

INFLUENCE OF CONTROL ENVIRONMENT ON PERFORMANCE OF SME PROJECTS IN MACHAKOS COUNTY, KENYA

Peninnah Mbithe Mbuva 

PhD Candidate, School of Open and Distance Learning, University of Nairobi, Kenya

mrsmbuva@gmail.com

Charles M. Rambo

Lecturer, School of Open and Distance Learning, University of Nairobi, Kenya.

rambocharls@gmail.com

Timothy Oketch

Lecturer, Chandaria School of Business, United States International University-Africa, Kenya

ctokech@gmail.com

Abstract

Small and medium enterprise projects greatly contribute to a country's national output through creation of employment opportunities, provide technological innovation conduit and create new products. Although their economic contribution is indisputable, provocative argument on specific factors influencing their performance has remained unresolved to date. This study sought to determine the extent to which control environment influence performance of SME projects in Machakos County. Applied pragmatism philosophy and descriptive survey research design were used. The hypothesis ;that control environment does not significantly influence performance of small and medium enterprise projects in Machakos County was tested at 95% confidence level. A structured questionnaire was used to collect data. A sample size of 223 of SME projects in Machakos County was selected. Multiple regressions analysis was done. The study finding revealed that management philosophy and operating style significantly influenced financial performance with $\beta = 0.147 (p=0.002)$. Whereas, integrity and ethics values of the organization, commitment to job competence, organizational structure, assignment of authority and responsibility and human resource policy and practices had insignificant influence on financial performance aspect. Further, integrity and ethics values of the organization and management

philosophy and operating style had direct significant influence on non-financial performance with $\beta=.119$, ($p=0.008$) and $\beta=.102$ ($p=0.036$) respectively. While commitment to job competence, organizational structure, assignment of authority and responsibility and human resource policy and practice had insignificant influence on non-financial performance. SME project Management should improve the insignificant components of control environment to ensure effective internal control system to enhance performance.

Keywords; Small and Medium Enterprise, Internal Control System, Control Environment, Performance

INTRODUCTION

Small and medium enterprise project is a venture dominated by employees ranging between 50 to 100 or up to a maximum of 250 in number (ILO Report, 1972). In other words, any type of organization which engages 10 to 250 employees is classified as Small and Medium Enterprise (SME). These category of business have distinguished contribution to economic growth in most economies through creation of employment opportunities to many people and as a source of technological innovation which create new products hence eradicating poverty, both in established economies such as United States of America (USA), Sweden and United Kingdom just to mention but a few and also growing economies in the world (Wolff and Pett, 2006).

More specifically, the existence of SME projects in Kenya is a major step towards the realization of the country's Vision 2030 which can be achieved through job creation, adoption of appropriate technology by the SME projects whereby both skilled and unskilled labors are utilized. Also, the vision can be realized through capital formation and wealth creation, hence increasing revenue and promoting of gender empowerment (Government of Kenya, 2007). The mega economic contributions by SME projects have been evident for almost 20% of the changes observed in Gross Domestic Product (GDP) in Kenya are associated with small and medium enterprise projects. According to Economic Survey (2009) report, these projects have absorbed about 75% of the workforce and 18.5% of GDP is connected to SME project performance. This implies a remarkable role of this subsector. The extent to which SME projects performs, is determined by whether the management of such a venture has met its main objectives (Lin and Chen, 2008). It is also determined by internal factors such as control environment which is a component of internal control system.

Control environment is a component of ICS and it guides the consciousness of the people at the work place and hence it establishes the tone of the whole organization

(Whittington and Pany, 2001). It is the epicenter of internal control system. It is made up of aspects such as ethical values, integrity of personnel tasked with formulating, setting up and administering the controls, the directors, audit committees and the organization structure. Therefore, the driving force for effective control environment component is the efficiency and effectiveness with which management and board of directors operate. According to Aldridge and Colbert (1994), the function of control environment boosts the consciousness of personnel in an organization. It further represents the true attitude and strategies of management to establish effective internal control system that positively influence the firm culture and performance; thus it sets the supportive attitude towards internal control and management.

Failure of the top management to control the culture of the firm due to negligence or bad intentions translates to financial loss of the SME project. Further losses are attributed to laxity by the top management. Such scenarios are associated with use of unsuitable rewards by the management team in motivating workers. Therefore, it is the responsibility of the top management through their leadership skills and by word of mouth to ensure that the role of control environment in the firm is recognized by all the people. This is portrayed through the ethical values the management practice through business operations within and outside the SME project. In support of this fact, Basle (1998), argued that management opinion, boldness and verbal advocacy determine the level of integrity, ethical practices and other cultural aspects the SME project upholds.

Purpose of the Study

The purpose of this study was to establish the extent to which control environment influence performance of small and medium enterprises projects in Machakos County, Kenya.

LITERATURE REVIEW

Most small and medium enterprises survival is influenced by both internal and external forces. Although control environment which is an internal control system component impact on SME project productivity, most of these firms have difficulties to establish this component to increase the day to day operations efficiency (Frazer, 2012). Control environment is one of the ICS components that give an assurance of the success of SME projects (Hayes, *et al.* 2005). It is the central component of internal control system which sets the tone of the organization by influencing the control consciousness of its people. It is operationalized in terms of integrity and ethics values of the organization, the level of commitment to job competence, management philosophy and operating style, organizational structure of the firm, assignment of authority and

responsibility in pursuit of objective, human resource policy and practice on managing employees.

Stoner (2003) defined performance of SME project as the capability of maintaining efficiency in operations, generation of profits and upholding positive changes of growth of the SME and continuous reaction to opportunities and threats in the immediate environment. To measure the performance of SME projects, diverse proxies are used, which range between financial and non-financial perspectives (Neely, 1999). For the financial facet, the following are some of the indicators that are used, namely; growth rate of sales, cash flows, returns associated to investment in common stock, profit margin in gross terms, profit margin in net terms, coefficient of net profits to revenue, returns to total investment ratio and the ability to facilitate project growth (Covin, 1991). On the other hand, the non-financial proxies used are, namely; level of productivity, industry leadership ranking, rate of creating new jobs, level of business stability, rate of profitability and level of cost of production, the extent to which the firm is involved in community development and the growth rate of the business (Blackman, 2003).

For control environment, it sets the tone of an organization, hence influencing the control consciousness of all its employees (Whittington and Pany, 2001). Weber, (1998) in his study established that some of the ICS components such as separation of duties amongst employees, authority structure and third party confirmation approaches, organization, accounting and arithmetical issues, human capital domain, managerial perspective, performance acknowledgement and budgetary controls are the organization integral activities that are connected to the extent to which a firm succeeds as far as financial performance aspect is concerned. The study finding established that small and medium enterprises had diverse ways of implementing the control environment components of ICS as compared to the large firm counterparts. For instance, it was established that the aspect of written code of ethics of SMEs could be missing. In addition, it was concluded that the SME personnel charged with governance may not incorporate autonomous or external member. It was also established that, small scale firms did not engage professional persons to undertake any position of responsibility in the organization. Instead, in this study of Weber (1998), it was found that these firms are commonly run by the family members and relatives who demonstrate less commitment in adhering to internal control system components such as control environment. Contrary, studies by Whittington and Pany, (2001) concluded that although control environment sets the tone of an organization, adherence to this aspect of ICS does not guarantee positive contribution to SME project performance.

Faudziah, Hasnah and Muhamad (2005), sought to establish the extent to which internal auditors complied to professional practice and the effects thereof to the quality of internal control

system of firms listed at the Malaysian Bursa market which are the counterparts of the small and medium enterprises. The study population comprised all the companies listed at the Bursa stock market in Malaysia in 2001. Data was collected using two sets of structured questionnaires. It was revealed that performance of audit work, professional proficiency and objectivity influenced control environment in a statistically significant manner. However, this study finding did not guarantee the same cause-effect outcome through improvement of SME performance.

Kinyua *et al.* (2015) sought to establish the effect of control environment component of ICS of firms which are members of Nairobi securities exchange. The study used a sample size of 38 firms from a study population of 62 firms through stratified random sampling methodology. The study adopted survey research design whereby both primary and secondary data was collected. Both descriptive and inferential statistics were used for data analysis. Research finding revealed that control environment statistically significantly influenced financial performance of firms listed at the Nairobi securities exchange. Further the study advocated that control environment aspect of internal control system should be enhanced to promote the overall performance of firms.

Gesare, Nyagol and Odongo (2016) sought to assess the influence of internal control system components, control environment being one of the factors. Both stratified and simple sampling techniques were used to select the samples of the 15 banks located in Kisii town. Questionnaires and interview schedules were utilized to collect data. In addition, both descriptive and inferential data analysis methodology were used to develop study conclusion. The study depicted that control environment directly and statistically significantly influenced fraud risk management with ($\beta = 0.391$; $p < 0.05$).

THEORETICAL FRAMEWORK

The section highlights in details the theoretical foundation that supports the conceptual framework on the link between control environment and performance of small and medium enterprise.

Stakeholder Theory

The stakeholder theory is a transformative version of the agency theory for the former theory describes the organizational behavior of a firm such as small and medium enterprise project. Stake holder theory was founded by Freeman (1984) and advocates that management should work with the interests of the stakeholders at heart which is contrary to the conventional agency theory by Jensen and Meckling (1976) which safeguards only the interests of the shareholders. Also the agency theory as opposed to stakeholder theory advocates measurement of business

success through the traditional financial performance approaches. The stakeholder theory focuses on the interest of all interested parties hence it introduces the non-financial facet of business performance. The aim is to ensure that all stakeholders of the business such as customers, suppliers, employees and local community are protected in addition to shareholders (Elkington, 1997). The stakeholder theory is also pegged on the argument that shareholders are part of a bigger group of concerned parties and those persons have legitimate expectations and claim on the organizational purpose hence stakeholders and firms operations are both affected (Mallin and Michelon, 2011).

As a result of the wide networking of various stakeholders, the theory has influenced not only the way of managing the organization but also the approach to measure performance. As far as the stakeholders are concerned, the organization view performance as the extent to which stakeholders are satisfied by the activities of the management. The stake holder theory has with time transformed the way firm performance is measured. That is, from the traditional ways such as return on assets and sales growth rate to non-financial approaches which are intangible in nature (Kaplan and Norton 2001). However, through scholar consensus, both methodologies have been universally used concurrently or interchangeably in measuring organizational performance (Richard, Devinney and Yip 2009). Therefore, with the emergence of stakeholder theory, organizational performance measures have shifted from economic prosperity of the shareholders' value approach to social-economic proxies which considers all stakeholders it is sensitive to environmental integrity.

RESEARCH METHODOLOGY

The study used descriptive cross-sectional survey research design. A sample size of 265 SMEs were drawn from a target population of 5311 operating in Machakos County using Yamane (1967) formula (Yamane, 1967). The study used both stratified and convenience sampling methodology. Structured questionnaire were used to collect the data which was analyzed using both descriptive and inferential approaches. For the descriptive, the study used frequencies, percentages, mean and standard deviation. In the case of inferential statistics, F, R² and t-test tool were used.

ANALYSIS

The study on the extent to which control environment influence performance of small and medium enterprises in Machakos County had diverse empirical outcomes, starting with the preliminary observations followed by other detailed findings as discussed herein.

Questionnaire Return Rate

A sample size of 265 firms were selected and questionnaires distributed to the respondents who were owners, partners, managers or reliable employees through drop and pick methodology. Use of bank managers/or SME bank officials dealing directly with the SME clients fostered the efficiency of data collection for most banks use the “know your customer policy”. Hence the filling of the questionnaires in the presence of the bank manager/official was more reliable. According to Babbie (2003), a return rate of 50% is sufficient to rely on the questionnaire for analysis purposes. Also a return rate of 60% was postulated to be good and 70% was assumed to be excellent for data analysis. Chen (1996) posited that a lower non-response error was due to a corresponding large rate of return of the questionnaires. The total number of questionnaires returned filled was 223 which translated to 84% return rate which was reasonably high and acceptable. This could be associated with the direct involvement of the bank officials where it was possible.

Table 1: Questionnaire Return Rate

Response	No.	%
Filled Questionnaires	223	84%
Unfilled Questionnaires	42	16%
Total	265	100%

Demographic characteristics of SME Projects

To analyze the demographic characteristics of the SME projects, diverse criteria were relied upon which enabled the researcher to either accept or reject the potential respondents from participating in data collection. These classifications were, namely; ownership structure, type of sector the projects were operating in, distribution of employees and the number of years an SME project was in operation since its inception. Failure to meet the set thresholds resulted to disqualification. The demographic approach was paramount to the researcher for it introduced other aspects of the SME projects not captured in the main links between ICS and performance for comprehensive conclusions.

Ownership Structure of SME Projects

Classification of the SME projects based on ownership structure would help the researcher to assess the correlation between other factors not included in the conceptual framework model and performance of the SME projects. The personality involved in operating the SME project has success implications. The output of the ownership structure is as demonstrated in Table 2

Table 2: Ownership Structure of Small and Medium Enterprise Projects

Position in the organization	Frequency	Percent
Sole Owner	102	46%
Partner	44	20%
Manager	67	30%
Other	10	4%
Total	223	100%

The ownership arrangement of the firms that were targeted for data collection was analysed. The results as per Table 2 showed that 102(46%) of the respondents were sole owners of the company, 44(20%) were partners and 67(30%) were managers. Only 10 (4%) were other employees in the firm such as accountants. The 46% of operators of the SME projects were the majority and being the owners of these firms, the probability of recording high profitability levels through increased sales levels and sales growth rate is high, for they maximize revenue generation activities available hence they fully utilize the available firm resources. They are also characterized by being quick in decision making for they have no other persons they need to consult. Hence taps quickly profitable opportunities that come their way. This would positively contribute to increased performance of the SME projects.

The research finding portrayed that 44(20%) partners running the SME projects indicated that the firms could be moderately performing well financially for partners may partly serve the interest of the other members. They may not wholly commit themselves in the operations of the firm hence loss of business opportunities. Whereas, the 30% of the respondents who were made up of managers could register low performance for there is a high chance of those managers to serve their own interest such as investing the firm resources in venture which benefit them and not the owners and have shirking behaviour as postulated by the agency theory (Jensen and Mecling, 1976).The category of 'others' was the lowest in representation and may not materially influence the performance of those SME projects.

Sector of Operation of SME Projects

The SME projects under study cut across various industries. This aspect was important to the researcher for firms in diverse sectors are faced by different business and social environment which can either favour or make the firm to go under. Most of the firms in the same industry have many aspects in common hence the researcher can identify cases of anomalies in performance for the expected outcomes are known. The industry categories where the small and medium enterprise projects were operating in are as summarized in Table 3.

Table 3: Sector of operation

Sector Industry of operation	Frequency	Percent
Service industry	112	50%
Merchandised products (Deals with already manufactured goods)	44	20%
Construction Industry	37	17%
Manufacturing Industry	30	14%
Total	223	100%

On cross examining the firms, half of them, 112 (50%) were from the service industry, 14% from the manufacturing industry, 17% from construction industry while 20% dealt with already manufactured products. The 50% category of SME projects operating in the service industry portrayed financial sustainability of such firms for this is the largest industry in Kenya. Such SME projects are characterized by increased productivity and high sales levels. The 20% category representing firms dealing with already manufactured products implied a lower market share of such firms.

Therefore there was a low chance of significantly contributing to performance. The other two groups of construction and manufacturing industry (representing 31% of all SME projects in Machakos County) portrayed low outputs in the economy that was associated with the kind of SME projects. Such SMEs are threatened and may soon be non-operational hence adversely influencing the overall performance of the SME projects.

Distribution of Employees per SME Project Categories

The number of workers engaged by an organization within a period of one year is an indicator of the extent to which the firm has grown as compared to other firms in the same industry. The larger the number of employees the firm has recruited in a certain period of time, the more the firm has grown in size, holding other factors constant. The study focus was on the number of employees the firms engaged on average within a period of one year. The employment statistics are as shown in Table 4.

Table 4: Distribution of Employees per SME Project Categories

Number of employees	No.	%
10-50 employees	148	66.4
51-250 employees	75	33.6
Total		100

As shown in Table 4, 66.4 % of the SMEs employed between 10 and 50 employees and 33.6 % employed more than 50 employees but not exceeding 250 in total. Based on the number of employees, the data revealed that majority of the SMEs in the sample were small enterprises with prospects of growing beyond the classification of SME projects to big organization. This generally implied that those small firms had the potential of performing well in the future.

Number of Years the SME Projects has been in Operation

The study sought to establish the number of years an SME project was in operation. This was important because the longer the small and medium enterprise has been in operation, the higher the probability of that firm being financially stable hence perpetuity is assured. Therefore, the researcher could assess the sustainability of those organizations. The study findings therefore were represented as presented in Table 5.

Table 5: Number of Years the SME Projects has been in Operation

Years of operation	Frequency	Percent
5 years	23	10%
6-10 years	76	34%
11-15 years	57	26%
16-20 years	24	11%
21-25 years	7	3%
26 and above years	36	16%
Total	223	100%

As per Table 5, 23 (10%) of SME projects were in operation for 5 years only, while 76 out of the total 223 SME projects (34%) had been in operation for 6-10 years. Another 26%, totalling to 57 SME projects were in operation for a period between 11-15 years. 11% (24 SME projects) ranged between 16-20 years in operation, and then between 21-25 years was 3%, translating to 7 firms. The last category in terms of lifespan was the category of SMEs in operation for 26 years and above, which was represented by 16% of the total SME projects investigated.

In summary, the firms with a range of lifespan of between 6 to 25 years of operation was 74% (164 SME projects) which was the majority for all the industries covered which would imply that most firms were financially stable and chances of imminent failure was low. In addition, the probability of having a sound management team with reliable decision making systems was high for such firms which also increased chances of having a reliable internal control system in place.

Similarly, the remaining category with more than 25 year of operation implied that those firms were at their peak. This implied that, such firms were stable financially.

Control Environment and Performance of SME Projects

Control environment is a mainstream function for internal control system to be appreciated by all participants. It controls consciousness of its people. Failure to give the function of control environment preeminence in day to day running of the project is likened with demotivating of the workers which translates to low productivity. This study sought to establish the extent to which the function of control environment influenced performance of SME projects in Machakos County.

This was achieved through use of a Likert scale of 5 scores whereby the respondents were to give their diverse views. The scale used ranged from Strongly Agree (SA) =5, Agree (A) =4, Neutral (N) =3, Disagree (D) =2 and Strongly Disagree (SD) =1. The outcome was presented as per Table 6.

Table 6: Control Environment and Performance of SME Projects

Control Environment Statements	No.		SA	A	N	D	SD	Mn	Std. Dev
Integrity and ethical values									
There exists proper systems to ensure best trade practices, ethical conduct and plans of solving cases of conflict of interest which are adequately communicated	Frq	.	78	111	25	5	0	4.20	0.73
	219	%	35.6	50.7	11.4	2.3	0.00		
Proper tone is expressed at the upper levels by management who explicitly offer moral guidance	Frq	.	73	75	12	36	21	4.22	0.67
	217	%	33.6	34.6	5.5	16.6	9.7		
Top management ensures fairness and truthfulness in dealings with workers, creditors, nationals, debt holders, owners and external auditors?	Frq	.	71	116	29	2	0	4.17	0.68
	218	%	32.6	53.2	13.3	0.9	0.00		
Commitment to Job Competence									
There is clear job description for workers which highlights main duties, responsibilities and set limitations with effective communication	Frq	.	12	36	30	104	36	2.47	1.12
	218	%	5.5	16.5	13.8	47.7	16.5		

Well-articulated knowledge and abilities are set by management for job performance which also aid in employee recruitment process	Frq .	70	115	35	0	0	4.16	0.67	
	220	%	31.8	52.3	15.9	0.00	0.00		
To attract the right cadre of workers, management rewards the current employees commensurately	Frq .	41	62	78	27	9	3.46	1.06	
	217	%	18.9	28.6	35.9	12.4	4.2		
The organization has employee performance appraisal system to eliminate incompetence	Frq .	81	88	41	2	3	4.13	0.85	
	215	%	37.7	40.9	19.1	0.9	1.4		
Management philosophy and operating style	Frq .	11	32	30	103	43	2.38	1.11	
The organization has no cases of dominance by few people on managerial and operational decision matters		219	%	5.0	14.6	13.7	47.0	19.6	
Before any investment decision is made, management carries a cost benefit analysis	Frq .	84	97	34	1	0	4.22	0.72	
	216	%	38.9	44.9	15.7	0.5	0.00		
To achieve the set objectives of the firm, management uses a SWOT analysis technique	Frq .	41	80	76	11	7	3.64	0.96	
	215	%	19.1	37.2	35.3	5.1	3.3		
Organizational structure	Frq .	89	98	25	3	0	4.27	0.72	
Organizational structure of the firm is clear on chain of command from top to bottom		215	%	41.4	45.6	11.6	1.4	0.00	
The devolved operational activities are adequately supervised and monitored	Frq .	81	106	27	4	0	4.21	0.73	
	218	%	37.2	48.6	12.4	1.8	0.00		
The established structure of the organization fits well the existing complex and firm size level	Frq .	95	86	30	3	2			
	216	%	44.0	39.8	13.9	1.4	0.9	4.52	0.36
Assignment of authority and responsibility	Frq .	104	86	20	2	4	4.31	0.83	
Accountability and transparency on authority delegation and obligation allocation based on expected results applies to all persons		216	%	48.1	39.8	9.3	0.9	1.9	

Proper communication on definition and limitation set on authority are clearly written	214	Frq . %	64 29.9	125 58.4	18 8.4	3 1.4	4 1.9	4.13	0.77
Authority to append signature is clearly assigned and management revisits and adjusts the same due to workers' turnover issue	215	Frq . %	69 32.1	114 53.0	24 11.2	4 1.9	4 1.9	4.12	0.82
There is clear allocation of job responsibility and communication channels are well established amongst all workers which enable flow of report	214	Frq . %	73 34.1	112 52.3	23 10.7	3 1.4	3 1.4	4.16	0.78
Human resource policy and practices		Frq							
The job specifications of the organization guide the human capital section to identify the right employees for there is a keen recruitment procedure which is in place	216	Frq . %	85 39.4	96 44.4	29 13.4	6 2.8	0 0.00	4.20	0.78
There exists training programs with definite goals to assist those who are learning on the job	216	Frq . %	21 9.7	89 41.2	75 34.7	19 8.8	12 5.6	3.41	0.97
Supervision of the personnel is done in an adequate manner and resources to solve problems has been established	214	Frq . %	85 39.7	102 47.7	23 10.7	4 1.9	0 0.00	4.25	0.72
A system is in place to ensure spontaneous direct chastening of wrong character of an individual of any status without fear or favor	217	Frq . %	86 39.6	106 48.8	22 10.1	3 1.4	0 0.00	4.27	0.70
An organized evaluation process exists.	206	Frq . %	71 34.5	112 54.4	18 8.7	5 2.4	0 0.00	4.21	0.70
Definition and communication on outcome of performance evaluation and rewarding verdicts is appropriate and again, the rewarding plan is formally done with involvement of various levels of management	216	Frq . %	85 39.4	103 47.7	20 9.3	3 1.4	5 2.3	4.20	0.84
Composite Mean and Standard Dev.								3.97	0.80

From Table 6, it was revealed that SME projects in Machakos County had adopted proper systems to ensure best trade practices, ethical conduct and plans of solving cases of conflict of interest which were adequately communicated. This was evident by the highest rate of 189(86.3%) response of those who agreed. Whereas, those who disagreed were 5(2.3%) and others 25(11.4%) were neutral. The corresponding mean was 4.20 and was higher than the composite score while the SD was 0.73. This meant that integrity and ethical values especially on existence of proper systems to ensure best business practices had positively influenced performance.

In addition, 148(68.2%) of respondents acknowledged that management demonstrated the appropriate “tone at the top” including explicit moral guidance which were the majority in favor of as compared to 57(26.3%) who disagreed with that statement and other 12(5.5%) who did not give any suggestion concerning that matter. The mean to this statement was 4.22 which was higher than 3.97 composite mean score whereas the SD was 0.67. It indicated therefore that the action of the management to maintain proper tone at the apex impacted on the performance of the SME projects in a positive manner.

Further, the aspect of top management ensuring fairness and truthfulness in dealings with workers, creditors, nationals, debt holders, owners and external auditors gained favorable opinion of 187(85.8%) respondents although a dismal number of 2(0.9%) did not agree whereas, the undecided were 29(13.3%). This statement attracted a mean of 4.17 which was also greater than the composite mean score as per Table 6 and SD of 0.68 showing that the assurance by the management on matters of fair and truthful business deals with external interested parties was of great gain to performance. Any firm that has prospective future must be transparent and accountable in their deals which enhance financial sustainability. Therefore, matters of integrity and ethical values in any organization is a selling point of its products for lack of this virtue translates to other parties to be scared and hence cannot fully commit themselves to any matter from such an organization regardless of how attractive or beneficial it may apparently appear. As per the results in Table 6, it was confirmed that maintenance of integrity and good practice values was an assurance of royalty of customers, SME project to government good relationships and harmonious association with creditors and other related parties. This translates to increased market share, continuity in SME project operations and high prospects in performance.

The study also focused on four facets of commitment to job competence out of which three were highly supported by respondents while one was disregarded as follows: one, well-articulated knowledge and abilities are set by management for job performance which also aid in employee recruitment process attracted a positive response of 185(84.1%), 35(15.9%) were

neutral while none of the respondents disagreed. The mean was 4.16, which was greater than composite one [3.97], and the SD was 0.67. This finding implied that well-articulated knowledge and abilities set by management played a positive role in performance of SME projects in Machakos County as planned.

Second, the aspect of attracting the right cadre of workers, management rewarding the current employees commensurately and the organization having employee performance appraisal system to eliminate incompetence received approval by majority respondents of 103(47.5%) while other 36(16.6%) disagreed and the rest of 78(35.9%) were doubtful although the mean was 3.46 which was smaller than the composite one, while the standard deviation gotten was 1.06. This meant that, the consummate rewarding of employees by the management did not positively influence performance of SME projects in Machakos County. This could be due to less effective approach being used to attract the right class of workers. The management needs to identify a better recruitment system that can be effectively utilized by the human resource personnel to engage the right workers. This can be achieved by asserting the right job description parameters against which workers' performance and personal attributes can be benchmarked with during the recruitment process.

Third, the concern of this study was the outcome of the employee performance appraisal system used to eliminate incompetence in the organization. The respondents demonstrated a big support of this aspect with 169(78.6%) being in agreement while 5(2.3%) which is a small number disagreed and the rest of the 41(19.1%) were neutral. The associated mean was 4.13 greater than the composite mean value given and a corresponding SD of 0.85. This was an indication that appraising of employees was a positive strategy to ensure enhancement of performance of SME projects. Therefore, the top management should continue to promote all the value adding activities to performance appraisal so as to increase workers' productivity.

Fourth, commitment to job competence in respect to existence of clear job description for workers which highlights main duties, responsibilities and set limitations with effective communication attracted a minority support of 48(22%) while other 140(64.2%) did not agree and the rest of 30(13.8%) did not support or oppose the suggestion given. The mean arising from this statement was small at 2.47 (and SD was 1.12) value compared to the composite value of 3.97. The resulting implication was that job clarification did not substantially positively influence performance of SME projects in Machakos County. This could be due to less effective methodology of division of labor through duty allocations. In overall it is well depicted that the SME projects had a high level commitment in ensuring that employees are motivated through provision of clear guidelines on how each should operate and also the compensation benefits to be reaped in cases of meeting certain job performance conditions. This action gave job

assurance to employees, resulting to minimal employee turnovers, strikes and in addition the organizations were assured of increased workers' productivity levels which prompt improvement in performance.

Management philosophy and operating style got similar response as in the case of commitment to job competence as follows; the cost benefit analysis undertaken by the firm before any investment decision is made had highest response scores of 181(83.8%) of the respondents who agreed, only 1(0.5%) of respondents disagreed while the other 34(15.7%) remained undecided. The mean was 4.22 with a SD of 0.72. This indicated that cost-benefit analysis undertaken before any investment is done had an economic and financial value addition to the SME project performance for the mean was above the composite one. This is because such a strategy ensured that only profitable investment ventures were financed. In addition, the aspect of achieving the set objectives of the firm through management using SWOT analysis technique attracted a majority support of 121(56.3%) while 18(8.4%) disagreed and the rest of 76(35.3%) were neutral. The mean was 3.64, less than composite score which was 3.97 and SD was 0.96. The implication was that the SWOT analysis undertaken by the management did not optimally increase profitability of SME projects in Machakos County although majority of the respondents were in support.

Further, the aspect of the organization avoiding dominance by few people on managerial and operational decision matters attracted 43(19.6%) of respondents who agreed while 146(66.6%) disagreed and 30(13.7%) were unsure. The implication to this outcome was that the organization did not factor in participation of all the concerned parties in decision making (was discriminative) and as a result, this action led to low performance. This was evident by the response mean which was 2.38 and low as compared to the composite mean score of 3.97 and SD=1.11. The top management needs to initiate a decision support system that accommodates decisional ideas from all cadres of managers to enhance productivity.

The organizational structure of the SME projects, namely; organizational structure of the firm being clear on chain of command from top to bottom had a support of 187(87%) of those who agreed and those who disagreed were 3(1.4%) and the undecided respondents were 25(11.6%). The mean score was 4.27 hence higher than composite value, and SD was 0.72. It meant that clarity of the organizational structure of the firms had an incremental change on performance. Additionally, the facet of devolved operational activities being adequately supervised and monitored was supported by 187(85.8%) of respondents who agreed while other 4(1.8%) disagreed and the rest of 27(12.4%) were neutral. Mean was 4.21 and also higher than the composite mean score and the corresponding SD was 0.73. This finding indicated that

devolved operational activities aided in promoting positive changes in performance of SME projects in Machakos County.

The established structure of the organization which was assumed to fit well the existing complex and firm size level had gotten 181(83.8%) who agreed while other 5(2.3%) of the remaining respondents disagreed and 30(13.9%) were undecided. The mean score gotten was 4.52 (SD=0.36) which was more than average composite score. This study outcome suggested that the well-designed organizational structure of the SME projects in Machakos County influenced the levels of performance in a positive way. In overall, the dominating positive response is a sign of favorable change in SME project performance for the organizational structure adopted dictated efficiency and effectiveness in operations, span of control and smooth flow of instructions hence full resource utilization.

Assignment of authority and responsibility was also assessed as far as accountability and transparency on authority delegation and obligation allocation which were based on expected results and applies to all persons. The research findings showed that 190(87.9%) agreed while 6(2.8%) disagreed and the rest of 20(9.3%) of the respondents did not take any side of the opinion. The corresponding mean to this statement was 4.31 which was more than the composite mean score [3.97] while the SD was 0.83. The implication derived from this finding was that accountability and transparency when delegating duties contributed to performance positively. For the case of limits of authority being clearly defined in writing and appropriately communicated garnered a majority positive response of 189(88.3%) from respondents and 7(3.3%) disagreed with that suggestion while 18(8.4%) were undecided. The mean realized was 4.13 which was above 3.97, the composite mean as per Table 6 and a SD of 0.77. Such an average value as compared to the composite one depicted that the proper communication and definition of authority helped the management to run the SME project with incremental results on performance.

The delegation of signature authority limits in an appropriate manner and management ensuring that reviews and updates of signature engraved on records is done due to cases of employee turnover got 183(85.1%) support from respondents while 8(3.8%) were in disagreement and the rest of 24(11.2%) were undecided. The line mean was 4.12, greater than composite score [3.97], with a SD of 0.82. This implied that there was improvement in performance due to management endeavors to ensure authenticity of signatures in past records. Also establishment of job responsibilities, including specific duties, clear reporting relationships and communication of the same to all employees had 185(86.4%) backup from respondents. Another 6(2.8%) disagreed and the remaining 23(10.7%) were undecided. The mean was 4.16 was more than the composite mean score and SD was 0.78. This implied that

improvement in reporting through well streamlined communication channels enhanced the performance of the SME projects.

In a nutshell, the findings on assignment of authority and responsibility portrayed that management actively participated in ensuring that accountability and transparency of the tasks undertaken by the different levels of management and specific workers was accomplished. As a result, productivity of SME projects increased which was evidenced by positive change in profitability levels. Holding employees responsible to specific tasks is a way of ensuring that there are no idle laborers who are paid for no work done.

Human resource policy and practice got positive majority response for all the estimation proxies used whereby a careful hiring process which has been put in place and involvement of identification of potential employees based on job requirements by the human resources department got 181(83.8%). Those who disagreed with this opinion were 6(2.8%) and 29(13.4%) respondents were undecided. The mean was 4.20 and was higher than the derived composite score and SD was 0.78 which implied that the human resource policy and practice positively changed the performance of the SME projects.

Further, the aspect of having well defined objectives on-the-job and other effective training programs was supported by 110(50.9%) of respondents who agreed while 31(14.4 %) disagreed and 75(34.7%) of the respondents were undecided. The mean realized was smaller as compared to the composite mean score for it was 3.41 and SD of 0.97. This descriptive outcome revealed that training programs had less impact on performance. The management has to carry out a need assessment exercise so as to specifically identify the need gap to be filled so as to focus on the right knowledge impartation program. This could improve of workers' productivity.

Opinion on the adequacy of personnel supervision and availability of regular resource for resolving problems was positively suggested by 187(87.4%) respondents who were in agreement while 4(1.9%) disagreed and 23(10.7%) did not take either sides with a mean of 4.25 and SD= 0.72. The results gotten implied that performance level of SME projects in Machakos County was enhanced by the adequate supervisory activities of the organization for the mean established was higher than the composite mean value of 3.97. This also implied that failure to closely and effectively oversee the firm resources may result to financial losses. Further, the case of existence of a system to ensure spontaneous direct punishing of wrong character of an individual of any status without fear or favor got a support of 192(88.4%) from the respondents while 3(1.4%) disagreed and the rest of 22(10.1%) were neutral. The 4.27 mean value realized was higher than the composite score one and the SD was 0.70. This implied that the spontaneous negative reinforcement of wrong doers amongst the workers minimized

malpractices and ill-advised activities amongst workers which assured the stakeholders of the firm improved returns.

The concept of existence of an organized evaluation process had support of 183(88.9%) supporters who agreed and other 5(2.4%) disagreed while the rest of 18(8.7%) were undecided. This response statement was represented by 4.21 line mean which was superior to the composite mean score of 3.97 and SD of 0.70 which implied that the evaluation process played a positive role in improving performance of SME projects in Machakos County. Evaluation process is a corrective approach which ensures that the outcome of a business activity is in compliance with the set goals and objectives. In the case of SME projects in Machakos County, the evaluation action seemed to have aided in rectifying areas of performance deviations.

The perspective of definition and communication on outcome of performance evaluation and rewarding verdicts being appropriate and again, the rewarding plan being formally done with involvement of various levels of management had a majority score of 188(87.1%) from respondents who agreed while those who were against this suggestion were 8(3.7%) and undecided category of respondents were 20(9.3%). The 4.20 mean generated and SD of 0.84 was better than the composite mean score. The suggestion accorded to this finding was that proper communication of performance outcome and appropriate rewarding system had enhanced the profitability of SME projects in Machakos County. In general, the human resource policy and practice got more than the expected support implying that human capital development was well done. Equipping of workers with the right training capacitates them to perform better which in the case of SME projects in Machakos County was portrayed in the positive change of financial performance.

Hypothesis Testing

H₀: Control Environment does not significantly influence performance of small and medium enterprise projects in Machakos County.

The prediction equation as shown in chapter three was;

$$\text{PER} = \beta_0 + \beta_1\text{IEV} + \beta_2\text{COC} + \beta_3\text{MPO} + \beta_4\text{OS} + \beta_5\text{AAR} + \beta_6\text{HPP} + \varepsilon$$

Where; FPER is financial performance

IEV is integrity and ethics values of the organization

COC is commitment to job competence

MPO is management philosophy and operating style

OS is organizational structure of the firm

AAR is assignment of authority and responsibility in pursuit of objective

HPP is human resource policy and practice.

To test the null hypothesis, multiple regression analysis was utilized (Table 7).

Table 7: Control Environment and Financial Performance of SME Projects

Model Summary						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate		
1	.272 ^a	.074	.042	.63927		
a. Predictors: (Constant), HPP2, IEV, OS, MPO, COC, AAR						
ANOVA						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	5.692	6	.949	2.321	.035 ^b
	Residual	71.517	175	.409		
	Total	77.209	181			
a. Dependent Variable: Financial Performance b. Predictors: (Constant), HPP, IEV, OS, MPO, COC, AAR						
Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.335	.330		10.110	.000
	IEV	.069	.042	.119	1.624	.106
	COC	.036	.044	.061	.828	.409
	MPO	.147	.047	.231	3.160	.002
	OS	.035	.035	.073	.994	.322
	AAR	-.029	.034	-.066	-.876	.383
	HPP	-.008	.032	-.018	-.238	.812
a. Dependent Variable: Financial Performance						

According to Table 7, it shows that the F statistic for the model was 2.321 ($p=.035$). The computed ($p<.05$) which implied that the model was statistically significant at 95% confidence level and therefore suitable in estimating the financial performance of SME projects in Machakos County. The best of fit test, that is R^2 , showed that integrity and ethics values of the organization, commitment to job competence, management philosophy and operating style, organizational structure of the firm, assignment of authority and responsibility in pursuit of objective and human resource policy and practice taken together explained 7.4% of the total variations of financial performance of SME projects. The rest of the changes occurring on financial performance (92.6%) were explained by other factors ignored by the model.

The β coefficient test of best of fit on the significance of every individual predictor variable on the independent variable was carried out. The results as per Table 7 depicted that

only management philosophy had caused a statistically significant positive change of .147 ($p=0.002$) on financial performance on adjusting it by one unit. On the other hand, Integrity and ethics values of the organization unit change resulted to a weak direct change of .069($p=.106$) on financial performance which was statistically insignificant. In addition, a unit change in commitment to job competence resulted to a weak statistically insignificant positive change of .036($p=0.4095$). Also a unit change in organizational structure of the firm led to statistically insignificant change of .035 ($p=.322$) which was weak and positive. A unit adjustment in assignment of authority and responsibility in pursuit of objective resulted to a negative change in financial performance of .029($p=.383$) which was weak and statistically insignificant. Further, a unit alteration of human resource policy and practice showed that this act resulted to a weak statistically insignificant negative change of .008($p=0.812$). The empirical model established was as: $FPER = 3.335 + .069IEV + .036COC + .147MPO + .035OS - .029AAR - .008HPP$

Lastly, the aspect of non-financial performance was considered and the regression analysis outcome was as per Table 8.

Table 8: Control Environment and Non-Financial Performance of SME Projects

Model Summary						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate		
1	.251 ^a	.063	.032	.67738		
a. Predictors: (Constant), HPP2, OS, IEV, MPO, COC, AAR						
ANOVA						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	5.566	6	.928	2.022	.065 ^b
	Residual	83.051	181	.459		
	Total	88.617	187			
a. Dependent Variable: Financial Performance b. Predictors: (Constant), HPP, IEV, OS, MPO, COC, AAR						
Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.471	.345		10.055	.000
	IEV	.119	.044	.194	2.677	.008
	COC	-.025	.046	-.040	-.554	.581
	MPO	.102	.048	.153	2.117	.036
	OS	.018	.037	.036	.498	.619
	AAR	.000	.035	.001	.014	.989
	HPP	-.007	.034	-.016	-.215	.830
	a. Dependent Variable: Non-Financial Performance					

STUDY FINDINGS

The study finding on the influence of control environment depicted that only two out of the six aspects of this ICS component had significant influence on performance. That is, a unit transformation of management philosophy and operating style caused a statistically significant positive change of .147($p=0.002$) on financial performance. Similarly, a unit change in management philosophy and operating style led to .102 ($p=0.036$) changes in non-financial performance levels which were statistically significant and positive. This was in tandem with the highly positive responses gotten from respondents such as aspect of management determining the level of knowledge and skills needed to perform a particular job whereby the information is used in the hiring process which scored 84.6% level of acceptance. In addition, a unit change integrity and ethics values of the organization resulted to a direct change of .119($p=.008$) on non-financial performance of the SME projects in Machakos County. The management needs to uphold those aspects by ensuring that available resources are efficiently allocated to them to ensure that this status quo is either maintained or improved.

Other facets used to measure control environment demonstrated insignificant influence to performance. This outcome was contrary to descriptive findings for most of those aspects got a more than average (50%) positive response. The management need to endeavor in improving areas of weakness to have an overall effective influence of control environment for it is the function of internal control system that sets the tone of the organization by influencing the control consciousness of its people (Whittington and Pany, 2001).

Research findings as per Table 8 revealed that the F statistic for the model was 2.022($p=.065$). The computed p value was greater than the critical value (.05) and this implied that the model was not suitable in estimating the non-financial performance of SME projects in Machakos County for it was statistically insignificant at 95% confidence level. The assessment of best of fit as far as (R^2) was concerned, showed that the six factors (integrity and ethics values of the organization, commitment to job competence, management philosophy and operating style, organizational structure of the firm, assignment of authority and responsibility in pursuit of objective and human resource policy and practice) taken together explained 6.3% of the total variations of non-financial performance of SME projects in Machakos County. The rest of the changes occurring on performance (93.7%) are explained by other factors outside this model.

Further, best of fit test on the significance of the slope for every individual predictor variable was undertaken. A unit change in management philosophy and operating style led to .102($p<.05$) changes in non-financial performance levels which were statistically significant and positive. On the other hand, a unit change in assignment of authority and responsibility in

pursuit of objective, did not demonstrate any change in non-financial performance (.000 and $p > .05$) hence had statistically insignificant relationship with non-financial performance. Unit change integrity and ethics values of the organization resulted to a direct change of .119 ($p = .008$) hence that variable statistically significantly influenced non-financial performance.

In addition, a unit change in commitment to job competence resulted to a weak statistically insignificant inverse change of .025 ($p > .05$) of non-financial performance. Also a unit change in organizational structure of the firm led to statistically insignificant change of .018 ($p = .619$) of non-financial performance which was weak and positive and further, a unit alteration of human resource policy and practice showed that this act resulted to a weak statistically insignificant negative change of 0.007 ($p > .05$) on non-financial performance. The model arising from this analysis was as follows;

$$\text{NPER} = 3.471 + .119\text{IEV} - .025\text{COC} + .102\text{MPO} + .018\text{OS} + 0.00\text{AAR} - .007\text{HPP}$$

Where;

NPER is non-financial performance and the other variables are as described in the predictive model

The F statistic values for the case of financial performance was 2.321 ($p = .035$) respectively hence the model at 95% of confidence level was suitable to measure financial performance. Whereas, for non-financial measure, the F statistic value was 2.022 ($p = .065$) hence control environment was not statistically significant to be used to assess non-financial performance aspect of the SME projects in Machakos County. The study concluded that since control environment significantly estimated financial performance aspects, that was good enough to fail to accept the null hypothesis which states that; H_0 : *Control environment does not significantly influence performance of small and medium enterprise projects in Machakos County*. The conclusion made by this study meant that control environment statistically significantly influence performance of SME projects in Machakos County.

CONCLUSION

Control environment statistically significantly influence performance of SME projects in Machakos County. That is employees have positively embraced the laid down integrity and ethical values and commitment to job competence which in turn has contributed to enhancement of productivity levels of SME projects. Also the philosophies and the operating styles used by the top management are effective which is evident in efficient delegation of duties to the workers. It is also concluded that the human resource team is focused in identifying the right manpower with the right skills and experience hence the expected output is achievable.

RECOMMENDATIONS

Top management of small and medium enterprise projects should strengthen the five internal control system components inclusive of control environment for it is more advantageous as compared to a case where some of them are given more emphasis. The five components based ICS improves performance for it has more significant contribution than each element in isolation and also it enhances reliability level by external auditors which translate to less audit costs incurred.

External auditors have traditionally been forming audit opinion for shareholders or the owners of the SME project and the reports are usually financial based. However, the introduction of both financial and non-financial performance aspects as per this study, calls upon the auditors to prepare reports for all stakeholders and on the same note, management is advised to shift to good corporate governance which advocates for accountability and transparency responsibility to all stakeholders. In other words, a shift paradigm from agency theory to stakeholder theory is advocated by this study.

LIMITATIONS

This study sought to establish the extent to which control environment influenced performance of medium sized enterprise projects in Machakos County, Kenya. This main objective was not achieved without constraints. However, the researcher endeavored to put in control confines to avoid significant effects which could materially distort the research findings established by this study.

The limitation arising was on study conceptualization on the influence of control environment on performance of SME projects in Machakos County. The study focused on control environment and performance of SME projects. Although the research findings were statistically significant, the outcome was limited to the cause-effect model selected and how study variables were operationalized. The research findings were anchored on the methodology used to collect and analyze data. Due to time constraints, the study used a sample of 265 from a population of 5311 and relied on multiple, stepwise and hierarchical regression models for data analysis which from the researcher's judgment were more suitable for making statistical inferences.

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