant only after the Nigeria civil war. Since the mid-1980s, banks were mandated to set up branches in the rural regions. The objective of this policy was to improve access to financial services (Soludo, 2008). There has been an increased loyalty of government to entrepreneurship development, especially after the founding of the Structural Adjustment Program (SAP) in 1986.

SMEs play a key role in the informal sector in Nigeria. The performance and survival of SMEs depends on the favorable policy that can drive and develop the SME in Nigeria. Driver et al (2001) suggests that the link of SMEs performance and economic growth remains complex, and that entrepreneurial ability remains a necessary component of a country's capability to support economic development. The importance of SMEs has always been observed by the government through various strategic policies and documents were a bit implicit on the matter.

The government efforts at meeting the performance needs of the SME sector towards its contributions to the economic growth, after returned to democracy in 1999, have to put in place a well-intentioned strategic policy, schemes, programs and institutional arrangements designed to provide succor to the performance of the small business sector. Equally share of government attempts at directing the fiscal demands of micro entrepreneurs, a micro-finance policy was established by the Federal Government.

2.1 Concept of internal environment:

An organization's internal environment consists of the trading status of the business, its finances, physical resources, staff and management skills, operational and control systems, stakeholders' interests, policies and procedures. Duncan (1972) and Williams (2009) assert that the internal environment of any organization comprises firm-related factors that influence its capacity to achieve set objectives, develop and implement a viable plan, which consequently contributes to its performance (Amoako- Gyampah, 2003; Ghani, Nayan, Ghazali & Shafie, 2010). Waterman, Peters and Julien (1980) describe internal environment as key internal aspects that need to be aligned within an organization for improved performance or effective change implementation. Internal environment can also be described as those internal controllable forces operating within the organization itself that have a direct impact on an organization's performance. These include financial resources, information and knowledge, firm's capabilities, incentives, organizational demographics such as size, inter-institutional linkages, company's objectives, goals and employees' skills (Freeman & Reid, 2006).

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provide strengths and weaknesses to the business (Tolbert & Hall, 2009). The aspects forming the internal environment of an organization provide an enabling environment for an organization to achieve its objectives. McKinsey's conceptualization of organizational internal environment highlights strategy, structure, skills, staff, systems, shared values and style as the key internal factors that influence performance of organizations (Waterman et al., 1980). Consequently, firms' are said to operate within a social framework of norms, values and assumptions, which eventually influences their performance and competitive advantage (Oliver, 1997). The human capital of the firm refers to the knowledge, skills and abilities that employees possess and use in their work. Studies of employee human capital have found its direct positive effects on firm performance (McKelvie & Davidson, 2009). Performance of an organization is dependent on the degree to which the values of the culture are comprehensively shared (Denison, 1990).

A business internal environment plays the most significant part in charting out the direction and the unique qualities that define it from others (Aldrich, 1979). This macro environment comprises of factors which a firm can effectively use in adapting to the ever-changing external environment. Unlike the external, the internal environment factors are largely within control of the management of a business enterprise. Such factors as tangible business resources, its workers, its management, competencies, production, marketing and strategic choices are so strong conventional contributors to the effective and efficient operation of any business (Kibera, 1996).

Each of the internal factors whether tangible or not are significant to the success of the business, based on how each firm employs and maintains them (Nzomo, 1995). A business plant, machinery, equipment or tools for instance should be those that are cost effective in terms of their acquisition, installation, maintenance, repair and replacement. This would make an entrepreneur to retain some funds for other operational plans. These facilities are equally important for the quality and quantity of product output, market size and niche, companies / firm image and general public approval of the company's product. All these translate into sales, profit and size of a business which effectively define the business success or failure (Karingiti, 1999).

Production is yet another internal factor that affects business operation. The type of product that an entrepreneur wants to produce, the cost of production, the target group, the technology used or required in the production and the quality and quantity of output are very important determinants of the success of any firm. If not monitored properly, then the ability to estimate and meet the market demand and sustain market size is slim (Karingiti, 1999).

Distribution as an internal factor is vital in deciding the extent to which the firm's product can reach (Kibera, 1996). Appropriate distribution channels are those which respond to the firm's financial base, market demand, size and diversity and also product requirement. Keen attention should therefore be paid to the distribution channel the firm proposes to use based on the above listed controls (Ondiege, 1996).

2.2 Concept of SME's performance:

Hornby (2000) is described as an action or achievement considered in relation to how successful it is. Performances are variously measured and the perspective are tied together and consistently monitored from the organization context (Jamil and Mohamed 2012). Looking from the Hornby (2000) definition, it can be reasonably concluded that performance is synonymous to success. What connotes performance varies from one organization to another.

According to Komppula, (2004), performance of Small Enterprises was viewed as their ability to contribute to job and wealth creation through Enterprises start-up, survival and growth. The research study was focused on Success factors in small and micro Enterprises. The results of the study show that there are no statistically significant differences in the views held by slowly or fast growing enterprises regarding the importance of the success factors. The same factors are considered important and less important in both slowly and fast growing enterprises in each branch of industry. Arising from the findings, it shows that the effectiveness of a particular factor on a business hang on the support of other determinant factors.

The performance and growth of small and medium enterprises (SMEs) is a major driver and indices for the level of industrialization, modernization, urbanization, gainful and meaningful employment for all those who are able and willing to work, income per capital, equitable distribution of income, and the welfare and quality of life enjoyed by the citizenry (Aremu & Adeyemi, 2011), because SMEs contribute to employment growth at a higher rate than larger firms (Farouk and Saleh, 2011). The SME sector is globally regarded as an important force of driving the economic growth and employment creation in both developing and developed countries (Ariyo, 2008; Kpleai, 2009), which is well documented

(Birch 1989; Storey 1994). SMEs (firms with 200 or less employees) makes up the largest business sector in every world economy (Culkin & Smith 2000), and governments around the globe are increasingly promoting and supporting the SME growth as part of their overall national development strategy (Abdullah & bin Dakar 2000).

A healthy and robust SME sub-sector is a *sine qua non* for inclusive and socially sustainable development (Ogboru, 2005) and one of the significant characteristics of a flourishing and growing economy is a booming and blooming small and medium enterprises SME sector (Fida, 2008).

The performance and role of SMEs going forward are bound to be even greater and more pervasive with a demonstrable impact on the emerging world trading order. SME is the driving force and establish an important mainstay of the nation's economic system. The evolution of this sector leads to poverty relief, employment creation and multiplication of potential entrepreneurs. It offers linkage development of large industries.

2.3 Relationship between internal environment and SME's performance:

To the practitioners, the positive effects of internal environment on performance implies that in order to enhance performance of any organizations, managers of such organizations and other organizations should carry out a thorough analysis of the internal environment before embarking or pursuing activities leading to achievement of organizational goals. In addition, it is recommended that such organizations establish proper internal management structures, systems and policies as these enhance performance of organizations. According to Komppula, (2004), performance of Small Enterprises was viewed as their ability to contribute to job and wealth creation through Enterprises start-up, survival and growth. The research study was focused on Success factors in small and micro Enterprises.

3. METHODOLOGY

3.1 Participants:

The population of the study consists of respondent drawn from various SME's in Kano state metropolis. Given the target population of 108 SMEs in Kano State, a sample size of 85 will be selected and used for the purpose of this study. This was arrived at using Slovene's formula used to determine the minimum sample size. A questionnaire will be given to the respondent to fill and the data collected from the respondent will be analysis using the Statistical Package for the Social Science (spss) for data analysis.

3.2 Measures:

The following scales will be used in measuring each of the variables involved in this study:

3.2.1 Internal environment: There are three dimension which are; SME's owner/managers, Technological capacities and Competitive intensity. SME's owner/manager will be measured by using a scale developed by Ismail and King (2007). The scale has nine dimensions (financial accounting techniques, management accounting techniques, word-processing package, spreadsheet package, database package, accounting-based applications, computer-assisted production management, e-mail and internet searching) and internal reliability coefficient of 0.90. Technological capacities will be measured by using a scale developed by Carey et al. (2006). The scale has six dimension (specialized industry wide knowledge, expertise in internal control, experience and qualifications, depth of understanding of your organization, expertise in computerized information systems accounting and expertise in risk management) and internal reliability coefficient of 0.90. Competitive intensity will be measured by using a scale developed by Rivard et al. (2006). The scale has five dimension (product characteristics, promotional strategies among rivals, access to distribution channels, service strategies to customers and product variety) and internal reliability coefficient of 0.80.

3.2.3 SME's performance: The reliability of the instrument was found to be 0.827. The scale of the study used five point likert rating. The demographic details of the respondent companies indicated that majority of these SMEs were operational since 2000 (75%) while rest of them were established during 1990s.

4. CONCLUSION

At the end of this study the findings is expected to show how internal environment affect SME's performance in Kano metropolis. Also, recommendations will be provided based on the findings of the paper on what SME's enterprise should be doing or focus more on in other to enhance their performance.

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