Environmental Scanning: A Strategic Management Practice Tool For Increasing Smes Performance In Southwest, Nigeria

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Abstract: The study investigated environmental scanning: A strategic management practice tool for increasing performance of SMEs in Southwest Nigeria. The study employed survey research method in obtaining the needed data. Data was sourced primarily through structured questionnaire. Three hundred and ninety six (396) questionnaires were administered to owners and managers of SMEs in Southwest, Nigeria. The collated data were analysed through descriptive and inferential statistics. The regression result showed that environmental scanning positively and significantly affect entrepreneurship development with the t-statistics and probability of (t= 20.454; .000 < 0.05). The study therefore concluded that environmental scanning have significant effect on performance of SMEs in Southwest Nigeria. The study recommended that the managers and owners of the SMEs should not be anxious to run into business without proper studying, hence they are advised to develop an awareness of their industry and competitors and consequently scan the environment regularly

Keyword: Environmental Scanning, SMEs, Performance

I. INTRODUCTION

Small and medium enterprises played a crucial role in the survival of every nations’ economy hence, it occupied an essential position which has been use to impel the nation’s economy in order to fulfill certain responsibility to the citizens (Otiено, Namusonge & Mugambi, 2018). Therefore, it shows that the importance of small and medium scale enterprise industries cannot be ignored considering the fundamental role it played which is not limited to the use of local raw materials alone but serves as a major source of job creation among others. However, because of high exposure to market forces, the failure rate of small and medium scale enterprises is very high. Small and medium scale enterprises survival is endangered by the unstable environment wherein they operate. The business environment in Nigeria is not pleasant, making it difficult for small and medium scale enterprises to survive in such a turbulent environment. This necessitates the need for strategic management which acts as cushion for protecting the enterprises against risks that are rampant in the market (Aracıoğlu, Zalluhoğlu & Candemir, 2013; Olanipekun, 2014). As such, Small and medium enterprises employed strategic management as a tool for enhancing survival and growth in the complex environment. This is because strategic management concerns making decisions and taking corrective actions to achieve long-term targets and organisational goals (Bakar, Tufail, Yusof & Virgiyanti, 2011; Okeowo, 2017). It is a set of decisions and actions that result in the formulation and implementation of plans designed to achieve a company’s objectives (Pearce & Robinson, 2007). Strategic management practices therefore include four elements, namely; environmental scanning; strategy formation, strategy implementation and strategy evaluation and control, which have in the past studies been seen to influence the competitive
positioning of the firm in the industry, thus determine their performance (Johnson, 2009; Anaekwe, 2012).

It is not only important for all businesses to understand why they are in business but also to put in place an attainable strategic management plan particularly scanning the environment to improve their business performances. This is because strategy management is a source of sustainable competitive advantage and in recent years, large enterprises have adopted various strategic management practices to guarantee their fit within the constraints of their environment (Agwu, 2018). Though this practice, as acknowledged in Kraja and Osmani (2013), is often seen to be important only to large corporations, Adeleke, Ogundele and Oyenu (2008) in Nigeria, Karami (2012) in Pakistan and Aldehayyat (2015) in Jordan showed that for every organisation, either large or small, to succeed and attain a competitive advantage, it has to be strategic in their daily operations. However, the quality and strength of firms’ competitive advantage, as proposed by the resource-based theory, relates to how effective internal resources of firms are utilized, instead of their position in the external environment (Mahanga & Paul, 2017). Nonetheless, these studies have all failed to identify environmental scanning as strategic management practices dimension that arouse or regulate other dimensions of strategic management practice, Nnamani, Ejim and Ozobu (2015) used one of the strategic management practices tool which is strategy formulation in their study in Enugu. The revelation from empirical studies in Nigeria connotes that there is meager of strategic management practices tool (environmental scanning, strategy formulation, strategy implementation and strategy evaluation) in literature which stand as a gap to be filled in literature. However, these variables became important as it has been empirically used in the studies of Wafuya (2015) in Nairobi Kenya; Gomera, Chinyamurindi and Mishi (2018) in South Africa, Mohammad and Wang (2019) in Bangladesh to mention but a few.

Suffice it to say, that a study on strategic management practices considering environmental scanning should be improved upon. To this end, this study investigates the effect of environmental scanning on Small and Medium Enterprises in Southwestern region of Nigeria. Therefore, this study would be beneficial to entrepreneurs, management, stakeholders, academics, government and general public at large.

OBJECTIVE OF THE STUDY

The specific objective is to examine the effect of environmental scanning on the performance of small and medium scale enterprises in Southwest, Nigeria.

II. LITERATURE REVIEW

STRATEGIC MANAGEMENT

Okeowo (2017) defined strategic management as an integrative process of management in which managers of an organisation engage in continuous rethinking and assessing themselves; the organisation and the environment; and in developing, implanting, implementing and controlling the organisation direction, strategies and programmes, aimed at effecting positive changes, building competitive advantage and achieving continuous successful performance. Aremu (2010) posited that strategy is required to focus effort and promote coordination of activities. In view of this, without strategy an organisation becomes bunch of individuals, hence, strategy is necessary to ensure collective actions and focus of efforts towards attaining organisational plans and objective. As a business grows and as the business environment becomes more complex, the need for strategic management becomes greater.

Implementation of strategic management in small and medium scale enterprises organisation indicates that firm’s strategic management process is continuous and dynamic and a change in one element can necessitate a change in the entire strategy (Fink & Ploder, 2009). Managing strategy is concerned with ensuring the selected strategies put into action through the development of suitable strategies, structuring to support organisation’s performance, resourcing strategies and managing strategic change (Johnson, Scholes, & Whittington, 2008). Scraeder (2002) supports the need for small and medium scale enterprises to engage in strategic management practices in order to achieve higher performance. Strategic management practices tools (strategy formulation, environmental scanning, strategy evaluation and strategy implementation) is limited because of scarcity of resources and larger resources which big firms apply for better practices (Herrmann, Brandt-Herrmann, & Jahnke, 2007). However, with growing challenges in the business environment, small and medium scale enterprises manager must have the ability to adapt and restructure the business to address constraint facing them and the need to adopt strategic management practices (Pillania, 2008). Therefore, this study will focus on environmental scanning and its effect on performance of small and medium scale enterprise in southwest, Nigeria.

ENVIRONMENTAL SCANNING

Wheelen and Hunger (2000) defined scanning as the monitoring, evaluating and dissemination of information from the external environment to key people within the business. It is important to reiterate that this exercise must be done on constant basis so as to monitor changes in the environment. Environmental scanning is a future research method that gathers information from the environment under assessment (Gordon & Glenn, 2009). It was described by Aguilar (2013) as the process of seeking information about events and relationships with companies outside environment. The knowledge would assist top management in its task of plan the company’s future course of action. This market environment includes different resources such as finances and infrastructure but also actions of other different market of small and medium scale enterprises operations (Rubin, 2014). With environmental scanning, different forces of change are identified and analysed from the market environment through investigating different data sources (Rubin, 2002). Traditionally, scanning has been used to provide opportunities and threats for planning new strategies. This entails understanding the structure and causes of problems and issues to be addressed. This can be done by fully assessing both the
external and internal factors of the business. External assessment entails scrutinizing the dynamics of the environment surrounding the organisation (De Wit & Meyer, 2010) such as scanning the market environment and the broader environment into sectors, collecting data through continuously scanning, monitoring and forecasting changes in key variables in those sectors, interpretation and integration of these informational inputs into an organisations strategic management process (Preble, Rau & Reichel, 2013; Thomas, 2013).

On the contrary, Internal Assessment encompasses analyzing the internal capacity and functioning of the organisation and focuses on the business system in which a firm creates value and the organisational system that has been intended to facilitate business system (Otieno, Namusonge & Mugambi, 2018). Karami (2012) notes that environmental scanning entails evaluating and monitoring business environment information so as to make informed future decisions. This involves conducting a SWOT (strength, weakness, opportunity and threat) analysis which focuses on the external environment and internal environment. The external environment focuses on the opportunities and threats while the internal environment deals with the organisation’s strengths and weaknesses. Conducting an environmental scanning enables businesses to obtain critical information that enables the business to determine various changes in the market including economic, political, social and technological trends. This in turn allows the business to respond appropriately to the environment thus being able to meet its goals (Otieno et al., 2018). The environmental scanning method has been appreciated by the business sector (Babatunde & Adebis, 2012). Bell (2003) stated that environmental scanning suit studies investigating phenomena that are significant for human wellbeing and for studies monitoring and controlling development paths of phenomena.

SMALL AND MEDIUM SCALE ENTERPRISE PERFORMANCE

The performance of any organisation depends on the environment where the organisation operates. However, Richardo and Wade (cited in Okeowo, 2017) define organisational performance as the organisation’s ability to achieve its goals and objectives. Daft (2010) identified organisational performance as the ability of the organisation to attain its goals by using resources in an efficient and effective way. An effective performance management provides valuable information to a decision made about present condition of performance and the divergence from the objectives (Santos, 2012). Performance is manifested by production effectiveness and production efficiency (Okeowo, 2017).

III. METHODOLOGY

This study was carried out in Southwest, Nigeria. Descriptive research design through structured questionnaire was employed. The study population cut across Southwest States namely, Lagos, Ogun, Oyo, Ondo, Osun and Ekiti state respectively, that is, the study covered small and medium scale enterprises industries operating within the capital of Lagos, Ogun, Oyo, Ondo, Osun and Ekiti respectively. The total number of SMEs representing the study population is: Lagos State 4,535, Ogun 1,020 State, Oyo State 3,525, Ondo State 760, Osun State 690 and Ekiti State 572. However, population of each state was obtained from Ministry of Commerce and Industries (2014) and National Association of Small Scale Industries (NASSI, 2014) bringing the total to 11,102.

The total sample size for the study is 396 using the Yamane sampling model (1967). Sample Size. The formula is given and the sample size was calculated as follows:

\[
n = \frac{N \times e^2}{1 + N \times e^2}
\]

Where,

- \(n\) = the sample size
- \(N\) = total population of the study
- \(e\) = acceptable margin error term (0.05)

Having established that 396 respondent were selected for the study purposes. The study further applies Kumaran (1976) model to calculate sample size for each state as follows:

\[
n = \frac{N_i}{N}
\]

Where, \(n\)= number of respondents from each chosen state in Southwest Nigeria; \(n_i\)= total sample size; \(N_i\)= number of SMEs in each state; \(N\)= population size of the study.

Hence, the number of employee in each state divided by the total population and multiplied by the total sample size. This resulted in the proportion of the total sample size that was distributed in each state is stated in Table 1.

<table>
<thead>
<tr>
<th>S/N</th>
<th>State</th>
<th>SMEs</th>
<th>Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Lagos</td>
<td>4535</td>
<td>162</td>
</tr>
<tr>
<td>2</td>
<td>Ogun</td>
<td>1020</td>
<td>36</td>
</tr>
<tr>
<td>3</td>
<td>Oyo</td>
<td>3525</td>
<td>126</td>
</tr>
<tr>
<td>4</td>
<td>Ondo</td>
<td>760</td>
<td>27</td>
</tr>
<tr>
<td>5</td>
<td>Osun</td>
<td>690</td>
<td>25</td>
</tr>
<tr>
<td>6</td>
<td>Ekiti</td>
<td>572</td>
<td>20</td>
</tr>
</tbody>
</table>

Total 11,102 396

Source: Researcher’s Computation (2019)

Table 1: Summary of SMEs Sample size

Multistage sampling technique was used for the study. In the first stage, all the size states namely; Lagos, Ogun, Oyo, Ondo, Osun and Ekiti were selected using random sampling technique. This is because these States are contiguous. In the second stage, the study purposively selected small and medium scale enterprises by classification of Eatery or fast food, Printing press, Agro venture, Media house and Bakery industries from the three states to have a total of five small and medium scale enterprises by classification. The justification is because this classification of small and medium scale enterprises operates on daily basis with large number of customers patronising their services and products. In the third stage, the researcher uses Yamane formula to select the respondents which were estimated to be 396 in number using
proportionate sampling technique. The justification for this is to have representatives from each of the selected small and medium scale enterprises category in the six states. In the fourth stage, the researcher applied Kumaran model to select the distribution of respondent accordingly via simple random sampling technique. Multiple regression analysis through t-test was used to test the effect of environmental scanning (independent variable) and small and medium scale enterprises performance (dependent variable) in Southwest Nigeria.

IV. PRESENTATION OF RESPONDENTS’ DEMOGRAPHIC DATA

Three hundred and ninety six (396) questionnaires were administered while three hundred and fifty five (353) were retrieved from the field representing 89% response. Hence, the analysis of the study was based on the retrieved 353 questionnaire.

A. RESULTS OF DESCRIPTIVE ANALYSIS

<table>
<thead>
<tr>
<th>S/N</th>
<th>Demographic variable</th>
<th>Grouping</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Gender</td>
<td>Male</td>
<td>190</td>
<td>53.8</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Female</td>
<td>163</td>
<td>46.2</td>
</tr>
<tr>
<td>2.</td>
<td>Age</td>
<td>Below 30</td>
<td>51</td>
<td>14.4</td>
</tr>
<tr>
<td></td>
<td></td>
<td>31-40</td>
<td>96</td>
<td>26.3</td>
</tr>
<tr>
<td></td>
<td></td>
<td>41-50</td>
<td>134</td>
<td>38</td>
</tr>
<tr>
<td></td>
<td></td>
<td>51 years and above</td>
<td>75</td>
<td>21.2</td>
</tr>
<tr>
<td>3.</td>
<td>Educational Qualification</td>
<td>GCE/SSCE</td>
<td>53</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td></td>
<td>OND/NCE</td>
<td>84</td>
<td>23.8</td>
</tr>
<tr>
<td></td>
<td></td>
<td>HND/B.Sc</td>
<td>120</td>
<td>34</td>
</tr>
<tr>
<td></td>
<td></td>
<td>MA/MSC/MBA</td>
<td>72</td>
<td>20.4</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Others</td>
<td>24</td>
<td>6.8</td>
</tr>
<tr>
<td>4.</td>
<td>Work Experience</td>
<td>1-5 Years</td>
<td>64</td>
<td>18.1</td>
</tr>
<tr>
<td></td>
<td></td>
<td>6-10 Years</td>
<td>139</td>
<td>39.4</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Above 10 Years</td>
<td>150</td>
<td>42.5</td>
</tr>
<tr>
<td>5.</td>
<td>Management Category</td>
<td>Top level</td>
<td>218</td>
<td>61.8</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Middle level</td>
<td>135</td>
<td>38.2</td>
</tr>
</tbody>
</table>

Source: Field Survey Report 2019

Table 3: Regression Result of Environmental Scanning and SMEs Performance

B. INTERPRETATION OF RESULTS

Table 3 indicated that the model had a correlation value of 0.851, which manifests a good and strong linear relationship between the dependent and independent variables. The table further showed that the goodness of fit (R²) is 0.725 which depicted that 72.5% of the change in dependent variable (performance of small and medium scale enterprises) is accounted for by the independent variables environmental scanning. More so, the adjusted R square is 72.1% which explained the importance and contributions of the explanatory variables on the dependent, that is the explanatory variables of environmental scanning affect performance of small and medium scale enterprises by 72.1% leaving the remaining 27.9% accounted for stochastic error term (other variables outside the regression model). This showed that the model is reliable, error free and do not suffer from specification bias.

Therefore, the regression equation is stated below:

PSME = 5.938 + 0.869 ES

The study showed that PSME (performance of small and medium scale enterprises) will significantly increased by 5.938 when environmental scanning was held constant. Environmental scanning has significant positive effect on performance of small and medium scale enterprises in Southwest in Nigeria which implies that a percent increase in environmental scanning will bring about 80.8% increases in performance of small and medium scale enterprises in Southwest Nigeria. Therefore hypothesis one concluded that environmental scanning has positive and significant effect on performance of small and medium scale enterprises in Southwest Nigeria.

C. VALIDATION OF RESULT (T-TEST)

The t-test was done to test the significance of each of the explanatory variables using the t-test. It is carried out on a two tail test and by comparing the t-cal and the t-tab.

DECISION RULE:
If t-cal > t-tab, accept H₁ and reject H₀ and
If t-cal < t-tab, accept H₀ and reject H₁.
T-test was conducted at 95% confidence level i.e. 5% significance level. Evidence from Table 3 explicitly indicated that the explanatory variables (Environmental Scanning) have t-value that is greater than 2.60 in statistical table, this is further justified by the probability value of 0.000 which is less than 0.05. As a result, environmental scanning have significant effect on performance of small and medium scale enterprises in Southwest Nigeria.

D. DISCUSSION AND IMPLICATION OF FINDING

The study employed the descriptive analysis using frequency and percentage counts to answer the research questions that emanated from statement of problem. Interestingly, the result disclosed that environmental scanning positively contributed to performance of small and medium scale enterprises in Southwest Nigeria. This implies that if small and medium scale enterprises can apply environmental scanning to their businesses, they will reap the benefit in large sales, large customer patronage, increased profitability and large network branches across Southwest Nigeria.

In other to affirm the test of hypotheses, the t-test of multiple regression analysis was applied. Summarily, based on the test of hypothesis, the result explicitly showed that environmental scanning positively and significantly impacted performance of small and medium scale enterprises in Nigeria. This implies that the importance of environmental scanning before setting up a business cannot be over emphasized. Hence, business owner and manager must look for a strategic location, study the environment very well, look for what the environs needs and how to benefit from the society with ultimate profit maximization goal. In this way, the business can stand and would have gained ground by setting pace, brand, logo and name before other competitors enters into the market. Therefore business owners and managers should be too in haste to rush into business but should adopt environmental scanning which can aid in studying the business, customers, environment, machineries very well. This result validates the empirical and existing finding of Mohammed and Wang (2019) that environmental scanning significantly promotes performance of small and medium scale enterprises. This result affirms the need for entrepreneurs to scan the environment due to high levels of competition, uncertainty and turbulence. This will assist them to gathering useful information thus making their strategic management process effective. Small and medium scale enterprises need to pay more attention to strategy formulation and in particular the content of their mission and vision statement. Owners/managers of small and medium scale enterprises need to adopt emergent and integrated strategic planning process to better realize effective strategic management process.

V. CONCLUSION AND RECOMMENDATIONS

Based on the findings, the study found that environmental scanning has positive and significant effect on small and medium scale enterprises performance. This suggested that the adaptability of environmental scanning can amount to better performance improvement of small and medium scale enterprises. Based on the finding of the study, the study recommended that managers and owners of the small and medium scale enterprises should not be too anxious to run into business without proper studying, hence they are advised to develop an awareness of their industry and competitors, and consequently scan the environment regularly.

A. SUGGESTIONS FOR FURTHER STUDIES

The study has successfully investigated the effect of environmental scanning on performance of small and medium scale enterprises in Southwest Nigeria. Hitherto, there are not many studies in Southwest region aside individual state of the region. Based on this, the researcher suggested that other studies can be investigated in Southwest region by focusing on other sectors aside small and medium scale enterprises and Retail.

REFERENCES