Best Management Practices: SMEs’ Organizational Performance Management Based On Internal Controls in Mexico

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Abstract

The paper aims to analyze the best management practices that may enable small and medium organizations in Mexico to achieve desired organizational performance. In order to do so, three important management focuses and three managerial practices are discussed independently and as a network to understand the implications of association and potential influence on SMEs’ organizational performance. Furthermore, the notion that internal controls are at the core of good and effective management practices is also thoroughly discussed. The paper opted for content analysis and a review of the literature. The paper provides a conceptual framework for small and medium sized enterprises (SMEs) to achieve organizational performance. It lays groundwork for the development and implementation of best management practices that could provide important opportunities for SMEs to enhance productivity and performance. It is essential that these firms select the management focus and detect the existing associations among managerial practices to build the capacity for strategic and efficient assessments to influence competitiveness.

Keywords: Best management practices; internal control; organizational performance; SMEs; Mexico.

1. Introduction

Mexico is an important emerging economy (The World Bank, 2014) and exporter, in fact, the country’s economy heavily depends on such exports; over 90 percent of its trade is accomplished within 10 Free Trade Agreements with forty-five countries (Pro Mexico, 2014). That said, most of the businesses in Mexico are small and medium and continuously face challenges that lead them to fall short in relation to profitability, long-term relationships with stakeholders, total quality, productivity, and performance, which impede them from even beginning to strategize about international commerce. Therefore, these organizations particularly need to understand the implications of environmental change in emerging economies (Xu and Meyer, 2013) to internally adapt, modify and change managerial practices to fit organizational needs. Moreover, SMEs need of internal evaluation and assessment of objectives, processes, procedures, and strategies to determine their progress in the overall fulfillment of their purpose. The term medium enterprise was first utilized in Mexico to refer to small and medium enterprises (SMEs) as well as those micro enterprises that showed promise of growth and development, approximately 25 percent (Zevallos, 2003). It is considered, in general, that SMEs have up to 250 workers (Ayyagari et al., 2007); according to The Commission of the European Communities, micro, small, and medium enterprises (MSMEs) have less than 250 employees, an annual turnover of no more than EUR 50 million and/or no more than EUR 43 million in annual balance sheet (European Commission, 2003).
In Mexico, MSMEs are classified as such in accordance with the number of workers and without regard to their industry, sector, gross profit, and/or core business. In such way that organizations with 0-10 employees are micro, 11-50 employees are small, and 51-250 employees are medium sized (INEGI, 2009).

SMEs are the majority of organizations around the world, approximately 90 percent are small and medium-sized (Gasiorowski-Denis, 2015). The number of MSMEs in Mexico has oscillated between 99 and 98 percent within the last six years, and they are responsible for approximately 70 percent of employment generation (González, 2013). For such matter, the government has encouraged the development of policies, new strategies and approaches to support MSMEs (Ferraro and Stumpo, 2010); that said, the majority of governmental and international institutions’ actions are focused on the financial aspect (Bouri et al., 2011) of SMEs in Mexico, leaving management vulnerable and unprepared to front the environmental challenges and competitiveness that these organizations face.

SMEs, in general, have problems to survive the test of time (Ahmed and Abuelmaatti, 2013), especially in a highly competitive environment. In Mexico, according to Kelly (2013), approximately 82 percent perish before the second year because they are not profitable; in 2015, 4.9 million firms were registered of which 2.2 million were new (INEGI, 2015). In order to survive and achieve desired performance and competitive advantage, organizations must effectively design and implement strategy fit to their core business and be able to rapidly adapt to change (Bhalla et al., 2011). SMEs in Mexico, then, would obtain significant advantages from the adequate inclusion of internal controls within management practices. Effective internal controls assist managers with evaluations and reduce potential risks (Lakis and Giriūnas, 2012), and grant managers the required information for strategic decision making (Giriūnienė and Giriūnas, 2012).

The small and medium sized organizations in Mexico that do engage in certain levels of control are either focused on routines and/or on well-accepted and known policies and norms (D’Aunno et al., 2000), and these are informally communicated and disassociated from managerial practices. Therefore, the analysis of management focuses and practices related to organizational performance is important because it facilitates the detection of areas of opportunity, and potential impact on the improvement of profitability, productivity, quality, and performance. In view of the great importance of small and medium organizations for economic development and employment generation in Mexico, the comprehension of such practices is critical to create sustained competitiveness.

The ever-changing environment (i.e. political, legal, economic, and social shifts) in emerging economies create a degree of uncertainty that causes problems for various organizations (Peng and Heath, 1996), especially for SMEs. Best management practices should be a target in all types of organizations because the techniques, methods, and actions carried out to control and reduce inefficiencies in processes and procedures is what ultimately will provide the organization with the desired performance. Hence, the need for studying best management practices in SMEs operating in Mexico cannot be overemphasized. Therefore, four research questions rose, these being: 1) how do internal controls in management approaches and managerial practices impact the organization’s handle of environmental changes and uncertainty? 2) How can SMEs in Mexico enhance their performance with internal controls? 3) Are management practices associated amongst each other? If so, how do these associations impact organizational performance? And, 4) what role do internal controls play on managerial practices, strategic planning, human resource development and organizational innovation?

The general objective of the study is to analyze the best management practices that may enable small and medium organizations in Mexico to achieve desired organizational performance. In order to do so, three important management focuses and three managerial practices are discussed independently and as a network to understand the implications of association and potential influence on SMEs’ organizational performance. Furthermore, the notion that internal controls are at the core of good and effective management practices is also thoroughly discussed. Finally, the paper has the following sections: 2) review of literature of all intersecting concepts and propositions; 3) framework and discussion of propositions; 4) conclusions and 5) future research prospects.
2. Review of literature

2.1 Organizational Performance (OP)

Organizations, institutions, firms, corporations, are information processing systems (Driveret al., 1996); they are all conformed by a group of people that work together to reach a set of goals and objectives (Lusthaus et al., 2002), which particularly differentiate them from one another (Aldrich, 1999) in regards to their core business and operations. Goals and objectives are characteristic of an organization’s requirements, standards, processes and procedures, and the way it controls tasks and activities (Aldrich and Ruef, 2006). Strategic objectives are established from the general to the particular, that is, from operation to individuals (Hasham, 2004) in order to ensure effective outcomes; furthermore, they enable organizations to strategically establish and measure their performance.

In order to evaluate an organization’s current status, its performance needs to be assessed. Performance is the result of the effort made to execute a task or activity, process and procedure; at its core, performance is about creating and adding value (Carton and Hofer, 2006). An organization’s performance and its evaluation, well depends on the objectives, indicators, focus or approach to performance, orientation of results, and outcomes the organization is working towards. Table 1 includes basic elements and attributes of organizational performance. OP will largely depend on the organization’s focus of performance, be it efficiency, financial status, and/or effectivity (Lusthaus and Adrien, 1999), to ensure that the organization is working towards common goals and objectives. The process of assessing may be carried out at an individual, departmental, divisional, and/or organizational level (Lusthaus and Adrien, 1999) and, if effective, performance measurements may provide competitive advantage and differentiation (Alfaro et al., 2007). Further, OP may be assessed by various financial, or nonfinancial means, measures, indicators (Jelinkova and Striteska, 2015), to achieve different outcomes.

Performance management encompasses an organization’s policies, activities, processes and procedures through which individual and organizational strategic objectives are fulfilled and their performance enhanced (Storey and Sisson, 1993). Performance management requires indicators and/or measures to develop a scheme, which also happens to be essential to the execution of an organization’s performance management system (Jelinkova and Striteska, 2015). Therefore, performance management is “about measuring, monitoring and enhancing the performance of staff, as a contributor to overall organizational performance” (Martinez, 2001).

There are disagreements on the existence of correct, right and best indicators and/or measures of an organization’s performance (Carton and Hofer, 2006; Lusthaus et al., 2002), which have been cause for disputes in organizational theory (Handa and Adas, 1996); nonetheless, while measurements are kept well aligned with the organization’s strategic objectives they are able to provide reliable data and information. For such reason, OP is vital in the public and private sector (Dalton et al., 1980), as well as all types of organizations, such as small and medium enterprises (SMEs), large, multinational, and family business firms (FBF), amongst others.

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<th>Table 1: Organizational performance elements and attributes</th>
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<td>Outcomes</td>
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Internal controls, which are sets of instructions (Basoln, 2001; 2002), are essential to all tasks and functions, even those that seem to be routine and less strategic (Sitkin et al., 1994). Since OP is determinant in organizations’ capacity to efficiently achieve strategic objectives (Venkatraman and Ramanujam, 1987), implementing internal controls provides organizations with reliable data and information to assess its overall performance. They are generally designed and executed to collect, analyze and communicate fundamental information, encourage employees, and/or improve and increase capabilities (Sitkin et al., 1994) and key resources. Therefore, they enable organizations to improve their processes (Ben-Gal and Singer, 2004) and corporate governance (Juheno, 1999), and prevent loss (Basoln, 2001; 2002) and increased costs.

Designing and implementing internal controls and internal control systems (ICS) make said capacity visible throughout performance measures. ICSs, which determine and guide the way both people and objectives are evaluated, are frequently limited by people's roles (Aldrich and Ruef, 2006) within the organization. A good system determines and predicts cause-effect relationships amongst performance associated variables, indicators and measures, which explain the organization’s performance. Internal control systems have a significant impact on OP (Krishnan, 2005) because they effectively organize all of the organization’s goals, objectives, tasks, activities, processes and procedures. Further, they aid top management in timely decision making because they cover strategic planning and management, financial and personnel performance, as well as innovation and quality (Lakis and Giriünas, 2012) processes and procedures. Their efficiency and efficacy rest in organizations' core business and operations, structure, size (Doyle et al., 2007) and governance, amongst others.

Performance measurement systems (PMS), then, should be well aligned with the organization’s strategic objectives, strategies and tactics to ensure superior and desired productivity and performance (Grant, 2007). A business performance measurement (BPM) is utilized to achieve strategic objectives, strategically plan and effectively manage a business (Bourne et al., 2003), and evaluate and control its performance. A BPM system includes the procedures to execute strategic actions and produces information to assess said actions’ content and validity (Ittner et al., 2003). Therefore, managerial practices should be adequately coordinated with internal control and performance requirements.

2.2 Management Practices and internal controls

The concept of best management practices is neither new nor consists of a single definition. Such best practices are differentiators amongst the least and most effective organizations; meaning, they characterize high performers. The concept is naturally utilized across types of organizations, institutions, industries and sectors (Bendixsen and De Guchtenereire, 2003). That said, every best practice is designed, implemented, and interpreted in accordance with the context (Hall and Jennings, 2008), that is, the organization’s management, structure, operations, environment, and people. According to Bendixsen and De Guchtenereire (2003) best practices relate to “successful initiatives or model projects that make an outstanding, sustainable, and innovative contribution to the issue at hand”. Determining best practices involves carrying out a type benchmarking of others’ successes and failures, what has and has not worked, what has made others high performers (Jennings Jr., 2007). Thus, best practices are identified and implemented to “improve efficiency, effectiveness, standardization and consistency” (Kerzner, 2010) throughout the organization.

Good performance measures are detectable when gathered data and information reduces or eliminates uncertainty, leading to optimal decision making (Grafton et al., 2010) and managerial best practices are clear when managers effectively control said data and information (Domanovic, 2013), that is, collect and analyze it and adequately transfer knowledge. Designing and implementing effective internal controls are useless unless managerial practices are consistent with strategic objectives; furthermore, since all functions are bound by the existing resources and capabilities, and employees individual limits (Lusthaus et al., 2002), organization, continuous development and reengineering is a must. It is then suggested that best management practices of internal controls focused on strategic planning, human resource development and/or organizational innovation, are key to the procurement of desired organizational performance.
According to Bennis (1999) managers do things right and leaders do them the right way; therefore, assuring that things are done the correct way requires managerial practices that are based on internal controls. When managerial practices have internal controls at their core, there are positive impacts on performance and on organizational added value. The activities that add value are those that enhance economic value, effectively transform products and/or services, and consumers perceive as valuable and satisfactory (Tenner and DeToro, 1997); conversely, nonvalue-adding activities are time consuming and produce an increase in costs (Tenner and DeToro, 1997). For instance, practices regarding internal controls would be considered as nonvalue adding (Laguna and Marklund, 2005); however, they may not be eliminated (Womack and Jones, 1996) because of their impact on goal and objective achievement, productivity and, overall, organizational performance. Therefore, it is suggested that internal controls are characteristic of best management practices. Hence,

\[ P_1: \text{Management practices based on internal controls have a positive effect on SMEs' organizational performance.} \]

2.3 Management Practices and Strategic Planning

Strategy enables the fulfilment of objectives (Glueck, 1980) and is, therefore, essential to the achievement of competitive advantage (Veskaisri et al., 2007). Planning is a process that facilitates decision making regarding organizational goals and objectives and members with a clear path of future tasks and activities (Bateman and Zeithml, 1993). Effective planning takes into account the organization’s long-term strategic objectives and plans (Glaister and Falshaw, 1999) as well as tactics. Strategic planning is a series of actions executed to achieve an organizational purpose (Mintzberg, 1994). It is a process aimed at fostering positive and beneficial outcomes (Akinyele and Fasogbon, 2010) by effectively determining the elements that enable the procurement and delegation of resources and capabilities to achieve objectives and the organization’s general purpose (Steiner, 1979; Glaister and Falshaw, 1999).

The relationship of strategic planning and organizational performance is of great interest to strategic management because of its contribution to organizational effectiveness (Arasa and K’Obonyo, 2012). According to Hambrick (1980) analyzing the association of strategy and performance is primordial. Furthermore, it has been widely used across types of organizations and sectors, and applied to various matters such as competitive advantage, information gathering, strategic decision making, and contingency modelling (Boyd and Reuning-Elliott, 1998), amongst many others. Strategic planning is essential for top management (Steiner, 1979), therefore strategic management (Arasa and K’Obonyo, 2012) because of the need to continuously make strategic decisions in an uncertain and ever-changing business environment. Strategic planning is one of management’s processes through which specific long-term objectives and strategies are designed, developed, implemented and monitored (Armstrong, 1982).

Strategic management helps decision makers with internal and external analysis; that is, promptly detect key strengths, weakness, opportunities and threats (Adeleke et al., 2008) that are the basis for the achievement of desired performance; meaning that, said planning is directly associated with the enhancement of organizational performance (Menon et al., 1999). Therefore, a control element is required to effectively implement a strategic plan; that is, strategic management depends on both internal controls and strategic planning, which both require a system based on strategic design, vigilant execution, and rigorous assessment. In fact, internal control systems may aid organizations in the unforced and uncomplicated execution of strategic plans (Kotter, 1996). Therefore, strategic planning based on internal controls is about achieving and tracking performance through effectiveness (Babafemi, 2015). Hence,

\[ P_2: \text{Strategic management based on internal controls positively influences SMEs’ organizational performance.} \]

Managerial practices focused on strategic planning should take into account the organization’s structure, managerial style and know-how, and business environment (Babafemi, 2015). Strategic planning is associated with innovation and human resource development when efficient resource and capability allocation and continuous innovation are strategic objectives.
A good strategic plan includes all organizational elements that require implementation and assessment. As such, the development of corporate values, managerial capabilities, organizational responsibilities, and administrative systems that are connecting the strategic and operational decision making at all levels, should be coordinated.

Strategic management that integrates human resources into strategic planning concentrates practices in two aspects, these being strategy formulation and implementation. In strategy formulation, human resource functions should provide information about the types of employee knowledge, skills, competencies, and abilities available to foster competitive advantage. In implementing a strategy, human resource functions should efficiently organize and manage their competencies, attitudes and behaviors and align them with the strategic objectives (Welbourne and Cyr, 1999). Employee development begins with the organization’s mission statement, which leads to core objectives and strategies which are implemented for human resource training and development (Phillips, 1999). Furthermore, strategic needs and requirements are transmittable to human resources through career development and employee training programs (Takeuchi et al., 2003). Employee training and development programs equip workers with the needed skills, competencies and knowledge to achieve desired productivity (Beugelsdijk, 2008); further, associating strategic planning, internal controls and human resource development may have a greater and positive effect on the organization’s performance. Hence,

P3: Strategic management based on internal controls is associated with SMEs’ human resource development.

Strategic planning positively influences performance because managers are equipped to make decisions under changing and challenging business environments (Andersen, 2000). However, creativity and proactivity are essential to effectively face the uncertainty that the future brings; thus, innovation is primary in strategic planning. Strategy innovation is “a process of applying innovative thinking to the entire business model of a company, not just to its products or inventions” (Johnston and Bate, 2013); organizational innovation, then, may well become a differentiator and competitive advantage foundation when aligned with strategic management and internal controls. Therefore, in order to be responsive to changing environments and achieve desired performance, managers must delegate efforts towards developing human resources that can promptly and optimally adjust to possible strategy changes (Wright and Snell, 1998); hence,

P4: Strategic management based on internal controls is associated with SMEs’ organizational innovation.

2.4 Management Practices and Human Resources

Managerial practices regarding human resources are not only significant to human resource management, but also to industrial relations, organizational psychology (Jones and Wright, 1992) innovation strategy, and strategic management, amongst others. Human resource management encompasses a series of practices involving the employee management towards the organization’s purpose, as well as particular goals and objectives. Its existence is natural as an organization is created and is, therefore, “a fundamental activity in any organization in which human beings are employed” (Boxall et al., 2008). Further, human resource management is very important as it promotes optimal resource development and effective knowledge management (Lord and Farrington, 2006).

According to Hendry (2011) human resource management is achieved when practices related to the personnel are consistently communicated throughout the organization. Such consistency should be visible throughout all practices. Some of human resource management’s practices include processes and procedures on recruitment, selection, employee engagement, continuous training and development, compensations, motivation and incentives (Jones and Wright, 1992), as well as knowledge transfer and communication management, amongst others. Accordingly, organizations that delegate required resources towards human capital may observe important returns on investments by a significant increase in individual productivity and, in turn, organizational performance; for instance, learning and development has been associated with business growth of the organization (Morrison and Bergin-Seers, 2002). In such way that human resource management begins with the acknowledgement that employees are vital to the achievement of desired success.
MacDuffie (1995) posits that the philosophy of human resource management has three main focuses, these being, employee efficiency, effectiveness and productivity, and employee needs. Moreover, “high-performance organizations invest in employee development through training and retaining people through roles and responsibilities” (Bhalla et al., 2011). Therefore, internal controls are also required to effectively manage human resources and have a positive outcome regarding organizational performance. Table 2 includes human resource management practices, associated best practices and internal controls.

Total quality management, for instance, began with a greater focus on procedures (Sewell and Wilkinson, 1992), and gradually became an intricate part of processes related to products and/or services’ quality, optimization, cost management, productivity, employee development (Dale and Cooper, 1992), commitment and trust (Guest, 1992) and, thus, performance. Committed employees are loyal towards the organization and hold a firm belief in the fulfillment of its purpose (Porter, 1985). Such commitment means a decrease in turnover and costs, increased innovation, improved quality (Walton, 2003) and enhanced performance (Lies et al., 1990). Fostering trust is very important because it makes employees receptive to the need to fulfill strategic objectives and to the assessment process (Boss, 1978); further, trust is highly associated with satisfaction (Mayer et al., 1995), it encourages collaboration (Hosmer, 1995), cooperation and improves effectiveness (Kouzes and Posner, 2007). Hence,

Table 2: Human resource management, best practices and internal controls

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<tr>
<th>Human resource management practices</th>
<th>Best human resource management practices</th>
<th>Associated internal controls</th>
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<td>Workforce planning (Mathis &amp; Jackson, 2004)</td>
<td>Degree to which jobs are narrowly designed</td>
<td>Recruitment and selection (Kulik, 2004; Ahmad &amp; Schroeder, 2003)</td>
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<td>Career planning Schein (1996)</td>
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<td>Job design (Morgeson &amp; Humphrey, 2006)</td>
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<td>Recruitment and selection (Kulik, 2004; Ahmad &amp; Schroeder, 2003)</td>
<td>Employment security</td>
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<td>Performance appraisal (Chang &amp; Chen, 2002; Bernardin &amp; Russel, 1993)</td>
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<td>Training and development (Katuo &amp; Budhwar, 2006)</td>
<td>Appraisals</td>
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<td>Compensation (Ahmad &amp; Schroeder, 2003; Chiu et al., 2002)</td>
<td>Training systems Internal career opportunities</td>
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<td>Compensation management/patterns</td>
<td>Profit-sharing plans</td>
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<td>Internal communication (Olajipo &amp; Abdulkadir, 2011; Geringer et al., 2002)</td>
<td>Voice mechanisms</td>
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<td>Internal communication (Olajipo &amp; Abdulkadir, 2011; Geringer et al., 2002)</td>
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There are various advantages to human resource management, including but not limited to the attraction and retention of talented employees, enhanced organizational knowledge and employee motivation, skills, abilities and capacities, as well as a significant decrease in turnover (Jones and Wright, 1992), and costs; furthermore, effectively managing human resources may foster a healthy financial and overall organizational performance, and, thus, positively impact competitive advantage (Jackson and Schuler, 1995). Integrating internal controls into human resource development may provide for competitive strategies such as recruiting, evaluation, learning and development, and reward options (Schuler and Jackson, 1987).
Further, learning and development has a positive effect on the organization’s strategic planning processes (Deakins et al., 2000). Nonetheless, in order to do so, human resource management strategies should be well aligned with strategic objectives and strategic management.

Human resource management is strategic when the matters concerned with are planned to fit and connect with other and all areas of the organization (Boxall et al., 2008); that is, when there is a clear alignment with strategic planning and human resource development. A strategic approach to human resource development is distinguished by comprehensive job designs, broad training and continuous development programs, as well as active employee participation (Dyer and Reeves, 1995). Furthermore, organizations are more defensible towards environmental challenges and pressures when human resource management is effective (Khatri et al., 2006), which entails supporting its practices with strategic management. This will ultimately allow a clear path towards the effective impact on organizational performance. Motivating employees is key to performance (Sullivan, 1988) therefore, involving employees in the overall organizational processes towards desired performance is essential to fulfilling strategic plans and, thus, strategic objectives. Therefore, feedback from human resource management to strategic management positively influences the development of a more efficient strategic planning process. Hence,

\textbf{P6: Human resource management based on internal controls is positively associated with SMEs’ strategic planning.}

Human resource management practices also have an effect on organizational innovation; meaning that, there is a relationship among human resource management and innovation strategies regarding the use of recruiting organizations, training and development, employee participation, assessment, and career opportunities (Jiménez-Jiménez and Sanz-Valle, 2005). Human resource management practices effect employee learning and behavioral changes (Hewitt-Dundas, 2006), as well as attitudes towards innovation. Empowering employees (Spreitzer, De Janasz, and Quinn, 1999) not only has a positive effect on accountability but also on organizational innovation. The more satisfied employees the more motivated and open they are to learn new technologies (MacDuffie, 1995). Furthermore, learning, training and employee development positively influence innovation (Mitra, 2000), product, procedure and administration innovation (Ling and Nasurdin, 2010), and technological innovation (Li et al., 2006). Moreover, since performance assessment impacts administrative innovation (Ling and Nasurdin, 2010), and strategic human resource management practices have a positive effect on organizational innovation (Chen and Huang, 2009), internal controls are also required to account for effective outcomes. Hence,

\textbf{P7: Human resource management based on internal controls is positively associated with SMEs’ organizational innovation.}

2.5 Management Practices and Organizational Innovation

Innovation encompasses new products and/or services (Freeman and Soete, 1997), and it is also an organization’s responsiveness to an ever-changing environment (Burgelman 1991; Child 1997). According to Crossan and Apaydin (2010), innovation is “production or adoption, assimilation, and exploitation of a value-added novelty in economic and social spheres; renewal and enlargement of products, services, and markets; development of new methods of production; and establishment of new management systems.” That said, Hansén and Wakonen (1997) argue that since almost no two things are identical, any change and/or alteration is basically an innovation.

According to Avermaete et al., (2003) there are four categories of innovation, these being, product, process, organizational and market innovation. Organizational innovation remains ambiguous (Lam, 2005); that is, there is no consensus on a universal definition. It is generally regarded as the design, adoption, and/or implementation of new ideas and/or behaviors (Damanpour, 1996). Organizational innovation has been classified as structural organizational innovations (those affecting change, division of labor and responsibilities), and procedural organizational innovations (those affecting processes and procedures) (Armbruster et al., 2008). Organizational innovation also may comprise administrative innovations (including new policies, processes and procedures), and technical innovations (including new technology, products and/or services) (Damanpour, 1991). Therefore, organizational innovation transpires when managerial practices focus on the design and implementation of new tactics, methods for division of labor and decision making, new processes and procedures, and activities (OECD, 2005).
Innovation adoption is facilitated with a strong delegation of resources and capabilities towards research and development which, in turn, positively impacts (Bolton, 1993) the effectiveness. Innovativeness positively impacts the organization’s performance (Hsueh and Tu, 2004) and it also enhances technological innovation’s impact on organizational performance (Chandler, 1962; Lam, 2005). The effect of innovation on performance is noticeable in sales increase and financial performance (Hsueh and Tu, 2004). In order to create an innovative ambiance, managerial practices should concentrate on the abilities, competencies, technology, resource, and environment (Chalhoub, 2010) the organization provides; that is, these too must be adequately controlled to ensure objective fulfilment and the achievement of desired performance. An organization’s innovative ability is influenced by different types of innovation and management (Francis and Bessant, 2005), including types of internal controls. Further, as stated by Wischnevsky et al., (2011) “internal control of processes is the key in enabling organizations to launch new products and services and to manage change”. Hence,

P8: Innovation management based on internal controls positively influences SMEs’ organizational performance.

Managerial innovation practices are part of strategic processes (Drucker, 2015), such as design and execution. Furthermore, innovation practices are considered to be successful as management delegates sufficient resources and capabilities to front both external (i.e. new products and/or services), and internal pressures (i.e. effectiveness) (Gieskes and Heijden, 2004). Organizations with strategically differentiated postures are more competitive and demonstrate a better financial performance (Porter, 1996), as well as organizational productivity and performance. An organization employing strategic innovation is creative and most likely accounts for enhanced productivity, value, competitiveness, and performance (Lilly and Juma, 2014). Such creativity is considered to be essential to the improve performance (Lee and Choi, 2003).

The impact of human resource development on innovation is cyclical, that is, they influence each other and, in turn, the organization’s performance; thus, there is a positive association between the continuous employee development and their activeness in innovation (Sheehan et al., 2014). Furthermore, an organization that is characterized by its learning and development may also be associated with effective strategic plans (Schroeder, 2013) and achieved desired performance. Aligning strategy with innovation enables the organization to increase its productivity and market share (Palmer and Kaplan, 2007) and, by aligning them with human resource development, there may be a positive impact on overall effectiveness and performance. However, in order to achieve and ensure such effectiveness, evaluating innovation processes is a must (Adams et al., 2006); that is, internal controls are needed to adequately assess processes, procedures, and outcomes associated with strategic planning, human resource development, and innovation. Hence,

P9: Innovation management based on internal controls positively associated with SMEs’ strategic planning.

P10: Innovation management based on internal controls is positively associated with SMEs’ human resource development.

3. Framework and discussion

Figure 1 includes a conceptual framework developed to illustrate the relationship amongst managerial approaches (i.e. strategic, human resource, and innovation), managerial practices (i.e. strategic planning, human resource development and organizational innovation), and organizational performance. It is suggested that management practices that are based on internal controls are best for the achievement of SMEs desired performance. Once internal controls are considered the basis of management practices, the different approaches or management focuses may have greater effect on the achievement of organizational performance. That said, and as illustrated in the framework, despite the managerial focus, management practices are all associated amongst each other.
Figure 1: SMEs’ management practices and performance framework

Around the world, small and medium enterprises (SMEs) are responsible for a significant part of employment, innovation and economic development (Massa and Testa, 2008); in 2009, there were close to five million micro, small, and medium enterprises (MSMEs) in Mexico (González, 2013). SMEs in Mexico, like in most cases in emerging markets, are well-known for their lack of professionalization and standardization. One of the major issues is that these organizations do not adequately design and implement internal controls (Oseifuah and Gyekye, 2013), leaving them vulnerable in a competitive environment (Saha and Mondal, 2012). Internal controls help managers assess the progress of goals and strategic objectives. Moreover, they help them ensure the targeted quality of implemented processes and procedures and, in turn, enhance individual and organizational productivity. As such, internal controls are considered to be the basis for best managerial practices.

Issues pervading SMEs in Latin-American are mostly due to the environment’s unfavorable conditions, as well as low technology adoption, and insufficient employee training and development; this is caused by ineffective managerial practices leading to low productivity (Zevallos, 2003) and, therefore, lack of performance. In order to address this issue, the proposed framework integrates three principle management directions, these being strategic, resource management and innovative management, that direct and guide organizations’ operations. From these is that the best managerial practices, besides being based on internal controls, are also linked amongst each other. That is, there is a direct association among SMEs’ effectiveness and strategic planning, human resource development and organizational innovation.

Effective and proactive strategic planning is what equips SMEs, as well as any other organization, with necessary tools, capabilities and resources to successfully operate in an unstable and uncertain environment (Babafemi, 2015); thus, SMEs in Mexico could significantly improve their condition by basing their decision making on methodical strategic planning. And, SMEs’ human resource development and innovation strategies well depend on the organization’s overall strategic plan and, of course, management focus. SMEs are great sources for innovation (Thurik, 1996); among such organizations, smaller and younger organizations are more likely to actively engage in innovative practices and, in contrast, larger (i.e. medium) and older organizations find it more difficult to continue on an innovative path (Lee and Lee, 2007). For that same reason is that large firms are visualized as innovative when acting more like entrepreneurial organizations (Quinn, 1985), or SMEs.
So, small organizations are naturally more innovative, partly because their human resources are innovative and partly because most small enterprises are founded on innovative belief; however, they require direction, control and evaluation, to effectively manage their innate innovativeness. In contrast, medium organizations are overly concerned with installing as many internal controls as possible that they forget the importance managerial best practices’ balance amongst strategic objectives, control mechanisms and managerial practices. They are so focused on internal controls that it becomes the source of all operations; in fact, they end up constricting human resources and impeding innovativeness, since from the process of selection candidates are evaluated on the basis of their ability to work in a highly controlled environment. Thus, medium organizations have internal controls and lack in an innovative spirit.

Innovativeness is well associated with human resource management in that it guides various employee needs regarding knowledge, abilities and competencies, and human resource development relates to innovation in that a learning organization with highly specialized, developed and trained employees is more prone to engage in innovative practices (Hatch and Mowery, 1998). Thus, employee training and development is very important to SMEs’ innovativeness (Sheehan et al., 2014), although it is well known that SMEs tend to be more informal when it comes to learning and training (Paige, 2002) practices. Nonetheless, smaller organizations that hold growth as a strategic objective and/or organizational purpose are most likely to have a managerial focus on human resource (Barrett and Mayson, 2007), as their practices are formalized and standardized. Managerial practices are actually key elements or cogs in the organizational process. Therefore, best management practices based on internal controls positively influence organizational performance via strategic planning, human resource development and organizational innovation practices.

4. Conclusion

There are several issues that plague small and medium sized organizations, impeding their growth, development and ultimate prosperity. SMEs operating in Mexico, although they are the majority of enterprises, are extremely vulnerable and tend to perish quickly. One factor is that in Mexico small and medium organizations are lacking in design and implementation of internal controls; this is a consequence of their informality. Another issue is that these organizations’ managerial practices are mostly based on intuition and not on the assurance of total quality, which is a consequence of their lack of standardization and professionalization. Even inefficiencies occur in a process, as serious internal problems first affect their operational efficiency and then their organizational effectiveness. Therefore, the mentioned effects are a cause for decreased individual and organizational productivity, as well as effectiveness and performance.

Another important factor, and perhaps less discussed, is that the vast majority of small and medium organizations in Mexico also happen to be family business firms (Chrisman et al., 2005), which implies that there is an element that has not been considered, familiness which characterizes these organizations. This feature tends to impede the professionalization of family business SMEs. Therefore, these organizations, more so, need to delegate efforts towards the adequate and prompt design and implementation of internal controls to fortify their managerial practices and outcomes.

In any case, these organizations need to delegate efforts towards aligning their strategic objectives with their management focus and internal controls to account for effective productivity and performance. Furthermore, management needs to acknowledge the effects of the interaction of best managerial practices and work towards the professionalization of their operations if they wish to successfully meet their overall organizational purpose. Whichever path these organizations decide to take upon, meaning management focus, they may show significant improvements in performance leading to continuity and survival. Small organizations in Mexico are, without a doubt, entrepreneurial and innovative, it is most likely their lack of strategy and professionalization, along with internal controls, that delays their growth and performance potential, thus, facilitating their prompt demise.
Medium organizations in Mexico have become skilled at designing and implementing internal control mechanisms; it is their lack of balance between assurances of total quality and promotion of creativity and flexibility that ultimately obstruct human resource development, discourage innovativeness, and impede growth and development.

It is essential that these firms select the management focus and detect the existing associations among managerial practices to build the capacity for strategic and efficient assessments to influence competitiveness. Also, by doing so, SMEs may ultimately benefit from enhanced reputation and increased competitiveness which, may aid them in passing the test of time. There is no doubt that if a company wishes to be competitive, it should concentrate its efforts on improving efficiency through implementing managerial practices based on internal control, strategic planning, human resources and organizational innovation.

5. Future research prospects

It is suggested that future research study the effects of each managerial practice, based on internal controls, on small and medium sized organizations’ overall objective fulfillment and performance attainment. Also, future research could compare the effects of different management focusses and practices, based on internal controls, within SMEs and family business SMEs. In such was as to determine if there are differences amongst them that could indicate best strategies for performance and continuity.

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