

Inter-Functional Coordination and Firm Performance of Small and Medium Enterprises (SMEs) in Yobe State, Nigeria

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Abstract

The study investigated the effect of inter-functional coordination on firm performance of SMEs in Yobe State, Nigeria. The study adopted cross-sectional survey design. The target population was 363 participants who were either SMEs owners or managers. The sample size was 190 respondents. The main research instrument was questionnaire. Data was analyzed using linear regression analysis. The study revealed that inter-functional coordination significantly affects firm performance (Adjusted $R^2=0.319$, $p=0.000$). The study concluded that inter-functional coordination has an influence on firm performance. The study recommended that SMEs owners and managers should invent ways of ensuring that departments work jointly by sharing knowledge and information broadly with all departments and employees and by acting in a coordinated and customer focused manner. This would lead to serving customers to their utmost satisfaction across different departments.

Keywords: Inter-functional coordination, firm performance, SMEs, Yobe State, Nigeria.

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1.1 Background

The survival of SMEs is very important because the SME sector is globally regarded as an important force driving economic growth and employment creation in both developing and developed countries (Ayyagari et al., 2013). SMEs make up the largest business sector in every world economy and governments around the globe are increasingly promoting and supporting the SME growth as part of their overall national development strategy (Ayyagari et al., 2013). SME sector offers linkage development of large industries and essential for a competitive and efficient market apart from the stated contributions. SMEs have remained a portent of change and a pivot of economic catalysts in industrialized states as they are in the developing world (Wang et al., 2011). In Nigeria, SMEs have been at the forefront of economic growth in the last 20 years (Fjose et al., 2010). For instance during the last decade, Nigeria observed a strong shift towards high and persistent growth due to the high level of participation and contribution of SMEs to the economy. The most important drivers behind this shift were increased public and private investments, fueled by an improved business environment, which also propelled SMEs' activities (Fjose et al., 2010). Indeed, SMEs have been appreciated to play a pivotal role in industrial development and restructuring, satisfying rising local demand for services, allowing for increased specialization and supporting larger firms with inputs and services.

Therefore, without a doubt, subsequent governments in Nigeria have been making great efforts in ensuring that SMEs can continue to survive and grow, and contribute more to economic development since it employees more than 70% of the population (Jibrin et al., 2015). However, due to rampant corruption, efforts by the government to realize SMEs contribution to the economy failed until 2003, when the Small and Medium Scale Industry Development Agency Act was enacted by the National Assembly. The Agency is today, the country's apex institution with the statutory responsibility of facilitating the creation, resuscitation and stimulation of the growth and development of the Micro, Small and Medium Enterprises sector of the Nigerian economy. The establishment of SMEDAN is a giant stride by the Federal Government in repositioning the sector and realigning it into mainstream of the Nigerian economy (Jibrin et al., 2015).

1.2 Problem Statement

Unfortunately, there has been high failure rate of small and medium enterprises in Yobe State, with up to 78% unable to survive up to the 5th year in business (Small and Medium Enterprises Development Agency of Nigeria ((SMEDAN), 2018). In spite of the attempts made by successive governments to stimulate the growth and development of the SMEs sectors in Nigeria through the creation of SMEDAN, the performance of Nigerian SMEs remain low as opined by Innovations for Poverty Action (IPA, 2017). The performance in terms of profitability, market share and efficiency were reported to be among the lowest in the Country (SMEDAN, 2018).

Attention of the researcher has been drawn by this scenario. Possible explanations to this problem could be thought from inter-functional coordination as it is one of the dynamic measures that can bring superior firm performance. Therefore, this study investigated the relationship between inter-functional coordination and firm performance of SMEs in Yobe State, Nigeria.

1.3 Objective

To determine the effect of inter-functional coordination on firm performance among SMEs in Yobe State, Nigeria

1.4 Hypothesis

H₀₁: Inter-functional coordination does not significantly affect firm performance among SMEs in Yobe State, Nigeria

1.5 THEORETICAL REVIEW

This study was guided by Resource Based Theory of Wernerfelt(1984) extended by Barney (1991).The resource-based view (RBV) emphasizes the firm's resources as the fundamental determinants of competitive advantage and performance. It adopts two assumptions in analyzing sources of competitive advantage (Barney, 1991; Peteraf & Barney, 2003). First, this theory assumes that firms within an industry (or within a strategic group) may be heterogeneous with respect to the bundle of resources that they control. Second, it assumes that resource heterogeneity may persist over time because the resources used to implement firms' strategies are not perfectly mobile across firms (i.e., some of the resources cannot be traded in factor markets and are difficult to accumulate and imitate). Resource heterogeneity (or uniqueness) is considered a necessary condition for a resource bundle to contribute to a competitive advantage. The argument goes "If all firms in a market have the same stock of resources, no strategy is available to one firm that would not also be available to all other firms in the market" (Cool et al. 2002, p. 57).

Therefore among SMEs, the RBV is an efficiency-based explanation of performance differences (Barney, 1991; Peteraf & Barney, 2003): "performance differentials are viewed as derived from rent differentials, attributable to resources having intrinsically different levels of efficiency in the sense that they enable the firms to deliver greater benefits to their customers for a given cost (or can deliver the same benefit levels for a lower cost)" (Peteraf & Barney, 2003, p. 311).

1.6 CONCEPTUAL REVIEW

1.6.1 Inter-functional Coordination and Firm Performance

Inter-functional orientation is defined as demonstrating the willingness by members of different functional areas of an organization to communicate and work together for the creation of value to target buyers(Woodside, 2010). The first two components essentially involve collection and dissemination of information from market throughout the enterprise, whereas inter-functional coordination includes integration of all necessary enterprises resource in a cohesive way to create value for target customers. To achieve effective inter-functional coordination, enterprises must engage all business functions. Different departments/employees should work together effectively without tensions and rivalries in order to serve customers effectively. This is usually applied in rewarding every functional area for their contribution on added value for customers (Narver & Slater, 1990).

However, Pelham and Wilson (2012) argue that market orientation for small enterprises is a less critical ingredient of success than in large enterprises because small ones have fewer customers, simpler organizational structure and more adaptable to the marketplace changes. This opinion was supported by Spillan and Parneli(2013), who show that inter-functional coordination component is of particular importance in SMEs due to their small size, flexibility and their fast and efficient internal communication. Moreover, existence of inter-functional coordination enables SMEs to be responsive to customer orientation as a major component of market orientation (Spillan & Parneli, 2013).

According to Aziz and Yassin (2010), inter-functional coordination focuses on the coordinated utilization of personnel and other resources throughout the firm to create value for the target customer. Firms that seek effective inter-functional coordination do so from the understanding that synergy among company members is required and value for customers is created. This view is augmented by Alhakimi and Baharun (2009) that every department, facility, branch office and or any other organizational unit must be well-defined and understood and that all employees must recognize their role in helping the firm achieve and sustain competitive advantage. The inter-functional coordination and the execution of the marketing programmes may help firms generate better customer value and superior firm performance.

Performance is the desire to evaluate the extent of success a firm has achieved be it a large or a small firm (Akande, 2011). Businesses can be evaluated on the basis of its size, number of employees, working capital as well as profitability. As far as business performance is concern, it can be perceived in two perspective thus;

judgmental performance and objective performance (Agarwal et al., 2003). Researchers have indicated that judgmental measures of performance are significant to profitability whereas objective measures of performance throws more light on profitability in most service organizations (Agarwal et al., 2003). Judgmental and objective performance of a service organization can be heightened by enlightening organization's customer relationship management, customer retention, loyalty, customer satisfaction and lifetime value.

Liu (2009) opine that inter-functional coordination guarantees a performance focused strategy through market knowledge base generation which is monitored by coordinated marketing efforts. Narver and Slater (1990) established a positive relationship between inter-functional coordination and business profitability where inter-functional coordination was predominantly concerned with learning from different departments about customers and competitors in the market.

Thus the hypothesis, that; H_{01} : *Inter-functional coordination does not significantly affect firm performance among SMEs in Yobe, Nigeria.*

METHODOLOGY

Research Design

This study adopted cross-sectional survey design, because it aims at studying a particular phenomenon (or phenomena) at a particular time. Cross-sectional studies often employ the survey strategy (Mugenda & Mugenda, 2008).

Target Population

The study population of this study was all the SMEs in Yobe State. However, the study was confined to four categories of SMEs in the three geopolitical zones of Yobe State, namely: financial intermediation (39 SMEs); manufacturing (34 SMEs); hotels and restaurants (26 SMEs); and wholesale and retail trade, repair of motor vehicles and household goods (22 SMEs). This therefore made the total number of targeted SMEs to be 121. Furthermore, the researcher selected three (3) participants (i.e. SME owner/manager, Cashier and support staff) from each SME, hence raising the total target population to be 363 participants.

The sample size was determined using Slovene's formula;

$$n = \frac{N}{1 + N(\alpha)^2}; \text{ Where } n = \text{sample size; } N = \text{target population; } \alpha = 0.05 \text{ level of significance.}$$

$$n = \frac{363}{1 + 363(0.05)^2}$$

$$n = 190$$

Therefore, the sample size of this study was 190 respondents.

Sampling technique

The researcher used quota sampling to group the SMEs into three geopolitical zone. Quota sampling was used because data about the number of SMEs in each geopolitical region is not exactly available, therefore in such a scenario; Amin (2005) suggests that a researcher should decide to select a sample of a given size from each sub group. On that background, the researcher chose SMEs depending on how populated they were in each region. Simple random sampling was applied to eliminate bias such that the subsequent statistical estimates are more valid since they would be free from sampling errors as observed by Amin (2005).

Data Collection Instrument

The questionnaire was the main data collection instrument. The data was collected by administering a questionnaire to a sample of owners of SMEs or managers. The questions were measured on a five Likert scale indicating the perceptions of respondents on the variables under study. Scale: **5**= strongly agree; **4**= agree; **3**= Not sure; **2**= disagree; **1**= strongly disagree. Drawing from Kothari (2009), the closed-ended questionnaire was preferred because administration is comparatively inexpensive and easy even when gathering data from large numbers of people spread over wide geographic area, and tabulation of closed-ended responses is an easy and straightforward process.

Validity and Reliability

Validity was determined using face validity and content validity. *Face validity* indicates that the items are the ones that are intended to measure a concept. In other words, face validity is a basic and a very minimum index of content validity (Sekaran, 2003). Expert opinion and judgment were sought. Before piloting the research instrument, its face validity test was done through presentation to 6 panelists of supervisors and other academic experts outside the panel. It was after the incorporation of their corrections and suggestion, then the research instrument was used for pilot test. *Content validity* of the research instrument was ensured through the use of concepts, the use of valid concepts and words which measure the study variables as cited in literature. Content validity was tested using a Content Validity Index (CVI) (Gill & Johnson, 2002). Content validity is the extent to which the items in the instrument represent the content of the attribute being measured. The researcher ensured this through judgment of the items by experts (namely: two research supervisors).

Reliability

The internal consistency measure of reliability was used to determine the reliability of the questionnaire instrument. Cronbach's alpha was used in the actual study to determine the internal consistency of the instrument. According to Field (2009), if the alpha (α) ≥ 0.70 , then the instrument is considered valid. The results of the internal consistency of this study reveals that the instrument was reliable with customer orientation having ($\alpha=0.859$), and marketing innovation ($\alpha=0.761$).

Data Analysis

Factor analysis was used to determine the correlation between the study variables. Factor analysis is a statistical data reduction and analysis technique that strives to explain correlations among multiple outcomes as the result of one or more underlying explanations, or factors. Linear regression analysis was used to determine the effect of inter-functional coordination on firm performance. The hypothesis was tested using the level of significance ($p \leq 0.05$); the decision rule was that: if the p-value is less or equal ($p \leq 0.05$), it would be considered significant; otherwise, the hypothesis would be rejected.

FINDINGS

Factor Analysis

Table 1: Factor Analysis of Inter-functional coordination

Inter-functional coordination	Component	
	1	2
Our firm's departments jointly satisfy customers' needs.	.862	
Our firm's departments coordinate their contacts with customers.	.850	
Our firm's departments coordinate their activities aimed at customers.		.724
Our firm's departments take decisions that affect the relationship with customers collectively.		.620

Source: primary data, 2017

Table 1 shows that the factor, 'Our firm's departments jointly satisfy customers' needs' (0.862), was highly loaded onto component (1), while the factor, 'Our firm's departments coordinate their activities aimed at customers' (0.724) was highly loaded onto component (2). This implies that these are the factors that could explain the highest variance in inter-functional coordination. However, other factors that could not explain any variance in inter-functional coordination were excluded and were unable to load either in component (1) or (2).

Table 2: Factor Analysis for Firm Performance

Firm Performance	Component	
	1	2
We have been making profit since we started business (net profit).	.863	
There has been revenue growth in our business.	.815	
We have increased our customer base (Market Share).	.674	
We have the capacity to expend our business.		.815
Cash flows in our business are well without many challenges.		.725

Source: primary data, 2017

Table 2 shows that the factor, 'We have been making profit since we started business (net profit)' (0.863) was highly loaded onto component (1) with several other factors. In addition, the factor 'We have the capacity to expend our business' (0.815) was highly loaded onto component (2) with several other factors. This implies that these are the factors that could explain the highest variance in firm performance. However, other factors that could not explain any variance in firm performance were excluded and were unable to load either in component (1) or (2).

Table 3: Linear Regression for the Effect of Inter-functional Coordination on Firm Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				Sig. F Change	Durbin-Watson
					R Square Change	F Change	df1	df2		
1	.568 ^a	.322	.319	.50574	.322	87.975	1	185	.000	2.064

a. Predictors: (Constant), inter-functional coordination

b. Dependent Variable: firm performance

The results presented in table 3 revealed that inter-functional coordination significantly explains 31.9% of the total variance in firm performance (Adjusted $R^2=0.319, p=0.000$). This implies that 68.1% of the variance is accounted for by other factors other than those considered under this model. This therefore rejects the null hypothesis that there is no significant effect of inter-functional coordination on firm performance and upholds the alternative hypothesis. This therefore implies that companies whose departments jointly satisfy customers' needs and coordinate their contacts with customers are most likely to improve in their firm performance.

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	22.501	1	22.501	87.975	.000 ^b
	Residual	47.317	185	.256		
	Total	69.819	186			

a. Dependent Variable: firm performance

b. Predictors: (Constant), inter-functional coordination

The results show that the overall model was statistically significant. In other words, it shows that inter-functional coordination is a good predictor of firm performance. This is supported by the F-statistics of 87.975 and the reported p-value of (0.000) which was less than the conventional probability of 0.05 significance level.

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	2.135	.190		11.239	.000
Inter-functional coordination	.495	.053	.568	9.380	.000

a. Dependent Variable: firm performance

The results revealed that one (1) unit change in inter-functional coordination significantly causes an improvement in firm performance by a variance of 56.8% ($\beta=0.568$, $p=0.000 < 0.005$). Generally, the results show that inter-functional coordination has a positive and significant effect on firm performance.

DISCUSSIONS

The study found out that inter-functional orientation significantly affects firm performance. This is because inter-functional coordination enhances unimpeded information circulation within a firm, communication between departments and employees and making common efforts in achieving the firm's goals. In this respect it creates an environment which lends itself to the creation and exchange of ideas firm-wide which may result in new products. Such a situation in the firm can contribute to firm performance of any degree of novelty.

In line with the findings of this study, Liu (2009) found that inter-functional coordination guarantees a performance focused strategy through market knowledge base generation which is monitored by coordinated marketing efforts. In the same vein, Kohli and Jaworski (1990) found that low levels of concern for ideas of other departments (including individuals within the department) and the lack of inter-functional orientation hampered the dissemination of market intelligence among departments and impeded overall market responsiveness and firm performance.

Thus, when SMEs in Yobe State, Nigeria coordinate their departmental activities, they will be in position to adopt new ways of creating best value for their customers, hence increasing their performance. This therefore implies that all departments within the organization need to be connected so that business intelligence can flow smoothly up and down the organization to guarantee firm performance.

CONCLUSIONS

The study found out that inter-functional coordination significantly affects firm performance. Therefore, the entire personnel, regardless of the size of the enterprise, in various departments of the company must be coordinated in a way that can create value for customers through mutual cooperation and assistance, or the company should organize multifunctional teams rather than separate departments. It is also important that the internal cooperation is presented through participation in the creation of company's plans and strategies, distribution of information obtained from/about clients across sectors, as well as knowledge about offering superior value to the customer.

RECOMMENDATIONS

SMEs owners and managers should invent ways of ensuring that departments work jointly by sharing knowledge and information broadly with all departments and employees and by acting in a coordinated and customer focused manner. This will lead to serving customers to their utmost satisfaction across different departments. Furthermore, SMEs' owners and managers should coordinate their activities aimed at attracting more customers into the business. The activities could include among others prompt customer feedback, aftersales-service, friendly customer-care service, and promotional discount offers.

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