Bridging the Gap between Strategic Planning and SMEs Performance: Role of External Business Environment

By Ismaheel Adewumi Raji & Amidu Lawal
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Abstract- Given the fact that strategic planning takes a central position in firm’s operational activities, particularly in a rapidly changing business environment, but research into circumstance under which key strategic planning elements enhance firm performance is lacking in the extant literature. As a result, this study investigates the moderating role of external business environment in strategic planning elements-SMEs performance relationship. A survey research design was used via self-administered questionnaire with a view to collecting data from 497 registered SMEs operating in Lagos- Nigeria. The sample was chosen using a simple random sampling technique Data was analysed by SPSS and Partial Least Square- Structural Equation Modelling (PLS-SEM via PLS3). Findings revealed that significant positive relationships exist between strategy formulation, strategy implementation and SMEs performance. Findings further revealed that external business environment moderated the relationship between strategy implementation and SMEs performance. The implications, limitations and suggestions for future research were also discussed.

Keywords: strategic planning; strategy formulation; strategy implementation; external business environment and SMEs.

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1. Introduction

Small and medium-scale enterprises (SMEs) are critical to the economic growth and development of both developing and developed countries. It is estimated that 90% of private firms are SMEs, and that they account for more than 60% of total employment and more than 50% of GDP in emerging economies (World Bank. 2018; United Nations and Industrial Development Organization [UNIDO], 2016; Organisation for Economic Co-operation and Development [OECD], 2017). However, the contributions of SMEs to African economic growth are somewhat low, particularly in Nigeria, where employment and GDP rates are steadily declining (Asu, 2019). According to a recent report from the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) for 2021, Nigerian SMEs are currently in critical condition, which has been exacerbated by the COVID-19 pandemic. As a result, SMEs' managers must respond strategically in order to keep their businesses from collapsing while also providing them with a competitive advantage.

However, SMEs in African economies are characterised by low performance and high failure rate (Donkor, Donkor and Kwarteng, 2018; Majama and Magang, 2017). The low performance and high failure of African SMEs have been attributed to a variety of factors, including a lack of strategic orientation and planning, insufficient government support, lack of access to finance, environmental factors, lack of managerial capabilities, and government policies, among others (Agabi, 2015; Ezekiel, Glory, and Alfred, 2016; Ahmad, Rahman, Rajendran, and Halim, 2020). Quite a number of business management experts argue that, despite the presence of many of these factors, some SMEs still record abysmal performance as a result of ineffective strategic planning (Majama and Magang, 2017) and a competitive business environment (Ibidunni, Ogundana and Okonkwo, 2021). As the business environment becomes more volatile, including stiff competition, strategic planning takes centrepiece and becomes increasingly important in business management (Wheelen and Hunger, 2012).

Anyieni (2014) and Emeka (2015) assert that organizations that use strategic planning are better able to overcome uncertainties and survive in a volatile business environment, and they are also more likely to perform well. According to studies (e.g., Donkor, et al., 2018; Jayawarna and Dissanayake, 2019), one of the major reasons for the failure of SMEs in developing countries is their inability to successfully practice strategic management in their businesses. AlQershia (2021) also revealed that without adequate strategic planning, SMEs may not survive the current economic situation.

In addition, a substantial number of research have pointed out that SMEs sector has witnessed minimal adaptation of strategic planning and the few that adopted strategic planning adopt informal and unstructured strategic planning (Awale, Namusonge and Warren, 2016; Magaisa, Matipira and Kanhai, 2014). Nonetheless, studies (such as Dubihlela and Sandada, 2014; Magaisa et al., 2014; Sandada, Pooe and Dhurup, 2014) are of the view that research on these SMEs still remains scarce despite the importance and immense contribution of the sector to the economy. Muhoho (2016) posits that it has become imperative for more
studies to be conducted to understand the relationship between strategic planning and performance of SMEs.

Despite extensive research on strategic planning, the question of whether strategic planning affects organizational performance remains inconclusive (Chia Lababidi, Lababidi, Colak and Dayan, 2020). Some studies (e.g., Arasa and K’obonyo, 2012; Auka and Langat, 2016; Donkor et al., 2018; Kornelius, Supratikno, Bernarto and Widjaja, 2021; Otieno et al., 2017; Sandada et al., 2014) have found a significant positive relationship between strategic planning and firm performance, whereas others have found no significant relationship (Ajonbadi, Otokiti and Adebayo, 2016; Gica and Negrusa, 2011). As a result, the inconsistency of the empirical findings does not compel a conclusion about the relationship between strategic planning and firm performance.

There is also debate in the literature about whether strategic planning is unidimensional or multidimensional, as well as its operationalization (Phillips and Moutinho, 2014; Rudd, Greenley, Beatson, and Lings, 2008). This current study attempts to address this issue by looking at strategic planning from a multidimensional perspective, utilizing strategy formulation and implementation, which appears to be lacking in the context strategic planning process of SMEs. Another point of contention is the choice of performance measures for evaluating firm performance. For example, researchers (e.g., Elbanna, 2012; Phillips and Moutinho, 2014; Rudd et al., 2008) have observed that most research in the planning-performance domain focuses primarily on assessing performance through financial measures, limiting the complete understanding of performance. As a result, this study conceptualized firm performance through the four balanced scorecard measurement perspectives, namely, financial perspective, internal business perspective, learning perspective, and customer perspective (Elbanna, 2012; Kaplan and Norton, 1992).

Furthermore, most existing studies on strategic planning and firm performance focus on larger organizations and the general business context, particularly in developed countries (Koufopoulos, Logoudis and Pastra, 2005; Pollanen, Abdel-Maksoud, Elbanna and Mahama, 2017; Pucci, Nosi and Zanri, 2017). However, due to contextual differences in culture, economic policies, and legal environments, the findings may not be applicable to developing countries. More importantly, it has been argued that strategic planning may not always improve firm performance in the absence of proper environmental analysis (Makinde and Asikhia, 2017). This is due to the increasingly complex, dynamic, and competitive environment in which today’s businesses operate. According to Ajonbadi et al. (2016), strategic planning may not be successful in the absence of an intervening variable. As a result, the current study incorporates the external business environment as a moderating factor in the relationship between strategic planning and the performance of SMEs.

II. Literature Review, Hypothesis Development and Theoretical Framework

a) Firm Performance

Firm performance is the most important aspect of an organization because every activity of the organization is geared towards enhancing performance. This why Memon and Tahir (2012) viewed performance as the achievement of valuable outcomes in an organization, such as high returns. According to Awino (2013), organisational success is determined by the high returns the organisation is able to record and the ability to identify performance drivers from the top to the bottom. Firm performance is a firm’s ability to achieve the desired outcome as determined by the firm’s major shareholders. It is also used to determine whether the actual outcome of an organization is what was intended (Al Qudah, Osman and Safizal, 2014). Smith and Reece (1999) defined business performance as an organization’s ability to achieve its desired outcome or result as determined by the company’s major shareholders. Wongrassamee, Gardiner, and Simmons (2003) define firm performance as an organization’s ability to meet the needs of its employees, customers, and other stakeholders while also meeting its planned business objectives.

However, the performance of a business firm could be measured using the financial and non-financial measures (Taouab and Issor, 2019). The financial measures include measures such as firm profits, earning per share, total shareholder return, returns on assets (ROA), return on sales (ROS), and return of equity (ROE) measures the financial success of a firm. Non-Financial performance measures the non-financial aspects of the firm. This measures focus on issues regarding: market share, efficiency, productivity, innovation, product quality, customer satisfaction, employee turnover, delivery time, waiting time, attainment of strategic objectives, among others (Datar, Kulp, and Lambert, 2001; Ibrahim and Lloyd, 2011; Monday et al., 2015). Looking through the preceding argument, it can be said that the key function of performance measurement is to determine whether or not the organizational strategy is being met.

b) Strategic Planning

Several researchers have argued the need for organizations to engage in strategic planning. One crucial claim of such arguments is that strategic planning creates a link between an organization’s objectives, goals, and resources (Mitchelmore and Rowley, 2013; Shah, 2013). The key components of the strategic planning process are about where the
organisation wants to be, where the organisation is now, how the organization will get there, and what changes will occur in the business environment (Huang, 2006). Correspondingly, Muhammad and Khalique (2014) asserted that the purpose of strategic planning in an organization is to bridge the gap between the organization's current position and its desired future destination.

Suklev and Debarliev (2012) viewed strategic planning as an organisational effort to improve the strength of the organisation in an effective and efficient manner through comparison with competitors, taking the necessary action and focusing on the goals. Studies (such as Desai, 2000; Fraser and Stupak, 2002; Goncalves, 2009) revealed that strategic planning enables organisations to find solutions to problems identified, to understand and cope in the environment in which they operate, to define the organisation objective, and to clarify the ambitious, values, and resources of an organisation. It has also been argued that organisations that practise strategic planning are more likely to achieve high sales growth, high returns on assets, high profitability, and are more likely to survive in a turbulent environment (Raymond, March, St-Pierre, Cadieux and Labelle, 2013; Rosenbusch, Rauch and Bausch (2013). On the other hand, Norman and Thomas (2003) argued that organisations that lack effective strategy will find it difficult to compete and survive in the market environment. In the current study, strategic planning is conceptualized as the process by which an organization defines its strategy or direction and decides how to allocate its resources to achieve strategic goals. The formulation and implementation of strategy are the key elements of strategic planning.

i. **Strategy Formulation**

Strategy formulation refers to the evaluation of the business environment, both internal and external, and the incorporation of the entire result into goals and strategies (Daft, 2012). According to Bogner and Thomas (1993), strategy formulation entails developing strategies by determining the best course of action to achieve organizational goals and objectives. Otieno, et al. (2017) defined strategy formulation as the process of outlining and drawing out appropriate mission, goals and objectives for an organisation. It entails the process of developing the firm's mission, vision, and objective statement.

Meier, Toole, Boyne and Walker (2010) view strategy formulation as a guide to executives in defining the business their firm is in, the ends it seeks and the means it will use to accomplish those ends. Therefore, organisations formulate strategy by firstly defining the mission of their organisation. According to David (1997), strategy formulation includes deciding which business to pursue, how to allocate resources without hostile takeovers and whether to access international markets. This suggests that strategy formulation is the first step to take while drawing out strategy for an organization.

ii. **Strategy Implementation**

Strategy implementation refers to the process of ensuring organisational policies and strategies are translated into performance measures. It entails the total of the activities needed for the effective execution of strategic plans. (Wheelen and Hunger, 2012). Effective strategy implementation ensures that organisation’s vision, mission and objective are achieved as planned (Thompson and Strickland, 2003). Strategy implementation means to execute decisions that have resulted in the formulation of strategies. Peace and Robinson (2008) are of the opinion that when the progress of strategy implementation is being communicated to the stakeholders, it enables them to know whether to take corrective measure or not. Ehlers and Lazenby (2011) viewed strategy implementation as a process of converting strategic plan into series of action task to enable the execution process. It is the process of initiating activities according to plan strategies. Noble (1999) posits that even the strategies that are well formulated may fail to generate superior performance for the organisation if they are not well-implemented. Hence, formulation of strategy is not as important as its implementation.

c) **External Business Environment**

The external environment is that system which consists of external forces that affect business enterprises from outside such as economic, socio-cultural and technology and these environmental factors are beyond the control of the enterprises (Alkali and Abu, 2012; Pearce and Robinson, 2011). For an organisation to commence formulation of strategy, it must first scan the external and internal environment to identify possible opportunities and threat and strengths and weaknesses (Wheelen and Hunger, 2012). External environment according to Pearce and Robinson (2011), consist of those factors that affect business from outside. These include economic dynamics, government policy, political atmosphere, social and cultural values and technology dynamics. In an organizational context, encompasses all existing units existing outside the boundary of organization, yet affect its survival and growth significantly.

Notably, many researchers have prioritized it and attempt to study the general environment using PEST analysis, which includes politics, economics, social and cultural environments, and technological environments (Thompson & Martin, 2010). Scholars expands on the PEST concept by using PESTEL, which includes environmental and legal considerations (Yüksel, 2012). Not only that, but Albert S Humphrey's SWOT analysis has been used to assess the external environment’s strengths and weaknesses (Helms & Nixon, 2010). According to Adeoye (2012),
organizations operate and survive in an external environment that includes the competitor, supplier, economy, customers, technology, government, and communities.

d) Strategy formulation and SME Performance

Emeka et al. (2015) examined the effect of strategy formulation on organisational performance. The study focused on only manufacturing firms and also used employees as its unit of analysis. However, the study found a positive relationship between strategy formulation and firm performance. The researchers concluded that a well-formulated strategy will increase the performance of an organisation. The study is in support of the study conducted by Otieno et al. (2017) the effect between strategy formulation on the performance of small and medium-size enterprises in Kenya. A sample size of 39 was used for data analysis. The study found strategy formulation to have a positive and significant relationship on SMEs performance. They study therefore concluded that a well-formulated strategy will help organisations in predicting their performance. Maroa and Muturi (2015) examined a study on the effect of strategy formulation on performance of floriculture firms in Kenya. A sample size of 10 questionnaire were used for final analysis. The findings revealed that strategy formulation have a positive and significant effect on firm performance. Also, Monday et al. (2015) examined the relationship between strategy formulation and firm performance. The study focused on selected manufacturing firms in Nigeria and a sample size of 50 was for data analysis. The Findings established that there was a positive and significant relationship between strategy formulation and firm performance. Based on the aforementioned argument, the following hypotheses were suggested:

H1: Strategy formulation has a significant relationship with SMEs performance.

e) Strategy Implementation and SMEs Performance

Few studies have been carried out to examine the relationship between strategy implementation and organisational performance. In Kenya, Njagi and Kombo (2014) examined the effect of strategy implementation on performance of commercial banks. The study found strategy implementation to have a strong relationship with organisational performance. The researchers therefore concluded that organisations must implement strategy effectively in order to compete and survive in the market. These results are similar to the findings of Otieno et al. (2017) who found strategy implementation to have a positive significant relationship on SMEs performance. The study used a sample size of 39 was used for data analysis. The study found strategy implementation to be a key in determining the level to which performance meet the set objectives.

Similarly, Ibrahim, Sulaiman, Kahtani and Abu-May (2012) examined the relationship between strategy implementation and performance of manufacturing firms in Indonesia. 112 questionnaire were used for data analysis. The study found strategy implementation to better firm performance if effectively implemented. Maroa and Muturi (2015) investigated the influence of strategy implementation on performance of floriculture firms in Kenya. The findings established that strategy implementation have a positive and significant effect on firm performance. Monday et al. (2015) explored the relationship between strategy implementation and firm performance. The study focused on selected manufacturing firms in Nigeria and a sample size of 50 was for data analysis. Findings revealed that there was a positive and significant relationship between strategy implementation and firm performance. Drawing upon empirical review of literature, it can be asserted that:

H2: Strategy implementation has a significant relationship with SMEs performance.

f) Moderating Role of External Business Environment

The choice of using external business environment as a moderator in the relationship between strategic planning and SMEs performance is not only based on inconsistencies in the literature and paucity of literatures but also suggestion by previous studies that external business environment could be used as moderator between strategic planning and SME performance. Studies on strategic planning and firm performance literature refer to the suggestions that firms should take into consideration their business environment. Several studies (e.g., Ajonbadi et al., 2016; Asikhia, 2010; Makinde and Asikhia (2017) have associated firm performance with supportive business environment Strategies according to (Dess, Lumpkin and Taylor, 2005) should not be developed in a vacuum. Organisations must respond to their external business environment before developing strategies because external environmental forces are not under the control of the organisations and its industry.

May (2000) argue that firms used the information gathered from the external environment for strategic decision making by reacting quickly to any future threats. The gathering and use of information about an occurrence and trends of a firm’s external environment would assist owners/managers to have a deep knowledge of the market in which they operate and also assist them in strategic planning efforts (Lester and Parnell, 2008).

In line with the aforementioned argument and exposition, the following hypotheses were formulated for testing:
**III. METHODOLOGY**

*a) Research Design*

This study used a cross-sectional research design to collect data from respondents all at once. The study's respondents were owners/managers of SMEs in Lagos, Nigeria. The approach, according to Sekaran and Bougie (2013), is less time consuming and cost effective than the longitudinal approach.

*b) The Population*

There are 8396 registered SMEs (8042 small enterprises and 354 medium scale enterprises) operating in Lagos State, Nigeria.

*c) Sample*

The study calculated a sample size of 497 based on the target population. This is consistent with Krejcie and Morgan's (1970) and Hair, Ringle, Sarstedt's (2014) supposition.

*d) Sampling and Data Collection*

Data was collected using a self-administered questionnaire between the 3rd and 1st weeks of January 2022. As a result, 497 questionnaires were distributed to owners/managers using a simple random sampling technique, of which 427 were valid, indicating an 86 percent response rate. According to Sekaran (2003), a minimum response rate of 30% is acceptable for a survey of this nature.

*e) Measurement*

Measurement items were introduced on the basis of a careful literature review. Strategic planning was operationalized as multi-dimensional constructs made up of two dimensions- strategy formulation and implementation. Strategy formulation and implementation measures were adapted from the work of El-Mobayyed (2006) as well as Wijetunge and Pushpakumari (2014) using six and four items respectively. Five items were adapted from the work of Abd Aziz, and R. Mahmood (2010) to measure external business environment. On the other hand, performance was operationalized as a single construct made up of two dimensions- financial and non-financial performance. Performance was measured by five items as adapted from the work of Dahlgaard and Ciavolino (2000). All of the items used were anchored on a 5-Likert scale, with 5 indicating "strongly agree" and 1 indicating "strongly disagree."

**IV. DATA ANALYSIS**

The Statistical Package for the Social Sciences (SPSS) and Partial Least Squares-Structural Equation Model (PLS-SEM) were used to analyse data in this study. Specifically, SPSS was used to analyse demographic statistics of respondents while PLS was used for both measurement model (construct reliability and validity) and structural model (path coefficient).
Table 1: Demographic Characteristics of Respondents

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Frequency</th>
<th>Percentage</th>
<th>Cumulative Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>299</td>
<td>75.7</td>
<td>75.7</td>
</tr>
<tr>
<td>Female</td>
<td>96</td>
<td>24.3</td>
<td>100</td>
</tr>
<tr>
<td>Age of Respondents</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18 – 30</td>
<td>31</td>
<td>7.85</td>
<td>7.85</td>
</tr>
<tr>
<td>31 – 40</td>
<td>97</td>
<td>24.56</td>
<td>32.41</td>
</tr>
<tr>
<td>41 – 50</td>
<td>161</td>
<td>40.76</td>
<td>73.17</td>
</tr>
<tr>
<td>51 and Above</td>
<td>106</td>
<td>26.83</td>
<td>100.0</td>
</tr>
<tr>
<td>Education</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SSCE</td>
<td>78</td>
<td>19.75</td>
<td>19.75</td>
</tr>
<tr>
<td>ND/NCE</td>
<td>97</td>
<td>24.56</td>
<td>44.31</td>
</tr>
<tr>
<td>HND/DEGREE</td>
<td>182</td>
<td>46.08</td>
<td>90.38</td>
</tr>
<tr>
<td>Masters/PHD</td>
<td>38</td>
<td>9.62</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Table 1 shows, 75.7 percent of the total respondents are males, while 24.3 percent are females. This may be an indication that SMEs in Lagos state are dominated significantly by males. The total respondents of the study are between the ages of 18 to 30, 24.56 percent are between the ages of 31 to 40, 40.76 percent are between ages 41 to 50, while the remaining 26.83 percent respondents are above 50 years. The study also reveals owner/managers of most SME generally hold some educational qualifications. Majority (46.08 percent) of the total respondents hold a Higher National Diploma (HND) or a degree.

a) Evaluation of the Measurement Model (outer model)

The measurement model explains how each construct is measured, which can be validated by evaluating indicator reliability, internal consistency, and convergent validity (Hair, Hult, Ringle & Sarstedt, 2017). Figure 2 depicts the measurement model.
Table 2: Reliability and Validity

<table>
<thead>
<tr>
<th>Constructs</th>
<th>Items</th>
<th>Loadings</th>
<th>CA</th>
<th>CR</th>
<th>AVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy Formulation</td>
<td>SF1</td>
<td>0.717</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>SF2</td>
<td>0.821</td>
<td>0.849</td>
<td>0.888</td>
<td></td>
</tr>
<tr>
<td></td>
<td>SF3</td>
<td>0.813</td>
<td>0.727</td>
<td>0.570</td>
<td></td>
</tr>
<tr>
<td></td>
<td>SF4</td>
<td>0.768</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>SF5</td>
<td>0.673</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>SF6</td>
<td>0.673</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategy Implementation</td>
<td>SI2</td>
<td>0.697</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>SI3</td>
<td>0.832</td>
<td>0.742</td>
<td>0.847</td>
<td></td>
</tr>
<tr>
<td></td>
<td>S4</td>
<td>0.881</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>External Business Environment</td>
<td>EXBE1</td>
<td>0.612</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>EXBE2</td>
<td>0.800</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>EXBE3</td>
<td>0.650</td>
<td>0.785</td>
<td>0.854</td>
<td></td>
</tr>
<tr>
<td></td>
<td>EXBE4</td>
<td>0.821</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>EXBE5</td>
<td>0.775</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SMEs Performance</td>
<td>SMEP1</td>
<td>0.873</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>SMEP2</td>
<td>0.774</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>SMEP3</td>
<td>0.832</td>
<td>0.859</td>
<td>0.899</td>
<td></td>
</tr>
<tr>
<td></td>
<td>SMEP4</td>
<td>0.725</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>SMEP5</td>
<td>0.790</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: AVE represents Average Variance Extracted; CR represents Composite Reliability; CA represents Cranach’s Alpha.

Table 3: Discriminant Validity (HTMT criterion)

<table>
<thead>
<tr>
<th>EXBE</th>
<th>SF</th>
<th>SI</th>
<th>SMEP</th>
</tr>
</thead>
<tbody>
<tr>
<td>SF</td>
<td>0.363</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SI</td>
<td>0.436</td>
<td>0.570</td>
<td></td>
</tr>
<tr>
<td>SMEP</td>
<td>0.455</td>
<td>0.779</td>
<td>0.513</td>
</tr>
</tbody>
</table>

Note: SF = Strategy Formulation; SI = Strategy Implementation; EXBE = External Business Environment; SMEP = SMEs Performance.

The indicator reliability of each item used in measuring the study's construct is shown in Table 2 and Figure 2. The reliability of indicators in a study defines how satisfactory and dependable items measure a specific construct (Hair, Black, Babin and Anderson, 2010). For indicator reliability to be fulfilled, each construct’s items are expected to load between 0.5 and 1 (Hair et al., 2014). As a result, since item loading values range from 0.612 to 0.873, individual indicator reliability has been achieved, as shown in Table 2 and Figure 2. However, it should be noted that only one item (i.e., SI1) representing strategy formulation which fail to fulfill the threshold values were deleted (Hair et al., 2011).

Table 2 also shows the constructs’ internal consistency reliability. Internal consistency reliability (construct reliability) examines whether items measuring the same construct have similar scores (Hair et al., 2017). In this study, internal consistency reliability was checked using CR and CA values. The rule is that both CR and CA values should reach at least 0.7 for internal consistency reliability to be attained (Hair et al., 2017; Sekaran, 2003). According to this study, each construct internal consistency reliability is above the threshold value of 0.7. Hence, it can be concluded that internal consistency reliability in this study has been achieved.

It's also critical to evaluate the convergent validity of the study's constructs. The amount at which a measure is positively connected to another measure of a similar construct as determined by AVE analysis has been referred to as convergent validity. According to Hair et al. (2014), AVE should be 0.5 or higher (Hair et al., 2010) for a specific construct to fulfill convergent validity. As a result, the AVE values in as shown in Table 2 are greater than the 0.5 minimum. Therefore, convergent validity of the study's constructs is demonstrated.

To complete the measurement model evaluation, discriminant validity must be estimated. It is the degree to which a construct differs significantly from another set of constructs according to empirical standards. Taking recent research into account, the Fornell-Larcker criterion has been critically examined and found to be ineffective in detecting discriminant validity issues (Henseler, Ringle and Sarstedt, 2015). As a result, the heterotrait-monotrait ratio (HTMT) was used...
in this study to test discriminant validity. Hair et al. (2017) define HTMT as the ratio of between-trait correlations to within-trait correlations, and the HTMT values for all construct pairings in the matrix should be less than 0.90. Table 2 shows that the HTMT values of all construct pairings in the matrix are less than 0.90 (Hair et al., 2017). As a result, the study's construct validity has been established.

**b) Structural Model**

Following the evaluation of the measurement model, the structural model—the second stage of the inferential analysis—should be run. The essence is to determine the direct impact of strategy formulation and implementation on SMEs performance, including the moderating effect of external business environment.

![Figure 3: Structural Model](image)

**Table 5: Test of Hypotheses**

<table>
<thead>
<tr>
<th></th>
<th>Beta</th>
<th>STDEV</th>
<th>T Stat</th>
<th>P Values</th>
<th>Confidence Intervals</th>
<th>Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Direct Path</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SF-&gt;SMEP</td>
<td>0.591</td>
<td>0.046</td>
<td>12.736</td>
<td>0.000*</td>
<td>0.494</td>
<td>0.697</td>
</tr>
<tr>
<td>SI-&gt;SMEP</td>
<td>0.118</td>
<td>0.046</td>
<td>2.546</td>
<td>0.000*</td>
<td>0.016</td>
<td>0.191</td>
</tr>
<tr>
<td><strong>R² = 0.621</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Moderating Effect</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EXBE*SF-&gt;SMEP</td>
<td>0.164</td>
<td>0.141</td>
<td>1.161</td>
<td>0.246</td>
<td>-0.245</td>
<td>0.186</td>
</tr>
<tr>
<td>EXBE*SF-&gt;SMEP</td>
<td>0.092</td>
<td>0.042</td>
<td>2.147</td>
<td>0.031**</td>
<td>0.007</td>
<td>0.165</td>
</tr>
</tbody>
</table>

*Note: SF = Strategy Formulation; SI = Strategy Implementation; EXBE = External Business Environment; SMEP = SMEs Performance; P value with one asterisk is significant @ < 0.01 while P value with two asterisk is significant @ < 0.05*

As shown in Figure 2 and Table 5, the model's R² value is 0.621. It denotes that the exogenous latent variables (strategy formulation, strategy implementation and external business environment) explain 26.1% of the variance in the endogenous latent variable (SMEs performance). Furthermore, the direct results (i.e., β = 0.591, t= 12.736, p<0.01) reveal that strategy formulation has a significant relationship with SMEs performance. As a result, the hypothesis stated earlier in this study that a relationship exists between strategy formulation and SMEs performance was supported empirically. Similarly, the results (i.e., β = 0.118, t= 2.546, p<0.01) indicated in Table 5 demonstrate that strategy implementation has a significant relationship with SMEs performance.

In terms of the moderation effect, the findings (i.e., β = 0.164, t= 1.161, p>0.05) show that EI does not significantly moderate the relationship between strategy formulation and SMEs performance. However, external business environment significantly moderates the relationship between strategy formulation and SMEs performance based on the findings obtained in Table 5 (i.e., β = 0.092, t= 2.147, p<0.05).
Table 6: Effect Size of Exogenous variables on Endogenous Variables

<table>
<thead>
<tr>
<th>Construct</th>
<th>(f^2) (SMEP)</th>
<th>Effect Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>SF</td>
<td>0.980</td>
<td>Large</td>
</tr>
<tr>
<td>SI</td>
<td>0.005</td>
<td>Small</td>
</tr>
<tr>
<td>EXBE</td>
<td>0.048</td>
<td>Small</td>
</tr>
</tbody>
</table>

Note: SF = Strategy Formulation; SI = Strategy Implementation; EXBE = External Business Environment; SMEP = SMEs Performance

According to Cohen (1988) and Hair et al. (2013), threshold values of 0.02, 0.15, and 0.35 are commonly used to indicate small, medium, and large effect sizes (\(f^2\)) of exogenous variables on endogenous variables. In this case, strategy implementation and external business environment have a small effect size on SMEs Performance, whereas strategy formulation has a large effect size on SMEs Performance.

Table 7: Predictive Relevance of Exogenous Variables

<table>
<thead>
<tr>
<th>Construct</th>
<th>SSO</th>
<th>SSE</th>
<th>(Q^2 = 1 - \frac{SSE}{SSO})</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover Intention</td>
<td>227.754</td>
<td>153.794</td>
<td>0.325</td>
</tr>
</tbody>
</table>

Note: SSO (sum of squared observations); SSE (sum of squared prediction errors)

The blindfolding result of the reflective endogenous latent variable’s cross-validated redundancy (\(Q^2\)) is shown in Table 7. As illustrated in the table, the cross-validated redundancy (\(Q^2\)) is greater than zero. Therefore, it can be concluded that there is a predictive path in the model of this study (Chin, 1998; Hair et al., 2014; Hayes, 2009).

c) Discussions of findings

The main objective of this study is to examine the moderating role of external business environment in the relationship between strategy formulation, strategy implementation, and performance of SMEs in Nigeria. First, we hypothesised that strategy formulation would have a significant relationship with SMEs performance. Based on the findings of this study, the relationship was found to be positively significant. This result empirically agrees with the findings of previous studies such as Monday et al., (2015); Moroa and Muturi (2015) as well as Otieno et al. (2017) that strategy formulation is key to firm performance especially in a highly competitive market. Firms that gives consideration to strategy formulation are well guided and prepared to take advantage of opportunities that come their ways. As such, they are proactive rather than being reactive.

Second, we hypothesised that a significant relationship exists between strategy implementation and SMEs performance. According to the findings of this study, the hypothesis was supported, confirming that strategy implementation is key predictor of SMEs performance. The finding of this study affirmed the results of previous studies which establish that strategy implementation significantly and positively influences firm performance (Maroa and Muturi, 2015; Ngaji and Kombo, 2014; Sandada et al., 2014). This suggests that firm that the implementation of new strategies determines to a large extent sustainability and effectiveness of such a firm. This study therefore serves as a pointer to SMEs to engage in the implementation of previously formulated strategies in order to achieve superior performance.

Third, the hypothesis saying that external environment would moderate the relationship between strategy formulation and SME performance was tested and the results revealed that the moderating role of external environment in the relationship between strategy formulation and SME performance was not significant. The finding does not give us an unwavering stance to conclude that external business environment impact the relationship between strategy formulation and SMEs performance. The fact that the majority of SMEs in Nigeria operate in a turbulent and unsupportive external environment could explain why this finding contradicts our third hypothesis. This suggests that SMEs are facing greater external challenges, despite the fact that they used information gathered from the external business environment to make strategic decisions.

The findings supported our final hypothesis indicating that external environment moderate the relationship between strategy formulation and SME performance. This suggests that that the interaction of strategy formulation with external business environment would strengthen already existing relationship between job satisfaction and SMEs performance. Hence, it is possible to conclude that the conduciveness and receptiveness of external business environment to firm is critical to the effectiveness strategy implemented and in turn enhances SMEs performance.

d) Theoretical Implication

The RBV generally postulates that the performance of firms is largely dependent on the intangible and non-substitutable resources embedded in such firms which may not be able to be implemented by current or potential competitors and also difficult to...
be duplicated (Barney, 1991). Moreover, this study further contributed to the body of knowledge by revalidating the RBV proposition that such resources are the sources of firm performance, and adding empirical evidence on its domain generally. To empirically validate this theory, the impact of strategic planning on firm performance have been empirically proven by a number of researchers (see Arasa & K’Obonyo, 2012; Glaister et al., 2007; Song et al., 2011). Nevertheless, these previous studies have failed to taken into account strategy formulation and implementation as key elements of strategic planning. Consequently, this study addressed this gap by investigating the impact of strategy formulation and implementation on SMEs performance.

Apart from that, the introduction of external business environment as moderator in the model is a key theoretical contribution of this study. Although most previous related studies (e.g., Auka and Langat, 2016; Dubihlela and Sandada 2014; Emeka, 2015; Monday, Akinola, Ologbenla and Aladeraji, 2015; Otieno, et al., 2017) have examined the direct relationship between strategic planning and SMEs performance, literature that have considered introducing a moderator in the model have paid little or no attention to external environment. Meanwhile, external environment of firms is an important consideration for strategic planning to be successful, particularly in a rapidly changing environment.

e) Practical Implications

One of the practical implications of the study is that the study provides owners and management of SMEs on how to improve performance and survive in a turbulent environment as the result of the study shows that the performance of SMEs is positively influenced by strategy formulation, strategy implementation and evaluation and control. The findings of this study will educate owners/managers of SMEs with information on the importance of strategic planning and to improve the application of such strategies to overcome challenges.

Furthermore, the study will assist owners/managers to take more responsibility in reducing uncertainties for the organisation through strategic planning. By this, they can overcome challenges and remain competitive.

V. Conclusion

The success of developed economies can be traced back to the important role that SMEs have played in achieving economic and social development goals such as GDP, poverty alleviation, and job creation, among other things. However, few studies appear to have been conducted on the relationship between strategic planning and SME performance in Nigeria. As a result, the moderating effect of the external business environment in the relationship between strategic planning and performance of SMEs in Nigeria was investigated in this study. It was discovered that strategy formulation and strategy implementation improve the performance of Nigerian SMEs. Similarly, the relationship between strategy implementation and SME performance is moderated by the external business environment.

a) The study’s limitations and Suggestions for Future Research

Given that this study used a cross-sectional research approach, making casual inferences from the studied population may be somewhat difficult (Sekaran and Bougie, 2010). Hence, it is encouraged that future studies make use of longitudinal research approach to collect data. Furthermore, because the current study examined the moderating effect of external business environment on strategic planning-relationships, future studies may consider replicating similar research in other sector aside SMEs. Perhaps, such future studies may produce contradictory results or further validate the current study's findings. Finally, future research may consider both internal and external factors as intervening variables.

References Références Referencias

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