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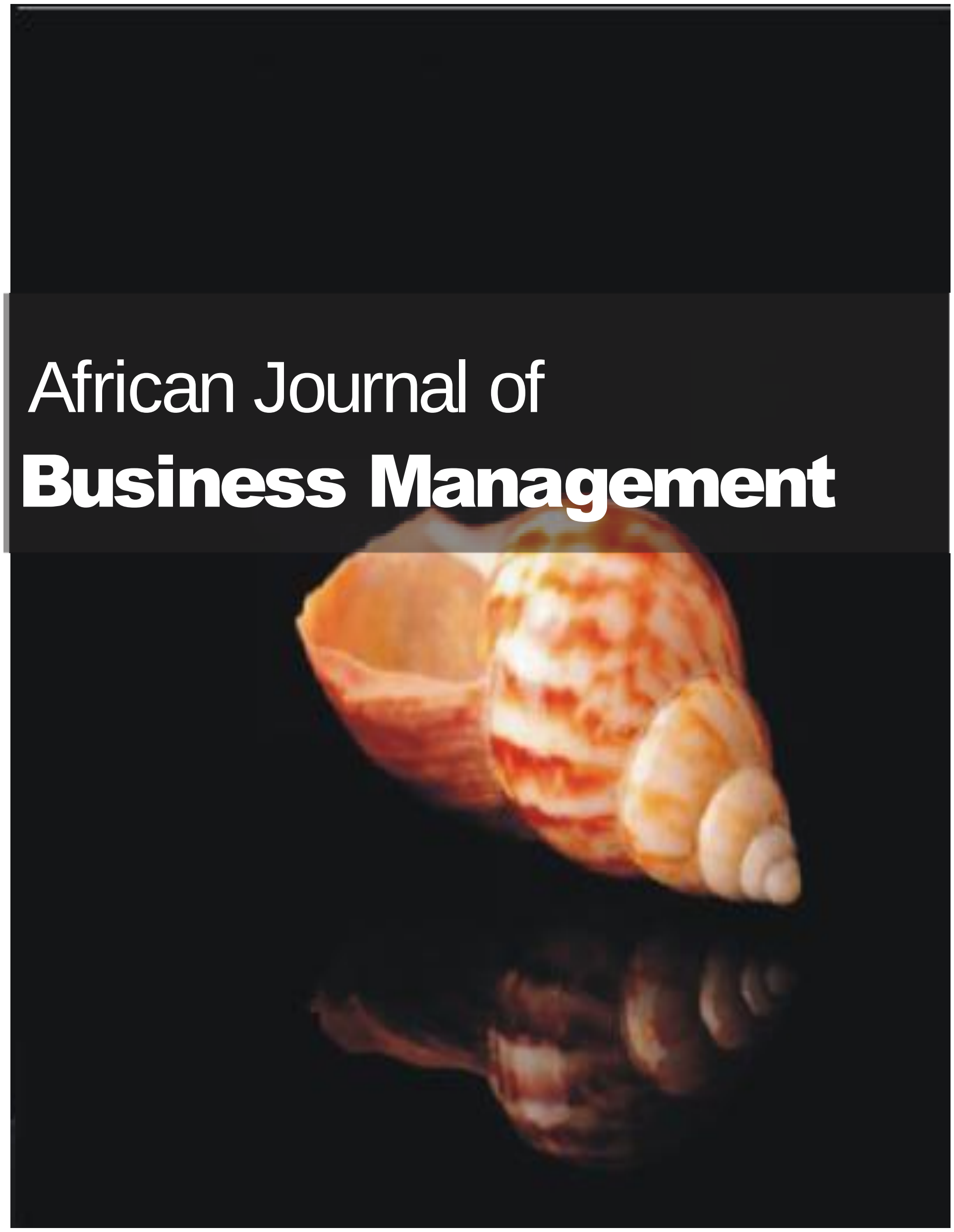

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Full Length Research Paper

Barriers to product innovation among the manufacturing micro, small and medium enterprises in Malawi

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Most micro, small, medium enterprises in Malawi struggle to grow and survive despite their critical role in the socio-economic development of the country. One major contributing factor is their inability to innovate. This study was therefore aimed at investigating the innovation barriers affecting the manufacturing MSMEs. The study was conducted among the 45 manufacturing MSMEs operating in the Malawi's commercial city of Blantyre. The study adopted a case study approach and employed both quantitative and descriptive approaches. Empirical data was collected using a semi-structured questionnaire and one- on- one interview. The results of the study revealed that factors such as market competition, difficulty in accessing loans, inadequate government support, labour laws, taxes and regulations in the external environment, and inadequate financial resources, lack of qualified personnel, and poor financial performance within the enterprises hamper innovation activities within the MSMEs. Results of the study also revealed that despite government efforts to promote MSMEs innovativeness, most MSMEs do not participate in such government interventions and worse still some are not even aware of the existence of such interventions. The study therefore recommends that government should intensify its efforts to provide financial support in form of soft loans, entrepreneurial training to MSMEs and promote innovation in MSMEs through relevant policies.

Key words: Micro small medium enterprises (MSMEs), innovation, barriers, manufacturing.

INTRODUCTION

Micro, small, medium enterprises (MSMEs) represent a large percentage of business population across the globe, and hence contribute immensely to the development of national economies (Yahaya et al., 2016), as they play a critical role in generating jobs and diversifying the economic base in national economies (Harvie, 2019). In Malawi, it is reported that there are almost a million MSMEs employing over a million people and generating an income of MK 326 billion, an equivalent of about 45 million USD; therefore, their contribution to the development of the Malawi economy cannot be overstressed (Finmark Trust, 2012). Given this importance, it is imperative that MSMEs remain competitive nationally and globally. However most

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MSMEs struggle to achieve sustainable growth and survive in the prevailing business environment due to so many factors, one of them being inability to engage in innovative activities (Lewandowska, 2014; Zidana, 2015).

The business environment is becoming increasingly competitive and dynamic as such businesses are forced to find the best strategies in order to stay afloat. Innovation is widely recognised as the heartbeat of any successful enterprise; successful entrepreneurship tends to be innovation-driven and also helps to generate solutions to country's social problems including high-quality education, affordable health care, clean energy and waste management, and financial inclusion. Innovation has become the very corner stone of survival and growth of businesses, and source for competiveness of SMEs (Kiveu et al., 2019; Ngugi et al., 2013).

Innovation can be defined in three different ways: as an outcome, as a process and as a mind-set (Kahn, 2018). As an outcome, innovation entails coming up with developing new products or services, new methods of production, new sources of supply, new forms of organization structure, and the development of new markets which can help to solve various problems in our society. As a process, innovation involves turning ideas into new opportunities for value creation and putting these into widely used practice. And as a mind-set, innovation entails adoption of the innovative culture by individual members of the organization in order to create a supportive organisational culture that allows innovation to flourish (Talegeta, 2014; Torres et al., 2015; Kahn, 2018). Thus innovation relates to change in a firm's activities and based on this understanding, innovation can be of four types: product innovations, process innovations, organisational innovations and marketing innovations (OECD, 2018). However, the development and introduction of any of these innovations can be systematic or ad hoc: systematic innovation consists of purposeful and organized search for changes, and in the systematic analysis of the opportunities such changes might offer for economic or social innovation whereas ad hoc innovation is when it doesn't follow a particular formal process. It can also be accidental when it just emerges in the course other activities and was not initially intended to be such (OECD, 2018). Furthermore, innovation can also be characterised or distinguished for being radical or incremental; radical innovation involves the introduction of a completely new product or process, while incremental innovation involves improvements to existing products or processes (Egbetokun et al., 2009).

Irrespective of the type and the emergence of the innovation, it has been widely accepted that innovation is the most important characteristic associated with competitive and successful MSMEs; innovation helps MSMEs grow, survive and gain competitive position (Adam et al., 2020; Kiveu et al., 2019; Falahat et al., 2018; Ismail et al., 2014). However it has been observed that the Malawian MSMESs lag behind on innovations (Zidana, 2015). This is evidenced by the Global Competitiveness report by the World Economic Forum which ranks Malawi on position 132 out of 137 countries on the Global Competitive Index (Scwab, 2018). This means that Malawi is the 6^{th} least competitive country in the world. Such a poor ranking clearly indicates that Malawian businesses especially MSMEs which are in their large numbers are not very innovative and hence remain uncompetitive. In order to promote innovation culture among the MSMEs, the Malawi Government has been putting in place various policies and strategies such as the Science, Engineering, Technology and Innovation (SETI) policy (UNESCO, 2015), the introduction of the Malawi Innovation Challenge Fund (Beakal, 2019), the Malawi Growth Development Strategies I, II and III, (Bingu et al., 2011; International Monetary Fund, 2007) among others. However, despite these government efforts the MSMEs continue to face so many obstacles which inhibit their development and growth. This study was therefore conducted to explore the innovation barriers affecting the growth of manufacturing MSMEs in Malawi. Further the study sought to assess the MSMEs' knowledge of innovation, awareness of any government intervention to promote innovation activities, and their participation in such interventions. The study also sought to assess whether the MSMEs are engaged in any innovation activities and the challenges affecting innovation activities of the MSMEs.

MATERIALS AND METHODS

The study was conducted among the manufacturing MSMEs operating in Blantyre, the biggest commercial city of Malawi and employed a mixed methodology research design where both quantitative and qualitative methods were used. Empirical data was collected using a semi-structured questionnaire and one- to- one in-depth interviews from 45 MSMEs located in different areas and townships of the Blantyre city (Blantyre flea market, Chemusa, Chilimba, Chitawira, Kabula, Kamba, Kameza, Kudya, Likhubula, Lunzu, Machinjiri, Mbayani, Ndirande, Trade Fair Grounds, Zingwangwa, and Bangwe). The participating MSMEs were purposively selected as the study targeted only MSMES that were active in business producing food and non-food items and having at least one employee. Data was collected from different sources in order to achieve data triangulation. And, in order to ensure confidentiality of the information sought, the participants were assigned numbers as their identity. Participation in the study was voluntary and an agreement (respondent consent) form was signed by both parties.

The questionnaire was designed to establish respondents' opinion about product innovation issues and government intervention to promote innovation activities. It was also designed to establish internal and external factors that were affecting innovation activities of the MSMEs. The questionnaire was administered as a hard copy, directly to the respondents in order to enhance response rate and in addition, selected business owners and officials from a learning /research institution (Universities/Colleges) and SMEDI officials were followed up with one to one interviews to obtain in-depth data on the topic. Qualitative data gathered was first given codes in form of numbers. The quantitative data was divided into two distinct groups namely categorical and numerical. With the aid

Table 1. Number of workers employed by MSMEs**.**

No. of people employed by each firm	No. of MSMEs	MSMEs (%)	Average number of employees by each category
1 – 4 (Micro)	35	89.7	2
5-20 (Small)	3	7.7	13
>20 (Medium)	1	2.6	36
Total	39	100	4

Table 2. Highest Educational Qualification of MSMEs owners.

Highest Qualification	No. of MSMEs	Percentage
Degree	2	5
Diploma	3	8
MSCE	20	51
JCE	5	13
PSLCE	2	5
Certificate	5	13
None	2	5
Total	**39**	**100**

of the Statistical Packages for Social Sciences (SPSS), data was entered and a data matrix containing cases and variables (Catterall, 2000) was generated. Descriptive (or nominal data) data represented those variables which were impossible to define in category or numerically such as owners' opinion on what government needed to do to promote innovation in MSMEs. Discrete data represented whole numbers (integers) such as the number of employees recruited and number of new products made. Ranked (ordinal) data was also obtained from the rating or scale questions, such as where a respondent is asked to rate how strongly she or he agrees with a statement. These were used to identify the strength of various internal and external product innovation barriers among Malawian MSMEs. To ensure trustworthiness, the scientific rigor criteria used in qualitative methodology which assesses the credibility, dependability, transferability and conformability of the findings was also used (Polit and Beck, 2010).

RESULTS AND DISCUSSION

Demographic data collected included year of establishment, number of employees, sources of funding, highest qualifications of MSME owners, opportunities for trainings, availability of business plans and existence of other business investments. Out of the 45 questionnaires distributed to various respondents, 39 out of 45 were responded to representing a response rate of 86.7%.

The MSMEs under study were established as early as 1974. However only 5% of the MSMEs were established in the period 1964 to 1993 and the majority (95%) of them were established after the year 1994. This coincides with the dawn of multiparty dispensation in Malawi. Malawi attained its independence from the British colonialists in 1964 and for three decades (1964 to 1993), the country was under one party dictatorship. Thus the dawn of multiparty democracy in Malawi is characterised by, among other things, the boom of MSMEs.

According to the definition of micro, small and medium enterprises in Malawi (Doh and Kim, 2014), 89.7% of the MSMEs under study fell in the category micro enterprises and these on average had 2 employees; 7.7% were small enterprises and had 13 employees on average whereas 2.6% were medium enterprises and had 36 employees (Table 1). The majority of the MSME owners had secondary school qualification (JCE and MSCE) as their highest qualification (64%) and only 13% had postsecondary qualifications, which are diploma and degree. Only 5% had primary school qualification whilst 5% had other certificates (Table 2).

These results indicate that the MSMEs are dominated with owners of low-level education. This could negatively affect the innovativeness of the MSMEs and adoption of the same as intellectual capacity of the SME is critical for its innovativeness (Omerzela and Jurdanab, 2016). Knight et al (2010) found that schooling encourages innovation and adoption of the same. Chi and Qian (2010) also found workers' tertiary education to be significantly and positively related to provincial innovative activities measured by invention patent applications per capita. Thus level of education of the MSMEs could prove to be an internal barrier to the innovation of the MSMEs.

On financing the establishment of the MSMEs, results also revealed that 74% were established using personal savings, 18% with family funds whilst 2.5% got financial support from friends and another 2.5% got financial capital from banks. Thus, a total of 94.5% of the MSMEs

Table 3. Other investments for the participants.

Investment	Frequency	Percentage
MSME owners with other business investments	9	23.1
MSME owners without any other business investments	27	69.2
Total	36	92.3
Missing responses	3	7.7
Total	**39**	**100**

relied on personal savings and support from family and friends to start up their businesses with only 2.5% of the MSMEs getting support from financial institutions to start up their businesses. This could be attributed to lack of government support and tendency of banks to favour big firms as their rates of interest are unreasonably high (Zidana, 2016). Failure to raise adequate funds for their operations has serious repercussions on the operations of the businesses such as low levels of investments and ultimately on their innovation activities (Brancati, 2015). Access to financing has been singled out as one of the key institution based barrier to innovation (Zhu et al., 2012). Clearly, MSMEs in this study need alternative financing sources. In this regard, there is need for the government to step up in its efforts to support the MSMEs financially so that the MSMEs remain competitive in a global market and survive. This can be achieved through development of public policy aimed at supporting and encouraging the innovation among SMEs (Madrid-Guijarro et al., 2009). Such policies should ensure that the cost of capital is low enough to enhance financing access by SMEs (Zidana, 2016). Apart from relying on personal savings and support from family and friends, the results also indicated that the majority of the MSMEs had limited business opportunities (Table 3) with 69.2% MSMEs having no other business investment whilst 23.1%.

This again supports the need for MSMEs to seek alternative financing sources if they are to develop, survive and remain competitive; hence the need for government to offer support in terms of financing. Training has been proven to be one of the significant predictors of employee innovativeness and it is recommended that training among small firms should go beyond on-job training (Abdullah et al., 2014). More important is entrepreneurial training which has been reported to have positive effect on SMEs' development (Dele and Okpa, 2020). Findings of this study revealed that the majority of employees did not have an opportunity to go for training to enhance their technical skills and knowledge; 46% of the employees indicated that they had received some training whilst 51% of the employees had not received any training. MSME owners cited high training costs as a contributing factor. Among those that had an opportunity to go for training, only 5.2% indicated said that they go for training very often, 35.9% go often, and another 5.2% rarely go; whereas 51.2% do not go for training. This lack of training for staff could negatively affect the MSMEs innovativeness. There is need for the MSMEs owners to take entrepreneurial training seriously if they are to become innovative, survive and remain competitive survive as the business world experience is much more than an academic exercise (Abdullah et al., 2014; Dele and Okpa, 2020).

The study explored the barriers to innovations among the MSMEs under study. In order to achieve this, the study first sought the MSMEs general understanding of innovation and its benefits to their businesses. The study further sought to assess whether those with understanding of innovation were engaged in any innovation activities. Findings showed that most business owners understood the term innovation in their businesses: 94.9% of the respondents defined innovation as follows: making new products on the market (31%); adding value to an already existing product (26%); making goods that meet international standards (13%); and 23% of the MSME owner were aware of innovation but failed to describe it. The results also showed that most business owners were involved in various innovation activities (74.4%); These included producing unique/ innovative goods in their businesses such as bags, wedding suits, door frames with new designs, new king-sized beds, new charcoal burners with double holes and four corners, new flavoured tomato sauce and many more. In order to demonstrate their awareness of product innovation and its importance, they cited various products such as low-cost cane furniture, the modern wood saver burner, ladies' bags made from *chitenje* (cloth), new energy saver bulbs, Sanwecka halogen cooker and flavoured food stuffs among others. On challenges to innovation, the MSMEs provided the following (Table 4) as their perceived internal and external barriers to innovation.

Lack of financial resources topped the list of internal barriers to innovation with 74% followed by poor financial performance and lack of qualified personnel, both at 36%. Among the external barriers, market competition (59%), difficulty in accessing loans (46%) and lack of government support make the top three. From the results, it is clear that the MSMEs understood the concept of innovation and the importance of engaging in innovative activities despite their levels of education.

Table 4. Perceived internal and external innovation barriers.

Rank	Internal Barrier	External Barrier
1	Lack of financial resources (74%)	Market competition (59%)
2	Poor financial performance (36%)	Difficulty in accessing to loans (46%)
3	Lack of qualified personnel (36%)	Lack of government support (44%)
4	Lack of long-term vision by management (15%)	Labour laws, taxes and regulations (36%)
5	Problem keeping qualified personnel (13%)	Fluctuations in market prices (33%)
6	Resistance to change by management and employees (13%)	Changes in technology (33%)
7	Management failure to promote creativity (13%)	Training costs (26%)
8	General enterprise policy (10%)	Lack of cooperation with research and training institutions (23%)
9	Poor team work (10%)	Consumer response (acceptance to new products) (21%)
10	Risk of failure (8%)	Lack of information on market needs (15%)
11	Lack of resources to experiment and recover in case the experiment fails to pay dividends (8%)	Licenses, patents and policies (10%)

Lack of understanding of innovation cannot therefore be attributed to lack of understanding of innovation. This is supported by the fact that lack of understanding of innovation was not cited as one of the internal barriers to MSMEs' ability to innovate. It is also evident from the results that MSMEs face a lot of innovation barriers towards their manufacturing activities. Lack of financial resources topped the list of major internal barrier to innovation followed by poor financial performance and lack of qualified personnel. These results are supported by findings of other researchers (Nassar and Faloye, 2015; Pachouri and Sharma, 2016; Talegeta, 2014; Kamalian et al., 2011; Piperopoulos, 2007) who have singled out lack of finances as one major barrier of innovation in developing countries. The top three external barriers that is, market competition, difficulty in accessing loans and lack of government support are somehow linked to finances and therefore agree with the perception that lack of finances is the major internal barrier. MSMEs need to engage in innovation to grow, survive and remain competitive (Okpara, 2007; Oksanen and Technical, 2009; Szabo and Herman, 2012). In order to achieve this, MSMEs need financial investments. This most probably explains why difficulty in accessing loans and lack of government support also highly ranked among the external barriers. It can therefore be concluded that lack of financial capacity is the major barrier to innovation among these Malawi MSMEs as failure to innovative among small and medium enterprises is often associated with financial constraints (Brancati, 2015; Bukstein et al., 2019). Risk of failure was also cited as one of the internal barriers to innovation among the MSMEs under study. This underscores the importance of having enough financial capacity and resources to experiment and recover in case the innovation failed. The MSMEs feared that the new product could not sell on the market. For the MSMEs to penetrate the market they need a strong financial base to experiment on their innovations and have a fall back plan. Despite the fact that market competition is usually regarded as a stimulator of innovation, most MSMEs struggle to make more sales and profit to raise adequate financial resources for their capital. This affects negatively their capacity and ability to innovate and hence putting them at a disadvantage in terms of market competition. Lack of financial resources also links well with provision of financial support being ranked highly among the proposed government interventions. This indicates that MSMEs considered Government as a key partner in the promotion and diffusion of innovation in the MSMEs. This probably could be attributed to the fact that access to loans from commercial banks in Malawi is prohibitive due to high interest rates (Zidana, 2016). There is therefore need for government of Malawi to come up with policies that will eliminate or alleviate lack of financial resources as major internal barrier to innovation (Hadjimanolis, 1999).

Government support is highly critical for the success on new ventures; this support can be in the form of policies and programs to promote new ventures regarding financial and nonfinancial support (Anwar et al., 2020). It is also important to spearhead innovation of SMEs and this can be achieved through formulation of government support policies and strategies (Doh and Kim, 2014). In Malawi, the Government instituted an MSME Policy Strategy (2012-2017) aimed at creating a modern and effective framework to guide the development of profitable, competitive and sustainable MSMEs in Malawi. Among the proposed activities was the eestablishment of the Malawi Innovation Challenge Fund instruments to promote business-to- business linkages, improve the competitiveness of local firms and transfer of skills and technology to MSMEs. However, despite this policy intervention finding revealed that 92% of the MSMEs were not aware of the existence of any government innovation improvement programs and had never taken part. One respondent in the furniture business at *Kudya* business centre explained that *'he was not aware of the existence of any government innovation programs and*

Table 5. Proposed government interventions.

Rank	Proposed Government Intervention	Respondents (%)
1	Provide financial support	46
2	Provide Training	18
3	Find markets for MSMEs	13
4	Promote locally produced goods	11
5	Provide general support	5
6	Establish cooperatives	3

explained that if such programs really exist; then it means that they were never passed on down to the users. They just end right there where they are formulated'. Such a response implies that there is lack of communication or interaction between the government (policy formulators) and the MSMEs. Only 5% of the respondents were aware of the interventions and that at one point in time they were involved in government programmes aimed at improving innovation in MSMEs. Lack of awareness of government interventions could also be a possible barrier to MSMEs innovation efforts. The MSMEs gave six critical areas for government's intervention: provision of financial support, provision of training, finding markets, promotion of locally produced goods, providing general support and establishment of cooperatives (Table 5).

Among the six, provision of financial support ranked highly. This relates well with the top ranked internal (lack of financial resources) and external (market competiveness) barriers. Collaboration with government, universities research and development is essential to promote innovation among MSMEs is essential for supporting SMEs' innovativeness in emerging economies (Handoko et al., 2014; Zeng et al., 2010). Universities and, Research and Development Institutions (RDIs) are creators of new knowledge and technologies which when transferred appropriately can help MSMEs in developing innovations (Tambunan, 2009; Markman et al., 2005). The results of this study revealed that most of the MSMEs (71.8%) had the opinion that these RDIs were not doing much to promote innovation among the MSMEs. The results also revealed that there is weak relationship between MSMEs and RDIs in Malawi, and this has the potential to negatively affect the innovation activities in the MSMEs (Zeng et al., 2010). This weak relationship could be attributed to inadequate finances as RDI activities require financial investment. There is also need for the MSMEs not only to link with RDIs but also in invest in R & D activities to support their innovation (Oudgou, 2021; Tiwari and Buse, 2007). Collaboration with training institutions such as universities is also essential for propagation and support of innovations among the MSMEs. MSMEs need skilled labour to support their innovations and propagate the innovation culture within their organisations. In this study, lack of skilled personnel ranked third as an internal barrier. This reflects on this weak linkage between the MSMEs and training institutions in Malawi hence lack of skilled labour remains a barrier to innovation (Kamalian et al., 2011).

Conclusion

It is widely accepted that innovation is critical in achieving sustainable growth and competitiveness of MSMEs. The study has established that the MSMEs are aware of the critical role of innovation in their MSMEs; however they are facing both internal and external challenges. Internal challenges are mainly centred on finances: MSMEs lack financial resources to experiment on new products and grow their businesses. Amongst all, market competition, difficulty in accessing loans, fluctuations in market prices, and lack of government support ranks high. The government has a major role to play in overcoming most of the innovation barriers encountered by MSMEs. It is therefore imperative that government steps in and support them. The success of these MSMEs depends on how much support government gives them. This support can be in a form provision of financial resources, training, promotion of locally produced goods and market identification (internal or external) for the locally produce goods.

CONFLICT OF INTERESTS

The authors have not declared any conflict of interests.

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Corporate governance and firm's financial performance amongst private business enterprises in Uganda, a perspective from Lira City

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The study examined the effect of corporate governance on firm's financial performance amongst private business enterprises in Uganda. The study used descriptive and survey design. A mixed method approach which involved both qualitative and quantitative techniques were also used. The study found out that corporate governance significantly influences the financial performance of hotels and manufacturing firms in Lira City and majority of the firms investigated performed on average financially. It was also established that firms whose boards demonstrate high integrity were likely to register positive changes in their financial performance than firms whose boards do not. The study also noted that board independence would propel the firm to grow to greater heights. The study recommends that hotel and manufacturing firm owners should exercise some discipline and leave boards to operate independently. This would allow the board to remain focused on the long-term goals of the firm. The hotel and manufacturing firm owners should be cautious in selecting board members lest they attract many that would increase the firm's liabilities.

Key words: Corporate governance, board diversity, board integrity, firm performance, financial performance.

INTRODUCTION

The global trends in the management of today's modern business firms have triggered managers to adopt Corporate Governance Principles. Flowers et al. (2013) reveals that although most business firms in Sub Saharan Africa are adopting corporate governance, its application is still at its infant stage. The practice of adopting Corporate Governance (CG) principles, behaviors and structures guides the firms to develop specific objectives, plans and strategies that help in monitoring its performance. Corporate Governance focuses on the responsibilities and the rights of members of the board, management and different shareholders. CG further shows that the way firms are managed has a direct effect on the market performance. Jizi et al. (2014) opine that CG was developed to protect the interest of the shareholders but turned to gradually gain importance

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in society and from different stake holders. Mirkovic (2015) posits that the interest of shareholders and investors and the future of their businesses emanates from good CG. Chittithaworn et al. (2011) examine the factors affecting the success of an enterprise which includes the way the business or corporations are run, the services and products offered in the environment at which it is operating, the availability of finances and the strategy. Mahmood and Hanafi (2013) observe that competitive advantage and entrepreneurial innovation are some of the major variables that influence a business performance.

Financial performance measures how effective a business enterprise uses the available assets from its business modes in order to generate more revenue and these performances may be compared with those operating similar businesses. Brealey et al. (2009) posits that financial performance can be measured in terms of profitability, repayment capacity, solvency, liquidity and financial efficiency. Levy (2015) reveals that inadequate financial capacity by a business enterprise hinders the growth of an enterprise. Poor accounting practices have been identified as some of the factors that hinder the ability of a firm to raise finance. Globally, modern firms have gradually applied the principles of corporate governance in their day to day management. Organisations, whether small, medium or large, enjoy almost the same benefit, face similar challenges or influences especially when it comes to the adoption of corporate governance principles or practices (Willan et al., 2016). The wrong mentality of conflict of interest and having too much control or pocketing the shareholders and directors of a firm cause serious problems in a firm and may lead to business failures (Nwidobie, 2016). The board impairment, Auditor independence and Conflicting laws arising from the nature or structure of ownership are other causes of failures in Corporate Governance (Abdulmalik and Ahmad, 2016). The board of directors have also shown lack of commitment in their over sight roles, weaker monitoring system, non-disclosure or transparency in their work and this causes CG failures (Okpara, 2016).

Bates (2013) argues that erroneously, corporate governance has been linked to barriers resulting from red tape and challenges that are left to large companies. Whereas firms have widely adopted the use of corporate governance (CG) as a better principle of corporate performance, Martey et al. (2013) notes that, year of experience, initial capital invested in a business and the cost associated to the business has a significant effect on the performance of an enterprise. The absence of a good CG has been seen as a major course of collapse of most business firms (Michael and Goo, 2015). Similarly, good CG norms are indeed significant in improving the financial performance of business firms (Berger et al., 2016). Most corporate firms are experiencing stagnation in growth and thus registering decline in profits in the last years resulting from harsh and unstable operating business environment (World Bank, 2015).

The study was guided by the following objectives: to assess the effect of board diversity on the firm's financial performance, to determine the effect of board communication on firm's financial performance, to establish the effect of board integrity on firm's financial performance and to determine the relationship between corporate governance and firm's financial performance. This study would therefore provide empirical evidence on how the practice and the principles of corporate governance affect firms' financial performance in Lira City.

Hypothesis

1. Board diversity does not affect firm's financial performance;
2. Board communication does not affect firm's financial performance;
3. Board integrity affects the firm's financial performance;
4. Better corporate governance practices leads to better firm's financial performance.

LITERATURE REVIEW

Theoretical framework

The study built on the stewardship theory, which was advanced by Davis et al. (1997). The theory assumes that when stewards align their interests with those of the principal, there will be no principal-agency problem (Chrisman, 2019). In essence, when the interests of the steward and the principle coincide, both parties achieve their long-term goals without conflicting interests. Given the current study, the managers or executives of the firm are stewards while the stake holders of the firm are the principles. When the managers or executives opt to behave in a manner that drives them towards self-motivation, goal attainment and self-actualization, they will naturally align their ambitions with the organization's goals (Schillemans and Bjurstom, 2020). Rather than serving their own ill-interests, managers and executives will serve the interests of the organization, which will lead to superior firm performance. Since managers and executives are driven by higher order needs (according to Maslow's needs theory), they will be motivated by non-financial rewards and mutual relationships, which naturally dissolves their own interests into that of the entire organization. The goal of corporate governance is to create stakeholder value. Therefore, when the managers' and executives' espoused values align with the enacted values of the firm, the firm will positively respond to the changing business environment, thus creating stakeholder value (Subramanian, 2018).

Stewardship theory suggests that when the principal and the manager in the business choose to behave as stewards, the two parties will work towards the principal's interest, which is supported by psychological and situational factors (Madison, 2014). In this article, we argue that when managers and executives constitute the board of directors of business firms, their stewardship behavior is likely to translate into highly performing firms. By examining the diversity of the board of directors, we argue that boards which constitute a majority membership of firm managers and executives are likely to perform better than firms whose boards constitute a greater majority of members outside the firm. The mode of communication in boards where majority of the membership are firm managers and executives will reflect interests internal to the firm, since managers and executives operate on interests that are in line with the firm's interests, which are the principal's. Finally, the presence of firm managers and executives on the board is likely to be influential in the integrity of the board. After all, the goals of the managers and executives are self-actualization but in the interest of organizational goals (Grundei, 2008). Our assumption agree with (Subramanian, 2018) who observed that boards that are dominated by insiders (in this case managers and executives) have in-depth, technical and current knowledge and information need for the firm's success. However, our assumptions do not thwart previous scholars (Chrisman, 2019) who noted the possibility of one individual coming as a steward towards a certain goal and an agent towards another goal. This is possibly due to the multiplicity of goals and conflicts among principals.

Corporate governance

Abor and Biekpe (2007) defines Corporate Governance as a process, structured to manage and guide the affairs of the business firms in order to enhance corporate accountability, prosperity with a goal of realizing value of shareholders. Akinpelu and Ogunbi (2013) opines that corporate governance would provide structures where the business enterprise objectives are set and how they are attained while monitoring its performances as determined. Sharma (2015) posits that CG should ensure that the frameworks that are set in an organization are legitimate and empowers all stake holders to know their rights and freedoms and ought to assume their tasks legitimately.

Board diversity

The diversity in the board is significant in that it enhances effectiveness in corporate governance. Rao and Tilit (2016) reveal that board diversity of its members should be based on various dimensions which are advantageous to a firm, since they come along with different ideas which complement one another. Zhuang et al. (2018) urges that the characteristics in board composition such as nationality, age, independence, gender comes along with many attributes, which supports the firm. Bakar et al. (2019) notes that gender diversity in the composition of the board would enhance a balance in decision making as in a way female think different from men. Female members are very sensitive to many issues such as community response, leadership style, employee's attitude (Al-shaer and Zaman, 2016). In most business firms, although the board is set as an effective tool in corporate governance, the management of business firms seems to be in theory, it has noted that practically their value is less clear (Akinpelu and Ogunbi, 2013). Corporate governance ought to support the firm's structures while focusing on the set objectives of the firms and how to monitor the performance that would ensure efficiency and effectiveness in service delivery (Ijeoma and Ezejiofor, 2013). Similarly, Kenga and Nzulwa (2018) opine that the structure and composition of the board should have individuals possessing good reputation and ought to maintain good corporate integrity. It is also important to note that board composition would support the structure of the board to function well. Wasike (2012) posits that the size of the board impacts on the quality of corporate governance taking into consideration that larger boards could be dysfunctional while smaller boards looks to be better because the boards which are large are most likely to plague in to problems of monitoring the firm well. However, Arora and Sharma (2016) reveal that larger boards comes along with vast intellectual knowledge which supports decision making and enhances firms performance. Organizations would want a diverse boards comprising of members with multiplicity of knowledge, experience and skills to support its expansion, however no concrete and substantial evidence has proved that board composition and diversity influences decision making of management (Harjoto et al., 2014). Similarly, Benjamin et al. (2016) reveals that firms having a larger board size is most likely to pay higher dividends at the end of the period while greater independence of the board would promote better quality governance and monitoring of the firm. Saseela (2018) conducted a study on the effect of CG on firm performance of listed companies in Sri Lanka and found out that board sizes and audit committees have a significant impact on return on assets (ROA).

Board communication

The board's strength is measured on the flow and management of any communication. Effective communication reduces any negative effect on the firm and the success of any board rests squarely on how they communicate to members and all stake holders (Samuel et al., 2019). The method or channel of communications to the board and other stake holders improves on the quality of decision being made and this helps CG structures to perform better (Shivani et al*.,* 2017). The discloser of information in CG through various channels is an effort towards attracting other investors, which enhances the market value of any business firm (Dua and Dua, 2015). CG practices should ensure that the discloser of meaningful financial information is done in a timely manner and transparently such that investors and stake holders would easily acquire all required financial information about the firm for any decision and further action (Wanyama et al*.,* 2013). Transparency is seen in reporting credible corporate information which shows the company's commitment to the norms of integrity (Cecchetti et al., 2018). CG aims to facilitate an efficient and effective control while monitoring firms whose importance would lie in the transparency and fairness followed in its operations and thus enhances disclosure of sensitive information by protecting all the interest of stake holders (Arora and Bodhanwala, 2018).

Board integrity

Integrity is important in the success of both public and private business. OECD (2017) reveals that integrity would entail accountability, transparency and commitment to the firm and these improves credibility of the firm in terms of reporting. Kakabadse et al. (2010) reveal that the effectiveness of non- executive directors may be determined by access to information, independence, competencies and incentive awarded. Leung et al. (2014) posit that there is a positive relationship between independence of the board and firms' performance in family businesses and therefore recommendation by directors as regulators on the board is voluntary. Foo and Zain (2010) establish that independence of the board makes it transparent and would be in a position to disseminate the right and useful information which improves in the liquidity of the firm. Board independence helps in mitigating bad corporate image especially when disclosing significant information to shareholders (Zhang, 2012). Lopez-Iturriaga and Morros (2014) reveals that experienced and high profile board members with higher reputations and integrity who sits in various boards can provide ideas, which are worthwhile in increasing the demand for his or her service as an independent director in firms. The board members and directors who sit on related boards usually bring in valuable and useful knowledge to their primary firm and these therefore facilitates the firms' access to those firms contact (Dass et al*.,* 2014). Some board members who are appointed do not pay enough attention and time on the firm's governance in their role as directors and also in their managerial roles and function and these greatly affects the functionality of a firm (Liu and Paul, 2015). Mbu-Ogar et al. (2017) reveal that maintain a fairly balanced board ought to be adopted by firms since it supports proper development of strategic decision that may lead to long term maximization of the owner's value

Firm financial performance

Firm's performance is a set of both non-financial and financial indicators that may offer any information which determines an accomplished result and objectives which was intended while setting up a firm Lebas and Euske (2002). Performance of any firm can be achieved through items like, evaluation, effectiveness, quality and efficiency (Bartoli and Blatrix, 2015). Samina and Ayub (2013) establish that a firm's performance is determined by how the assets of the firms are being used to generate more profits and revenue. The firm's performance and efficiency are measured by its ability in achieving adequate revenues and profits for the institution (Ongore and Kusa, 2013). Financial performance of any business firm is measured by profitability growth, capacity to produce enough, growth in their daily sales, capital utilization and financial resources, end of year financial report and this therefore helps in determining how the business firm performed and a decision would be taken on how to share dividends (Omondi and Muturi, 2013; AKhtar, 2015).

Capital structure of a firm will determine the firm performance. Capital mix, which a firm holds is very important and business firms ought to have appropriate capital mix that propels a firm to generate more profits. Optimum usage of resources whether financial or assets indicates a high financial performance of an organization (Matar and Eneizen, 2018). Inability to use or manage all the resources at the disposal of a company is an indication of low financial performance. Firm size, management, liquidity are some of the factors affecting firm performance and they have a positive effect on financial performance (Almajali et al., 2012). Financial performance of any business firm is determined by the amount of profit it makes and a number of ratios such as (ROA) return on assets, return on equity (ROE) and others calculate profitability. Dasuki (2016) opines that Long term debt have been viewed as having a significant negative effect on (ROA) which may be measured on financial performance of a firm. Subramaniam and Wasiuzzaman (2018) opine that firms should focus on decreasing it's transactions cost to a reasonable level in doing business while not compromising the quality of its services and products and these would therefore be beneficial to the firm as it improves on its performance and increase dividend payouts. Portfolio yield, return on equity, operating expense and return on assets are being used in measurement of profitability and these ratios are used as guidelines in measuring financial performance of a business enterprise (Rosenberg, 2009).

Corporate governance and firm financial performance

Ansong (2015) posits that the board size and financial performances of a business firm has progressive connections, whereas the board participation level has no relationship with the financial performance. The assumption is always that for aboard to be more effective, it ought to be comprised of a bigger proportion of outsiders in order to achieve a meaningful impact on firm's performance (Browne, 2013). Liu et al. (2014) posits that in business firms where there are three or more female board directors, there is likelihood that such boards would perform better than those with fewer females as board of directors. The existence of women on the boards in various firms has a big influence of return on assets (ROA) and equity of firms that practice good CG principles and this would therefore affect the financial performance of these firms (Hykaj, 2016). The board diversity in gender has proved to have an effect on Corporate Governance performance measurement on Return on Assets, while the composition of non-executive directors has no significant effect on performance measurement (Imade, 2019). Board gender and management ownership all has a positive effect on the performance of a business firms (Amoateng et al., 2017).

Ntim et al*.* (2017) opines that having a diverse board would help support legitimacy in developing a better linkage with all the stake holders. Similarly, Uwalomwa et al*. (*2015) reveals that board size, board independence, ownership structure has a significant positive effect on the firm's profitability. Saibaba and Ansari (2012) argue that having a larger board would result in more benefits to all stake holders, since they would bring good investment proposals which may be visionary consisting of vast knowledge which would ultimately steer the growth of the firm. Gambo et al. (2018) argue that board composition and its communication channels help in monitoring and controlling systems of work and therefore enhance Return on Assets (ROA) of business firm. Palaniappan and Rao (2015) posit that firms' performance would be boosted when the good principles of CG in disclosure of good information is given to all stake holders. Yang et al. (2012) reveals that a firm that invests a lot in improving CG principles effectively while disclosing all relevant information transparently to all stake holders would eventually help the firms in reduction in cost of equity. However, in effective discloser practices and lack of transparency in corporate governance reduces the effectiveness mechanisms. Similarly, Mostafa and Saadi (2013) reveal that voluntary discloser of information and board size does significantly affect the firm's performance.

The adoption of the principles of corporate governance by business firms has positive effect on the financial performance (Chinomona, 2013). Business firms that use good CG practices have huge impact on the performance of business firms (Moenga, 2015). A better governed business firms are faced with less management challenges and can handle any business shocks easily. Good CG principles results in to improved firm performances and these eases the modalities of acquiring extra capital for investments (Gupta and Sharma, 2014). Most investors and financial institution would not be willing to invest their money in company's which does not have well-structured corporate governance (Elshandidy and Neri, 2015).

Olajide et al. (2020) establishes that the agency costs of business firms are high and sounding corporate governance are very responsible for any positive performance of business firms in sub Saharan Africa. Masood et al. (2013) posits that board independency have a positive relationship with firm financial performance. Firms ought to have board members who are independent and open minded this would therefore increase on firm's efficiency (Dharmadasa et al*.,* 2014). Nwaiwu and Joseph (2018) investigated the relationships between CG and Financial performance in Nigeria and found out that audit committee has a significant effect on profitability of a firm measured using ROA and earnings per share. Panditharathna and Kawshala (2017) establishes that board effectiveness has a significant positive relationship with Return on Equity (ROE) and these would indicate that this new concept is being adopted by many firms in developing nations. The adoption of corporate governance mechanism which is proper would greatly impact on the performances of the firms (Afande, 2015).

Zyad (2014) opines that firms with strong corporate governance are likely to perform better than firms with weaker corporate governance. Proper and accurate disclosure of timely financial reports while adopting proper and good practices of CG helps in the reduction of cost of equity capital (Botosan, 2006). In order to benefit from a fair risk return trade off by investors a business firm ought to adopt a better corporate governance reform which should be acceptable by all (Prasanna, 2013). A business firm that improves its CG principles may have a significant increase in profitability, resulting from increased foreign investment (Patibandla, 2006).

Investors would consider various factors like independence of the board, the size of the board, shareholders and others before they invest in their funds in a business firm (Mallin, 2016). CG has been embraced as crucial in stabilizing financial markets and thus fostering economic growth and development (Bonna, 2012). Cretu (2012) posits that effective CG principles guarantees best performance for shareholders as resulting from their investments therefore contributing to economic growth and development. Adiloglu and Vuran (2012) opine that market value of business firms and enterprises has continued to gain prominence in the stock market as a result of good CG practices. Good CG practices play a significant role in the growth and financial performance of a business firm therefore resulting in economic growth of an economy (Lama, 2012; Rambo, 2013). The conceptual frame work is displayed in Figure 1.

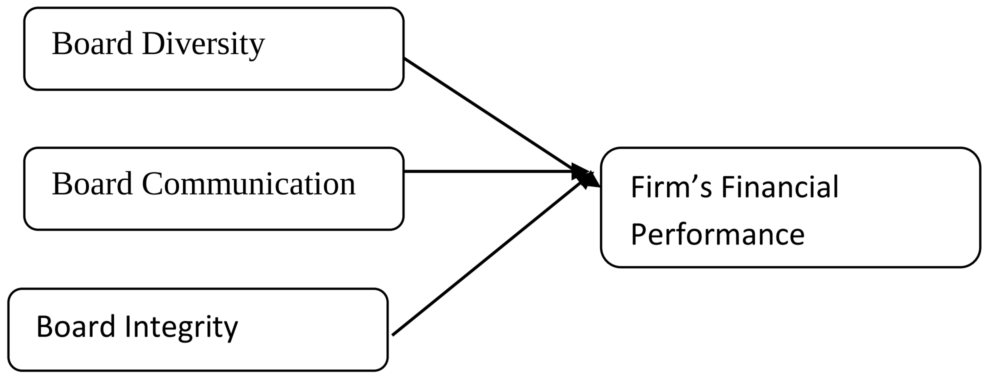

Figure 1. Conceptual Framework.
Source: Panditharathna and Kawshala (2017).

METHODOLOGY

This study was conducted amongst selected hotels and manufacturing firms in Lira City. Descriptive and Survey design was used. The survey design provided causality, reliability and generalization (Bryman, 2001; Cooper and Schindler, 2014). Descriptively, the study brought out the state of corporate governance among hotels and manufacturing firms in Lira City. The study used a mixed research approach, which involved both qualitative and quantitative techniques. Qualitatively, the study gathered qualitative opinions on corporate governance and firm performance from selected key interview informants (Mugenda and Mugenda, 1999; Sarantakos, 2012). The key informants constituted basically board members and purposively selected managers of hotels and manufacturing firm owners. Quantitatively, the study collected numerical information in form of a questionnaire. Bryman and Bell (2015) opine that qualitative research approaches form an important link between the theoretical perspective and this would enhance understanding and knowledge about the case study. A combination of both textual and numerical information analytically supported the study in developing in-depth analysis in determining the firm's performance. The study based on a sample size of 76 units, who were drawn from a target population of 96 units, constituting 90 managers and employees who double as board members, and 6 board members who come from outside the firms. These study units were selected from the two divisions of Lira City East and Lira City West. The selection in all these categories was purposive to ensure that only employees with extensive knowledge on corporate governance take part in the study. Key informants were purposively selected from Board members and business owners. The sample size to whom questionnaires were administered was determined using Morgan's sample size determination tables (Krejcie and Morgan, 1970).

Data were collected using structured questionnaires with close-ended questions and structured interviews with open-ended questions. The questionnaire, which was the primary method of data collection, was structured as follows: Section A comprised background characteristics, and had 5 items. Section B comprised items on corporate governance, and comprised 15 items. Section C comprised items seeking to understand financial performance, and comprised 10 items. The items used to measure corporate governance and firm performance was gleaned from literature review. Procedurally, the 15 scale-items on corporate governance returned a coefficient of reliability of 0.829 while the 10 scale-items on financial performance returned a coefficient of reliability of 0.711. Therefore, the items used in this study were highly reliable and internally stable. The study adopted correlation analysis to test the relationship between corporate governance and financial performance, and multiple regressions to measure the influence of each of the predictor variables (board diversity, board communication, board integrity) on financial performance. Firm performance was measured in terms of profitability, capital mix, production or service costs and debt.

RESULTS

Table 1 summarizes the Bio data of respondents, who constituted managers, employees serving on boards, and board members. The variation in the gender of participants indicates that 60% were male while 40% were female. With regard to the age of the participants, 44.3% fell in the 35 - 49 years' age bracket; 42.9%, 18 - 34 years; 7%, 50 years and above. In terms of education, 61.4% were university degree holders, 28.6% had tertiary diplomas, while 10% had secondary education and below. About 60% of the firms have been in operation for over 10 years while only 40% have been in operation for less than 10 years. About 77.1% of the participants were form hotels, while only 22.9% were from manufacturing firms. The study adopted descriptive statistical measures to understand corporate governance in Lira City. Accordingly (mean < 2.500) were interpreted as "weak" (2.500 < mean < 3.500) were interpreted as "average" while (mean > 3.500) were interpreted as (strong).

The study shows that corporate governance among hotels and manufacturing firms in Lira City is generally moderate in terms of board diversity (mean = 3.154; std =.966), moderate in terms of board communication (mean = 3.403; std. =.960), and strong in terms of board integrity (mean = 4.300; std. =.682). The statistics generally imply that most of the hotels and manufacturing firms in Lira City have boards that demonstrate integrity. This is good for businesses in that the board would check and monitor the performance of the managers. The standard deviations, all of which tend towards zero demonstrate consistent opinions on corporate governance. Specific indicators to the moderate level of board diversity point to

Table 1. Respondents' Background Characteristics.

Variable List	Categories	Frequency	Percent
	Male	42	60
Gender	Female	28	40
	Total	70	100
	18-34	30	42.9
Age	35-49	31	44.3
	50 and above	9	12.9
	Total	70	100
	Secondary and below	7	10
Highest level of education	Tertiary	20	28.6
	University	43	61.4
	Total	70	100
	Below 5 years	21	30
Age of the firm in complete years	5 - 9 years	21	30
	10 years and above	28	40
	Total	70	100
	Hotel	54	77.1
Nature of the firm	Manufacturing	16	22.9
	Total	70	100

Source: Field data, 2021.

board size (mean = 3.857), gender composition (mean = 3.800), and multi-experience of members (mean = 3.786). The statistics suggest that the firms investigated enjoy the benefits that accrue from board diversity. The board with a wealth of various experience and sex comes along with various knowledge and these would build the enterprise. However, these boards seem to be lacking in terms of independence from stake holders' influence and members' reputation. This may not be good if the owners have too much influence in the board, this affects their work. The greatest benefit of board communication is the promotion of free interaction among stake holders that improves decision making (mean = 3.757). In terms of board integrity, it was revealed that most of the board members sit on more than one board, pay attention to the governance of the firm and render enough time to perform their roles as directors (mean = 4.786) (Table 2).

The study adopted descriptive statistical measures to understand financial performance of the selected hotels and manufacturing firms in Lira City. Accordingly (mean < 2.500) were interpreted as "low" (2.500 < mean < 3.500) were interpreted as "average" while (mean > 3.500) were interpreted as (high). The financial performance among the selected firms (mean = 4.09; std. =.792) was high, and participants were very consistent in attesting to this view. The statistics imply that majority of the firms investigated are performing above average financially. The high level of financial performance observed among selected hotels and manufacturing firms characterizes growth in daily sales (mean = 4.81; std. = 0.392), growth in capital accumulation (mean = 4.79; std. = 0.413), optimal use of financial resources (mean = 4.78), and high profit generation (mean = 4.74; std. = .530). The researcher observes that these firms were performing very highly in terms of profits, and capital accumulation. On the lower side, the selected firms appeared to exhibit low financial performance in terms of the level of goods and or services produced (mean 2.90; std. =.1.157), and debt management (mean = 2.10; std. = 1.241) (Table 3).

The study explored the nature and strength of relationships that exist amongst the different measures of corporate governance and financial performance. The study first explored the possibility of multicollinearity, a condition that the independent predictor variables are highly interconnected. Collinearity would exist if: tolerance effects are close to zero $tolerance \approx 0$, $VIF > 2, Eigenvalue \approx 0,$ and $Condition\ Index > 15$.

From Table 4, $lerance > 0, VIF < 2$, $Eigenvalue > 0$, and $conditional\ Index < 15$, for board diversity and board communication, which indicate absence of multicollinearity. The conditional index for board integrity suggests a possible problem but not a serious problem since it's less than 30. The statistics provide some evidence that the predictor variables used in this study are independent.

The study used Pearson's correlation coefficient to test for the relationship between corporate governance and financial performance. Correlation coefficients closer to zero, indicate a weak relationship while those closer to 1, indicate a strong relationship. Table 5 reports the relationships. The relationship between corporate

Table 2. Corporate governance.

Variable list	Mean	Std. deviation
Board diversity		
The number of members who constitute our board is just optimum	3.857	0.822
Our board is composed of both men and women	3.800	0.861
Our board members have a multiplicity of experiences	3.786	0.759
Our board operates independently of stake holders' influence	2.229	1.194
The members of our board are men and women of good reputation	2.100	1.194
Average	3.154	0.966
Board communication		
The communication between the board and all the stake holders improves decision making	3.757	0.731
The way our board discloses information increases the market value of the firm	3.471	0.989
The way our board discloses information attracts other investors	3.357	0.993
The way our board discloses information is timely for investors to acquire financial information	3.314	1.084
Our board reports credible information in a transparent manner	3.114	1.001
Average	3.403	0.960
Board integrity		
Most of our board members sit on more than our board	4.786	0.413
Our board members pay enough attention to the governance of the firm	4.786	0.447
Our board members have enough time to perform their roles as directors	4.786	0.413
Our board is independent enough to disclose useful information	3.657	1.062
Our board is accountable to the firm	3.486	1.073
Average	4.300	0.682

Source: Field data, 2021.

Table 3. Firm's financial performance.

Variable List	Mean	Std. deviation
This firm is ever registering growth in her daily sales	4.81	0.392
This firm is ever growing her capital accumulation	4.79	0.413
This firm uses her financial resources optimally	4.78	0.415
This firm has enough assets to generate more profits	4.74	0.530
This firm is always registering steady growth in her profitability	4.70	0.521
This firm can achieve adequate profits efficiently	4.61	0.767
This firm has an appropriate capital mix	4.11	1.123
This firm is ever reducing her transaction costs to a reasonable level	3.39	1.365
This firm has the capacity to produce enough goods and or services	2.90	1.157
This firm is ever reducing her engagement in long term debt	2.10	1.241
Average	**4.09**	**0.792**

Source: Filed data, 2021.

Table 4. Multicollinearity test.

Variable list	Tolerance	VIF	Eigenvalue	Condition Index
Board diversity	0.765	1.308	0.021	13.858
Board communication	0.475	2.103	0.019	14.369
Board integrity	0.534	1.874	0.005	28.779

Source: Field data, 2021.

Table 5. Correlations.

	Variable	Board diversity	Board communication	Board integrity	Corporate governance	Financial performance
Board diversity	Pearson correlation	1				
	Sig. (2-tailed)					
Board communication	Pearson correlation	0.482(**)	1			
	Sig. (2-tailed)	0.000				
Board integrity	Pearson correlation	0.371(**)	0.681(**)	1		
	Sig. (2-tailed)	0.002	0.000			
Corporate governance	Pearson correlation	0.760(**)	0.891(**)	0.810(**)	1	
	Sig. (2-tailed)	0.000	0.000	0.000		
Financial performance	Pearson correlation	0.189	0.272(*)	0.545(**)	0.391(**)	1
	Sig. (2-tailed)	0.116	0.023	0.000	0.001	

* and ** Correlation is significant at 0.05 and 0.01 levels (2-tailed).

governance and financial performance (r = .391) is weak though it is significant. This suggests that a variation in the corporate governance practices is associated to a weak variation on the financial performance of hotels and manufacturing firms in Lira City. The implication is that much as hotels and manufacturing firms may endeavor to consciously select their board members, financial performance would change but in weak levels. The study further observed a positive and significant relationships exists between board communication and financial performance (r = .272; p-value <.05), and board integrity and financial performance (r = .545; p-value <.05). These statistics indicate that variations in board communication and board integrity are associated with positive variations in financial performance. However, the study showed a weak and insignificant association between board diversity and financial performance (r = .189; p-value >.05). Implicitly, a variation in board diversity may not realize significant changes in financial performance of hotels and manufacturing firms in Lira City. While correlation is good for establishing the nature of the relationship between sets of variables, it does not predict the influence of one variable onto the other. Therefore, the study adopted the regression model to understand the influence of corporate governance onto financial performance among hotels and manufacturing firms in Lira City.

The study established that corporate governance accounts for only 31.7% (R Square = .317) of the variations in financial performance in hotels and manufacturing firms in Lira City. This percentage is not substantial enough, which suggests the existence of other factors that account for the variation in financial performance. Individually, board diversity (β = .039; p-value >.05), and board communication (β = -.202; p-value >.05) do not have any significant influence on financial performance of hotels and manufacturing firms in Lira. Actually, board communication seems to reduce the performance of financial performance. The study established that board integrity (β = .668; p-value <.05) significantly accounts for about 66.8% of the variations in the financial performance of hotels and manufacturing in Lira City. The implication is that hotels and manufacturing firms whose boards observe ethical integrity while executing their roles are likely to register improvement in the financial performance than firms with loose boards. The suggested model for the relationship between corporate governance and financial performance is:

Financial performance = 1.894 + 0.668*board integrity + 0.039*board diversity – 0.202*communication + ε, where ε is the possible error in the model.

The (constant = 1.894) suggests that even hotels and manufacturing firms that do not have boards are capable of performing financially, although their performance is likely to be below the average financial performance of firms that have corporate boards (Table 6).

Hypothesis testing

This study tested hypotheses using the p-values approach. The p-value approach compares the test statistic with the type 1 error to be as small as 0.01, 0.05 or 0.10. In this study, the type 1 error was set to be as low as 0.05. In this approach, the null hypothesis is assumed to be true. If the p-value is less than the test statistic (α = .05), reject the null hypothesis else accept the alternative hypothesis. Similarly, if the p-value is greater than the test statistic (α =.05), accept the null hypothesis and reject the alternative hypothesis. The study accepted the null hypothesis that board diversity does not affect a firm's financial performance (Table 7). The study accepted the null hypothesis that board communication does not affect a firm's financial performance. The study rejected the null hypothesis and accepted the alterative hypothesis that board integrity affects a firm's financial performance. Similarly, the study rejected the null hypothesis and accepted the alternative

Table 6. Regression coefficients.

Model		Unstandardized coefficients		Standardized coefficients	t	Sig.
		B	Std. error	Beta		
1	(Constant)	1.894	0.417		4.544	0.000
	Board Diversity	0.029	0.088	0.039	0.333	0.740
	Board Communication	-0.137	0.100	-0.202	-1.370	0.175
	Board Integrity	0.598	0.125	0.668	4.797	0.000
	R = 0.563	**R Square = 0.317**		**Adjusted R Square = 0.285**		

Predictors: (Constant), Board Integrity, Board Diversity, Board Communication; Dependent Variable: Financial Performance

Table 7. Hypothesis tests.

S/N	Null hypotheses	α	p-value	Decision rule
1	Board diversity does not affect a firm's financial performance	0.05	0.740	Accept
2	Board communication does not affect a firm's financial performance	0.05	0.175	Accept
3	Board integrity does not affect a firm's financial performance	0.05	0.000	Reject
4	Corporate governance practices do not affect a firm's financial performance	0.05	0.000	Reject

Source: Field data, 2021.

hypothesis that corporate governance practices affect a firm's financial performance. Assuming that the sample taken for this study was representative enough, over 95% of the sample units are likely to accept that board diversity and board communication do not affect financial performance in hotels and manufacturing firms in Lira City. On the other hand, over 95% of the same samples are unlikely to accept that board integrity nor corporate governance practices do not affect financial performance among hotels and manufacturing firms in Lira City.

DISCUSSION

The study examined the Influence of Corporate Governance on the performance of firms. It was established that Corporate Governance has a significant effect on firm performance though the amount of influence suggested some factors beyond corporate governance. The findings agree with Chinomona (2013), Moenga (2015), and Gupta and Sharma (2014) who revealed a positive effect of Corporate Governance on firms' financial performance. Normally, corporate boards discuss strategic positioning of the firms to remain competitive businesswise. In effect, the firms' financial performances improve in terms of increased profits, reduced costs of production and or services, etc. The finds also support the stewardship theory, which suggests that when the principle and the managers in the business choose to act as stewards, they would work towards the principle's interests. The significant influence of corporate governance on the firm's financial performance observed Lira City is highly a collaboration of principles and the firm managers. In JKL (Not real name the manufacturing firm), for example, some five members of the employees sit on the board. This kind of team work helps the principles and the managers to align their goals.

Actually, one of the key informants reiterates:

"…*this is my second term of representing workers on the board. I have always found it a challenge to bargain for the rights of workers, especially on their rewards. And while it has always been a battle front, my presence has always brought workers' interests to the attention of the board.*

This is credible…as he laughs…" In this excerpt, this study observed that boards that might constitute only members outside the firm are likely to misalign the interests of the principles and the managers, who also constitute the employees.

The study established that board diversity and board communication had no significant influence on the firm's financial performance of hotels or manufacturing firms in Lira City. The findings seem to support Akinpelu and Ogunbi (2013) who observed that in most businesses, the board does not effectively control the management of the firms, leaving their presence to be in theory. In Lira City, the contention on board diversity rested on board independence of stake holders' influence. According to one key informant, who was a member on another board:

"…*I find my role usurped when I have got to debate board business in the favor of the proprietors even when the circumstances are irrational in business sense…then why did they appoint me on the their board?*… "

This excerpt resonate participants' views on the independence of the board in its deliberations. Practice shows that board independence is very important in propelling of the business to greater heights and a focus on vision. The non-significant effect of board diversity on the financial performance of firm supports that larger boards tend to be dysfunctional to the business as they plague into the problems of monitoring the firm very well (Wasike, 2012; Harjoto et al., 2014). Among the firms investigated for example, the board of PH (pseudo name) was found with a board composition of 23 members. It was further discovered that it was a family business trailing on family problems. Notwithstanding the interests of different families in the business, the fact remains that the larger the board size the more dysfunctional it's likely to be since bigger and larger boards bring in a lot of conflict of interest. The findings however disagree with (Ansong, 2015) when he posits that boards that comprise a big proportion of outside members are likely to impact on firm financial performance than their counterparts that have majority of the members coming from within the firm. Ideally, boards with small board size miss out on the experiences and knowledge brought by members from other boards and firms.

The study found a significant influence of board integrity on the firm's financial performance of hotels and manufacturing firms in Lira City. The findings seem to agree with Leung et al. (2014) who also relates board integrity with board independence. The authors show a positive relationship between board independence and financial performance, especially in family businesses. However, the findings disagree with Liu and Paul (2015) who observes that some board members do not pay enough attention to the governance of the firm, thereby affecting its functionality. This observation agrees with one key informant, a board member of board RS (pseudo name), who posits that

"…*apart from coming for their sitting allowance, what else have they contributed to the business? ...and the Director does not seem to see this! They are actually milking the business*…" The experience of this board shows a practical negative turn of board members that are least mindful of the core goals of the business. Rather than adding to the firms' survival, they do more harm to it than good.

CONCLUSION AND PRACTICAL IMPLICATION

In today's business world, successful businesses will not do without corporate boards. In this study, corporate governance was found to significantly influence the financial performance of hotels and manufacturing firms in Lira City. Firms whose boards demonstrate integrity are likely to register positive changes in their financial performance than firms whose boards do not. This study demonstrates that board integrity promotes independence of the board, which is a key factor in aligning both the principals' and managers' goals. Whereas previous studies indicate the importance of board diversity and board communication in firm performance, evidence among hotels and manufacturing firms in Lira City indicates the contrary. As firms struggle to diversify board membership, they are likely to attract men and women with low reputation, leave alone those who might stifle the independence of the board in executing its roles. This study extends the application of the stake holders' theory to understanding the significance of board integrity on firms' financial performance. Additionally, the study has generated a testable relationship between corporate governance and firms' financial performance, which is important for business practice. Therefore, hotel and manufacturing firm owners should be cautious in selecting board members lest they attract many that would increase the firm's liabilities. Secondly, hotel and manufacturing firm owners should exercise some discipline and leave boards to operate independently. This would allow the board to remain focused on the long-term goals of the firm.

CONFLICT OF INTERESTS

The authors have not declared any conflict of interest.

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Knowledge positioning and innovation in strategic alignment for SESCO and Saudi Arabia's economy based on its 2030 vision

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The transition of economies to become more knowledge-based has compelled companies to adapt to a greatly changing environment through an emphasis on knowledge sharing and positioning, and alignment with innovation, and its products/services and the market. For Saudi Arabia to achieve its 2030 Vision, this focus on developing knowledge-intensive capabilities, collaboration with other organisations, human capital, R and D, innovative thinking, and so on, has become critical. Interviews with three strategic managers at SESCO during the last quarter of 2020 were conducted to ascertain the positional relationship and alignment between knowledge, innovation, and product/service/market. The findings confirmed it is an example of a successful case of readiness for the Saudi 2030 Vision. In contrast with a decade ago, SESCO now has a greater focus on strategic knowledge positioning and sustained innovation, which are also strategically aligned with the third. The same was also explored for Saudi companies in general. The study did not only establish the importance of positioning of all three components, but also their mutual integration and alignment.

Key words: Innovation, strategy, knowledge-management.

INTRODUCTION

The environment plays an important role in strategic management. This includes the capabilities, resources and corporate culture of the internal environment within organisations, and the wider environment of the industry, national economy, as well as that of the rest of the region and globally. Strategic planning is therefore not only tied with an organisation's own long-term plans, but it takes into account opportunities and threats in the external environment, and is also linked with public policies and national ambitions. The extent to which it can cope with the challenges depends on its strengths and weaknesses, but strategy formulation is necessarily directed at dealing with those challenges as effectively as possible to enhance entrepreneurship and competitiveness, and to satisfy all other stakeholders with vested interests. Alignment of the organisation's strategic inputs of vision, mission, objectives, strategies and policies with each other and according to the environment is therefore a critical consideration for success.

A major transformation in the economic environment usually necessitates a completely changed approach in organisational management for continued survival even

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more so than when doing strategic planning under normal circumstances. The transition to a knowledge-based economy of many economies around the world is a current and ongoing trend that has created the same situation where there is a need to adapt to a greatly changing environment. It has also highlighted the growing and critical importance of knowledge and knowledge positioning in strategic planning. The importance of knowledge is apparent from knowing that what an organisation knows determines how successfully it can devise and execute strategies. The approach may involve implementing creative ideas and technologies, and mapping the competitive environment to identify how best to align with the envisioned knowledge landscape for gaining competitive or strategic advantage. It is a necessary reinvention and realignment of the organisation to make it compatible in advance by innovative measures and knowledge positioning.

Innovation is an important means of gaining this advantage and achieving the realignment and reinvention. It can improve the competitive position of an organisation (Dobni, 2010), and it provides a way for it to realign itself with the changing environment. The concept of innovation here is not restricted to describing the making of new products or offering new services, which are tangible and visible things. It also encompasses underlying things, such as the use of advanced technologies, dealing with challenges, such as improving performance in unique ways, implementing creative solutions, exploiting strategic insights, etc. Innovation can involve either radical changes or incremental refinements. Irrespective of the form it may take, innovation provides a way for an organisation to realign itself with the changing environment or knowledge landscape for strategic advantage, and to reinvent itself. Besides innovation, knowledge and the product or market are other key components of making the reorientation strategy successful.

However, there is lack of awareness of innovation generally, and a need for more research on incorporating innovation and knowledge in strategic planning for enhancing entrepreneurship. This applies to the context of the Kingdom of Saudi Arabia transitioning to an innovation-led knowledge-based economy with which this study is concerned. Facilitating this kind of transformation would require understanding and promoting entre-preneurship, improving the quality of education and skills, and promoting widespread innovative thinking. There is urgent need for such innovation in Saudi Arabia to help achieve its 2030 Vision to transform the kingdom economically. This transition involves moving away from over-relying on oil revenues towards the creation of a knowledge-driven economy. Its success depends on such factors as strong collaboration between the government, industry and academia, and the promotion of innovative thinking.

The present study investigates knowledge positioning and innovation in a selected Saudi company to explore its strategic alignment and see how prepared it is for the Saudi 2030 Vision. The potential value to the kingdom of doing this is highlighted next. A review of the literature is then conducted prior to detailing the present study and presenting its findings. The review covers knowledge-based strategies, the role of knowledge and innovation, the connection between knowledge and innovation, and strategic alignment based on previous studies.

Potential value to the kingdom

Under the Saudi kingdom’s 2030 Vision, the plan is to transform the economy to make it a more balanced investment model away from over-reliance on oil revenues (Patalong, 2016). According to a report by Aranca (2014), there is already an innovation-led strategic transformation underway in Saudi Arabia that is set to become a foundation for socio-economic progress and a knowledge-driven economy. It identifies the key drivers of this innovation trend as a strong infrastructure supported by collaboration between the government, industry and academia; improvements in the business environment and the quality of human capital; greater access to technologies locally and globally, and also to funding. Among other things, facilitating this transformation still requires promoting entrepreneurship further, improving the quality of educational and technical skills, and developing innovative thinking. However, knowledge and awareness of innovation is generally lacking among Saudi companies, and there is also a lack of skills necessary for managing innovation strategically, as found in a study on the Saudi manufacturing sector (Alotaibi, 2016).

Higher educational institutions are also playing a key role in helping to fulfil Saudi Arabia’s national vision through their R and D centres, support for science parks, and other collaboration with industry and the government. Besides R and D, the launch of the NSTP (National Science and Technology Plan) programme in 2009 was another key initiative for promoting innovation. This programme involves creating a chain of technology innovation centres for further supporting cooperation between universities, and both local and global industries. Although the NSTP is also involved in knowledge production and encouraging joint ventures, the focus is on product development to meet industrial needs (Al-Sultan and Alzaharnah, 2012).

LITERATURE REVIEW

For incorporating innovation into strategy, it is necessary to define how an organisation creates value and delivers it through its entrepreneurial model. Innovation is usually evident by the adoption and use of creative ideas and new technologies. It is then exhibited by strategies developed in response to challenges faced by the organisation, and by noticeable changes in the organisational environment (O'Sullivan and Dooley, 2008). There may be signs of learning, new investments, diversification, and in the case of product innovation, gaining in economies of scale (Salavou et al., 2004).

A knowledge-based strategy

A knowledge-based strategy incorporating innovation allows for mapping an organisation's strategic position and the competitive environment. Especially when this environment is complex, competitive and turbulent, knowledge becomes the most important resource for organisations, as well as for countries as a whole (Huarng et al., 2018). It is then knowledge that can prove useful for gaining a competitive position. Competing here should be understood as not only being based on what is made by an organisation, or the services provided, but also on the knowledge it possesses and its innovation practices. Recommendations are therefore made to improve the situation as necessary for promoting creativity and innovation in entrepreneurship in line with expectations for a modern knowledge-based economy. Moreover, the findings of this study could enable organisations to cope more effectively with the kingdom's own new positioning, promote innovative thinking, prepare knowledge managers to cope with the changing competitive environment, and to help shape collaboration between government, industry and academia in improving the quality of human capital.

At the heart of this endeavour is effective knowledge management, which may be defined as the creation, deployment and storage of knowledge (Grant, 1996). Importantly, it facilitates the development of capabilities (Teece, 2014), which may then be directed at enhancing strategic planning capability and innovation. Through knowledge management, strategic planning capabilities can be strengthened. As strategic planning is itself a knowledge-intensive capability being derived from extensive information distribution and organisational memory (Hughes and Hodgkinson, 2019), and knowledge determines planning decision quality, this makes knowledge management an important component of strategic planning (Atuahene-Gima and Li, 2004).

In a knowledge-based economy, knowledge is treated as having value, and is therefore a valuable resource that can be managed strategically. After all, the set of strategies an organisation can implement is itself dependent on the knowledge it has (McDonough et al., 2008), awareness of what it can or cannot do, and what it needs to know and do. A knowledgeable organisation has no knowledge gap, which would be created if there was lacking in this awareness. However, it can be eliminated by changing the strategic position. Moreover, a knowledge-based strategy that incorporates innovation allows for mapping the competitive environment and the organisation's strategic position within it in a radically different way compared to traditional methods based on market and products/ services. An organisation's potential success thus depends not only on market/product positioning, but also on knowledge positioning. Furthermore, in a dynamic environment, and especially at a time when the Saudi economy is itself undergoing a radical transformation, the role of knowledge and innovation is becoming increasingly important in strategic management. This makes it imperative to equally consider knowledge positioning during strategic planning along with market and product/service positioning (McDonough et al., 2008). Without valuing and managing knowledge strategically and innovating, it can be argued that many organisations will be unable to cope effectively with the kingdom's own new positioning.

Role of knowledge

Like innovation, and unlike the positioning of a product or service, knowledge is a valuable intangible resource. It makes managing knowledge necessary for strategic positioning and advantages. It can potentially lead to gaining deeper understanding of markets and customers. However, knowledge is not viewed in many organisations as a strategic issue, but only as an operational one instead, and the relationship between knowledge and strategy is not widely recognised (McDonough et al., 2008).

Importantly, the extent to which an organisation can devise and execute an effective strategy depends on the knowledge it possesses to guide the shaping of the strategy. In other words, its success depends on what it knows, and the strategy determines what the organisation needs to know. If there is a gap between what is known and what needs to be known to make a strategy successful, then this would need to be eliminated. This may be achieved either through gaining more knowledge to better support the position aimed for, or by adapting the organisation's product or market position so that it is made more in line with what is currently known and manageable. Whichever approach is taken, one or the other would be necessary for the strategy to be successful, as opposed to ignoring the knowledge gap.

Thinking about strategic planning this way in terms of knowledge is to map the position of knowledge. It is analogous to positioning a product for a target market. However, knowledge can be more important, as some cases in the past show. For example, Polaroid became bankrupt in 2001 due to inadequate knowledge of digital imaging, and the sudden emergence of new competing companies (Rayna and Striukova, 2009). Therefore, knowledge positioning should also be strengthened in strategic planning besides product positioning. Both should be treated as essential parts of the same one strategy, and complemented by another essential part – innovation.

Role of innovation

Innovation may take place in the form of development of a new product, improved services, use of more advanced technologies, or that which leads to enhanced processes, procedures or operations, and reduced prices, etc. In Saudi Arabia, innovative water and land saving technologies, for example, are being applied in the agricultural sector to boost production in the same crop lands being cultivated, and to thereby ensure food security (Fiaz et al., 2018). Innovation positionality is the attention given by an organisation to itself to bring about the aforementioned improvements, which would be internal innovations, or in ways that are noticed by customers through improvements to products and services or otherwise, which would be external innovations.

Whether the innovation is internal or externally perceptible, it is also necessary for an organisation that its position with respect to innovation is aligned with its positions with respect to knowledge and products, or marketing position for the latter. The organisation's capability to innovate determines what kind of innovations it can, make and how well it can innovate. In the example of Polaroid, the company failed because it stuck with trying to innovate in terms of chemistry, and it did not see the need to make a more radical innovation by transitioning to digital imaging. Studies on innovation mostly focus on innovation as a process rather than innovation positioning and alignment with product positioning.

Connection between knowledge and innovation

The connection between knowledge and innovation is important when devising a strategy. In particular, strategic planners should recognise the limitations of its knowledge, and consider what the organisation needs to know to support the envisioned innovation, and market or product position. The organisation then has a choice of whether to obtain more knowledge first, or utilise existing knowledge to innovate. Theoretically, this shows that knowledge can guide innovative activities and also be influenced by them. The critical thing however, is to have knowledge, innovation, as well as the product, service or market positions aligned so that their positions mutually reinforce each other.

Another important aspect of knowledge management is the sharing of knowledge within an organisation (Bhardwaj, 2019). This may be through an intelligence generation and dissemination process arranged to facilitate information or knowledge sharing, both among departments and with customers. This kind of responsiveness is necessary to support innovation and the development of new products or services. The aforementioned study based on data from 319 auto companies led to emphasising the critical value of sharing knowledge and intelligence for bringing about innovation. The positive impact of knowledge management on innovation was also established in a study in Pakistan on corporate sustainable development activities in manufacturing and services firms (Abbas and Sagsan, 2019). Knowledge management processes involve creating, acquiring, sharing and applying knowledge, which are shown to have a significant impact on activities and green innovation. Furthermore, the impact is evident irrespective of company size and the two types of firms investigated.

In the case of public sector organisations, the impact of knowledge management is still positive on innovation, as well as on operational performance and quality, but this is variable in terms of strength of impact (Balasubramanian et al., 2019). This study shows the importance of devising appropriate public policies, strategies and other supportive mechanisms to encourage knowledge management and innovation. In service organisations, innovation is supported by a number of management practices of which involving and empowering employees, analysis, information, training and customer focus are crucial (Golmohammadi et al., 2014).

Strategic alignment

Although ensuring the three positions of knowledge, innovation and product are aligned challenge, maintaining their alignment and integration is also challenging when the need arises to adjust to a changing competitive environment.

Figure 1 illustrates the relationship between these three positions and lists what the relationship between each pair entails. There are two important considerations for each of the three pairs of relationships.

The second illustration in Figure 2 highlights the critical need to reposition in a time of a major change. The initial position for each knowledge, product and innovation may need to undergo a transition to a new one that is more suitable for the anticipated changed environment.

METHODOLOGY

Data collection

Not many studies have been conducted previously on the potential of incorporating or integrating innovation into strategic planning with the aim to enhance the effectiveness of entrepreneurship in line with the kingdom's goal of transforming to a broader investment-driven and knowledge-based economy. To explore the phenomenon

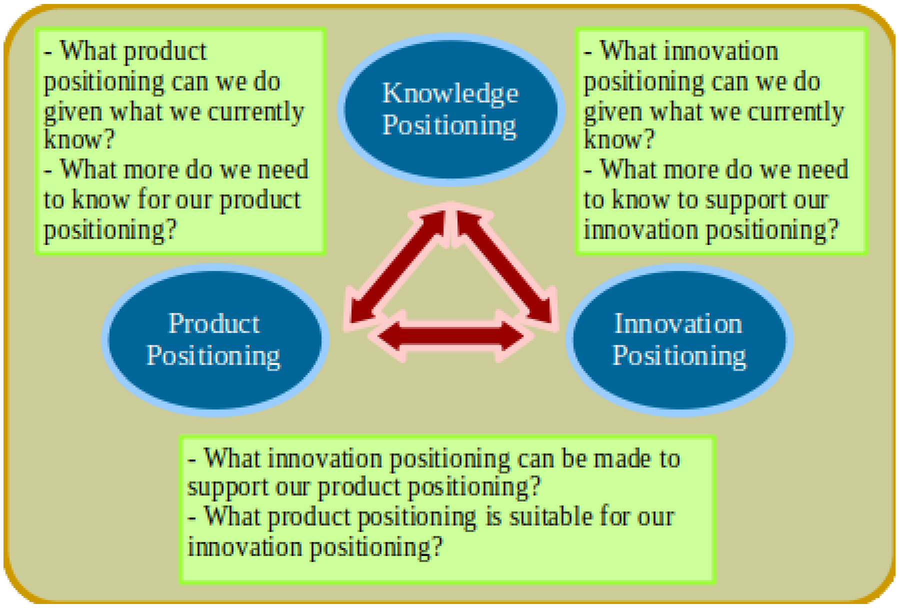

Figure 1. Knowledge, innovation and product positioning.

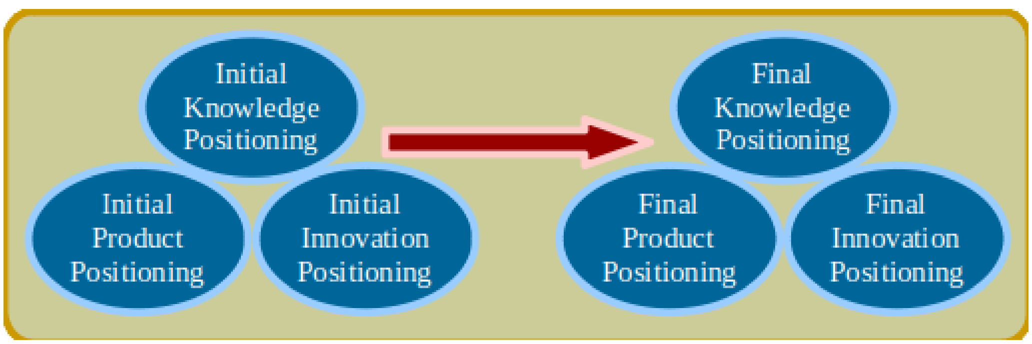

Figure 2. Repositioning in a time of change.

of strategic alignment in readiness for the Saudi 2030 Vision, and the role of knowledge and innovation, data were collected from a selected, major and leading innovative company, namely the Saudi Electric Supply Company (SESCO). Three interviews were conducted with three different strategic managers during the last quarter of 2020.

The content of these interviews were analysed to identify themes, and to validate the two research frameworks: (1) the knowledge position-product and market position relationship (McDonough et al., 2008), and (2) the innovation and knowledge positional relationships with product and market positions (McDonough et al., 2008). The frameworks were then tested using previously-conducted case studies. The study contributes to the field by showing how innovation and knowledge positioning can be used to realign an organisation, and establishing the significance of this in strategic planning.

Using a case study methodology, the data were gathered on the nature and extent of knowledge positioning and innovation in the strategic planning of Saudi firms. This enabled to identify the key drivers of innovation in Saudi organisations, and to gain an indication of the extent of present innovation in readiness for the 2030 Vision. They were ascertained by comparing the relative strategic positions of market/product, knowledge focus, and extent of innovation. Additionally, information was also gathered from secondary sources on knowledge management and innovation in the strategic planning of organisations in the Kingdom of Saudi Arabia. This review sought to ascertain the overall strategic alignment to get an indication of the extent of innovation among Saudi companies in general, in readiness for the 2030 Vision. Table 1 summarises the two data sources, what data were gathered from each, the indications obtained, and how this was achieved.

Data analysis

An indication of the overall strategic alignment was made by comparing the relative strategic positions of market/product, knowledge focus, and extent of innovation. A lack of focus on specific market segments and internally driven innovation for instance, may indicate an overall focus on market/product, and the development of a specific body of knowledge and innovative communication, and knowledge-sharing processes. Notably, a

Table 1. Summary of data collection and indications gained.

Source of data	Data gathered	Indication	Method
Interviews at a selected company	0	0	Comparison of relative strategic positions of market, product, focus on knowledge, and innovation
Secondary sources	Knowledge management and innovation in strategic planning	Overall strategic alignment; extent of innovation in readiness for the 2030Vision	Review of the literature comprising previous studies in the field

Table 2. Summary of key findings.

Period	Knowledge positioning	Focus	Innovation
1976-2000	Acquiring what was necessary to establish the company	On market and service positioning	Internally driven
2000-2014	More responsible orientation; preserving knowledge; still not aligned well with market and services	Customer satisfaction; value-added services; more customer driven	More innovative practices; technological advancements in line with developments in computer and internet
2014-present	Well-positioned; evidence of alignment with market, product/service positioning; more knowledge sharing	More strategic orientation; efficiency improvements	Greater and sustained attention to innovation; innovation more directed at customers, employees and economy

shift from selling products alone to selling value-added services may indicate a focus on knowledge (McDonough et al., 2008). A focus on innovation would be indicated if knowledge is used to compete in application services, including communication skills and customer relations with the ability to learn. Innovation is also evident in the organisation's structure and processes, and if the company is able to adapt to variations in customer relationships to improve their performance outcomes. Cross-functional teams are often formed to gather information, improve communication, obtain customer feedback, build trust, and enhance information exchange.

RESULTS AND DISCUSSION

This study presents the findings of the research for which the methodology was described above. The key findings are summarised in Table 2.

Saudi electric supply company

The Saudi Electric Supply Company (SESCO), established on 1st January in 1976, is a premier wholesale distributor for electrical supplies in Saudi Arabia. Its operations are widespread throughout the Kingdom, and being a large company in an important energy sector, it has a key role to play in the changing economy, hence the reason why it was selected in this study. Preliminary research on its background using publicly available sources, including its website, suggested it is a prime example of a company which has achieved knowledge repositioning and alignment effectively, and in alignment with innovation. This was confirmed in the subsequent investigation using interviews.

Insight from the interviews

Knowledge management for a company with widely dispersed operations is understandably more challenging compared to more localised organisations. Sidawi (2012) uncovered systematic project management problems a decade ago that were having a profound negative impact on the process and performance of remote projects. These problems compounded by the remoteness of certain ongoing projects at the time were especially due to loss of control over communication and management, and lack of management skills, human resources and infrastructure. The researchers suggested utilising a computer-based management system, but the presence of organisational barriers hindered this possibility.

1976-2000 – Focus on market and service positioning

This initial period spans from the founding of the company in 1976 to its merger with other regional supply companies. It was strongly characterised by its focus on the market and the services it offered, which were and still are to provide electricity supply connections. Due to lack of competition, there was little or no focus on competitiveness, efficiency, strategic planning, strategic knowledge and innovation.

Knowledge was positioned on simply acquiring what was necessary to establish the company, expand its reach, and to deliver its services. It was focused on principles of electrical engineering and simple business practices. Technical knowledge was obtained by hiring people qualified for all the required functions, including for customer support, sales and information and communication systems. There was no external stimulus to bring about any significant advancements or innovation. New services were entirely driven by existing knowledge, and any innovation was also internally driven. However, relationships with some research universities were forged in this phase. In short, there was little need for expanding the scope and depth of its knowledge-base, or to engage in more innovative and strategic practices.

2000-2014 – Beginnings of a focus on knowledge and innovation

An interim period spans from the company's monopolisation in 2000 to its major restructuring in 2014. This period is characterised by a more responsible orientation given the dwindling margins and reduced prices. It was no longer sustainable to maintain the old status quo, so the restructuring was inevitable. The orientation was still not strategic, but there was a noticeable shift away from being service-oriented toward some semblance of a knowledge-orientation and the beginning of more innovative practices. This was evident from greater attention given to maintaining and preserving knowledge, improvements in information and communication channels, adoption of new technologies, greater concern for customer satisfaction, and providing more value-added services. It made the company more customer-driven, thus leading it to be stimulated for innovation externally instead of internally, as was the case in the previous phase. The technological advancements were in line with developments in computer and internet technologies. They explain the rapid improvements in information and communication systems, which were considered revolutionary at the time.

Although the company had not progressed as far as strategically aligning knowledge and innovation with its market and services, as in the present phase, there was overall a clear transition to being more focused on knowledge and innovation compared with the initial phase. However, misalignment and weak strategic-orientation clearly distinguish this phase from the next. Widespread knowledge-sharing was thus not present, nor was the impulse to heavily innovate and thereby contribute to fostering a research and knowledge-based economy.

2014 to present – Greater focus on strategic knowledge and innovation

This latter period spans from the major restructuring in 2014 to the present. This period is characterised by a more proactive stance, a more strategic orientation, greater positioning of knowledge, much greater and sustained attention to innovation, and an attempt to align these with its market, product and service positioning. It is also marked by the development of leading-edge products related to its existing electricity supply services, which has expanded its scope of products and services. For example, it has expanded to also become a wholesale distributor of electrical apparatus and equipment wiring supplies, which shows prudent application of its accumulated expertise in the industry.

These initiatives are generally directed at bringing about various improvements in quality and output. Hence, the company's strategic goals focus (Figure 3) on being smart, efficient, productive, and customer-centric. This does not mean an abandonment of its previous market and service orientations, which were prioritised throughout its previous existence, but rather, a drastic change of priorities under a more expansive and strategic outlook. There is greater focus and priority now on knowledge, innovation and strategy. Importantly, the knowledge and innovation positions are not only geared to supporting the company's market, product and service positions, but they are also more aligned with each other strategically. Research and development, and innovative thinking, are also stronger. It was innovative in ways before, but the innovation now is more considerable, and directed at customers, employees, and indeed the economy as well.

The key enablers of the company's innovations are digital transformation, restructuring of the energy sector, talent development, cost optimisation for financial sustainability, activation of research and development programmes, and prioritising safety, security and the environment. This shows it has a strong strategy which

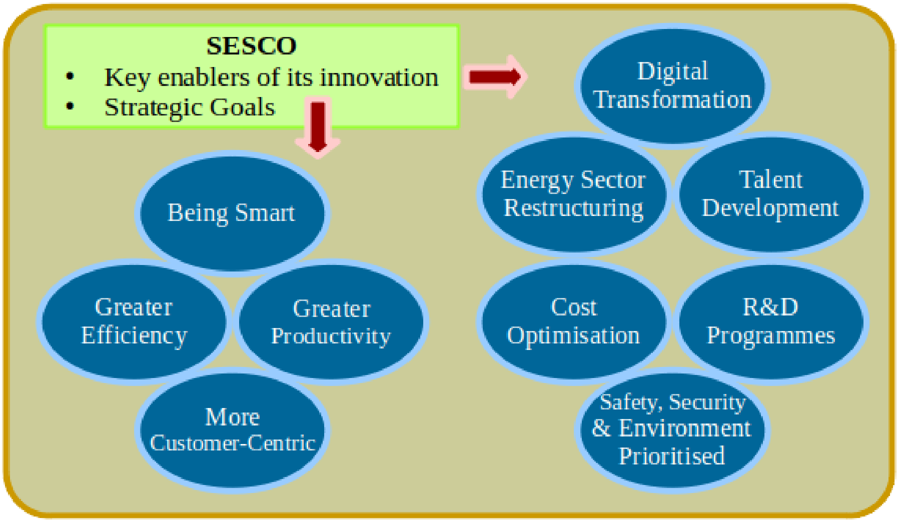

Figure 3. SESCO's strategic goals and key innovation enablers.

incorporates corporate social responsibility. In particular, it is evident from the data that the company is striving to operate more efficiently to reduce costs and supply electricity more efficiently. The company is also seeking more opportunities for mergers and acquisitions, including partnerships with government agencies and charities. Importantly, the company is at the forefront of creating the right conditions for achieving the Kingdom's Vision 2030 through its contributions to making the environment more stimulating and attractive for investment, and to the Kingdom's overall economic development.

In 2018, SESCO launched a major strategic transformation programme, which it named 'Itqan'. The programme actually consists of several projects that include investment, digital transformation, improved grid governance, improved asset management, expansion of applications, and monitoring of industry changes and challenges being faced during the Kingdom's transition. It has also compelled the company to undergo restructuring of its activities, and to strengthen coordination with its stakeholders.

The aforementioned are underpinned by knowledge, but a direct engagement with increasing knowledge is in the form of greater knowledge-sharing, and supporting the specialised development of its workforce to cope creatively with and lead the company's anticipated future needs and projects. This includes competing for projects in international markets. The company's innovation efforts are mostly directed at its efficiency drive, knowledge sharing, improving productivity, energy storage solutions, tapping into renewable energy sources, talent management practices focused on its employees, and developing innovative products.

With respect to strategic alignment, the knowledge and innovation positions of SESCO are more tightly aligned than ever before with its market and service positions. This facilitates communication, and information and knowledge sharing, and is reflected in its internal structure and organisational processes. It is evident from the improved performance outcomes, receptiveness to feedback, improved customer relationships, and refined processes.

Knowledge Management in Saudi Arabia

The findings reported in this subsection pertain to organisations in Saudi Arabia other than SESCO to gain an indication of knowledge management practices in the Kingdom based on secondary research. In studies conducted in Saudi Arabia, knowledge management or components of it have been shown to impact positively on job satisfaction (Varshney and Damanhouri, 2013), and gaining competitive advantages (Abusharekh et al., 2019). Along with supply chain management practices, it has also been shown to contribute to improving organisational performance in a study on the Saudi food industry (Attia and Salama, 2018).

In Zain's implementation of knowledge management, for example, which is a mobile telecommunication company, the focus is on customer satisfaction, improved coordination and sharing knowledge for achieving high performance (Zain, 2018). Moreover, knowledge management has helped Zain to be acquainted with customer needs and market trends. Importantly, the study showed how knowledge management can influence the attitudes of people working in an organisation, and thereby impact on its performance (Alarjani, 2019).

The importance of maintaining strategic or competitive advantage at a time of major change raises the value of knowledge management. In recognition of this, Abusharekh et al. (2019) aimed to identify the precise processes of knowledge management which lead to achieving competitive advantage through investigating the activities of employees at Al-Quds Open University. The strongest correlation was found for knowledge technology with knowledge generation, transfer, developing and storing, acquisition, and organisation following in that order. Knowledge generation or creation is encouraged at the university by offering incentives and providing an avenue for applying the creations. Knowledge generation or generating new ideas is itself innovation (Hijazi, 2005).

CONCLUSION AND IMPLICATIONS OF THE FINDINGS

Product or market position is an important part of an organisation's strategic planning, but it is not the only important one. This is especially so when there are major economic changes and transformations underway. The study establishes the importance of knowledge and innovation positions as well, specifically that all three are aligned and integrated with each other. The key considerations are: (1) Whether the three positions are aligned, integrated, and mutually reinforce each other; (2) Whether the positions are aligned with capabilities, and (3) Whether each of them is unique, or at least potentially better than those of competitors.

This kind of mapping that incorporates knowledge and innovation positioning can shape strategic planning very differently than if only considering product or market positioning. As in the example of Polaroid, the matter can be complicated further if the competitors are not correctly identified. Some companies may not appear to be competitors due to being currently positioned in a different market, but the changed environment could soon make new competitors that bring them into the same market. The key things here are the shared knowledge that must be recognised, and innovations taking place in the field, hence the importance of these knowledge and innovation components. Importantly, it shows that strategic change is not limited to product or service positioning in the market, but may also require adapting the positioning of knowledge and innovation so that the organisation can be positioned more suitably through realignment for anticipated new conditions. By only repositioning the product and ignoring the roles of knowledge and innovation, the same mistake could likely happen as in the case of Polaroid.

RECOMMENDATIONS

With the Kingdom's transition to a knowledge-based economy, knowledge and innovation have gained even more importance than in the past. For competitive advantage, it is imperative to exploit and leverage these knowledge and innovative capabilities by firstly recognising their valuable roles in strategic planning. It is recommended that organisations develop their strategy by integrating and realigning their three knowledge, innovation and product/market positions according to what they would need to retain or to gain competitive advantage. This in turn would require careful monitoring of the changing environment, in this case the knowledge-based economy transition, and reorienting the current alignments of all three positions accordingly.

For SESCO in particular, it is evident that the company has expanded its focus and scope, without neglecting its employees and customers, to include those that could impact more positively on the economy. The greater social responsibility and other initiatives introduced since 2014, and especially since 2018, is all positive developments that are welcome for the company's contribution toward achieving Vision 2030. However, given that SESCO's operations are widely dispersed, the company would need to ensure that it can maintain effective organisational arrangements and operation of its computer-based management system, as these will be critical.

CONFLICT OF INTERESTS

The author has not declared any conflicts of interests.

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The impact of intellectual capital on financial performance in Argentina, Chile and Peru

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Intellectual capital research is a topic that has stood out in recent decades and has allowed us to recognize other types of strategic non-accounting resources that allow organizations to increase their financial performance. Despite the importance of the subject, the evidence for emerging economies, especially in Latin America is scarce and outdated with inconclusive results. This motivates this research. The objective of this work is to determine and quantify the impact of intellectual capital and its components, human capital, relational capital, and structural capital on the financial performance of the electricity industry in Argentina, Chile, and Peru. The estimates are considered using a panel analysis and the generalized methods of moments and fixed effects are used. The results are not conclusive when estimating a contemporary relationship between human capital, relational capital, and structural capital and financial performance. However, a significant positive relationship is observed when lagged measures are used for each proposed measure of intellectual capital.

Key words: Intellectual capital, firms' performance, electricity industry, emerging markets.

INTRODUCTION

The research into intellectual capital, as an intangible asset, has been highlighted in recent decades and has allowed the recognition of another type of strategic non-accounting resources that permit organisations to generate better performance (Pirogova et al., 2020; Xu et al., 2020; Xu and Li, 2019; Xu and Liu, 2020; Xu and Wang, 2018). In the context of the knowledge economy, investments in intangible assets have grown significantly in recent decades, overtaking investment in tangible assets (Oppong and Pattanayak, 2019; Pirogova et al., 2020), which has generated a challenge in recognizing and measuring this type of investment in the financial

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states of companies, making the correct valuation of companies and organisations difficult (Fengli and Xu, 2020).

In accordance with resource-based theory, the competitive advantage of an organization is explained by having valuable, heterogeneous, non-transferable, and expensive resources to reproduce, that is, investments in intangible assets. Intellectual capital, in particular, has become a key resource. Examples of these resources are organizational processes, brands, staff skills and capacity, work methodologies, relationships with interest groups, information, and knowledge of organizational, production or other capacities, the purpose of which is to achieve higher levels of efficiency and sustainable effectiveness competition (Nadeem et al., 2017).

As a consequence of the positive relationship between investment in intellectual capital and organisations' performance, there has been increasing interest in measuring intellectual capital and its effects (Pedro et al., 2018). In spite of the importance of the topic, the evidence from emerging economies, especially from Latin American economies, is scarce, out of date and with inconclusive results (Fernandez-Jardon and Martos, 2016), which is what motivates this present research (Li et al., 2021). Thus, this study contributes by providing an updated and detailed analysis related to intellectual capital and its effects, revealing its importance in companies that operate in emerging economies, and in particular, in electricity companies due to the relationship that exists between economic growth and energy consumption and also between economic growth and organisations' performance (Dalmazzo-Bermejo et al., 2016). For this, a data set from Latin American countries and a methodology of panel data have been utilized.

This paper is arranged in five sections. The introduction is in section one, the review of related literature is in section two, the data and methods are displayed in section three, the results and discussion are shown in section four, while the paper is concluded in section five.

LITERATURE REVIEW AND PROPOSAL OF HYPOTHESES

During the industrial era, the investment in tangible assets was considered the only source of riches. However, currently knowledge has been transformed into a strategic resource, revealing an increasing investment in intangible assets (Ozkan et al., 2017). The literature has understood that intellectual capital is an intangible asset utilised for creating value in a set of other assets or transforming it into other resources. However, we will understand intellectual capital as a set of resources or abilities of a strategic nature that are difficult to imitate and that affect the development of the unique capabilities of a company in search of competitive advantage (Evans et al., 2017; Geissdoerfer et al., 2018; Li et al., 2021).

There exists agreement in understanding intellectual capital as a dynamic resource in constant movement Wulf et al. (2017) that can be explained through three concepts: human capital (HC), structural capital (SC), and relational capital (RC) (Smriti and Das, 2018; Urban and Joubert, 2017; Xu and Li, 2019; Xu and Wang 2019).

For Meles et al. (2016) and Sardo et al. (2018), human capital can be defined as knowledge acquired by a person that increases his or her productivity and the value of his or her contribution to the company. Likewise, for Ahmed et al. (2019), human capital is recognized as the skills and knowledge of employees, which can be enhanced with adequate training. Structural capital is formed of all the intangible resources capable of generating values that reside in an organisation, that is to say, that which is inside an organisation when the employees have left (Ahmed et al., 2019). For Arash et al. (2018) it is all the knowledge that is property of the organisation and is independent of the people (culture, organisational processes, and information systems). This is supported by the management of all types of databases of the company, reports generated, manuals of processes and functions and any instrument that has value for the organisation and that value is higher than its material value.

Pedro et al. (2018) define relational capital as the ability of the company to interact positively with the business community and all its surroundings. The elements that make this up are mainly strategic alliances, brand value, relationships with the community, analysis of the competition, consumer trust, reputation of the organisation, relationships with providers, financial relationships, rate of client retention, client satisfaction, distribution of contracts with providers, distribution channels and agreements, franchising agreements, and social networks, among others (Xu and Wang, 2018).

Jordão (2017) find a positive relationship between intellectual capital and company performance when the measure is EBITDA (Earnings before interest, taxes, depreciation, and amortization) for a data set of Brazilian companies. Similar results were obtained by Xu and Wang (2019), but they highlight the contributing effect of structural capital when the performance measure is EBIT (Earnings before interests and taxes). Bontis et al. (2015) find that structural and human capital positively affects company performance when the measure of performance is return on assets (ROA) for a data set of 34 Serbian hotels. Similar results are found by Nimtrakoon (2015) for whom intellectual capital is positively associated with return on assets (ROA) for data from companies from the Association of Southeast Asian Nations (ASEAN). Xu and Wang (2018) find similar results when the performance measure is the margin of gross profit and the margin of net benefit.

Haris et al. (2019) find specifically that human capital positively affects companies' performance when the measure used is the margin of gross profit but observes a negative relationship of structural capital for data of Pakistani banks. However, Nabi et al. (2020) do not find a significant relationship when the performance measure used is earnings per share (EPS) for a data set of banks from Bangladesh. Arash et al. (2018) find similar results. An explanation for these inconclusive results is the lack of consensus with respect to the definition and composition of intellectual capital and to the identification of non-observable dimensions that could improve the quality of the estimations (Matos et al., 2020).

Despite the importance of this issue, few studies have researched the relationship between intellectual capital and company performance (Ge and Xu, 2020). This work proposes the following hypotheses:

H1: Human capital positively affects financial performance in companies in the electricity industry.
H2: Structural capital positively affects financial performance in companies in the electricity industry.
H3: Relational capital positively affects financial performance in companies in the electricity industry.
H4: The interactions between the components of intellectual capital positively affect the financial performance of companies in the electricity industry.

DATA AND METHODOLOGY

Data base, variables, and methodology

The sample for the current study was obtained from Thomson Reuters Eikon that contains information of non-financial companies from which Argentine, Chilean and Peruvian companies were selected for this research. The period under study considers the years 2013 to 2018. The data collected correspond to consolidated financial statements for these companies and years, respectively. The data were entered into and tabulated through the STATA 14 statistical software. The empirical analysis was divided into two stages. First a descriptive analysis was done to show the main characteristics of our sample and the basic relationships between the variables and, following that, the proposed hypotheses were evaluated. To test the coherence of our results, we executed various models with different variables and methods of estimation.

We controlled the dynamic endogeneity introducing the term lagged for the dependent variable and the simultaneity, estimating our regressions using estimations of the generalised moments method (GMM) in which we introduced several explicative lagged variables as instruments and therefore an estimator of the GMM system is proposed, as it deals efficiently with problems of endogeneity (Le and Phan, 2017). As indicated, to estimate the relationship between the company´s performance and the intellectual capital, specifically human capital, HCAP, structural capital, SCAP and relational capital, RCAP and its effect on performance and their interactions, panel data methodology was used.

The specification test of Hausman confirmed that is preferable to utilize the model of fixed effects over the model of random effects (Bell et al., 2019). To test the validity of the instruments, the Hansen test of over-identification of restrictions is used, checking the absence of correlation between the instruments and the end of error and thus, verifying the validity of the chosen instruments. To validate our research hypotheses, we considered the research done by Mardones and Cuneo (2020) who used panel data to estimate the relationships proposed in this research.

To validate the hypotheses of this research and the relationship between intellectual capital and its components, human capital, structural capital and relational capital, with financial performance, we follow Sardo et al. (2018), Soewarno and Tjahjadi (2020) and Xu and Wang (2019), who propose the existence of linear relationships between the components of intellectual capital and financial performance. Thus, (1) is proposed.

$$ROA_{i,t} = \alpha_0 + \beta_1 ROA_{i,t-1} + \beta_2 Hcap_{i,t} + \beta_3 Scap_{i,t} + \beta_4 Rcap_{i,t} + \beta_5 Hcap_{i,t-1} + \beta_6 Rcap_{i,t-1} + \beta_7 Rcap_{i,t-1} + \beta_8 LEV_{i,t} + \varepsilon_{i,t} \quad (1)$$

Following Sardo et al. (2018), the relevance of the components of intellectual capital on financial performance does not only refer to the individual contribution of each component, but also to the interaction between them. Thus, for the effect of these possible interactions of the components of intellectual capital, we have proposed (2).

$$ROA_{i,t} = \alpha_0 + \beta_1 ROA_{i,t-1} + \beta_2 Hcap_{i,t} + \beta_3 Scap_{i,t} + \beta_4 Rcap_{i,t} + \beta_5 Hcap_{i,t} * Scap_{i,t} + \beta_6 Hcap_{i,t} * Rcap_{i,t} + \beta_7 Scap_{i,t} * Rcap_{i,t} + \beta_8 LEV_{i,t} + \varepsilon_{i,t} \quad (2)$$

Measurement of variables and descriptive statistics

To reduce bias in the estimation between the components of intellectual capital and company's performance, we propose to use leverage as a control variable following Guney et al. (2020), Jara et al. (2019), Li et al. (2020). Table 1 presents the details of all the variables.

RESULTS AND DESCRIPTIVE STATISTICS

The summary of the descriptive statistics of all of the variables (Table 2) shows an average profitability measured through ROA of 0.078362 with a standard deviation of 0.0659319; it shows a low volatility in this performance measure due to the fact that the electricity industry is a highly regulated business. It is observed that the companies show an average leverage of 1.253551 (LEV) which reveals the importance of the use of sources of external financing and the kind of business model. Thus, we can reveal the magnitude and importance of this investment for the operations of the companies. The average values of the components of intellectual capital suggest a greater level of human capital (HCAP) than structural capital (SCAP) or relational capital (RCAP).

Continuing with the descriptive analysis (Table 3), a significant and positive correlation can be observed

Table 1. Definition of variables.

Variable	Abbreviation	Detail
Return on assets	ROA	Operating income to total assets
Control variables		
Leverage	LEV	Total debt to total assets
Intellectual capital dimensions		
Human capital	HCAP	Natural logarithm of staff cost
Structural capital	SCAP	Working capital turnover
Relational capital	RCAP	Revenue growth

Source: Own elaboration.

Table 2. Descriptive statistics.

Variable	Mean	Standard deviation	Minimum	Maximum
ROA	0.078362	0.065932	-0.0374	0.3362
HCAP	11.723690	4.449208	0	19.5926
SCAP	0.576256	10.471000	-81.5962	132.9421
RCAP	0.060281	0.398268	-1.6749	-1.6749
LEV	1.253551	2.689439	8.1909	26.6291

Source: Own computation using STATA 14 software.

Table 3. Correlation matrix.

Variable	ROA	HCAP	SCAP	RCAP	LEV
ROA	1.0000				
HCAP	-0.5386 (0,0000)	1.0000			
SCAP	-0.0589 (0.2925)	0.0659 (0.2396)	1.0000		
RCAP	0.0004 (0.9939)	-0.0122 (0.8305)	0.0057 (0.9213)	1.0000	
LEV	0.2866 (0.0000)	0.0999 (0.0749)	-0.0042 (0.4557)	0.1932(0.0007)	1.0000

Source: Own computation using STATA 14 software. Level of significance is shown in parentheses.

between debt, LEV, and the performance variable, return on assets, ROA, which is in accord with that found by Forte and Tavares (2019). In terms of the variables that explain intellectual capital, mixed results are observed. We observe a significant and positive correlation between relational capital, RCAP, and the performance variable. However, for human capital, HCAP, a significant and negative correlation is observed with the performance measure, ROA and finally, the structural capital, SCAP, shows a negative and non-significant correlation of -0.0589.

In Table 4, the Arellano and Bond tests for AR(1) and AR (2) are shown; it is observed that for AR(2) there is no serial correlation of the errors as its p-value is 0.272 and 0.203 respectively for the models (1) and (2). Thus, we understand that the problems of endogeneity have been adequately dealt with. To identify possible multicollinearity problems between the variables, the correlation matrix was estimated, as well as the inflation variation factor (VIF). The results do not show the presence of these problems.

The results for (1) and (2), estimated using the generalised moments model (GMM), show that financial performance in the electricity industry measured by return on assets, ROA, shows a positive and significant relationship with the return of the previous period $\mathrm{ROA}_{(t-1)}$, 0.843313 and 0.700033. This is in accord with that found by Pastusiak et al. (2016); Utami et al. (2020); Sardo et al. (2018) who find that financial performance shows persistence in companies from the hotel industry (Table 3). Additionally, it is observed that human capital, HCAP, which represents knowledge, aptitudes, skills, and

Table 4. Estimation relationship between intellectual capital and financial performance with GMM estimators.

Variable	Model (1) coefficient	Variable	Model (2) coefficient
L1. ROA	0.843313(0.0378) ***	L1. ROA	0.700033(0.0502) ***
HCAP	-0.003235(0.0014) ***	HCAP	-0.002729(0.0010) ***
SCAP	0.000239(0.0026) *	SCAP	0.008583(0.0023) ***
RCAP	0.003588(0.0051) *	RCAP	-0.011494(0.0129)
L1.HCAP	0.001770(0.0015)) *	HCAP * SCAP	0.000000(0.0001) ***
L1.SCAP	-0.000414(0.0002)	HCAP * RCAP	0.001298(0.0010) *
L1.RCAP	0.006266(0.0049) *	SACP * RCAP	-0.000034(0.0011) ***
LEV	0.003146(0.0007) ***	LEV	0.003827(0.0008)
CONS	0.025477(0.084) ***	CONS	0.051440(0.0144) ***
p-value AR(1)	0.184	p-value AR(1)	0.077
p-value AR(2)	0.272	p-value AR(2)	0.203
Lag	1	Lag	1
Observations	272	Observations	289
Groups	27	Groups	27
Obs. per group	8	Obs. per group	9

Standard deviation in parentheses. *p < 0.1; ** p < 0.05; *** p < 0.01. Source: Own computation using STATA 14 software.

abilities possessed by individuals that belong to an organisation, shows a negative and significant relationship, -0.003236 and -0.00229 when (1) and (2) are estimated.

For its part, structural capital, which is formed of all the intangible resources capable of generating value such as the knowledge stock that is property of the company and independent of the people, SCAP, shows a positive and non-significant relationship, 0.000239 when (1) is estimated, and 0.008583 when (2) is estimated. Therefore, H1 is rejected for (1) and (2) and H2 is accepted when we have measured a contemporaneous relationship between the components of intellectual capital and financial performance. These results are coherent with those obtained by Buallay et al. (2019); Chowdhury et al. (2019) and Tran et al. (2020).

In terms of relational capital, RCAP, which considers the company's ability to interact and considers resources such as strategic alliances, companies' image, brand value, etc., it shows mixed and significant results. When (1) is estimated the results show a positive and non-significant relationship, 0.003588, and, when (2) is estimated, a non-significant relationship is observed too. In accordance with these results, H3 is rejected inasmuch as a positive relationship between relational capital, RCAP, and companies' performance, ROA, is not observed. These results are coherent with those obtained by Andreeva and Garanina (2016) and Xu and Li (2019).

When (1) is estimated, using lagged variables, for the relationship between the components of intellectual capital and financial performance, it is observed that human capital, L1.HCAP, shows a positive and significant relationship of 0.001770, as when estimating the effects of relational capital, L1.RCAP, 0.006267. This result is coherent with having a strategic resource available beforehand to obtain a better performance over time. In accordance with this, the hypotheses H1 and H3 are accepted. On the other hand, structural capital, L1.SCAP, shows a non-significant relationship and thus, H3 is rejected. Finally, we observed a positive and significant relationship between leverage (LEV), 0.003146 and 0.003827, respectively, when (1) and (2) are estimated (Table 4).

When estimating the possible interactions between the different types of intellectual capital (2), mixed results are observed. For the relationship between HCAP * RCAP, a synergistic effect between human capital and relational capital is observed, since we observe a null and significant relationship, 0.0000. This improves the capacities of human capital to develop and offer solutions to the needs of clients and thus, increase the satisfaction of those clients. On the other hand, it is observed that relational capital improves human capital competencies, strengthening its contribution to financial performance, 0.001298 since a positive and significant relationship is observed (Meles et al., 2016; Bontis et al., 2015; Sardo et al., 2018).

However, the interactions proposed between structural capital and relational capital, SCAP*RCAP, do not show a significant effect on the performance of the organisation. In accordance with these results, Hypothesis 4, the interactions between the components

Table 5. Estimation relationship between intellectual capital and financial performance with fixed effects.

Variable	Model (1) coefficient	Variable	Model (2) coefficient
L1. ROA	0.848286(0.0034) ***	L1. ROA	0.846913(0.0313) ***
HCAP	-0.002864(0.0012) **	HCAP	-0.001804(0.0004)
SCAP	0.000254(0.0002)	SCAP	0.001332(0.0008)
RCAP	0.003150(0.0041)	RCAP	-0.011231(0.0079)
L1.HCAP	0.001524(0.0013) *	HCAP SCAP	-0.00009(0.0001)
L1.SCAP	-0.000404(0.0002) **	HCAP *RCAP	0.001509(0.0007) *
L1.RCAP	0.006330(0.0050) *	SCAP * RCAP	0.000836(0.0009)
LEV	0.003152(0.0008) ***	LEV	0.003086(0.0006)***
CONS	0.023683(0.010) ***	CONS	0.033949(0.0134) ***
Fixed effects		**Fixed effects**	
Firm	Yes	Firm	Yes
Year	Yes	Year	Yes
Observations	272	Observations	303
Adj. R-squared	0.8545	Adj. R-squared	0.8415

Standard deviation in parentheses. *p < 0.1; ** p < 0.05; *** p < 0.01. Source: Own computation using STATA 14 software.

of intellectual capital positively affect the financial performance of companies in the electricity industry, is partially accepted as a positive relationship, observed only when analysing the effects of human capital and relational capital.

To control those characteristics of the company those are non-observable and unchanging over time, (1) and (2) are estimated and the results are shown in Table 5. By using the fixed effects method, it is observed that the effect of the performance of the previous period, $\mathrm{ROA}_{(t-1)}$ continues to show a positive and significant relationship 0.848286 and 0.846913 when estimating (1) and (2). On estimating the effects of intellectual capital, it is observed that the effect of human capital, HCAP, continues being negative and significant.

Structural capital shows a positive and significant relationship, 0.000239 when (1) is estimated, and 0.008583 when (2) is estimated. Therefore, H1 is rejected for (1) and (2) and H2 is accepted when we have measured a contemporaneous relationship between the components of intellectual capital and financial performance. These results are coherent with those obtained by Buallay et al. (2019); Chowdhury et al. (2019); Tran et al. (2020). Continuing with the contemporary analysis of relational capital and its effect on the financial performance of the company, a positive and non-significant relationship is observed when we have estimated (1) and (2). In accordance with these results, H3 is rejected inasmuch as a positive relationship between relational capital, RCAP, and company performance, ROA, is not observed.

With respect to the results obtained for (1) with the use of lagged variables, similar results are observed to those obtained with GMM, as for human capital, L1.HCAP, -0.002864 when (1) is estimated and relational capital, L1.RCAP, which shows a positive and significant relationship, 0.006330 with performance . In accordance with this, hypotheses H1 and H2 are accepted. On the other hand, structural capital, L1.SCAP, shows a significant negative relationship -0.000404 when (1) is estimated, however, it shows a positive and significant relationship, 0.001509 when we estimated (2). Therefore, we accept H3 when using (2). Finally, by observing the results of the possible interactions between the different types of intellectual capital and the financial performance of the company (2), we only observe a positive and significant relationship between human capital and relational capital, HCAP * RCAP, 0.001509. Thus, we can partially accept H4.

Conclusion

Different studies have demonstrated the importance of knowing and considering the effect that intellectual capital generates on financial performance, together with an efficient management of its components by companies as they can be a source of value creation that produces competitive advantages that are sustainable over time. The evidence shows the existence of mixed results between intellectual capital and companies' financial performance, which allows us to suppose that the results found in developed economies cannot be extrapolated to emerging economies.

In detail, a positive and significant relationship is observed for structural capital, SCAP, and relational capital, RCAP with financial performance, ROA. It is also worth noting that the use of the lagged variables for human capital, HCAP and relational capital, RCAP, allowed us to suppose that companies must first develop and invest in these strategic resources to obtain a better performance.

We also observe mixed results on examining the interaction between human capital, structural capital, and relational capital. However, the synergy between human capital and relational capital, HCAP * RCAP is noteworthy due to the positive and significant nature of this relationship with the performance of the company. We also observe positive and significant results when examining the interaction between human capital and structural capital, since this synergy, HCAP * RCAP stands out for the positive and significant nature of this relationship with the performance of the company, since, when estimating its individual effects, it does not have a positive and significant effect. Consequently, if companies of the electricity industrial sector invest in human capital, they could reach higher levels of performance as, by investing in this resource, they could make the most of the abilities, knowledge, and aptitudes of the personnel that form the organisation, favouring the relationships between the interested parties.

Some of the main limitations of this research are the lack of variables of a strategic nature and the corporate policy system that favours environments that promote competitive advantage. For future research, we propose the identification of strategic variables and corporate governance that contribute to increasing our estimation for Latin American countries' companies.

CONFLICT OF INTERESTS

The authors have not declared any conflict of interests.

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Effects of globalization on small medium-sized enterprise development in Ghana

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The paper examined the effects of globalisation on small and medium-sized enterprises (SMEs) performance in Ghana. By using the case study approach, the study selected the Kumasi Metropolis as the area for this study. The research delved into the level of familiarity of globalisation among SMEs, examined the influence of globalisation on SMEs performance and assessed the prospects and challenges globalisation poses on the SMEs market in Kumasi. Due to the nature of the population, a sample of 200 SMEs was selected for the study through purposive sampling. The study's results revealed that the levels of awareness of globalisation among SMEs are generally known. Furthermore, most of the respondents consented that globalisation affects SMEs in acquiring knowledge and experience. Other enumerated effects include the availability of raw materials to increase performance, higher profits and better consultations with customers abroad than the domestic market. The study further found that the globalisation of SMEs was significantly affected by the level of competition from overseas competitors. Among others, the study recommended that the managerial capabilities of entrepreneurs of SMEs should be enhanced through periodic globalisation-based training programs, thereby acquiring in-depth comprehension of issues about globalisation and creating an enabling environment for SMEs to embrace globalisation.

Key words: Globalisation, development, small and medium-sized enterprises (SMEs), performance, Ghana.

INTRODUCTION

The effect of globalisation on firms' development has attracted much attention in the business world and other related disciplines. Globalisation describes a process by which national and regional economies, societies and cultures have become integrated through the global network of trade, communication, immigration and transportation (Abdulai, 2016). According to Ocloo et al. (2014), globalisation has led to the spread of businesses and various cultural activities worldwide. Such businesses are categorised as large, medium and small-scale enterprises. Many scholars and researchers have established the critical roles of small and medium-sized enterprises in developing national economies (Moekotte and Freye, 2008; Oladimeji et al., 2017; Nasse and Sawadogo, 2019; Nasse, 2020). Uwonda et al. (2013) have also noted that Small and Medium Enterprises

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(SMEs) are made of over 90% of total enterprises in most economies, accounting for the highest rate of employment growth and generating a significant share of industrial production and exports. According to Abor and Quartey (2010), SMEs in most African countries create jobs creatively and effectively. They are the seed of large enterprises and the engines of economic growth. Abor and Quartey (2010) further elaborate that SMEs are not just suppliers but also consumers when viewed from an economic perspective. The creation of wealth and the reduction of poverty are significant attributes of SMEs. They are an indication that SMEs are regarded as the key vitalities for the business sector, jobs creation and overall national economic development and growth.

Information from the Registrar General Department in Ghana indicates that micro, small and medium enterprises constitute 90% of registered businesses (Adu, 2013). It is pertinent to note that this group of companies has been identified as the catalyst for the country's economic growth as they contribute massively to income generation and employment creation (Ocloo et al., 2014). However, the rate of competition and change in the global market is predicted to affect the overall business environment, thus influencing the market operations of SMEs. According to Muhammad et al. (2010), globalisation creates new relationships and new structures, with the outcome that other places experience significant consequences due to the business decisions and actions in one part of the world. They further observed that the efforts of globalisation are evident in the rapidly changing technological environment, particularly in information processing and telecommunications. However, Muhammad et al. (2010) conclude that due to the mechanisms of globalisation, SMEs have flourished in the domestic market and have gained international recognition.

Flowing from the benefits of globalisation, Douglas and Craig (1995) have stated that globalisation is no longer a concept but a straightforward reality encountered by almost all forms of businesses (large, medium and small). Douglas and Craig (1995) further postulate that SMEs must confront this all-embracing force that permeates the global business environment for them to survive and grow in the 21st century. They show that SMEs are entangled with the pressures of competition locally as well as internationally. According to Ocloo et al. (2014), deciding not to be a global market player is no longer an option. Ocloo et al. (2014) further claim that to succeed in the competitive environment created by globalisation, firms (especially SMEs) must engage and implement three actions: anticipate, respond and adapt. Despite the significant benefits of globalisation as well as the fact that SMEs cannot be said to be immune from the current rapid trends of globalisation as espoused by Ocloo et al. (2014), it appears that most SMEs in Ghana have not considered globalisation as an avenue for growth and expansion. Tsui (2004) highlights that some SMEs are apathetic to embrace globalisation because they believe that there exist impediments that are difficult to overcome. Therefore, this research explored the level of awareness of globalisation among SMEs, examined the effects of globalisation on SMEs performance and assessed the prospects and challenges globalisation poses on SMEs in Ghana, with Kumasi Metropolis chosen as the study area. This research is expected to be a medium to create awareness for owners of SMEs about the benefits of globalisation and hence develop their interest to embark on globalisation despite the challenges. This study also contributes to the extant literature as there is scanty literature on globalisation and its influence on SMEs' development in Ghana.

Research question and objectives

The main goal of this paper is to investigate the effect of globalisation on small, medium-sized enterprise development in Ghana. In conducting the investigation, the following research question motivated the authors of this research. The underlisted objectives were set to help answer the research question and achieve its objectives.

Research question: What is the effect of globalisation on small, medium-sized enterprise development in Ghana? In an attempt to answer the above question raised, the research strives to achieve the following objectives.

The overall objective of the study is to assess the effects of globalisation on SMEs operating in Ghana. The specific objectives of the study are:

1. To explore the level of awareness of globalisation among SMEs in Ghana.
2. To examine the effects of globalisation on SMEs performance in Ghana.
3. To assess the prospects and challenges globalisation poses on the SMEs market in Ghana.

LITERATURE REVIEW

Globalisation

Concept of globalisation

The concept of globalisation permeates through the entire spectrum of academic thinking as different scholars and proponents have described it from several viewpoints. According to Ali et al. (2012), globalisation involves the process of internationalisation and liberalisation. However, Ali et al. (2012) posit that due to these forces of competing for ends and growth as a result of globalisation, the world has continually become a small village. Globalisation is also considered a synonym for the geographical expansion of economic activities over a national country's border (Ruzzier et al., 2006). According to Ruzzier et al. (2006), the concept of globalisation began to be used when it steadily replaced imperialism as the dominant standard of firms framing cross-border interaction between market economies. Regarding the preceding definitions, in this study, globalisation is defined as a process in which firms' operations are managed and controlled on a global stage giving rise to the flow of new ideas, approaches and practices.

Evolution of globalisation

The increasing interdependence of countries resulting from the growing integration of trade, finance, people, and ideas in one global marketplace is termed globalisation (Boskov and Lazaroski, 2011). The main constituents of this integration are cross-border investment flows and international trade. According to Soubbotina and Sherman (2000), globalisation began after World War II yet has quickened extensively since the mid-1980s, driven by two fundamental elements. One includes innovative advances that have brought down transportation, correspondence, and calculation expenses to the degree that it is frequently financially achievable for a firm to find various periods of creation in multiple nations. The other factor has to do with expanding exchange and capital markets: an ever-increasing number of governments are declining to shield their economies from remote rivalry or impact through import duties and non-tariff obstructions, for example, import portions, trade limitations, and lawful denials. Most foundations set up in the wake of World War II, such as the World Bank, the International Monetary Fund (IMF), and the General Agreement on Tariffs and Trade (GATT), prevailing in 1995, by the World Trade Organization (WTO) have assumed a significant job in advancing unhindered commerce instead of protectionism (Stiglitz, 1999).

Forms of globalisation

According to McDonald (2017), globalisation can be grouped into seven forms or types (7) and are discussed as follows:

Financial globalisation: This has to do with the interconnection of the world's financial frameworks, for example, stock markets. Additionally, it is to a greater extent an association between substantial urban communities than of countries. Example: What occurs in Asian markets are influenced by what happened in the North American markets.

Economic globalisation: This is a global economic system that grants easy movement of capital, production, goods, and resources assisted by free trade. Example: European Union (EU), Multinational corporations, North American Free Trade Agreement (NAFTA), etc.

Technological globalisation: The connection between countries through innovation, for example, television, radio, phones, internet, and so forth, was generally accessible just to the rich; however, it is currently unquestionably increasingly accessible to poor people. Substantially less foundation is required nowadays.

Political globalisation: This alludes to nations that endeavour to receive comparative political approaches and styles of government to encourage different types of globalisations. For example, move to mainstream governments, free trade agreements, etc.

Cultural globalization: Merging or "watering down" of the world's cultures, for example, language, amusement, food, etc. This form of globalisation has received massive criticisms as destructive of local culture. For example, the Simpsons have been shown in over 200 countries in the world.

Ecological globalisation: This is concerned with viewing the earth as a single ecosystem rather than a collection of separate ecological systems because such a significant number of issues are worldwide. For example, these include international treaties to handle environmental problems like biodiversity, the ozone layer or climate change, and wildlife reserves spanning several countries.

Sociological globalisation: They advocate for all individuals to be held by the same guidelines and standards because of a surge in the belief that all people are global citizens and have the same rights. For example, the growing international ideas that women should have all the same rights as men and capital punishment are immoral.

The nexus between SMEs and national development

SMEs have been one of the critical areas of concern to many policymakers in an attempt to accelerate the rate of growth among economies predominantly developing countries (Abor and Quartey, 2010; Akugri et al., 2015). They are avenues of the creation of employment and generation of revenue in many developing nations. SMEs offered about 45% of total employment and 33% of Gross Domestic Product (GDP) in developing countries (Stein et al., 2010; Kumar, 2017).

However, some studies have argued that SMEs' impact on job creation is a statistical flaw; offsetting factors that make the net effect more modest is not considered (Kayanula and Quartey, 2000). Amuchie et al. (2015) contend that the increment in the employment rate of

SMEs is not usually proportionate with productivity increases. That notwithstanding, the critical role undertaken by SMEs cannot be disregarded. Small firms have advantages over their large-scale competitors because their broadly skilled technologies enable them to adapt more quickly to market conditions (Kissi, 2016).

Because of their flexible nature, SMEs can endure adverse economic conditions. They have lower capital costs associated with job creation because they are more labour-intensive than larger firms (Aremu and Adeyemi, 2011). SMEs execute essential roles in ensuring economic growth, employment and income stability. Due to their labour-intensive nature, there is the likelihood for them to thrive in rural and semi-urban areas, where they can contribute more to even distribution of economic activity in a region and help minimise the flow of migrants to large cities (Adjei, 2012). Kayanula and Quartey (2000) argue that SMEs are better placed to ensure a more equitable distribution of income than large firms based on two characteristics of SMEs: (i) regional dispersion and (ii) their labour intensity. Furthermore, Kayanula and Quartey (2000) posit that the efficiency of domestic markets is improved by SMEs and make judicious use of limited resources, thus, facilitating long-term economic growth.

Effect of globalisation on SMEs performance

Globalisation affects SMEs worldwide in a similar fashion, even though they are located in different countries. All firms deal with the equivalent effects generated by globalisation and impact them differently (KunkongKaphan, 2014). In other emerging and developed economies, SMEs have dealt with the effects of the free trade environment differently to sustain competitiveness in their domestic and overseas markets (Hutchinson et al., 2006). According to Asiedu and Freeman (2007), SMEs' performance is affected by globalisation through three channels: linkages, competition, and the labour market. Firstly, the relations between Multinational Companies (MNCs) and SMEs (e.g., outsourcing, transfer of technology, and the training of local suppliers) can generate business opportunities and improve the performance of SMEs. Secondly, a rise in the number of exporters or MNCs indicates more intense competition. However, the widespread impact of competition on the performance of SMEs is unclear.

On the one hand, SMEs will lower their price markups due to increased product market competition. On the other hand, the "learning by competition" analogy advocates that the pressure to survive may accelerate the adoption of new technologies and improve SMEs' productivity. Thirdly, on the labour market, higher wages paid by multinationals and exporters may have spill over effects to other industries, resulting in a rise in the cost of production for SMEs.

SMEs in Ghana

SMEs have been recognised as the catalyst for the country's economic growth as they are a significant source of employment creation and generation of income (Agyapong, 2010). Kayanula and Quartey (2000) identified several standard definitions used when referring to SMEs in Ghana that could be used for this study. These definitions are subsequently summarised.

According to the Ghana Statistical Service (GSS), businesses with less than ten employees are considered Small-Scale Enterprises, whilst those with more than ten are regarded as Medium or Large-Scale Enterprises. A different criterion used in defining SMEs is the value of fixed assets in the business. These requirements for both a fixed asset and the number of employees are applied by the National Board of Small-Scale Industries (NBSSI) in Ghana. The NBSSI defines a Small-Scale Enterprise as one with not more than nine workers and possesses plant and machinery (excluding land, buildings, and vehicles). The value should not be more than 1,000 Ghana Cedis. For this study, it would be prudent to note that the process of fixed assets valuation in the business is problematic as continuous depreciation in the exchange rate usually renders such definitions outdated.

Additionally, SMEs in Ghana can be classified as urban and rural enterprises. The urban enterprises can be sub-divided into 'organised' and 'unorganised' enterprises. According to Ocran et al. (2017), the organised ones are characterised by having paid employees with a registered office whilst the unorganised groups are predominantly made up of artisans who work in open spaces, temporary wooden structures, or at home and employ little or in some cases no salaried workers. In the view of Atogenzoya et al. (2014), the unorganised ones depend largely on apprentices or family members. Atogenzoya et al. (2014) further report that the constituents of rural enterprises are mostly individual artisans, family groups and women engaged in food production from local crops. The key activities within this sector include soap and detergents, fabrics, clothing and tailoring, textile and leather, village blacksmiths, tin-smiting, ceramics, timber and mining, bricks and cement, beverages, food processing, bakeries, wood furniture, electronic assembly, agro-processing, chemical-based products and mechanics (UNECA, 2010; Coleman and Okyere, 2016).

As part of their many roles, SMEs in Ghana have been crucial in mobilising funds that otherwise would have been idle (Kayanula and Quartey, 2000). Furthermore, Kayanula and Quartey (2000) emphasise that SMEs are identified as a seedbed for indigenous entrepreneurship. They are mostly labour-intensive, employing more labour per unit of capital than large enterprises, promoting indigenous technological knowledge and expertise. The importance of SMEs in Ghana is also highlighted by Kusi et al. (2015). The authors argued that SMEs could promote a more equitable distribution of income than large firms in Ghana due to the regional dispersion and labour intensity of SMEs. SMEs have also been found to enhance the efficiency of local markets and make productive use of scarce resources, thus facilitating long-term economic growth (Kissi, 2016). In a nutshell, most SMEs in Ghana are slowly and steadily moving towards embracing the technology evidenced everywhere in the major Ghanaian town with the rate at which cybercafé and other information and communication technology businesses are coming up (Ocloo et al., 2014).

Brief profile of Kumasi Metropolis

Kumasi Metropolis is one of the forty-three (43) districts in the Ashanti Region. Kumasi is the capital city of the Ashanti Region. It is located between Latitude 6.35°N and 6.40°S and Longitude 1.30°W and 1.35°E and elevated 250 to 300 m above sea level. Kumasi became the capital city of the new Asante State, built from a voluntary amalgamation of about a dozen city-states. The Asanteman Traditional Council, the traditional governing authority of the old Asante Kingdom, was restored by the British Colonial Authority in 1935. Kumasi became the seat of the Council, though without political powers, which the British Colonial Government kept with its headquarters in Accra (Ghana Statistical Service, 2014).

The Metropolis shares boundaries with Kwabre East and Afigya Kwabre Districts to the north, Atwima Kwanwoma and Atwima Nwabiagya Districts to the west, Asokore Mampong and Ejisu-Juaben Municipality to the east and Bosomtwe District to the south. It is approximately 270 km north of the national capital, Accra. Kumasi Metropolis has a surface area of approximately 214.3 square kilometres, which is about 0.9% of the region’s land area. However, it accommodates about 36.2% of the region’s population.

The relationship between Kumasi and its adjoining districts as well as Accra may be described as symbiotic. These adjoining districts serve as bread baskets for the metropolis by providing farm produce. In contrast, Kumasi provides the avenue for marketing these products to consumers, not only from other parts of Ghana but also from the West African sub-region. In addition to this, the metropolis provides services at various levels in the fields of healthcare, education, inter-city transport, financial services and wholesale and retail trade among others, to residents from the adjoining districts and beyond. Moreover, its strategic location has also endowed it with the status of the main inland transport terminal, thus giving it a pivotal role in the vast and profitable business of the distribution of goods in Ghana and beyond to other West African countries (Ghana Statistical Service, 2014). Therefore, the characteristics mentioned above of Kumasi account for it being selected as the case study of this research. They partly explain why Kumasi has become a converging point for brisk commercial activities.

MATERIALS AND METHODS

Description and reasons for the choice of the study site

In conducting this research, Kumasi, the capital city of the Ashanti Region, was selected as a case study. As such, SMEs operating in the Kumasi Metropolis were chosen as the population for data collection. The metropolis was selected because of ease of accessibility and many SMEs cited in the Kumasi Metropolis. Thus, the high rate of commercialisation and economic activities in the metropolis influenced the choice of the study population.

Research approach and strategy

The study adopted the deductive research approach. It means that new knowledge from this study was generated by exploring already existing knowledge. The approach was relevant for this study because of the various already existing similar studies, even though those studies were not conducted in the jurisdiction of this study. The deductive research approach explores a known theory or phenomenon and tests if that theory is valid in given circumstances.

The study was therefore quantitative. Quantitative research often translates into statistical analysis to make the connection between what is known and what can be learned through research. Collecting and analysing data using quantitative strategies requires understanding the relationships among variables using either descriptive or inferential statistics. Descriptive statistics are used to draw inferences about populations and estimate those populations’ parameters (Trochim, 2006).

With quantitative analysis, it is possible to get visual representations for the data using graphs, plots, charts, and tables. Researchers using quantitative analysis draw conclusions from logic, evidence, and argument (Trochim, 2006). The interpretation of raw data is guided by the general guidelines presented to evaluate the assertions made and assess the instrument’s validity. Quantitative analysis also employs protocols to control for, or anticipate, as many threats to validity as is possible.

A survey strategy was used in collecting the primary data used in this study. The survey involved rapid information gathering from more than 200 study participants. The method was useful in reaching many respondents around the same time. It was employed in addressing the objectives of the study. Thus, the data collected were mainly quantitative.

Study population, sampling and sample size

All SMEs operating within the Kumasi Metropolitan Area were qualified as participants of the study. A list of these SMEs was obtained from the National Board for Small Scale Industries regional office. Based on the list, the researchers placed telephone calls. The respondents who expressed interest and willingness to participate in the study were selected. It must be stated that a lot more of these SMEs were not listed, and the researchers had to make personal contacts with some of them. Thus, the non-probability convenience sampling used was based on the SME participant’s readiness and availability. Business owners were purposively selected from the contacted SMEs.

In all, 225 SME participants agreed to participate in the study. Notwithstanding, out of the questionnaires sent, 200 were received. Therefore, the sample size used for the study is 200 SMEs.

Table 1. Nature of business.

Nature of business	Frequency	Percent
Locally manufactured goods only	54	27.0
Imported goods only	48	24.0
Both (Imported and locally manufactured goods)	94	47.0
Others	4	2.0
Total	**200**	**100.0**

Source: Field Survey.

Design and testing of the data collection instruments

A questionnaire was the sole data collection instrument used in obtaining information from the study participants. The questionnaire was well-structured, containing both open-ended and closed-ended questions. The open-ended questions were mainly used to understand the background or demographic information of the respondents. Therefore, the questionnaire was sectioned into two main parts: the demographic information part and the study objective's part. The questionnaire was sub-sectioned into three parts to tally with the number of goals on the part of the study objectives. They were done to collect the relevant information required to answer the research objectives.

The questions were those that required interval scale responses. Therefore, the Likert scale was used. A scale of 1-5 (strongly disagree – strongly agree) was provided. The respondents chose the most appropriate response to the statement or question posed.

The questionnaires were pretested in two phases. The first phase involved an expert review of the questions and statements to ensure that all ambiguities were corrected. The experts also checked that the nature of the items was able to solicit the right information to answer the respective objectives. In the second phase, a cohort of ten (10) SMEs respondents were assigned the questionnaires, which they were required to respond to and highlight aspects that need reconsideration before the primary survey. All necessary corrections proposed by both the expert team and the selected SMEs were effected before the preliminary study.

A reliability test was done in SPSS, which reported a Cronbach's alpha value of V (an indication of a reliable test instrument).

Data collection and analysis

Data for this research were collected from primary and secondary sources. Sources of secondary data included journals articles, the internet, manuals, reports, newsletters, theses and textbooks while sources of primary data comprised of questionnaires to solicit information from managers of SMEs.

Data were analysed in SPSS version 25. The analysis methods used were frequencies, percentages and means. Purposive sampling was used in determining the sample for the study. SMEs included in the selection were selected purposively. Purposive sampling enables the researcher to use his or her judgment to select cases that will best answer his or her research question(s) and to achieve his or her objective (Foley, 2018).

Since this study focused on the prospects available to Ghanaian SMEs in the international market and the impediments they encounter in their attempt to engage in globalisation, it was vital to sample views from business owners who have a considerable amount of knowledge in international marketing and trade. This reason accounts for employing a purposive sampling procedure in selecting the sample for the study.

Questionnaires were used as the main instrument for the collection of data for the research. A total of 225 sets of questionnaires were distributed, out of which 200 were received back, representing a response rate of 88.89%. The coding of the field data obtained was executed using Statistical Package for Science Solutions (SPSS) version 25. Items on the five-point-Likert scale were scored 1, 2, 3, 4 and 5 for items with the response strongly disagree, disagree, neutral, agree and strongly agree, respectively.

Descriptive results were presented in frequency distribution and charts, and simple percentages were used to explain the analysis. Interpretations were given to the data based on statistical tools like means and standard deviation to provide meanings to data collected from the field.

RESULTS

Description of study participants

Table 1 shows the nature of the business which dominates the SMEs sub-sector in the study area. Operators of SMEs who deal in both locally manufactured and imported products represent 47% of the respondents. SMEs, which produces only locally manufactured products, recorded 27% of the total respondents. Locally manufactured products included wood furniture, agro-processing products, ceramics, detergents and bakeries, among others. Imported goods with electronic devices and mechanics (phones, computers, radios, etc.), fabrics and clothing, textiles and leather, among others, recorded 24% of the total respondents. Others which included consultancy services, registered 2% of the entire businesses studied.

Table 2 highlights the nature of SMEs concerning the number of employees responsible for the business's operations. According to Table 2, 50% of the employees were within the employee size of 1-10. A right proportion, 40 respondents representing 20% of the SMEs, has their employees within the range of 11-20 persons. Further, 10% of the SMEs have an employee size of over 40. The mean number of employees by the SMEs is 11. The study shows that SMEs have the operational capacity needed to perform their day-to-day operations. This finding conforms to the observation made by {Uwonda et al., 2013} on cash flow management utilisation by SMEs in Northern Uganda, which reported that 75% of the SMEs had employee sizes between 5 and 9 persons

Table 2. Number of employees.

Number of Employees	Frequency	Percent
1-10	100	50.0
11-20	40	20.0
21-30	28	14.0
31-40	12	6.0
Over 40	20	10.0
Total	**200**	**100.0**

Source: Field Survey.

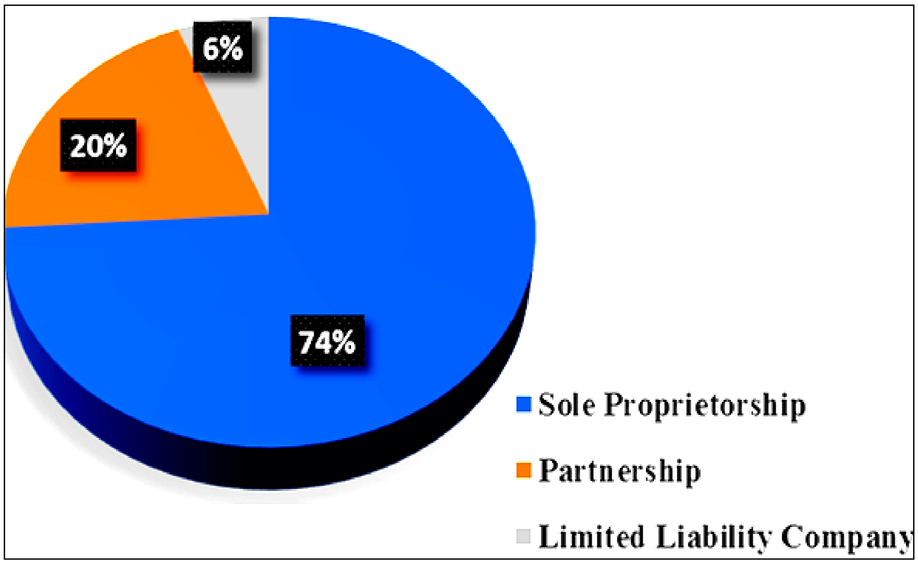

Figure 1. Mode of business ownership in the Kumasi Metropolitan Area.
Source: Field Survey.

Figure 1 depicts the type of business ownership of the SMEs sampled for this research, namely Sole proprietorship, Partnership and Limited Liability Company. The study (according to Figure 1) revealed that a private or sole proprietorship owned a large number (148), representing 74% of the total 200 SMEs studied. However, 40 respondents representing 20% of the businesses were held through partnerships, while 12 respondents representing 6% were limited liability companies. It was observed that the Sole Proprietorship form of business ownership dominated the study area. The observation of this study aligns with that of Murray (2019). He reported that Sole Proprietorships are the simplest and most common form of small business ownership, representing 73% of all businesses in the United States. The observations from the study further indicate that most of these SMEs owners are not taking advantage of the pooling of resources to raise funds or increase their capital for possible business expansion, survival and growth.

Figure 2 illustrates the number of years the SMEs have been in business. 142 SMEs representing 71% have been in the industry for up to 10 years. On the other hand, 44 SMEs representing 22% have been in the business operations between 11-20 years after establishment. However, 14 SMEs representing 7% have been in business for as long as 21-30 years. Cross assessment of the study between business ownership and years of operations revealed that 74.3% representing 110 of the 148 SMEs managed by Sole Proprietors have been in the business operation between 1-10 years. Operators and managers of the respective SMEs have the requisite working and business experiences needed to enhance growth, expansion and survival, and dealing in the international market.

Figure 3 depicts the highest level of educational attainment of the respondents. The majority of the respondents, 104 denoting 52%, are basic school levers. Meanwhile, 30% denoting 60 respondents are Senior High School, O' Level and A' Level graduates, 24

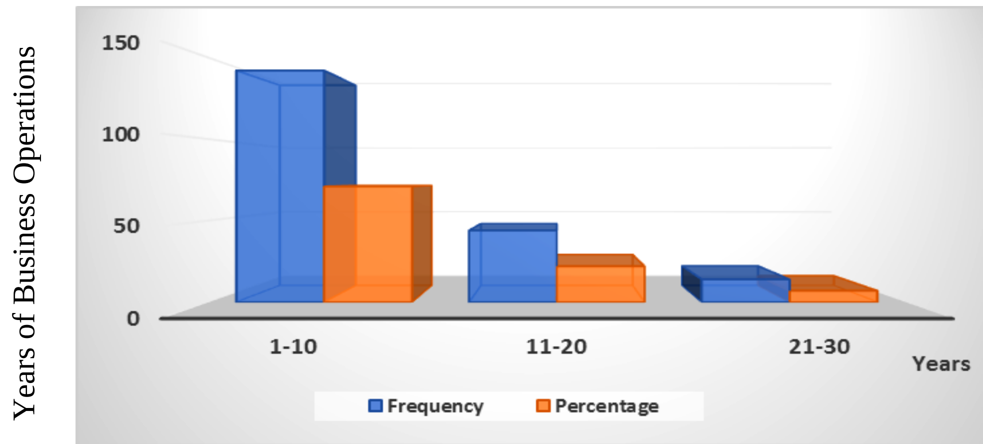

Figure 2. SMEs' years of doing business.
Source: Field Survey.

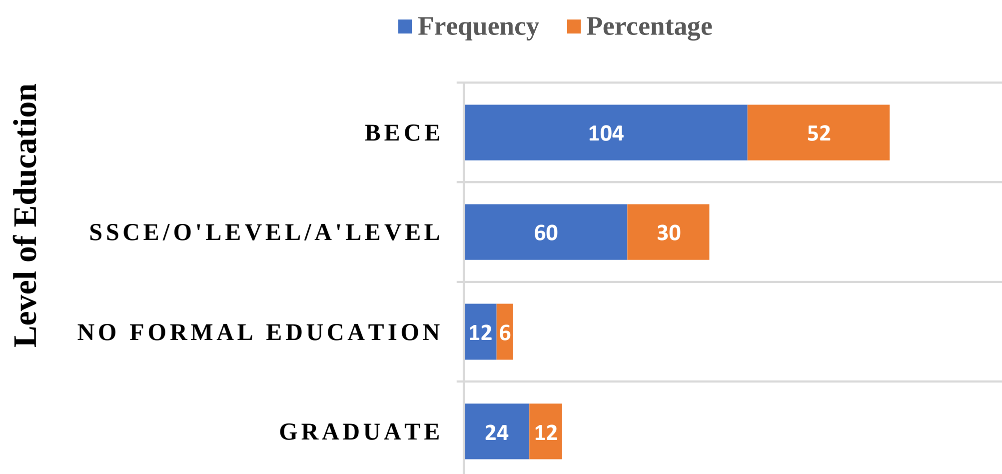

Figure 3. Level of education attained.
Source: Field Survey

respondents representing 12% are graduates from the respective tertiary schools across Ghana. Finally, 12 respondents, denoting 6%, also have no formal education. Per the output of the study, the majority of the business operators have a basic level of knowledge necessary to undertake business transactions in the rapidly changing business environment and communicate effectively and efficiently in the regional, national and international contexts.

DISCUSSION

Level of awareness on globalisation among SMEs

In understanding the concept of globalisation and how well it affects or influences the development and performance of SMEs in the regional and urban economy, the level of awareness of globalisation was needed to be assessed. The study, therefore, sought to determine the extent and degree to which managers and operators of the SMEs in the Kumasi Metropolis understand the concept of globalisation and its overall importance to SMEs development. The statistical Table 3 presents several factors used in assessing the level of globalisation among SMEs with the corresponding mean and standard deviations and the elements being ranked.

From Table 3, it is palpable that awareness of globalisation among SMEs in Kumasi Metropolis is relatively high. While a total of 43% of the total 200 respondents strongly agreed that they are aware that globalisation could make their network and bring their business to light on the international scenes, 5 and 7% of the respondents strongly disagree and disagree with the

Table 3. Percentage distribution and extent of agreement on the level of awareness on globalisation among SMEs.

Factors (N=200)	Level of Perception					Mean Item	Mean Rank	SD
	1	2	3	4	5			
I am aware I can network my business	10	14	22	68	86	4.0300	1	1.13222
I can send my goods to wherever I want without going there physically	12	26	24	58	80	3.8400	2	1.25304
I am aware I can order my raw materials online and get them delivered	12	20	32	60	76	3.8400	3	1.21206
Globalization make me to connect to do business worldwide	22	10	26	64	78	3.8300	4	1.30310
I am aware I can do business online without renting a shop	26	18	26	56	74	3.6700	5	1.39302
I am aware I can get raw materials cheaper in other countries	13	41	40	70	36	3.3600	6	1.20202

1= Strongly Disagree, 2= Disagree, 3= Neutral, 4= Agree, 5= Strongly Agree.
Source: Field Survey.

Table 4. Percentage distribution and extent of agreement on the effects of globalization on SMEs performances.

Factor (N=200)	Level of perception					Mean Item	Mean Rank	SD
	1	2	3	4	5			
I gain new knowledge and experiences to improve my performance	4	10	22	74	90	4.1800	1	0.95748
Availability of raw materials make me increase my performance	6	10	30	98	56	3.9400	2	0.95155
I have the opportunity to learn about advanced technology which has improved my performance	12	28	30	82	48	3.6300	3	1.16909
I achieve higher profits at international market than domestic market	14	40	60	50	36	3.2700	4	1.17941
I diversify my market to spread the risk to improve my performance	34	8	66	54	38	3.2700	5	1.30155
There will be better negotiations with customers abroad compared to the domestic market	18	46	64	44	28	3.0900	6	1.17288

1= Strongly Disagree, 2= Disagree, 3= Neutral, 4= Agree, 5= Strongly Agree.
Source: Field Survey.

assertion, respectively. 11 and 34% of the respondents remain neutral and agree respectively about the awareness that globalisation brings on networking their businesses to other parts of the world.

Regarding respondents sending their goods and services to other countries without physically moving from their geographical locations, 6 and 13% strongly disagree and disagree with that accordingly. 12% of the SMEs studied remain neutral. They are sceptical about sending goods to other parts of the country without physical movement. However, a significant proportion of 69% of the respondents agrees. Thus, 29 and 40% strongly agree and agree, respectively.

Awareness of doing business online without renting a shop and getting raw materials cheaper in other countries reveal that a minority of the respondents disagree: (22%) and (27%) respectively. However, 65% of the respondents agree to the awareness of doing business online and 53% of the respondent's consent to get cheaper raw materials from other parts of the country. Thus, the majority of the respondents agree that these factors positively affect their production by increasing their productivity levels.

According to Table 3, the mean extent of factors exhibiting awareness on globalisation among SMEs in the study area reveals that the most critical awareness factor is the ability to network business to other countries (mean score 4.03). That is because globalisation offers a ready avenue for marketing and doing known companies to other countries, providing an effective and efficient mechanism for SMEs growth and expansion. That was followed by awareness on sending goods to every part of the world without physical movement and understanding as well as getting raw materials delivered online with the same mean score of 3.84. Consequently, awareness on connecting business worldwide (mean of 3.83), grasp on doing business online without renting a shop (mean score of 3.67), and understanding of getting raw materials cheaper from other countries follow. Thus, all the responses regarding the factors influencing the level of awareness on globalisation among SMEs in the study area range from neutral to agree.

Effects of globalization on SMEs

The second objective of the study was to evaluate the effects of globalisation in bringing about the development and growth of the SME subsector. The focus was to examine how the effects influence SMEs in globalisation and the rapidly changing competitive business market. Table 4 indicates that most respondents either agree or strongly agree with the several enumerated effects of how globalisation affects their businesses.

From Table 4, about half (45%) of the respondents strongly agreed that globalisation presents and provides new knowledge and experiences for performance improvement in SMEs, while 37% approve. That is to say, a total of 82% of the 200 respondents are in agreement with this assertion. 11% of them view it as neither agree or disagree. However, 2 and 5% of the respondents strongly disagree and disagree with this same assertion.

Regarding readily available raw materials from the foreign market primarily enhance SMEs performances in the study area, 77% of the total 200 respondents agree to this assertion, with 28% of the 77% strongly agree. Only 8% of the total respondents agree with the idea (3% out of the eight respondents strongly disagree). Moreover, 15% out of the 200 respondents remain neutral and cannot tell whether globalisation affects SMEs performance and growth concerning readily available raw materials or otherwise.

Similarly, the opportunity to have learned about advanced and improved technology pointed out to positively affect SMEs performance. While more than half (65%) of the respondents agree (41% agree and 24% strongly agree), one fifth (20%) of the respondents disagree (6% and 14% strongly disagree and disagree, respectively). That shows that as the business environment keeps on changing, ensuring the existence of new, better and efficient innovations and technologies, SMEs in various sectors have come to accept and adapt to these measures, hence positively impacting their growth, performance, and survival.

Compared to that of the domestic market, better negotiations with customers abroad revealed that 32% of the respondents disagree with this assertion. The respondents, therefore, believed that the local or domestic business market has potential right customers who are willing to negotiate with their business to make better market operations and dealings. 22 and 14% of the 200 respondents agree and strongly agree, respectively, with the assertion. However, a significant proportion (32%) were doubtful about the effect of globalisation on SMEs performance concerning whether SMEs achieve better negotiations in the foreign market than the domestic market or otherwise.

Moreover, 19% of the respondents strongly agreed that globalisation presents an opportunity to spread risk through diversification for improved SMEs performance, while 27% agree. Therefore, a total of 46% of the 200 respondents representing 92 respondents are in agreement with this assertion. 33% of them perceive this assertion as neither agree nor disagree. However, 17 and 4% of the respondents strongly disagree and disagree with this same assertion.

Regarding globalisation providing SMEs with an avenue to achieve higher profits at the international market than the domestic market, 43% of the total 200 respondents agree to this assertion, with 18% of the 43% strongly agree. 27% of the total respondents are not in agreement with the statement. However, 30% out of the 200 respondents remain neutral and cannot tell whether globalisation affects SMEs performance and growth, emphasising achieving higher profits at the international market than the domestic market.

From Table 4, the mean extent of agreement on the effects of globalisation on SMEs performance and growth revealed that the most promising impact or advantage enjoyed by SMEs as they go international is the presence of knowledge and new experiences from elsewhere (international). It was not surprising that the mean score of the effect was 4.1800 showing some agreement among the 200 respondents. This finding is in line with that of Zulkifli et al. (2010). The authors observed that globalisation creates new relationships, experiences, and new structures. Other places are affected significantly by the business decisions and actions in one part of the world.

Additionally, the possibility of increasing SMEs performance due to readily available raw materials from other countries showed an effect of globalisation to improve the performance of SMEs. That is evident in the mean score of 3.94, which denotes the level of agreement among a total of 200 respondents. That is because most (77%) of the respondents deal in imported goods. These imported goods or products serve as raw materials for business operations. Because of this, globalisation has differently generated opportunities for several aspects of the economy to have access to a larger pool of resources and markets (Ali et al., 2012).

Similarly, the effect of advanced technology and a better approach for SME development due to globalisation and international competition is widely agreed among the 200 respondents with a mean score of 3.63. According to (Ocloo et al., 2014), a powerful force drives the world toward a converging commonality, and that force is technology. Thus, the level of advanced technology towards SMEs development and performance is agreed to be one of the significant effects of globalisation. That was followed by the attainment of higher profits abroad than the domestic market (mean = 3.27), spreading of market risk (mean = 3.27) and better negotiations with customers abroad than the domestic market (mean = 3.09). Thus, from this study, it is envisaged that the enumerated effects of globalisation to the respondents revealed a doubtful level of agreement to a possible level of agreement.

From the regression as depicted in Table 5 and summarised by the ANOVA table, the respondents' data is very significant (0.000) and therefore, it is reliable. Coming down to the individual independent variables, the respondents' awareness of globalisation connecting businesses in the Kumasi Metropolis worldwide, the regression table showed a positive figure of 1.1090 but the insignificant figure of 0.279, which means that the subject of discussion can affect the performance of SMEs by chance.

Additionally, globalisation enabling individuals to

Table 5. Regression between the elements of awareness of globalisation and SMEs' performance.

Model	Unstandardized coefficient		Standardized coefficient	t	Sig.
	B	Std. error	Beta		
(Constant)[a]	1.028	0.350		2.934	0.004
Globalization's connectivity feature	0.083	0.076	0.107	1.090	0.279
Avoidance of physical representation in person	-0.061	0.064	-0.087	-0.954	0.343
Wide range of raw material access	0.139	0.081	0.160	1.725	0.088
Networking of businesses	0.318	0.083	0.393	3.820	0.000
Doing business online without renting structures	0.067	0.065	0.093	1.028	0.307
Online ordering of raw materials	0.170	0.080	0.203	2.130	0.036

[a]. Dependent variable: SME Performance.
Source: Field Survey.

Table 6. Correlation between performance and elements of awareness of globalisation.

	Globalisation connects businesses worldwide	Sending goods abroad without being there physically	Obtain cheaper raw materials in other countries	Globalisation networks businesses	Transacting business online without renting shops	Raw material ordering and delivery
Pearson correlation	0.443**	0.277**	0.440**	0.589**	0.385**	0.476**
SME performance Sig. (2-tailed)	0.000	0.006	0.000	0.000	0.000	0.000
N	194	194	194	194	194	194

Source: Field Survey.

conduct business worldwide without being there in person had no effects on the performance of SMEs in Ghana as its insignificant figure is 0.343 and t value of -0.954. This means either Ghanaians are taking advantage of this opportunity, or its effects may be felt on SMEs performance by chance.

Globalisation's facilitation of online business transaction although have a positive effect on SMEs performance, the significant figure of 0.307 proves to be insignificant. The rest of the variables being obtaining cheaper raw materials, networking of businesses, doing business online without renting shops and ordering raw materials and getting them delivered, have a positive effect on SMEs' performance, and their effects are very significant except for 'getting cheaper raw materials' which has a fair impact on SMEs' performance resulting from high transportation and duty charges which eventually inflate the prices.

From Table 6, it could be observed that globalisation connecting businesses or SMEs in Ghana, especially those in the Kumasi Metropolis, to the rest of the world has a positive correlation figure (0.443). This means that as the awareness of this factor goes high, SMEs' performance also goes high. This correlation figure is also significant because 0.000 is less than 0.05. Moreover, sending goods abroad without being there physically has positively impacted SMEs' performance sampled by our research positively. Its correlation figure showed 0.277 and significant (that is, 0.006<0.05).

Again, it can be seen from the above table that the level of awareness of SMEs obtaining cheaper raw materials from other countries has also improved their performance since a positive correlation lies between the two variables, that is, awareness of globalisation and SMEs performance (0.440) and the figure is highly significant (0.000).

The networking of businesses brought about by globalisation as the Table 6 has declared has a significantly positive correlation of 0.589 and significant figure of 0.000. It also means that the more SMEs become aware of the globalisation networking business, the higher their performance. Thus, as awareness of this element increases, the performance also increases.

Further, the transacting business online without renting shops and raw material ordering and delivery have a positive correlation of 0.385 and 0.476 respectively and the same significant figure of 0.000. As has been explained for the other variables, the same applies to these. This implies that with any increment in their awareness, their effects are positively felt on SMEs performance, that is, performance goes high. In summary, it can be said that awareness of globalisation has caused SMEs performance to increase, which can be verified from Table 6 and its accompanying analysis.

Prospects of globalisation on SMEs

Further, one of the study's main objectives was critically to assess and evaluate the prospects and challenges

Table 7. Percentage distribution and extent of agreement on prospects of globalisation on SMEs.

Factors (N=200)	Level of Perception					Mean Item	Mean Rank	SD
	1	2	3	4	5			
Globalization can connect me to the rest of the world	2	14	12	78	94	4.2400	1	0.92245
Globalization can bring flexibility in doing business	14	12	16	106	52	3.8500	2	1.09521
Globalization can give periodic market information	10	16	30	102	42	3.7500	3	1.03840
Globalization can support innovative technology in SMEs	8	18	56	72	46	3.6500	4	1.05768
Globalization can facilitate access to finance	20	24	40	78	38	3.4500	5	1.21751
Globalization can decrease tax	40	62	62	20	16	2.5500	6	1.15798

1= Strongly disagree, 2= Disagree, 3= Neutral, 4= Agree, 5= Strongly agree.
Source: Field Survey.

globalisation poses on the performance and development of the SMEs subsector in the Kumasi Metropolis of Ghana. As exhibited in Table 7, the results reveal that most of the respondents show some level of agreement with the itemised prospects. Table 7 presents the percentage distribution of the opportunities and the extent to which globalisation offers these prospects primarily to support the growth and improvement of the SMEs subsector.

From Table 7, it can be observed that connecting SMEs to other parts of the world is a significant prospect of globalisation. The study revealed that most respondents (86%) agree that due to globalisation and a rapidly changing business environment, their businesses have been connected to other parts of the globe, while 8% disagree. The mean score (4.24) shows that the 200 respondents agree with this assertion. That is followed by flexibility in doing business, which exhibited a mean value of 3.85, denoting the level of agreement among respondents, periodic market information (3.75), and innovative technology in SMEs (3.65). These findings conform to that of Audretsch (2003), who observed that globalisation has made it possible to transfer information costless across geographic space, influencing the market operations of SMEs in several locations other than their resident's place of operations.

However, the total respondents (200) remain doubtful about access to finance as a prospect of globalisation. Thus, access to finance is not solely a prospect of globalisation since most respondents believe that before they can even go on the international market, they need their finance base to increase. Although globalisation offers a pool of resources for various SMEs, the mean score of 3.45 denotes a situation of doubt as to access to finance by globalisation readily. That is followed by a decrease in taxation (2.55). The respondents disagree with the assertion that globalisation decrease tax. From statistical Table 7, the extent of the level of agreement among respondents depicts values ranging from disagreement to agreement. This is because of the differences in the nature of businesses transacted by the respondents. Thus, what may be seen by an individual who deals in only locally manufactured goods as significant and, for that matter, exhibiting a high level of disagreement may be recognised by an individual in a different business (imported goods) as a beneficial, hence high level of agreement.

Challenges of globalisation on SMEs

The study further sought to investigate some of the challenges encountered by SMEs in their attempt to go international. In achieving this, respondents were presented with a series of challenges they faced in the questionnaires and asked to state their level of agreement and disagreement. The findings showed that competition from foreign companies is one of the significant challenges' globalisation pose on SMEs in the study area.

As indicated in Table 8, findings of the study revealed that out of the 200 respondents, 38% and 41% showed a strong agreement and agreement, respectively, that competition from foreign firms poses a significant impediment to the local SME firms SME market in general. Furthermore, 14% took a neutral stand, with an additional 3% stating that they disagree that competition from foreign firms poses a challenge to SME markets. The remaining 4% of respondents indicated that they strongly disagree.

Concerning the factor of the high level of taxation is a challenge, the outcome of the survey revealed that the majority (31%) of respondents indicated a neutral point of view that indeed high taxes posed a challenge to SMEs. However, while 29% agree that taxation posed a challenge, 14% strongly agreed with this view. A further 18% expressed disagreement with this factor, while the remaining 8% strongly disagreed.

In terms of lack of technology being a challenge, the same proportion of respondents (23%) expressed agreement and strong agreement that lack of technology is a challenge to SME development brought about by globalisation. Of the remaining 54% of respondents, 20% indicated a neutral viewpoint on the subject. In

Table 8. Percentage distribution and extent of agreement among respondents on the challenges of globalisation on SMEs.

Factors (N=200)	Level of perception					Mean item	Mean rank	SD
	1	2	3	4	5			
Competition from foreign companies	8	6	28	82	76	4.0600	1	1.00323
High level of taxation	16	36	62	58	28	3.2300	2	1.14464
Lack of technology	32	36	40	46	46	3.1900	3	1.39765
Unstable legal environment	26	28	82	40	24	3.0400	4	1.16272
Difficulty in accessing credit	12	50	80	30	28	2.8800	5	0.98760
Inadequate relevant marketing information	42	62	52	16	28	2.8600	6	1.21456

1= Strongly Disagree, 2= Disagree, 3= Neutral, 4= Agree, 5= Strongly Agree.
Source: Field Survey.

comparison, 18% representing 36 respondents, disagreed, and 16% representing 32 respondents, strongly disagreed that lack of technology posed a challenge to their businesses.

Similarly, an unstable legal environment was identified as a challenge to the growth and competition of SMEs in the metropolis. However, the majority (41%) of respondents indicated a neutral perspective on the point. 20% agreed to the point, whereas 12% indicated that they strongly agree that unstable legal environments impede the growth and competitiveness of local SMEs. Additionally, 14 and 13% of the respondents expressed disagreement and strong disagreement regarding the unstable legal environment as a challenge to SME growth in the metropolis.

Respondents’ views were further sought on whether difficulty in accessing credit forms part of the challenges to the competitiveness of local firms. The results, however, revealed that 40% of respondents were neutral and thus could not either agree or disagree with the point. About a quarter (25%) of total respondents disagrees with this viewpoint, and a further 6% strongly disagree. On the other hand, 15 and 14% of respondents agree and strongly agree with this viewpoint, respectively.

Finally, respondents’ views on inadequate relevant marketing information as a challenge to SME growth and competitiveness revealed that 31% disagreed with the point and 21% strongly disagree. Moreover, 26% indicated a neutral stand, while 8% and 14% expressed agreement and strong agreement, respectively.

Conclusion

This study is conducted to purposely assess the effects of globalisation on SMEs operating in the Kumasi Metropolis. The study revealed that the primary nature of business in the Metropolis of Kumasi comprises enterprises dealing only locally manufactured goods and imported goods. According to this research, most of these SMEs are found within the commerce sector. Furthermore, it was observed that the mean number of employees within the various categories of the SME subsector in the Kumasi Metropolis is 10.7. That indicates that several businesses and firms have the available human capacity needed to carry on their respective business operations, given their ability and nature. With an emphasis on the mode of ownership of the enterprises, the sole proprietor form of business ownership dominates with a percentage of 74 as against partnership and limited liability company with 20 and 6%, respectively. Thus, it was realised that one individual stomach business decision, managing and controlling aspects.

Further, the output of the study revealed that more than half (52%) of the respondents have their highest level of education attained at the basic level. In comparison, 6% had no formal education that had repercussions on going international since special skills concerning information communication technology will be lacking.

Generally, it was realised that there seems to be a level of awareness on globalisation among SME operators and managers within the Kumasi Metropolis. 77% of respondents were aware that through globalisation, they could network their businesses. Moreover, there seems to be a disagreement based on awareness of acquiring cheaper raw materials from other countries. 27% of the respondents (mainly dealing in locally manufactured goods) stated that acquiring raw materials from other countries will bear additional costs for distribution and transportation of the raw materials; hence local materials are cheaper than foreign ones. They, therefore, exhibited a healthy level of disagreement on the awareness of acquiring more inexpensive raw materials in other countries.

Undoubtedly, the study found that globalisation brings new knowledge and experiences needed to improve the performance of SMEs. The rapidly changing business environment has offered unique, better and efficient ways of transacting businesses. 82% of the respondents claim that globalisation has positively affected the development and performance of their companies through the provision and adoption of effective, quicker and readily approaches for both the local and foreign markets. It was further observed that the level of advanced technology towards SMEs development and performance is agreed to be one of the significant effects of globalisation. That was followed by higher profits abroad than the domestic market, spreading market risk and better negotiations with customers abroad than the domestic market. Thus, from the study, it was envisaged that the enumerated effects of globalisation to the respondents revealed the doubtful level of agreement to a possible level of understanding.

Moreover, the study also revealed that most respondents (86%) agree that due to globalisation and a rapidly changing business environment, their businesses have been connected to other parts globally, while 8% disagree. The study maintains that there has been an effective means of transferring costless information across several geographical spaces through globalisation, which has influenced the market operation of the SMEs in the Kumasi Metropolis. That was evident in the flexibility of doing business and periodic market information, which showed 3.85 and 3.75 mean values of agreement.

Findings of the study revealed that out of the 200 respondents, 38 and 41% indicated a strong agreement and agreement, respectively. Competition from foreign firms poses a significant impediment to the local SME firms and the SME market in general. Moreover, lack of appropriate and reliable technology, limited credit access, unstable legal environment, inadequate market information, high incidence of taxation were other factors challenging the ability of the local SMEs to go international.

Recommendations and future research

Based on the findings and the challenges faced by the SME subsector, this study has therefore provided some recommendations which should go a long way to assist the SME subsector in the Kumasi Metropolis and the nation together with other low-income countries at large.

Firstly, the government must provide the incentive and ready market for the products of this sector. The government must help the SMEs through waiving taxes and granting subsidies to SME businesses. In the procurement of goods and services, the government must first consider and put the SME and domestic products first. That will accord the SME broader market for their products and services as they go international.

Secondly, the legal and regulatory framework should be reviewed to make the requirement and structure concerning SMEs more flexible. The legal and regulatory system should be friendlier to the establishment and operation of SMEs. There should be adequate legislative instruments to boost the SME sector domestically or internationally since they represent the heart or the backbone of Ghana’s economy.

Thirdly, there should be workshops and training programs for entrepreneurs of SMEs. The country currently has just a handful of entrepreneurial training centres such as Entrepreneurs and Technology (EMPRETEC). Together with the private sector, the government can establish more managerial and SME training centres for entrepreneurs. That will sharpen their organisational competencies and enhance their outputs. Thus, competition and changing business environment issues should be of much concern to help the local SMEs absorb the rivalry they face from foreign companies. Amongst other areas, the keeping of proper books of accounts will immensely contribute to the successful running of the operations of the SME. That will subsequently improve the operations of the SMEs on the international market.

Since the research was conducted to ascertain the effects of globalisation on the development of SMEs in Ghana with specific reference to Kumasi Metropolis, a further study should be carried out to establish the impact of globalisation on the development of SMEs in other parts of Ghana. Additionally, further studies should be conducted on the micro and macro environment factors affecting SMEs. Lastly, comprehensive research should be done on aspects that inform the cost of doing business for SMEs in Ghana.

CONFLICT OF INTERESTS

The authors have not declared any conflict of interests.

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