Environmental Scanning and Strategic Decisions of Small Businesses in Port-Harcourt, Nigeria

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Abstract: This study is on the environmental scanning activities of small businesses in Port-Harcourt, Nigeria, and how the information obtained is used for strategic decisions. The paper adopted the qualitative case-study research design in gathering information from 25 SMEs out of 30 identified SMEs in the manufacturing and service sectors in Port-Harcourt. The analysis is carried out at the organizational level to draw inferences on topic of investigation. In linking the collected data to the research objectives and or question, the researcher adopted the pattern-matching method. Findings reveal that not many of the small business leaders interviewed were involved in the process of strategic decision making through the process of environmental scanning; and where environmental scanning was carried out, it was less sophisticated and served the purpose of seeking immediate business opportunities and for strategic decisions. Recommendations are that training programmes on environmental scanning and decision making should be availed owners of small businesses to enhance effectiveness of their decision making skills. This could also be a way of encouraging a strong connection between the management practitioners, particularly those in the higher institutions of learning, and the society for solving societal problems.

Key words: Environmental Scanning, Strategic Decisions, Small Businesses

INTRODUCTION

For small and medium enterprises to sustain their existence, growth and profitability, they must be able to demonstrate a full grasp of their environment through the process of environmental scanning and applying the information obtained in decision making (Kohli & Jaworski, 1990; Slater & Naver, 1995: Tianjiao, 2008; Kehinde, 2010). Although these authors made their analysis in the area of marketing; it is also very applicable in decision making process of an organisation, in this case small and medium enterprises (SMEs) operating within Port-Harcourt metropolis. Environmental scanning for business decision making has proven to be a viable tool or process whereby businesses gather needed information for improving their competitiveness and the sustenance of the same (Patton & McKenna, 2005; Sawyer et al., 2000). The competitive advantage of an organisation or SMEs hinges on their ability to make informed business decisions better than their competitors and based on information gathering from the environment (Brownlie, 1994; Oktengil & Greenley, 1997; Pickton & Wright, 1998). Environmental scanning must be carried out effectively with modern practices in mind, by individual personnel of an organisation, this is the only way to assure that the best business decision is made. If the scanning process is done with great expertise, then the decision which ensues will make a great business sense (Wright & Ashill, 1998) as it reflects the realities of the business environment.
Various researches have looked at different sources of environmental scanning some of which are internal to the organisation, external to the organisation, personal or non-personal sources. From these sources organisational leaders obtain information for decision making (Keegan, 1974; Kobrin et al., 1980). Further, research also have looked at the business environment upon which business leaders apply their scanning undertaking. The environment include political, economic, socio-cultural and Technological environment (Wheelen & Hunger 2004; Hambrick 1981; O’Connell & Zimmerman, 1979; Shenkar & Luo, 2008). Again, many business leaders’ mode of carrying out environmental scanning is under the radar of researches carried out, for example (El Sawy 1985; Jain, 1984). Most apply the proactive approach, meaning that they are ahead of their competition whilst yet others apply the reactive approach, and still others are seen to be inactive in environmental scanning. Those who are inactive soon find themselves being subsumed by the competition. The outcome of environmental scanning is mostly evidenced in the strategy a business adopts in overcoming its competition or staying ahead of its competition and hence it’s organisational and or business performance (Beal 2000; Unuoha, 2015). Due to the volatile nature of the business environment many business leaders rely heavily on personal and external environmental scanning sources for information. Scanning should then be scheduled on regular frequency and a wider scope should be undertaken in order that the desired competitive advantage be gained and sustained.

Wheelen and Hunger (2004) suggest that businesses could benefit from or be distorted by uncertainties prevalent in its environment. This is applicable to SMEs and start-ups. Companies which were first movers into certain environments have not continued in business because of their inability or failure to take advantage or even adapt to the changing business environment. This could also result from their inability and failure to design the kind of environment they want. Small businesses and start-ups must be able to understand their external environments, they must align their business goals with the needs of the environment. Further, they must also be able to match their business strategy with the provisions of the environment. There is always an uncertainty level that is a combination of the degree of complexity and the degree of change which pervades the external environment of an organisation. Small business leaders could take advantage of these uncertainties by being proactive in their mode of scanning or relax and see their business go into extinction.

Many businesses and or business leaders display various kinds of environmental scanning behaviour or do not even know about it, maybe in the first instance, and this tend to affect businesses in various ways within the Nigerian setting. The understanding of the importance of decision making from information gathered from environmental scanning effort has strategic importance to all business leaders particularly the small businesses and start-ups within the Port-Harcourt metropolis. There are few researches carried out in the area of environmental scanning and its importance in strategic business decision in the Nigerian setting, example (Kehinde, 2010; Sawyerr, 1993; Babatunde & Adebisi, 2012). Thus, the purpose of this study is to investigate the attitude of small business leaders in Port-Harcourt metropolis towards environmental scanning and how the information obtained (i.e., where business leaders practice environmental scanning) is used in strategic decision making for business improvement and or sustenance of competitive advantage.

**RESEARCH OBJECTIVES**

In specific terms this research work intends to:
• Find out the percentage of small businesses that make strategic decisions based on information from environmental scanning
• Understand what aspect of the environment (natural, task and societal) affect small and medium enterprises in Port Harcourt
• Investigate the extent of impacts of these environmental aspects on small and medium enterprises
• Ascertain how small and medium enterprises go about gathering information for strategic decision making.

RESEARCH QUESTIONS:
The work will answer the following questions in order to make binding conclusion on the topic in study.
• What percentage of small businesses make strategic decisions based on information from environmental scanning?
• What aspects of the environment affect small businesses the most in Port-Harcourt?
• To what extent do the impacts of the environmental aspects affect small businesses?
• How do small and medium enterprises go about gathering information for strategic decision making?

SIGNIFICANCE OF THE STUDY
This paper focuses on environmental scanning, which is the independent variable of study and, encompasses various aspects of the business environment as the task environment, societal and natural environment. The decision making of small and medium enterprises, which is the dependent variable also comes under investigation. Such decision as location of business, competitive strategy, responsibilities, and new product offerings are covered in this work. The work is carried out in light of small businesses within Port-Harcourt and its environment. This research work has lots of significant facets. On a very broad sense, the study will serve as an enlightenment on the practices of small and medium enterprises as touching environmental scanning and strategic decision making and hoped to be of benefit to existing small business owners, as they begin to take advantage of the findings of the work in carrying out effective environmental scanning as a way of making informed strategic decision and thus growing their businesses. Further, prospecting small business owners will avoid falling into the pit of mistakes made by other businesses and find a way of strategically formulating their policies or making their decisions based on real environmental concerns. Finally, management consultants and experts could find a fallow ground through this work by positioning themselves to providing expert guides to existing and new businesses on the need for proactive and effective environmental scanning for strategic decision making.

LITERATURE REVIEW
Environmental scanning and strategic decision making
Making decision in organisations is of utmost importance as the business environment become more uncertain and replete with competition. As the size of organisations also grows larger or increases in complexity, decision making becomes complicated and also difficult. However, however having to follow strategic decision making framework could help ease the difficulties in decision making process. Strategic decision borders on long term perspective of an organisation
(Frishammar, 2003; Johnson & Scholes, 1999). There are three features of strategic decision making according to Wheelen and Hunger (2012), they are rareness, consequential and directive. The quality of rareness means that there are no precedent decisions or model to follow in making such decision. While the quality of being consequential means that lots of resources and commitment on the part of management and people at all level is required, the failure of the decision thus spells doom to the organisation. Strategic decisions sets the scene for further decisions of lesser category and activities in the future of an organisation, this depicts the quality of being directive.

According to Osborne (2015) there are three categorical steps to making decision as developed by Herbert Simon (1959); the first is termed the intelligence phase. In this phase, the small business leader finds an instance for having to make decision and, this is where proactive environmental scanning comes in to play. The second phase is the design phase where the small business leader looks for different options or alternative action to take and, the third phase, which is termed the choice phase is the point where the small business leader, in this case, assesses the various options that are available to him/her, or that were built up in the second step and chooses one of them. However, Herbert (1959), in his bounded rationality theory, opined that humans tend to not make the optimum decisions due to certain limitations. These limitations he delineated as lack of knowledge, low capability to process complex information that are available to them and the constraints of time. Most decisions are thus made based on certain conditions that fulfil immediate needs (Osborne, 2015). Harrison (1996) defines decision making as the act of making a discerning action as regards what possibly ought to be done in a particular situation after a rigorous deliberation on some different course of action. He posits that the actual decision is the instance of choosing and making of commitment. At this point the decision maker adopts a particular purpose of preference, or choose the most fitted course of action. Decision making could further be defined as the act of comparing alternative course of action and adopting one which is adjudged the best (Eisenhardt, 1989).

The most significant function of a business leader, or a manager in various kinds of organisations or institutions is decision making (Harrison, 1996; Drucker, 1980). This function defines all managerial functions and sets them apart from all other functions in an organisation or the society at large. The effectiveness of the decision made by leaders dictates the performance level of the organisation they manage. Strategic decision making is the decision made at the top level of an organisation which has a triggering effect on the lower levels of the organisation, generating many more decision making instances. If decisions made at the top hierarchy of an organisation is very effective, the lower level decision becomes a mirror of that successful decision at the top. In the same vein, if the decision making process at the top is not effective, then at the lower level all decision will be ineffective (Shoemaker, 1993).

For small businesses and start-ups, strategic decision has to be right from the very onset as this will have a lasting impact on the business. Wrong decision will be very costly and should not be given any room to surface (Bass, 1983). Strategic decisions are concerned with long-run issues of an organisation, through it available resources are appropriated for the fulfilment of managerial expectations for the success and growth of the organisation. Harrison (1996) defines the following five rules of decision making.

- Every decision making must be channelled to delineating the relationship of the organisation to the environment
• Decision must have the focus of the entire organisation when carrying out evaluations.
• All the key functions carried out in an organisation must be considered in decision making.
• Decision making must provide policies or managerial guide for administrative and operational functions.
• Decision must be long-term centred for the success and growth of the organisation.

Mintzberg, Raisinghani and Theoret (1976) posit that there are various modes of strategic decision making: entrepreneurial, adaptive, planning, and logical incremental modes. In the entrepreneurial mode, strategic decision is made by the business leader or by one individual that is of great influence in the firm with primary focus on the opportunities available and secondary focus on problems. The vision of the business leader guides the strategic decision making with the dominant goal being to grow the organisation. Perhaps, this is what is prevalent in the many small businesses. The adaptive mode, rather than proactively searching for new opportunities, is oriented towards solving problems that are already existing in an organisational setting through deliberation on what objectives are of priority importance.

Planning mode of strategic decision making incorporates both the proactive scanning for new opportunities and the adaptive mode. This mode involves relevant information gathering for carrying out situational analysis, producing other choices of strategies and the selection of the best choices of strategy that fits the situation at hand. In logical incremental decision making, strategic decisions are reached by way of debates, conversations, deliberations and investigations into the future. This decision making mode is useful in a rapidly changing business environment where needed resources are developed before an organisation commits to specific strategy. The objectives and missions of the organisation are well known but the strategy of achieving it is left to the business to develop based on experiments, debates etc.

Mintzberg, et al., 1976 upends the planning mode as the most appropriate mode as it is analytical and deals less with politics than the other modes. Further, it is best fitted for complex and uncertain business environments. However, the process involves scanning the external environment for factors which line up as opportunities and threats, scanning the internal environment for factor which are strengths and weaknesses and analysing these factors to find out underlying problems and then reviewing the organisation’s mission and objectives as may be necessary. Further, in light of the analysis carried out, strategies are formulated, assessed and the best of all is selected and implemented through organisational programmes and processes. Finally, evaluation of the implemented strategy is carried out by way of activity controls and feedback systems in order that minimum deviation from plan is ensured.

Subdivisions of the environment and impacts on small businesses
The technique used in implementing strategic decision making process is referred to as strategic audit (Wheelen & Hunger, 2004; Brawley, 2016). It is an important process of diagnosing the problems in an organisation as well as highlighting the strengths and weaknesses of the organisation and bringing about solution to the problems. In scanning the environment, small business leaders must first understand the variables that make up the organisation environment. The environment of an organisation is subdivided into three: the natural, societal and task environments (Wheelen & Hunger, 2004; David, 2011). The factors that make up the natural
environment are wildlife, natural resources, and the climate that form part of life on earth. They form the ecological system of life interrelationships.

Societal environment include the social systems of man and include forces that have influence on the long-term decisions of an organisation. They are the economic forces, technological forces, political and legal forces and socio-cultural forces. The industry in which a company operates is called the task environment. The elements in this environment are affected by the company and the company is in turn affected by them. Examples are the government, customers, suppliers, host communities, competitors, employees, interest groups, labour unions. Business leaders must be able to monitor these environment with the aim to discover strategic factors that may impact the organisation negatively or positively. When changes take place in the natural environment, the business is affected by way of impact on the societal environment on resource availability and hence costs and the effect is finally felt on the industry in the form of growth or degrowth.

Scanning the natural environment could reveal a clear picture of the factors, which are most times taken for granted. Such factors as availability of fresh water, clean air, available land space, raw material or product feedstocks. Example in having to site a school in a particular locale, natural environmental scanning should be able to discern availability of land which will be enough for the provision of adequate learning facilities and playground for children recreational activities and possibly facilities for teachers’ accommodation, particularly for a school with boarding intent. Further, the socio-cultural aspect of the societal environment, such as the age distribution of the population, birth rate, educational level of citizens, growth rate of the population, lifestyle changes etc., is worth being aware of by the business leaders. As these elements change they pose significant impact on the business and the business leader must be able to adapt to such changes in order to grow his business. The business leader could also create changes that may impact the preferences and taste of the socio-cultural environment (Wheelen & Hunger, 2004; 2008; David, 2011). Changes in the political-legal aspect of the societal environment poses a remarkable impact on the level of competition prevalent in an industry and the strategy adoption of small businesses. High levels of taxation or multiple taxation from the government, local and state, and levies from labour unions and associations add to the operating costs of small businesses and reduce their profit margin and ultimately raises the entry barrier to many industries (Wheelen & Hunger, 2004; Shenkar & Luo, 2008; David, 2011).

Generally, scanning the task environment includes monitoring potential entrants, existing businesses in the industry, stakeholders (government, trade unions, local communities, customers, suppliers, substitute products and services). These groups pose competition to the business, and the level of profit of the industry particularly when profit is assessed as the return on invested capital. A small business leader or potential small business must therefore carefully scan his task environment to evaluate the impact of these industry forces on his business. If these forces are very strong, then the business in that industry may be limited in their profit potential or their ability to increase prices. For a business to possess the desired competitive advantage, it must be able to build up its capacity to respond to changes in its environment proactively before its competitors. A business leader’s ability to recognise external strategic factors and adapt his strategies to reflect them places him ahead of competition (Wheelen & Hunger, 2012; Shenkar & Luo, 2008).
RESEARCH METHODOLOGY
The paper adopted the qualitative case-study research design as put together by Yin (2014) in carrying out study on strategic decision making of SME based on the information received from environmental scanning. The analysis is carried out based on an organizational unit to draw inferences on topic of investigation. In linking the collected data to the research objectives and or question, the researcher adopted the pattern-matching as described by Campbell (1975).

With the aid of information gathered from the Small and Medium Scale Enterprises Development Agency of Nigeria website, a total of 30 SMEs in Port-Harcourt City were identified within the manufacturing and services sector. 25 SMEs were selected on the basis of accessibility from among the total population, and in-depth interviews carried out.

Table 1: the distribution of SMEs interviewed

<table>
<thead>
<tr>
<th>Form of ownership</th>
<th>S. No</th>
<th>Sector</th>
<th>S. No</th>
<th>Number of Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private</td>
<td>25</td>
<td>Manufacturing</td>
<td>10</td>
<td>Small &lt; 100</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Services</td>
<td>15</td>
<td>Medium &lt; 200</td>
</tr>
</tbody>
</table>

The primary mode of data collection for this study was in-depth interview. Other means of data collection included access to the website of organisations selected and other relevant documents, as newsletters and reports. However, very few of these organizations had functional websites. Interview questions were well developed from the objectives of the study and the extensive research of literature. A tailored approach, where interviewees were asked to give a brief or overview of their operation and their connection with the wider society, was adopted. Thereafter interviewees were asked to describe their firm size and ownership. Further, interviewees were asked to describe any strategic decision that was made in the recent. This question was followed by what informed such decisions. Below are further questions asked to ascertain the aspect of the environment that affects business most in Port-Harcourt.

• Do you think there are enough laws, regulations that protect your business activities?
• How friendly are the tax laws to your business considering the various tiers of government.

Basically, the interview was carried out without the use of electronic recording device as almost all interviews were not comfortable with them being used. Notes were taken alternatively. Total number of interviewees were 20 owners and 5 managers from the selected SMEs. 16 of them were males while the rest were females. The researcher/interviewer ensured that interview time was between 45 minutes and 1 hour as most managers were fully engaged in their daily operations.
FINDINGS AND DISCUSSION

The percentage of small businesses that make strategic decision based on information from environmental scanning

Amongst the interviewees is about 20% of them made their described strategic decisions based on finding s or information from environmental scanning activities and these firms were better positioned than their competitors in the same environment. These owners were fully aware of the various aspects of their environment, both external and internal. For instance one of the owners who is involved in commercial poultry farming, when asked why he was relocating his farm to a more remote site, explained that he had chosen his current site when that part of the city was not inhibited or occupied by residents with the hope that certain legislation could be made as to restrict that environment solely for farming or agricultural activities, particularly poultry farm activities. At the time of interview, the surrounding environment was occupied with residential buildings and there were lots of complaints on the impact of this poultry farm on residents. According to him, he had, in collaboration with other farmers, secured government approval on the permanent siting of their farms in his new farm estate.

This particular interviewee and a few others clearly made their strategic decision based on the understanding of their environment. Other interviewees, however, demonstrated poor or no environmental scanning activity input into their strategic decisions. For instance, an interviewee who runs a primary school cited the issue of continued threats from the government of shutdown owing to her not meeting certain key requirements of land available land space for recreational facilities. This interviewee’s response to awareness of government legislation regarding minimum land area revealed poor awareness or ignorance to existing legislation on her business sector. Overall, the ability of small business owners to carry out effective environmental scanning gives them firsthand information to make better strategic decision and avoiding costly mistakes in their businesses.

The aspects of the environment affect small businesses the most in Port Harcourt and its environment

Transcript from the interview revealed that the existing laws in the state are not friendly or does not provide any protection or enabling environment or small businesses to thrive. Worthy of note is the tax laws, which most interviewees describes as no transparent and not properly administered and or monitored. For instance, most local government laws coincide with the state laws leading to multiple taxation challenges. These issues translate to a harsh operating environment and poor turnover by small business leaders. Further, responses from interviewees revealed that challenges from local communities could be overwhelming as various demands ranging from monetary levies to employment opportunities for locals are made; this in addition to both the state and local government levies. Interviewees also cited more challenges from trade unions, which, according to respondents do little to protect their members from afore mentioned issues.

Overall, the interviewees feel that the tax laws in the state, as it concerns multiple taxation from the state, local government and even the host communities, affect them the most. They feel that there are no machineries in place to carryout effective checks on the tax agents. Tax laws should be made transparent enough, that is, due payments should be made public and small business owners should be made to pay into legal agencies and or ministries’ specified
accounts. This way, illegal individuals and groups parading themselves as government agents will be eliminated.

**The extent to which the aspects of the environment affect small businesses**

Amongst the interviewees, there were some who were operating at a low profit margin according to interview transcript, while others were doing just very fine despite the challenges highlighted in the previous session concerning taxation. While this is a grave concern for small business it cuts across all players within the environment and the particular industries where business operate. A further investigation on business style and the customer preferences revealed that most small business owners interviewed had maintained their business style over the period of being in business despite changes in the business environment. While some were proactive in finding out what special needs their customers may have, through surveys and feedback, they relaxed until complaints came from customers.

The interview transcript revealed that those who were proactive in getting feedback on customer needs and adjusting their businesses, products or services were the ones who were doing very well despite other challenges. Further, few interviewees stated how they went ahead to suggest better products and or services to their customers outside what was prevalent at that time. Such products were accepted and the business owners set a new mark ahead of their competitors. For instance, a primary proprietress explained to the interviewer how she was able to register over 200 pupils within two years of her school establishment because she went ahead of other private school owners to employ specific subject teachers for mathematics, English language, French and computer appreciation. These were not found in order schools within the vicinity.

Overall, having to adapt business practices to the changing taste and preferences of our customers has a huge impact on business growth and sustainability (Child, 2005). Many small business owners lacked the understanding that friendly customer care services could make a great difference in their businesses. Further, a pattern is revealed in the interview transcript concerning the handling of environmental scanning process and strategic decision making by small business owners interviewed. Those who have higher education qualification were more structured in their environmental scanning activities with proper documentation and information gathered used in strategic decision making. However, only few cited the use of formalized ways of information analysis like SWOT analysis, which is generally used. Mention was not made of Porter’s five force analysis and other methods. This was the case of the poultry farmer who was mentioned earlier.

Again, same observation was noticed for larger size firms. These firms conducted their environmental Scanning using the services of teams, like the customer care unit, while the smaller size firms’ environmental scanning was mainly carried out by the owners through their personal network of friends, relations, electronic media, newspapers, etcetera. The findings above reveal that environmental scanning for strategic decision making is at the infantry level with a very low quality due to educational level of owners and the size of the firm. Information gathering is more through non formal means for strategic decision making. This also explains the reason why most of the interviewees relied much on imitating their competitors as a way of effecting strategic decision.
CONCLUSION AND RECOMMENDATIONS
This research work investigated the environmental scanning activities of small businesses in Port Harcourt, Nigeria and the use of information gathered for strategic decision making. Data was collected by carrying out in-depth interviews with 15 Nigerian small business owner and managers. From the analysis carried out on the interview transcript, the following conclusion could be drawn. Only a handful of small businesses carry out environmental scanning for strategic decision making. Where this process was carried out it was less sophisticated and was influenced by the educational level of the owners or managers and the size of the firms. The analysis method for information gathered, that is where environmental scanning was carried out, was barely through SWOT analysis. Imitation of competitors is prevalent among small businesses in the same industry.

Secondly, small businesses are mostly affected by the extant tax laws, which are seen not streamlined amongst the tiers of the government, the state and local government authorities. This amounts to multiple taxation challenge with adverse impact on the bottom line of small businesses. Further, the level of customer care and appreciation was found to be very low as many small business owners never gave particular attention to the changing taste and preferences of their customers as to tailor their products and or services to meet these.

The implication of the findings on the small business owners is that they understand the various aspects of their business environment and through environmental scanning gather relevant information for strategic decision making. Information gathering channels should be stretched to the use of professionals, internet, government publications, etc., to enable them make effective strategic decisions. Again, the adaptation of their business to suit the changing needs of customers should be given greater attention in order to make the most of the available opportunities. SMEs make up about 96% of businesses in Nigeria and contribute over 47% to the national GDP, thus the Nigerian government should create an enabling environment for the SMEs by way of streamlining the tax laws to eliminate the issue of multiple taxation. Further, training programmes on environmental scanning and decision making should be availed owners of small businesses to enhance effectiveness of their decision making skills. This could also be a way of encouraging the connection between the management practitioners, particularly in the universities and other higher institutions of learning and the society for solutions to common societal problems. Finally, it is hoped that the significance of this work and the topic in the Nigerian context will elicit further researches as a way of strengthening the growth of small and medium enterprises and hence the economic wellbeing of Nigeria in general.

REFERENCES


