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Manager's Comprehension of External Environment and the Performance of the SMEs in Kinshasa

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Abstract

The relationship between the understanding of the remote environment by the managers and performance of SMEs has received little attention in empirical studies. The main drive of this study was to determine the effect of manager's comprehension of external environmental factors on performance of SMEs in Kinshasa. The purpose is to increase the understanding of the external forces to reduce the negative influences it has on the activities of the organizations. In the quest to fulfill the aim of this research, positivism paradigm was employed; primary and secondary info were gathered. Former was collected using a well-organized set of questionnaires. A descriptive survey design-sectional of 520 SMEs on managers in Kinshasa was conducted. The collected data was coded and the SPSS version 23 program was used to do analysis. The study found that it was only the comprehension of the political environment which significantly and positively ($p=0.006 < 0.05$) influenced profitability at 5% level of significance. However, the comprehension of the other environmental factors negatively but insignificantly ($p > 0.05$) influenced profitability at the SMEs in Kinshasa DRC. There was no significant relationship between technological, socio-cultural and economic factors with all the indicators of performance. These results suggest that the relationship is largely indirect. Hence, there is need to introduce the mediating and moderating variables such as decision making and strategy implementation to improve and explain the relationship.

Key words: *External environment, performance, SMEs, Kinshasa, DR Congo*

1.1 Introduction

It is observed that firms operate in environment that seems to be uncertain. However, SMEs have proven to have positive effect in development of economies in all countries around the world. Nevertheless, the level of intended performance has remained disappointing. This has led to

some failure as it has also been observed in empirical literature. SMEs have tremendous role for the development of the economy in general around all the nations in the world and in the Democratic Republic of the Congo in particular (Camuffo, Cordova, Gambardella & Spina, 2019). The desire of every woman and every man of age is to start her or his own business as stated by Hong (2018) that in United States of America 8.0 million minority-owned businesses and the number of owners grew to 2.3% in 2016. In Kenya a survey done by the Kenya National Bureau of Statistics announced that 400,000 created did not reach their second year of operation, few of them struggle to reach their five years birthday (Kenya SME Finance Survey, 2018). According to the World Bank report (2017) over 9 out of 10 firms did not reach five years and these firms contribute to the reduction of unemployment at around 60 %. The Republic democratic of the Congo is one of the countries in Africa that can offer great opportunities for business because of the population evaluated at more than 80 million and it has various resources. Particularly Kinshasa is a city of more than 10 million inhabitants. In DR Congo there is possibility of diversification of its economy. However, the politicians are only focused on the minerals whereas; the small and medium enterprises as stated earlier can contribute strongly dynamically in the creation of the new jobs. Though the rate of unemployment is about 70% in Kinshasa, the contribution of Small enterprises to the annual employment growth rate is 5, 2 percent, and 6% of the medium enterprises whereby the large firms' contribution is of 1.3%. The sudden disappearance of some of SMEs made this study to determine the effect of manager's comprehension of external environment on the performance of SMEs in Kinshasa.

To examine the objective, three theories were utilized: Resource Based View, Institutional view and Dynamic Capabilities View. For the purpose of this study, the resource based view is used in the framework of connecting managers as human resource of the firm to the performance. The creation of Sustainable Competitive Advantage by any organization depends first on the availability of human resource. Mweru and Maina (2016) argued that resources that an organization has, represent the main causes of its performance. The human resource makes it possible for an organization to build capabilities that can create valuable, rare, inimitable and unsubstituted resources to counter whatever threats from the external environment forces. In the framework of this study managers are taken as the valuable, rare, inimitable and to some extent unsubstituted resources to be used to comprehend the external environment and counter its threats.

The second theory is the institutional view which focuses on how a firm can make it possible to reach a stable and durable state (Shibin *et al*, 2017). This paper is using institutional view to demonstrate the importance of managers as the first actors to move the SMEs in Kinshasa to reach the sustainable competitive advantage that will enable the stability and longevity in the market. This can only be possible if managers demonstrate their ability to comprehend their environment and propose solutions that lead to efficient decision making.

The third theory in this study employed is the Dynamic capabilities view especially adapted to the environment where the situations are unpredictable and uncertain in general (Takahashi, Bulgacov, Bitencourt & Kaynak, 2017). The use of the dynamic capabilities view in this study is used because the business market in Kinshasa is done in uncertainty and unpredictable environment due to the political unrest. This situation requires managers that are dynamic in their course of actions. The purpose of this study is to determine the influence that the

comprehension of external environment has on the performance of SMEs in Kinshasa. The characteristic of firms is that they operate in a dynamic environment that has effect on the performance. This calls for dynamic managers that are able to comprehend this dynamic and complex environment to capture opportunities and counter the threats (Yeow, Soh & Hansen, 2018). This environment needs to be comprehended by managers to move organizations to its goals.

However, among all the external environment factors, Political factors are the most that cause a lot of disturbance in business market. Political factors affect almost all the other environmental factors and even the performance. This is because political factors depend on the government leadership regulations affecting the economic, the socio-cultural, the technological and legal factors which also contribute in affecting the performance. In addition, all these factors require managers' skills to comprehend them in order to adapt their decision according to their changes (Barile & Saviano, 2018). Though the political factors seem to be the main environment factors of disturbance to the business market all other environmental factors that cannot be controlled by the firms occupy a key place to be observed and comprehended to protect the firms from their effect on the performance. The economic can affect the performance when there is change in interest rate of inflation, change on the currency exchange rate (Barakat, Elgazzar & Hanafy, 2016). The change in socio-cultural such as change in mores and values may affect the industry. These changes may open the door of opportunities or the door of threats that need to be comprehended by managers to capture the opportunities and to counter the threats. The Technological factors are known to be the most that vary rapidly and involve the skill of creativity, innovation and adaptation from managers to at page in order to survive in the business market.

2.0 Materials and Methods

To determine the relationship between managers' comprehension of external environment and performance a null hypothesis was formulated. Study undertaken positivism paradigm. The targeted population of the study was 643 managers and owners of SMEs in the various industries in Kinshasa. The primary and secondary data were collected. The primary data was collected using a very well organized set of questionnaires and the secondary data was collected using historical books of the SMEs. Out of 643 questionnaires 520 questionnaires were returned representing 81% of response rate. The sampling technique used by the researcher in this study was the census of all the SMEs targeted. The questions were closed ended. The drop-off approach was employed to deliver the questions to the respondents. The instrument was pretested on 10 SMEs. This pretest was to check on the accuracy of the statement in describing the variables in the study and the clarity in the statements. The researcher received comment and suggestions on the length of the questionnaire. These inputs were used to refine the instrument before distribution for the actual study.

Further, in order to ensure internal validity, the attached questionnaire was prepared based on in-depth review of literature on the study variables and identification of the items that had been previously used to measure these variables. In order to minimize error that may occur in this study and to minimize the level of reliability the Cronbach's alpha method was observed for the average correlations of items and the number of items in the scale. A threshold of 0.7 of

Cronbach alpha was deemed acceptable as recommended for studies similar to this study. The researcher at all-time abided with the ethical consideration by avoiding misconduct during the research process and this dissertation writing include the informed consent and the option for the respondents to opt out of the survey at any time. To determine the relationship between the comprehension of external environment and the performance both descriptive and inferential analyses were conducted on the data that was collected and the results were presented in the tables.

3.0 Results and Discussions

The results of the analysis of data are in two categories: descriptive and inferential results.

Comprehension of External Environment

Descriptive statistics was used to assess the extent to which managers of SMEs in Kinshasa, DR Congo comprehended the external environment. The external environment variables on comprehension assessed were political, economic, socio-cultural, technological and legal factors. The results of this study are as presented in Table 1.

Table 1: Comprehension of external environment

Variables	Mean	SD
Political environment	3.71	1.27
economic environment	3.85	1.04
Socio-cultural environment	3.82	1.08
technological environment	4.00	1.01
Legal environment	3.85	1.13

As presented in Table 1, we found a moderate comprehension of political ($M = 3.71$, $SD = 1.27$), and economic ($M = 3.85$, $SD = 1.04$), socio-cultural ($M = 3.82$, $SD = 1.08$), technological ($M = 4.00$, $SD = 1.01$), and legal factors ($M = 3.85$, $SD = 1.13$). In the descending order comprehension of external environment starting from the most understood to the least understood is technological factors ($M = 4.00$, $SD = 1.01$) as the most comprehended, followed by economic factors ($M = 3.85$, $SD = 1.04$) and legal factors ($M = 3.85$, $SD = 1.13$), socio-cultural factors ($M = 3.82$, $SD = 1.08$), and lastly political factors ($M = 3.71$, $SD = 1.27$). Hence, while the least comprehended environment was political environment, the most comprehended was the technological environment. As earlier observed, there are important gaps in managers' comprehension of the external environment ($M < 4.00$) which will need to be addressed.

Table 2: Descriptive Statistics on Performance

Statement	SD (%)	D (%)	SLA (%)	A (%)	SA (%)	Mean	SD
Returns on our assets have improved over the years.	2.70	3.50	2.90	63.10	27.90	4.10	0.82
Profit Margins improved over the last two years	1.50	0.40	1.50	25.20	71.30	4.64	0.68
We have improved our business processes significantly over the last two years	1.50	2.10	1.50	82.50	12.30	4.02	0.60
We have increased our sales over the last two years	0.80	0.60	1.00	77.50	20.20	4.16	0.53
The satisfaction of customers has improved in the last two years	2.10	1.70	2.70	56.90	36.50	4.24	0.77
We regularly achieve objectives of our business.	1.50	1.20	0.40	70.70	26.20	4.19	0.64
Average						4.23	0.67

Results in Table 2 show that majority of the respondents agreed that their assets had increased over the previous two years ($M = 4.10$) showing that most of the respondents agreed with the statement however the responses were varied as indicated by a standard deviation of 0.82. Concerning increase in profit, most of the respondents agreed that their profit had increased over the previous two years ($M = 4.64$, $SD = 0.68$). The respondents were asked to indicate whether they had improved their business processes significantly over the previous two years and most of them agreed ($M = 4.02$, $SD = 0.60$). The results further show that majority of the respondents agreed that they had increased their sales over the previous two years ($M = 4.16$, $SD = 0.53$). Similarly, the results show that majority agreed the satisfaction of their customers had increased over the previous two years ($M = 4.24$, $SD = 0.77$). Finally, the respondents were asked to indicate whether they regularly achieved the objectives in their business; majority of them agreed that they regularly achieved objectives of their business ($M = 4.19$, $SD = 0.64$).

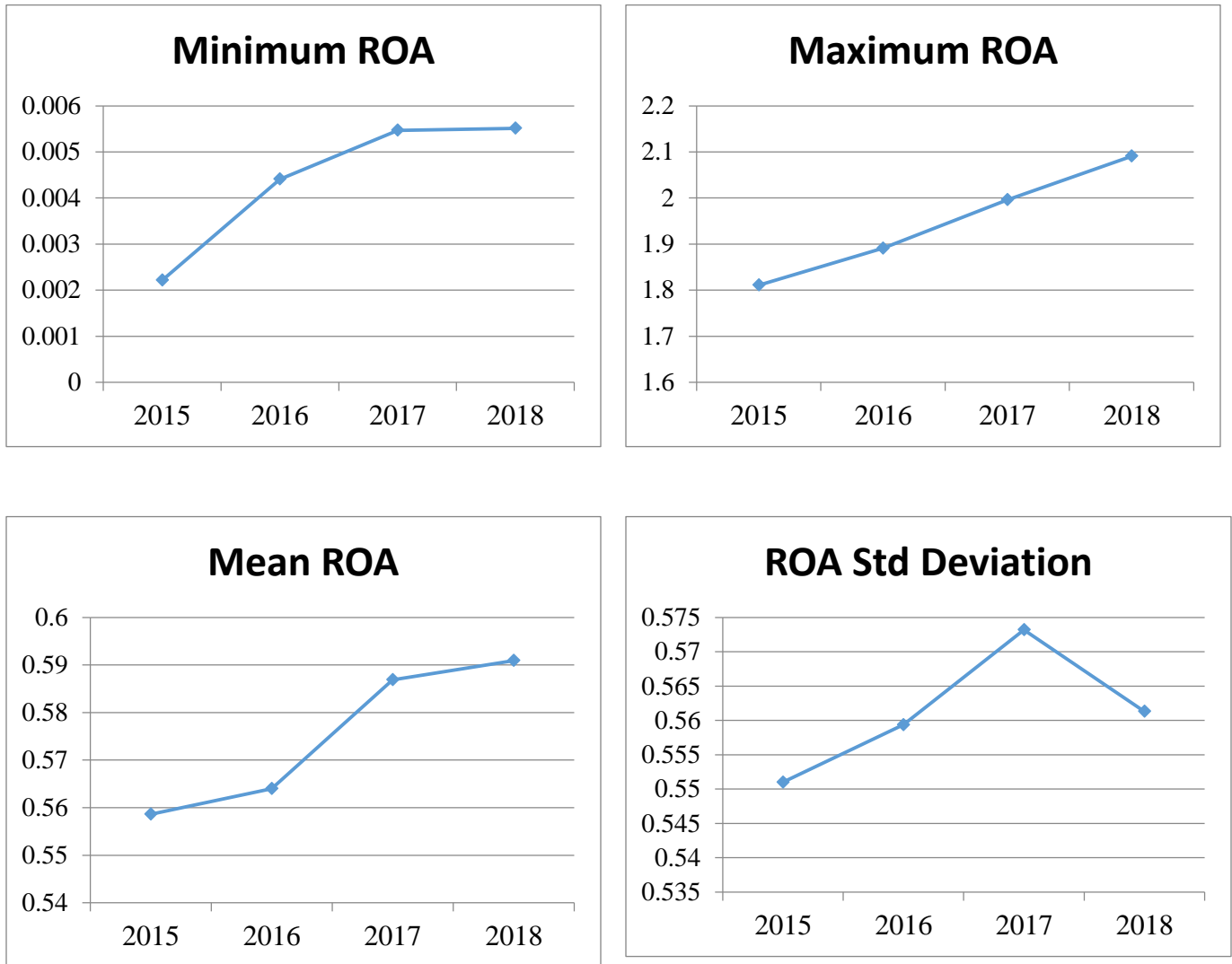


Figure 1: Return on Assets

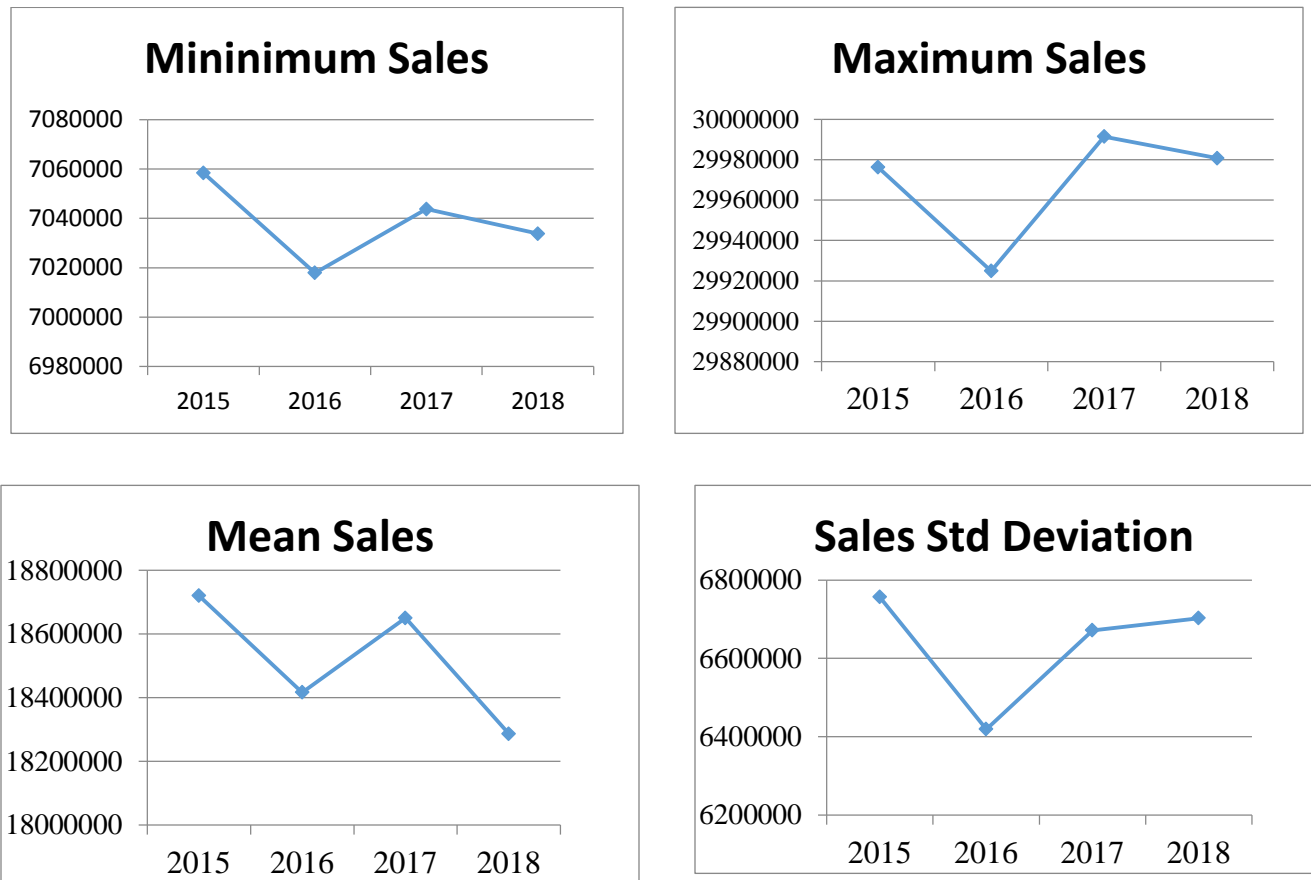


Figure 2: Sales

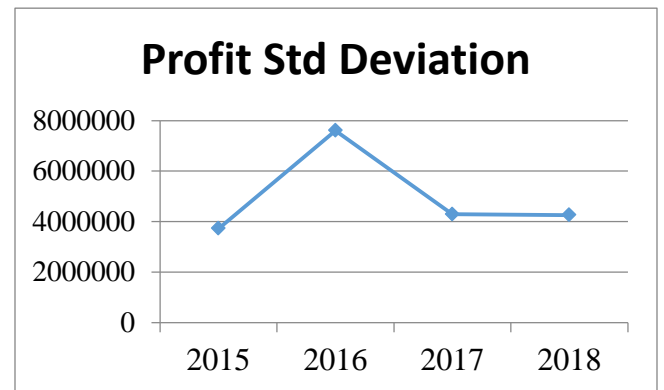
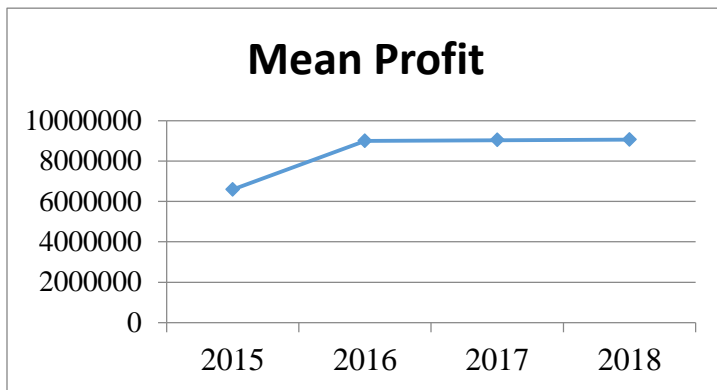
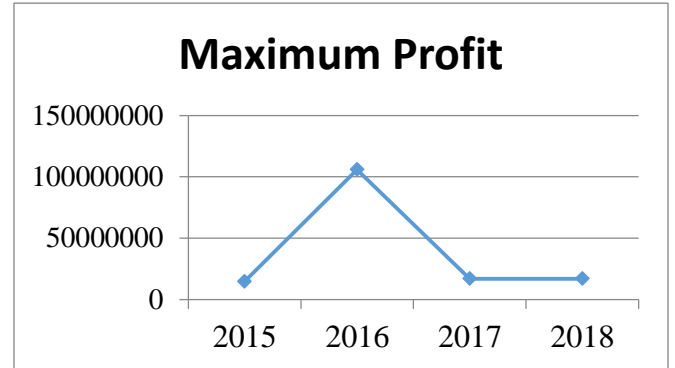
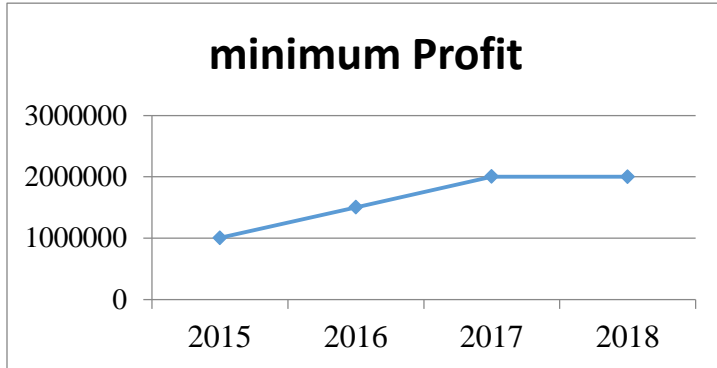


Figure 3: Profits

Figures 1, 2 and 3 shows that, both ROA and profits had an increasing trend from 2015 to 2018, while the sales declined throughout the four year period. The maximum ROA for the year 2015 was 1.810809 which rose to 2.090909 in the year 2018. This means that the SMEs recorded improvement in performance for the four year period. The mean return on assets for the SMEs rose significantly from 2015 to 2018. The results in Figure 3 further show that the maximum profit realized by the businesses in the four years was 10,5861,132 in 2016 while the minimum profit was 14667968 in 2015. Further, the SME managers more favorably assessed their performance qualitatively than the actual quantitative.

Relationship between external environment comprehensions and performance

Person product moment correlation was used to examine the relationship between managers' comprehension of external environment and performance of SMEs in Kinshasa, DR Congo; the results are in table 4

Table 4: Relationship between comprehension of external environment, decision making, strategy implementation and performance

Variable/ Construct	POF	ECF	SCF	TEF	LEF	RDM	IDM	SO	SE	SI	PEQ	10*RO A	Log (Profit)	Log (Sales)
Performance (Qualitative) (PEQ)	.089*	0.02	0.035	0.044	0.05	0.013	0.072^	-0.089*	-0.036	-	0.055	1		
	0.043	0.645	0.426	0.32	0.251	0.763	0.1	0.043	0.417	0.211				
10*ROA	.125**	0.007	-0.042	-0.038	-0.025	0.065	-0.018	0.022	0.073^	-	0.066	-0.062	1	
	0.004	0.881	0.342	0.392	0.562	0.139	0.684	0.617	0.095	0.131	0.161			
log_Profit	0.019	-0.023	-0.03	0.003	0.045	0.075^	-0.019	0.002	-0.047	-	0.045	-0.017	0.009	1
	0.658	0.601	0.501	0.94	0.309	0.087	0.667	0.955	0.282	0.301	0.698	0.839		
log_Sales	-0.06	0.014	0.05	-0.038	-0.075	-0.036	0.048	0.042	-0.044	0.034	-0.032	0.03	-0.022	1
	0.172	0.75	0.256	0.385	0.086	0.406	0.275	0.344	0.311	0.441	0.472	0.499	0.613	
	520	520	520	520	520	520	520	520	520	520	520	520	520	520

** Correlation is significant at the 0.01 level (2-tailed). * Correlation is significant at the 0.05 level (2-tailed). ^ Correlation is significant at the 0.1 level (2-tailed)

As seen from Table 4, comprehension of political factors was positively and significantly ($p < 0.05$) related with qualitative assessment of performance ($r = 0.089$, $p = 0.043$) and return on assets ($r = 0.125$, $p = 0.004$). However, political factor comprehension was neither significantly ($p > 0.05$) related with sales nor with profit. Further, legal factors (LEF) had a weak negative relationship ($r = -0.075$, $p < 0.1$) with sales at 10% level of significance. These results imply that the manner in which the managers of SMEs are comprehending political environment is positively related to performance while that of legal factors has a negative relationship with performance. Conversely, the extent of comprehension of both economic factors (ECF) and socio-cultural factors (SCF) did not have any significant relationship with all the performance measures (qualitative performance assessment, return on assess, profits and sales) that were studied. The implication of this result is that the level of comprehension of the ECF and SCF may not be high enough to impact the performance of SMEs in Kinshasa, DR Congo. The correlation analysis results suggest that the combined comprehension of the entire macro

environment factors considered in this study had a weak relationship with the four quantitative indicators of performance (Table 4).

Influence of external environment comprehension on performance

Results of multiple linear regression of the influence of comprehension of external environmental and performance of SMEs are presented in Table 5

Table 5: Model Fitness

Model	R	R Square	Adjusted Square	R Std. Error of the Estimate	Durbin-Watson
1	.126 ^a	0.016	0.006	0.277	1.116

^a Predictors: (Constant), Legal factors, Economic factors, Technological factors, Sociocultural factors, Political factors, ^bDependent Variable: Performance qualitative

As presented in Table 5 Comprehension of external environment was found not to be satisfactory in explaining performance of SMEs in Kinshasa. This was supported by R square of 1.6%. This means that Comprehension of external environment explain only 1.6% of the variations in performance of SMEs in Kinshasa. This means that only 1.6% of performance of SMEs in Kinshasa was influenced by Comprehension of external environment. Table 6 provides the analysis of the variance (ANOVA) results.

Table 6: ANOVA

Model		Sum Squares	of Df	Mean Square	F	Sig.
1	Regression	0.629	5	0.126	1.646	.146 ^b
	Residual	39.304	514	0.076		
	Total	39.933	519			

^a Dependent Variable: Performance qualitative

^b Predictors: (Constant), Legal factors, Economic factors, Technological factors, Sociocultural factors, Political factors

The results in Table 6 indicate that the model was statistically insignificant implying that managers’ comprehension of external environment was not a good predictor performance of SMEs in Kinshasa. This was supported by a calculated f _(5,514) statistic of 1.646 which was less than the critical F _(5,514) of 2. 2141.

Table 7: Coefficients

	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95.0% Confidence Interval for B		Collinearity Statistics	
	B	Std. Error	Beta			Lower Bound	Upper Bound	Tolerance	VIF
(Constant)	3.638	0.244		14.894	<0.001	3.158	4.118		
Political factors	0.042	0.019	0.098	2.222	0.027	0.005	0.078	0.982	1.018
Economic factors	0.013	0.029	0.019	0.443	0.658	-0.045	0.071	0.995	1.005
Sociocultural factors	0.028	0.029	0.043	0.981	0.327	-0.028	0.085	0.992	1.008
Technological factors	0.028	0.027	0.045	1.022	0.307	-0.026	0.082	0.997	1.003
Legal factors	0.042	0.03	0.063	1.433	0.152	-0.016	0.101	0.979	1.021

^a Dependent Variable: Performance (qualitative measures)

Based on the results in Table 7, the model for the influence of comprehension of external environment on performance was not significant at 5% significance level ($F_{(5,514)} = 1.646$, $p = 0.146 > 0.05$) and that it only explained 1.6% of variation in performance. Further, only the comprehension of political factors had a significant effect on performance of SMEs in Kinshasa, the DRC ($t=2.222$, $p = 0.027 < 0.05$).

This finding implies that political factors have contributed more in explaining the performance of the SMEs in Kinshasa. Based on these results the improvement of managers' comprehension of political factors leads would lead improvement in performance. These results concur with those of Njoroge, Ongeti, Kinuu and Kasoni (2016) who established that the external environment explained 88.3% organizational performance on Kenyan state corporate; the finding also concurs with Perviols (2016) that political factors affect the industry to a superior level in any nation.

Further, regression results revealed that the comprehension of legal factors was negatively statistically significant related to sales performance at 10% level of significance, this result implies that the effect of legal comprehension on performance is moderate and has an inverse relationship with performance. This implies also that an increase in legal comprehension will reduce the performance. In particular, the increase in legal comprehension will reduce sale.

The correlation analysis results suggest that the comprehension of economic factors, socio-cultural factors and technological factors was not statistically significant with all the indicators of performance. This result implies that the level of comprehension of technological factors, economic factors and socio-cultural factors may not be high enough to influence the performance of SMEs in Kinshasa, DR Congo.

These findings neither support the theory that comprehension of external environment have an effect on the performance of organizations nor reject the theory. This implies that to be able to conform or reject the theory in the SMEs operating in Kinshasa, the introduction of mediating and moderating variables such as decision-making and strategy implementation are needed to explain and strengthen this relationship. However, to respond to the objective of this study, the null hypothesis was rejected. The study adopted the alternative hypothesis that there is statistically significant effect of comprehension of external environment on the performance.

4.0 Conclusions

Based on the study findings it is concluded that manager's comprehension of external environment and performance are positively and significantly related. In this regard, each SME should consider economic trend in the segment that affects its industry, economic factor has influence on the economy. Having firm's external environment comprehension assists in exploitation of opportunities and reduces threats. Based on the study findings it can be concluded that majority of the SMEs in Kinshasa are aware of the external environmental factors affecting their business and are able to make decisions based on the external factors.

The relationship between managers' comprehension of the external environment and performance has been clarified. This adds to literature on managerial cognition. Specifically, given that the means of comprehension of external environment by managers were less than 4 on statements that sought the level of agreement on comprehension of external environment (Agree: M=4.0) it appears that SME managers need to improve their levels of cognition with regard to the comprehension of external environment because the more effectively they perceived the external environment, the more will the SMEs performance improve. In order to better understand the relationship between the comprehension of external environment and performance, mediating and moderating variables in form of decision-making and strategy implementation need to be considered.

Since the relationship between and influence of managers' comprehension of external on performance was weak, it is concluded that the relationship is not direct and that mediating and moderating variables such as decision-making and strategy implementation need to be considered in the external environment – performance relationship in order to have more clarity on how the environment comprehension by managers relates with performance and other organisational variables in the SMEs in Kinshasa, DR Congo.

5.0 Recommendations

Based on the findings the study recommended that, managers of SMES should to train their employees on the importance of understanding the external environmental factors that affect business. Since the external environmental factors are never static, managers should ensure that their employees take regular refresher courses as one way of updating themselves with the ever changing business environment. Understanding of the environments is key for the managers to be able to adapt their decision-making to ever rapid changing environments. Further, the management should ensure their employees are aware of all government policies that govern their business, they should be well conversant with all taxes laws and tariffs relevant to their type of business so as to avoid being at cross road with the laws regulating SMEs. They should also ensure cultural norms of the community in which they conduct business are well understood so

that they may positively respond to culture and norms of their clients with appropriate products and services.

It is also recommended that SMEs managers regularly collect and analyze the relevant data on lifestyle changes in their business location so as to ensure their goods and services are in conformity with the needs of their clients. Since SMEs are operating in the ever changing environment in terms of technological advancement, the management should always monitor the rate of technological advances in their area of specialization; always seek to incorporate innovative technological platforms in their business. They should also ensure they monitor all the changes of legislation that are likely to affect their business operations so as to ensure their business operates within the confines of the law and avoid losing their business permits.

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