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

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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.

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**Index terms**— strategic planning; strategy formulation; strategy implementation; external business environment and SMEs.

## 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 centrepoint and becomes increasingly important in business management

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

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

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

64 There is also debate in the literature about whether strategic planning is unidimensional or multidimensional,  
65 as well as its operationalization (Phillips and Moutinho, 2014; Rudd, Greenley, Beatson, and Lings, 2008).  
66 This current study attempts to address this issue by looking at strategic planning from a multidimensional  
67 perspective, utilizing strategy formulation and implementation, which appears to be lacking in the context  
68 strategic planning process of SMEs. Another point of contention is the choice of performance measures for  
69 evaluating firm performance. For example, researchers (e.g., Elbanna, 2012; Phillips and Moutinho, 2014; Rudd et  
70 al., 2008) have observed that most research in the planning-performance domain focuses primarily on assessing  
71 performance through financial measures, limiting the complete understanding of performance. As a result, this  
72 study conceptualized firm performance through the four balanced scorecard measurement perspectives, namely,  
73 financial perspective, internal business perspective, learning perspective, and customer perspective (Elbanna,  
74 2012; Kaplan and Norton, 1992).

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

## 85 2 II.

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

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

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### 106 3 b) Strategic Planning

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

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

### 127 4 i. Strategy Formulation

128 Strategy formulation refers to the evaluation of the business environment, both internal and external, and the  
129 incorporation of the entire result into goals and strategies (Daft, 2012). According to Bogner and Thomas  
130 (1993), strategy formulation entails developing strategies by determining the best course of action to achieve  
131 organizational goals and objectives. Otieno, et al. (2017) defined strategy formulation as the process of  
132 outlining and drawing out appropriate mission, goals and objectives for an organisation. It entails the process of  
133 developing the firm's mission, vision, and objective statement.

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

### 140 5 ii. Strategy Implementation

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

### 152 6 c) External Business Environment

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

161 Notably, many researchers have prioritized it and attempt to study the general environment using PEST  
162 analysis, which includes politics, economics, social and cultural environments, and technological environments  
163 ??Thompson & Martin, 2010). Schlar expands on the PEST concept by using PESTEL, which includes  
164 environmental and legal considerations (Yüksel, 2012). Not only that, but Albert S Humphrey's SWOT analysis

165 has been used to assess the external environment's strengths and weaknesses (Helms & Nixon, 2010). According  
166 to Adeoye (2012), organizations operate and survive in an external environment that includes the competitor,  
167 supplier, economy, customers, technology, government, and communities.

### 168 **7 d) Strategy formulation and SME Performance**

169 Emeka et al. (2015) examined the effect of strategy formulation on organisational performance. The study  
170 focused on only manufacturing firms and also used employees as its unit of analysis. However, the study found  
171 a positive relationship between strategy formulation and firm performance. The researchers concluded that a  
172 well formulated strategy will increase the performance of an organisation. The study is in support of the study  
173 conducted by Otieno et al. (2017) the effect between strategy formulation on the performance of small and  
174 medium size enterprises in Kenya. A sample size of 39 was used for data analysis. The study found strategy  
175 formulation to have a positive significant relationship on SMEs performance. They study therefore concluded  
176 that a well formulated strategy will help organisations in predicting their performance. Maroa and Muturi  
177 (2015) examined a study on the effect of strategy formulation on performance of floriculture firms in Kenya. 10  
178 questionnaire were used for final analysis. The findings revealed that strategy formulation have a positive and  
179 significant effect on firm performance. Also, Monday et al. (2015) examined the relationship between strategic  
180 planning and firm performance. The study focused on selected manufacturing firms in Nigeria and a sample size of  
181 50 was for data analysis. The Findings established that there was a positive and significant relationship between  
182 strategy formulation and firm performance. Based on the aforementioned argument, the following hypotheses  
183 were suggested: H1: Strategy formulation has a significant relationship with SMEs performance.

### 184 **8 e) Strategy Implementation and SMEs Performance**

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

193 Similarly, Ibrahim, Sulaiman, Kahtani and Abu-Jarad (2012) examined the relationship between strategy  
194 implementation and performance of manufacturing firms in Indonesia. 112 questionnaire were used for data  
195 analysis. The study found strategy implementation to better firm performance if effectively implemented.  
196 Maroa and Muturi (2015) investigated the influence of strategy implementation on performance of floriculture  
197 firms in Kenya. The findings established that strategy implementation have a positive and significant effect  
198 on firm performance. Monday et al. (2015) explored the relationship between strategy implementation and  
199 firm performance. The study focused on selected manufacturing firms in Nigeria and a sample size of 50 was  
200 for data analysis. Findings revealed that there was a positive and significant relationship between strategy  
201 implementation and firm performance. Drawing upon empirical review of literature, it can be asserted that: H2:  
202 Strategy implementation has a significant relationship with SMEs performance.

### 203 **9 f) Moderating Role of External Business Environment**

204 The choice of using external business environment as a moderator in the relationship between strategic planning  
205 and SMEs performance is not only based on inconsistencies in the literature and paucity of literatures but also  
206 suggestion by previous studies that external business environment could be used as moderator between strategic  
207 planning and SME performance. Studies on strategic planning and firm performance literature refer to the  
208 suggestions that firms should take into consideration their business environment. Several studies (e.g., Ajonbadi  
209 et al., 2016; Asikhia, 2010; Makinde and Asikhia (2017) have associated firm performance with supportive business  
210 environment Strategies according to (Dess, Lumpkin and Taylor, 2005) should not be developed in a vacuum.  
211 Organisations must respond to their external business environment before developing strategies because external  
212 environmental forces are not under the control of the organisations and its industry. May (2000) argue that firms  
213 used the information gathered from the external environment for strategic decision making by reacting quickly  
214 to any future threats. The gathering and use of information about an occurrence and trends of a firm's external  
215 environment would assist owners/managers to have a deep knowledge of the market in which they operate and  
216 also assist them in strategic planning efforts (Lester and Parnell, 2008).

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

### 219 **10 Methodology a) Research Design**

220 This study used a cross-sectional research design to collect data from respondents all at once. The study's  
221 respondents were owners/managers of SMEs in Lagos, Nigeria. The approach, according to Sekaran and Bougie  
222 (2013), is less time consuming and cost effective than the longitudinal approach.

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## 223 11 b) The Population

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

## 226 12 c) Sample

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

## 229 13 d) Sampling and Data Collection

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

## 234 14 e) Measurement

235 Measurement items were introduced on the basis of a careful literature review. Strategic planning was opera-  
236 tionalized as multi-dimensional constructs made up of two dimensions-strategy formulation and implementation.

237 Strategy formulation and implementation measures were adapted from the work of El-Mobayed (2006) as well  
238 as Wijetunge and Pushpa kumari (2014) using six and four items respectively. Five items were adapted from  
239 the work Abd Aziz, and R. Mahmood (2010) to measure external business environment. On the other hand,  
240 performance was operationalized as a single construct made up of two dimensions-financial and non-financial  
241 performance. Performance was measured by five items as adapted from the work of Dahlgaard and Ciavolino  
242 (2000). All of the items used were anchored on a 5-Likert scale, with 5 indicating "strongly agree" and 1 indicating  
243 "strongly disagree."

244 IV.

## 245 15 Data Analysis

246 The Statistical Package for the Social Sciences (SPSS) and Partial Least Squares-Structural Equation Model  
247 (PLS-SEM) were used to analyse data in this study. Specifically, SPSS was used to analyse demographic statistics  
248 of respondents while PLS was used for both measurement model (construct reliability and validity) and structural  
249 model (path coefficient). The indicator reliability of each item used in measuring the study's construct is shown  
250 in Table 2 and Figure 2. The reliability of indicators in a study defines how satisfactory and dependable items  
251 measure a specific construct (Hair, Black, Babin and Anderson, 2010). For indicator reliability to be fulfilled,  
252 each construct's items are expected to load between 0.5 and 1 (Hair et al., 2014). As a result, since item loading  
253 values range from 0.612 to 0.873, individual indicator reliability has been achieved, as shown in Table 2 and  
254 Figure 2. However, it should be noted that only one item (i.e., SI1) representing strategy formulation which fail  
255 to fulfil the threshold values were deleted (Hair et al., 2011).

## 256 16 Characteristics

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

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

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

## 276 17 b) Structural Model

277 Following the evaluation of the measurement model, the structural model-the second stage of the inferential  
 278 analysis-should be run. The essence is to determine the direct impact of strategy formulation and implementation  
 279 on SMEs performance, including the moderating effect of external business environment. Note: SF =  
 280 Strategy Formulation; SI = Strategy Implementation; EXBE= External Business Environment; SMEP=SMEs  
 281 Performance; P value with one asterisk is significant @ < 0.01 while P value with two asterisk is significant @ <  
 282 0.05

283 As shown in Figure 2 and Table 5, the model's R<sup>2</sup> value is 0.621. It denotes that the exogenous latent  
 284 variables (strategy formulation, strategy implementation and external business environment) explain 26.1% of  
 285 the variance in the endogenous latent variable (SMEs performance). Furthermore, the direct results (i.e.,  $\beta =$   
 286 0.591,  $t = 12.736$ ,  $p < 0.01$ ) reveal that strategy formulation has a significant relationship with SMEs performance.  
 287 As a result, the hypothesis stated earlier in this study that a relationship exists between strategy formulation and  
 288 SMEs performance was supported empirically. Similarly, the results (i.e.,  $\beta = 0.118$ ,  $t = 2.546$ ,  $p < 0.01$ ) indicated  
 289 in Table 5 demonstrate that strategy implementation has a significant relationship with SMEs performance.

290 In terms of the moderation effect, the findings (i.e.,  $\beta = 0.164$ ,  $t = 1.161$ ,  $p > 0.05$ ) show that EI does  
 291 not significantly moderate the relationship between strategy formulation and SMEs performance. However,  
 292 external business environment significantly moderates the relationship between strategy formulation and SMEs  
 293 performance based on the findings obtained in Table 5 (i.e.,  $\beta = 0.118$ ,  $t = 2.546$ ,  $p < 0.05$ ). The blindfolding result  
 294 of the reflective endogenous latent variable's cross-validated redundancy (Q<sup>2</sup>) is shown in Table 7. As illustrated  
 295 in the table, the cross-validated redundancy (Q<sup>2</sup>) is greater than zero. Therefore, it can be concluded that  
 296 there is a predictive path in the model of this study (Chin, 1998;Hair et al., 2014;Hayes, 2009).

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

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

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

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

327 The RBV generally postulates that the performance of firms is largely dependent on the intangible and non-  
 328 substitutable resources embedded in such firms which may not be able to be implemented by current or potential  
 329 competitors and also difficult to Meanwhile, external environment of firms is an important consideration for  
 330 strategic planning to be successful, particularly in a rapidly changing environment.

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

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

338 V.

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## 18 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.

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 besides 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.

**Figure 1**

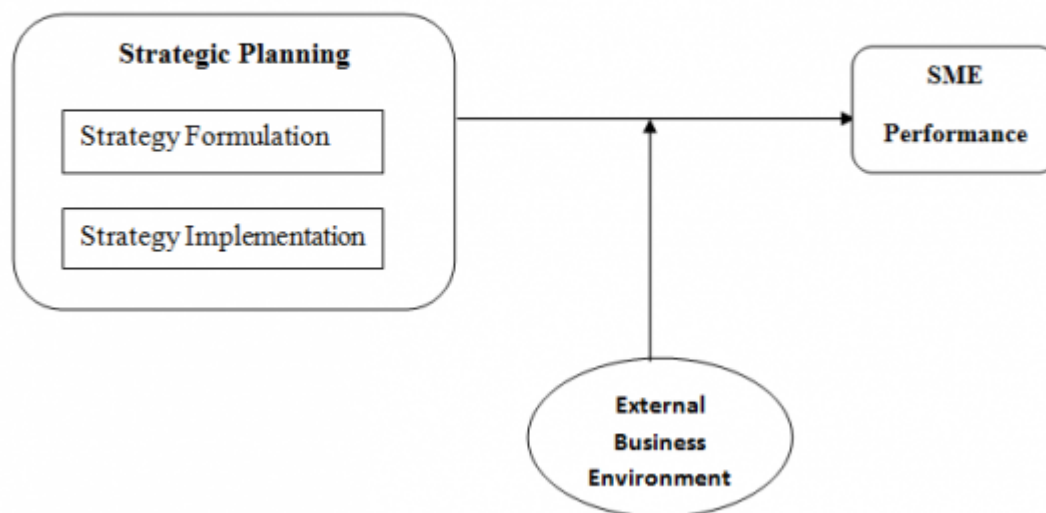


Figure 1:

354

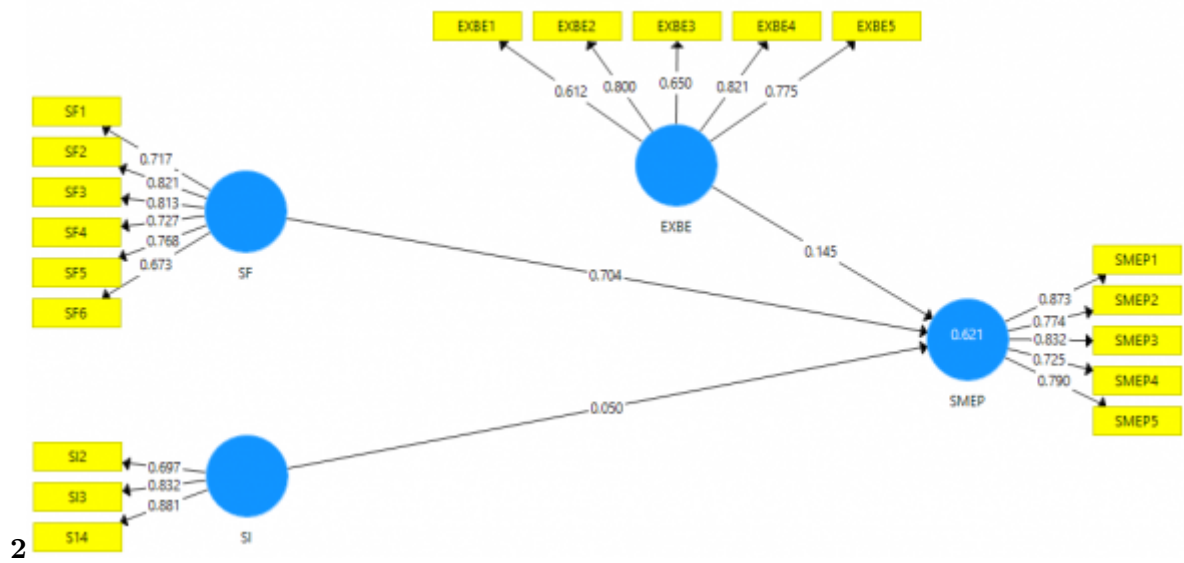


Figure 2: Figure 2

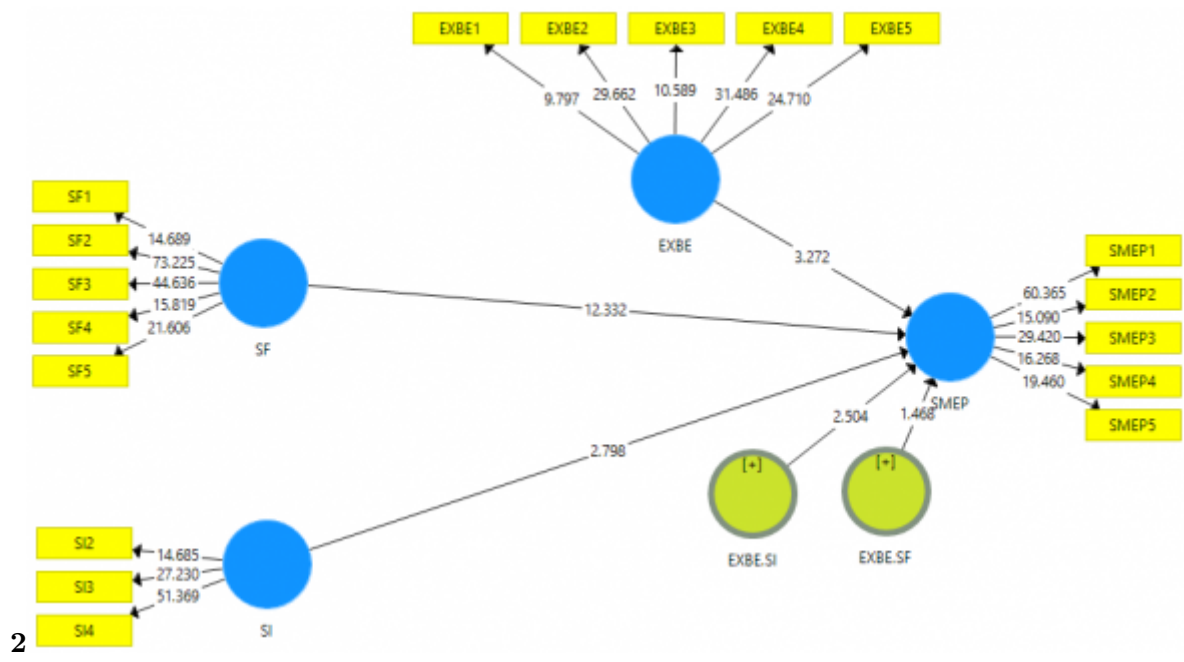


Figure 3: Figure 2 :



1

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

Figure 4: Table 1 shows

1

Figure 5: Table 1 :

2

Constructs	Items	Loadings	CA	CR	AVE
Strategy Formulation	SF1 SF2 SF6 SF5	0.717 0.673 0.768 0.727	0.849	0.888	0.570
	SF4 SF3	0.821 0.813			
Strategy Implementation	SI2 SI3 S4	0.697 0.832 0.881	0.742	0.847	0.652
External Business Environment	EXBE1	0.612	0.785	0.854	0.542
	EXBE2	0.775			
	EXBE5 EXBE4 EXBE3	0.821 0.800 0.650			
SMEs Performance	SMEP1	0.873	0.859	0.899	0.641
	SMEP2	0.790			
	SMEP5 SMEP4	0.725 0.774			
	SMEP3	0.832			

[Note: Note: AVE represents Average Variance Extracted; CR represents Composite Reliability; CA represents Cranach's Alpha]

Figure 6: Table 2 :

3

	EXBE	SF	SI	SMEP
EXBE				
SF	0.363			
SI	0.436	0.570		
SMEP	0.455	0.779	0.513	

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

Figure 7: Table 3 :

5

	Beta	STDEV	T Stat	P Values	Confidence Intervals		Decision
					5%	95%	
Direct Path							
SF->SMEP	0.591	0.046	12.736	0.000*	0.494	0.697	Supported
SI-> SMEP	0.118	0.046	2.546	0.000*	0.016	0.191	Supported
R 2 = 0.621							
Moderating Effect							
EXBE*Sf->SMEP	0.164	0.141	1.161	0.246	-0.245	0.186	NS
EXBE*Sf->SMEP	0.092	0.042	2.147	0.031**	0.007	0.165	Supported

Figure 8: Table 5 :

**6**

Construct	f <sup>2</sup> (SMEP)	Effect Size
SF	0.980	Large
SI	0.005	Small
EXBE	0.048	Small

Note: SF = Strategy Formulation; SI = Strategy Implementation; EXBE= External Business Environment; 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<sup>2</sup>) of exogenous variables on endogenous

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.

Figure 9: Table 6 :

**7**

Construct	SSO	SSE	Q <sup>2</sup> = 1 - SSE/SSO
Turnover Intention	227.754	153.794	0.325

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

Figure 10: Table 7 :

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

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;

c) Discussions of findings

d) Theoretical Implication  
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Figure 11:

355 H3: External business environment moderates the relationship between strategy formulation and SME  
356 performance H4: External business environment moderates the relationship between strategy implementation  
357 and SME performance

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