The Effect of Industrial and Internal Factors to the Firm's Performance

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Abstract: In this article we analyze the effect of factors industrial and internal to the firm's performance. Industrial and internal factors are the important issue in today's business environment, which changes constantly. If the enterprise wants to survive, grow and increase profits it must change its strategies continuously. The need for change comes from two main premises: industrial environment and internal environment. From the industrial environment treated competitive forces as (rivalry among competitors, the power of buyers, power of suppliers, the threat of new products, the threat of new entrants), forces that are uncontrollable by the enterprise. Meanwhile, the internal environment is established in the organization, destined to fulfill any requests from external environment. The aim of this paper is to show the linking of industry factors and internal factors on the performance of firms in Kosovo. The methodology used in the paper is a combination of qualitative and quantitative data. Results of the research are processed data of 97 firms which operate in in the Republic of Kosovo; the data are collected in two different period times 2015 and 2017, and were processed with the help of SPSS v 23. The results show that internal business factors have a larger positive impact on firm's performance than industry factors.

Keywords: Industry factors; internal factors; firm's performance

JEL Classification: L16; L22; L25

1. Introduction

Nowadays, firms face two sets of challenges: identification of factors, and decision-making in regard to the strategy it will implement. Enterprise can not be successful

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without managing changes in the most effective way. Market economy is an important designation in the modern era.

This has the significance of the development of privately owned businesses, in democratic conditions, in liberated markets. There are no specific obstacles to enter and operate in markets, except the problems arising from them, by the economic entities itself (Jakupi, 2008). Challenges are connected with the level of competition that the enterprises reach, efforts and commitment of the companies to be better, more capable and possibly the leader.

Often the question arises, "How can we adjust to the industrial environment"? The answer is very clear: by drafting an effective strategy in the enterprise. In the present century organizations are more exposed to the increasing global competition, customer expectations and changes. To address these pressures, many organizations are in the situation either change or bankrupt (Beer & Nohra, 2000). In order to understand the factors that affect the enterprise, it is necessary to identify, analyze and study them.

The reason that exhorted us to analyze this issue was the difference thinking between authors if the internal or external factors are more important to business success. The industrial organization approach regarding with competitive advantage emphasize that external (industry) factors are more important than internal factors that firms to achieve competitive advantage in the industry (David, 2011). Firm's performance, they contend, is primarily based more on industry properties, such as economies of scale, barriers to market entry, product differentiation, the economy, and level of competitiveness than on internal resources, capabilities, structure, and operations (David, 2011). While, Grant, (1991) concluded that the internal control is more crucial than external control, saying: "in a world where customer preferences are unstable, the identity of customers is changing, and the technologies for serving customer requirements are continually evolving, an externally focused orientation does not provide a secure foundation for formulating long-term strategy". When the external factors are continuous change, the firm's own resources and capabilities may be a much more stable basis on which to define its identity, hence, a definition of a business in terms of what it is capable of doing may offer a more durable basis for strategy than a definition based upon the needs which the business seeks to satisfy. In contrast to the industrial organization theory, supporters of the resource-based view stressed that firm's performance will essentially be determined by internal factors that may be grouped into three all-encompassing categories: physical resources, human resources, and organizational resources (Barney, 2001). However, effective integration and understanding of both external and internal factors are essential to securing and keeping a competitive advantage.

2. Theoritical Review

The three general areas of an organization that must be adapted to change are: the structure of organization and projections, technology and operations and the people (Griffin RW, 2005).

Ability to harmonize the internal environment of the organization with the requirements of the industrial environment is essential for the survival of the organization in an environment that changes constantly and understanding of the organizational environment is a necessary skill for successful performance in organizations (Burnes, 2004).

To assess the situation, firms should investigate the industrial environment. There is a process of four steps for assessing the industrial environment: first needs to be set a quantitative value for each of the "forces of change"; secondly, to assess the impact of each forces in the enterprise; thirdly, to multiply the weight with the evaluation of each factor, in order to determine a weighted score; and fourthly, to interpret the result- What does it mean? (Banham, 2010). Michael E. Porter (1979; 1980; 1985; 1987; 1996; 2008) defines the industrial competition in five forms: the rivalry among existing competitors; the risk from the new entrants in the industry, the risk from the substitute products or services, the power of buyers and power of suppliers.

The supporters of industrial organization approach claim that the performance of the company is mainly based on the industry's attributes, such as economies of scale, barriers to enter the market, product differentiation, the economy and the level of competition in resources, skills, structure and internal operations (David, 2011). In a survey conducted by Borici & Osman (2015), in 460 firms in northern Albania, resulted that the external environment has more impact in creating competitive advantage of enterprise than the internal environment.

In the health care and airlines industry, changes may be caused by regulatory changes, while in other cases (eg, health care) changes can be driven by competitive forces (Achilles & Arthur, 1999). The ability of a firm to benefit competitive advantage depends on how well it positions itself in a particular industry (Porter, 1979). So, industrial factors (the threat of new entrants, bargaining power of buyers, bargaining power of suppliers, the threat of substitute products or services, and the rivalry among existing firms) put us in difficult competitive situations (Porter, 1979). Efforts should be made to sustain oneself while our competitors try to drive us out of business (Husso & Nybakk, 2010).

Teece (2007), makes the difference between resources/competencies and dynamic capabilities and he enacts these results when the organization owns resources/competences, but lacks dynamic capabilities it can provide competitive returns for a short-term, but not for a long-term. Comparing the performance between industries, (Gadenne, 1988) concluded that the retail industry products with

lower price than competitors, the high sales turnover, cost reduction and quality control of products are positively related to performance; while in the manufacturing industry, performance is positively related with the competitive advantage factors (products with lower prices than competitors and knowing about the activities of competitors).

Although the method based on resources highlights the fact that internal resources are more important than external factors in achieving competitive advantage, it can not be stated explicitly that only internal factors or external factors will always be important to achieve competitive advantage (David, 2007). For a resource to be valuable, it must be either: rare, hard to imitate, or not easily substitutable, these three characteristics of resources enable a firm to implement strategies that improve its efficiency and effectiveness and lead to a sustainable competitive advantage (David, 2011). As much as a resource is rare, non imitable, and non substitutable, the stronger a firm's competitive advantage will be and the longer it will last (David, 2011). Barney (1991, 1995) argued that sustained competitive advantage stemmed from the acquisition and effective use of bundles of distinctive resources that competitors cannot imitate. A lot of investigations adopt the resource-based view, which highlights the heterogeneity of firms and the role played by internal attributes in firm's performance (Wernerfelt, 1984). These basic competences include: human resource competences, which include, a firm's knowledge and skills, accumulated either through the training of its workforce (Song et al., 2003); technological competences, mainly measured by R&D intensity (Bhattacharya & Bloch, 2004); a result of the experience gained over time (Hoffman et al., 1998); the mutuality of work teams (Cooper, 1990); the formalization of domestic communication systems (Rothwell, 1992); and organizational competences, that are linked to administrative styles (Webster, 2004).

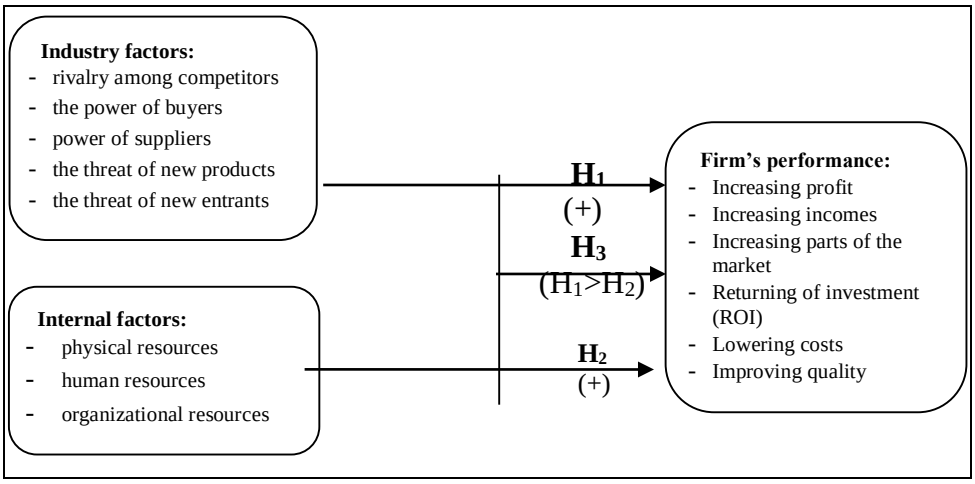

Figure 1. Model of analysis

3. Hypotheses

According to literature, the hypotheses are raised to measure the relationship between factors industry and internal with firm's performance, in a manner that from diversity of applying factors is determined the business performance.

H1: Industry factors have a positive relationship and are important statistically with firm's performance.

H2: Internal factors have a positive relationship and are important statistically with firm's performance.

H3: Industry factors have more impact on firm's performance than internal factors.

4. Methodological Approach

To realize this research, the methodology consists in a combination of primary and secondary data. The article has been prepared using the analysis of secondary data (scientific publications and articles from specialized databases, such as Science Direct, Web of Science, Emerald, Springer and ProQuest, ect.) while the primary data are conducted in a sample group of firms that implement their activity in Kosovo, the data are collected in two different period times 2015 and 2017. For the empirical analysis of the study, the data are gathered from a self-administered questionnaire. The questionnaire articles of the study has been prepared, the participants were randomly chosen, the responses obtained, the econometric model is constructed in order to test empirically, this relationship passed through the IBM SPSS v.23.0 program which has been utilized for the obtained findings.

4.1. The Representative Sample

From 130 questionnaires which are distributed to 130 firms, only 97 were well-filled. So, 97 respondents is satisfactory number to do regression analysis and to generalize results of this research. The questionnaire has been prepared in the way that the respondents to take their opinion related to the impact of factors industry and internal into firm's performance. Respondent firms that were studied, practiced different activities as 34% are commercial enterprises, 43% manufacturing, 17% service and 6% construction. The scale used in the questionnaire is based on a 5-point Likert scale (5 = strongly agree, 4 = agree, 3 = neutral, 2 = slightly disagree, 1 = strongly disagree).

4.2. Implement Design

To realize the regression analysis firstly we have to see the relationship between the independent variables, from the general rule of correlation (−0.7 to 0.7) if the value is outside these limits, the variables have strong relationship between them, which may produce incorrect results. If it has a high correlation between independent variables appears multicollinearity which is harmful to further analysis (Hair et. al., 1998; Lind et. al., 2002) cited by (Islami, et. al., 2018).

4.3. Descriptive Data of Respondent Firms

In Table 1, are presented data of contributors (firms' representatives) concerning descriptive data such as: gender, education, age, and their position in firm and their activity in the enterprise.

Table 1. Descriptive characteristic of the sample

Descriptive variable	Count (percentage) n= 97		Descriptive variable	Count (percentage) n= 97	
Gender			**Age**		
Male	61	(56.4%)	21-26 years	11	(11.3%)
Female	36	(43.6%)	27-31 years	16	(16.5%)
Education			32-36 years	16	(16.5%)
Intermediate	27	(27.8%)	37-41 years	18	(18.6%)
Bachelors	42	(43.2%)	42-46 years	12	(12.4%)
Masters	18	(18.5%)	44-51 years	20	(20.6%)
PhD	10	(10.5%)	Over 51	4	(4.1%)
Position in Firm			**Work experience**		
Owner	34	(35.1%)	2 years	14	(14.4%)
Director	18	(18.5%)	3-5 years	20	(20.6%)
Manager	45	(46.4%)	6-10 years	33	(34.1%)
			11-15 years	30	(30.9%)

5. Empirical Findings

To show the factors affecting firm's performance, we analyzed the industry environment and created the variable "industry factors" from the average of eight research questions (high number of competing firms, the decline in demand for the products of industry, low obstacles in market entry, the possibility of consumers to change market with ease, power of suppliers, power of buyers, the threat of new products, the threat of new entrants); and internal environment that we created the variable "internal factors" as the average of five research questions (the need to improve the organizational performance, the need to cut costs, a need to improve the quality of product /service, the need to manage human resources, the need to use technology); while the variable "performance of the enterprises" is the mean of six study questions, so as to measure the success of the company after the organizational change (increasing profits, revenue growth, market share, return of investment (ROI), cost reduction, quality improvement).

5.1. Descriptive Statistics

Descriptive data are presented in table 2, where are presented min., max., mean., and std. deviation, for all independent variables and dependent variable.

Table 2. Descriptive statistics of the study variables (n = 97)

Study variables	Minimum	Maximum	Mean	Std. deviation
Industry factors	1	5	3.34	0.809
Internal factors	2	5	3.96	0.711
Firm's performace	2	5	4.01	0.703

A "Cronbach's alpha" test was used to evaluate the reliability of the measures as suggested by Nunnally (1978) cited by (Bontis et. al., 2000). Cronbach's alpha can be considered an adequate index of the inter-item consistency reliability of independent and dependent variables (Sekaran, 1992) cited by (Bontis et. al., 2000). Nunnally (1978) suggests that constructs have reliability values of 0.7 or greater cited by (Islami, X., et. al., 2018). The reliabilities for each of the four constructs were acceptable as the Cronbach alpha values for each were significantly greater than the prescribed 0.7 threshold. See table 3. All variables are within value reliability (>0.7).

Table 3. Statistical Highlights

Industry Factors		Internal factors		Firm's Performance	
- Cronbach's Alpha Test for Reliability					
0.709		0.793		0.880	
Remaining Items with Loading Values > 0.7					
Rivalry among competitors	0.711	Physical resources	0.748	Increasing profit	0.857
The power of buyers	0.765	Human resources	0.795	Increasing incomes	0.863
Power of suppliers	0.776	Org. resources	0.727	Increasing of the market	0.885
The threat of new products	0.701			Returning of investment	0.775

The threat of new entrants	0.783			Lowering costs	0.895
				Improving quality	0.879

In order to analyze data and to test hypotheses it is used the correlation and regression analysis. To complete the regression and correlation analysis IMB SPSS statistical software is used. Despite, regression analysis and correlation matrix, the descriptive data have been presented. Empirical results are going to be presented below.

5.2. Correlation Analysis

In table 4, is presented the correlation matrix for independent variable that are taken as prediction in finding (defining) dependent variable "firm's performance", so as to measure the scale of relation in between independent variables in this testing. It is presented the connection in between industry factors, internal factors, and firm's performance. According to results presented on the table it is shown that the relation in between independent variable is within the allowed borders (+,- 0.7) (Hair et. al., 1998).

Table 4. Correlation Matrix (n = 97)

Variables	Correlations	Industry Factors	Internal Factors	Firm's Performace
Industry factors	Pearson Correlation Sig. (2-tailed)	1	0.538* 0.097	0.437*** 0.000
Internal Factors	Pearson Correlation Sig. (2-tailed)	0.538* 0.097	1	0.601** 0.032
Firm's Performace	Pearson Correlation Sig. (2-tailed)	0.437*** 0.000	0.601** 0.032	1

***. 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 0.10 level (2-tailed)

5.3. Regression Analysis

So as to evaluate the impact of independent variables in dependent variable "firm's performance" multiple we used the regression analysis. Results from regression analysis are presented in table 5. In accordance with regression analysis independent variables that get in analysis explain 71.8% of dependent variable "firm's performance". F critique for the degree of freedom (3, 94) is 2.70 whereas F real is 6.625 (sig. 0.000) which means that the model is statistically significant with the importance scale α= 0.05, because (0.000<0.5). Independent variable "industry factors" is positively connected with dependent variable "firm's performance" by predicting it for 32.4% (b=.342 & p=.002). Furthermore, independent variable "internal factors" has positive relationship with dependent variable "firm's performance" by forecasting it for 41.1% (b=.518 & p=.011). Whether it is analyzed

closely table 5, may be resulted that independent variable "internal factors" has a higher impact than other independent variable "industry factors" in firm performance.

Table 5. Regression analysis of dependent variable "Firm's performance", n=97

Model	R^2	ΔR^2	β	b	S.E	F	t	P
	.732	718				6.625		
(constant)				.453	.716		.420	.049
Industry Factors			.324	.342	.122		2.173	.002
Internal Factors			.411	.518	.174		2.364	.011

Note: β=standardized coefficients, b=Un-standardized Coefficients, S.E=standard error of variables, t=t-statistic, p=significance level. R^2= square, ΔR^2=adjusted R square.

Firm's performance = $\alpha + b_1$ Industry factors + b_2 Internal Factors + ε_i, or

Firm's performance = $0.453 + 0.342 * (\text{Industry Factors}) + 0.518 * (\text{Internal Factors}) + \varepsilon_i$ (1)

6. Discussion and Conclusions

First hypothesis: according to the statistical test results for individual coefficient control we get the result ($t_1 = 2.173$ and $p = 0.002$) individual coefficients show that independent variable "Industry factors" have a significant contribution in this model. As seen by multiple regression equation, as well as without standardized β coefficients, industry factors affecting firm's performance. In this way we can say that the hypothesis H_1: accepted by showing that Industry factors has a positive relationship and is statistically significant with firm's performance ($H_1\uparrow$).

Second hypothesis: according to the statistical test results for individual coefficient control we get the result ($t_1 = 2.364$ and $p = 0.011$) individual coefficients show that independent variable "Internal factors" have a significant contribution in this model. As seen by multiple regression equation, as well as without standardized β coefficients, industry factors affecting firm's performance. In this way we can say that the hypothesis H_2: accepted by showing that Internal factors has a positive relationship and is important statistically with firm's performance ($H_2\uparrow$).

Third hypothesis: The two coefficients from the regression analysis have shown positive values, with variable growth "industry factors" will increase the value of the variable "firm's performance" for ($b_1 = 0.342$), also with the increase of the variable "internal factors" will increase the value of the variable "firm's performance" for ($b_2 = 0.518$). From these two variables the greatest impact has the variable "internal factors" with non-standardized coefficient ($b_2 = 0.518$), which is higher than the value of the variable "industry factors" with no standardized coefficient ($b_1 = 0.342$).

As seen by multiple regression equation, internal factors affecting more than industry factors in firm's performance. In this way we can say that the hypothesis H_3: rejected by showing that industry factors are not the greatest strength to incrase the firm's performance (H_3↓).

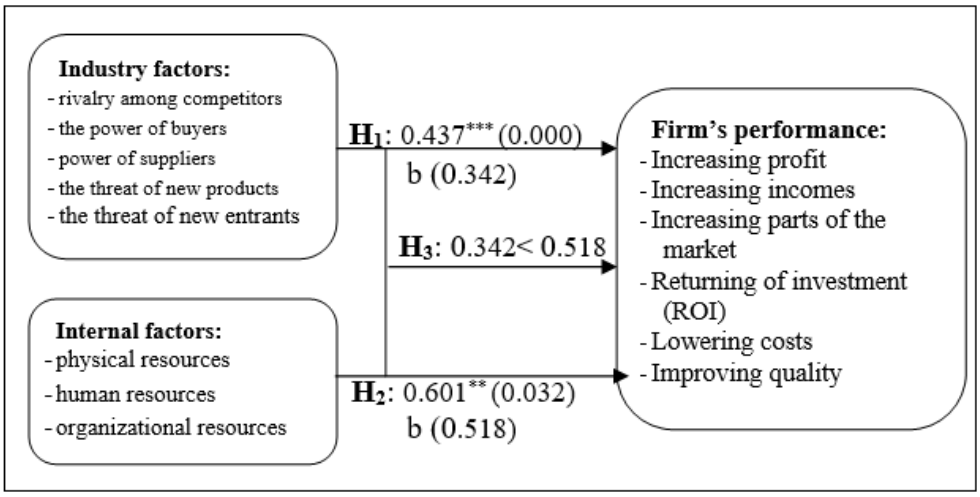

Figure 2. Model of analysis solved

In this paper we analyze the effect of factors industrial and internal to the firm's performance. Results have shown that the industrial environment and internal environment are related positively with firm's performance. Internal factors as (the need to improve the performance of the organization, the need to cut costs, a need to improve the quality of product/service, the need to manage human resources, the need to use technology) that are grouped in three main factors (physical resources, human resources, and organizational resources) have affected more than the industry factors in increasing the firm's performance. Firms should invest more in R&D activities and agreements for technology and know-how with other firms to improve their technological capacity (Bouazza et. al., 2015).

In our research, the firm's performance as a result of the industrial environment (high number of competing firms, the decline of demand for industry products, low barriers to entry in the market, the opportunity of consumers to switch brands with ease, the power of suppliers, the power of buyers, the threat of new products, the threat of new entrants) was less influential in the success of the enterprise increasing performance of the firms.

In general the evaluation of participants has been high. It is known that the higher the evaluation is, the more important are the participants in this study. Assessment of the industry factors results with an average (A = 3.34 and SD = 0.809), while the internal factors (A = 3.96 and SD = 0.711). This indicates that the two variables are

important for firm's performance. Whether firms are able to effectively adapt their internal resources to the industry, the success of the business can be increased. The analyzed internal factors aim to improve the image of the firm in the of client's eyes in relation to the competing firms. Results of this study are supported and by (Islami et. al., 2015), that on their research have found that internal factors improve business performance more than external factors.

According to this study, the entrepreneur should be more careful with internal factors because results from this research tell us that improvement internal factors increased more firm's performance than others factors that are present in the industrial environment. So, this study makes a significant contribution to the scientific and academic value, for linking the industry factors and internal factors with firm's performance in Kosovo, in the region and beyond.

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