Full Length Research Paper

Environmental audit behaviour, decision pattern, and market performance of small and medium enterprises in Nigeria

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The environmental audit behaviour and decision making pattern of Nigerian SMEs is obscure. Given the fact that the Nigerian business environment is turbulent, the study finds out whether the decision making process of Nigerian SMEs is contingent upon information from the business environment. The study, utilizing correlation statistical procedure examines the subject of discourse. The results of the study suggest that the analysis of technological, customer and competitive factors have partial effect on the market share of Nigerian SMEs. Conversely, the analysis of socio-cultural factor of the Nigerian business environment has inverse effect on the market share of the SMEs. The study concludes that the environmental audit behaviour of Nigerian SMES have partial effect on market performance.

Key words: Business environment, economic factor, political factor, socio-cultural factor, technological factor.

INTRODUCTION

Small and medium enterprises (SMEs) are submerged in environments that are characterised by varying degree of uncertainty. Environmental uncertainty represents changes in the political, socio-cultural, technological, economic, customer and competitive factors that constitute a business environment. The degree of environmental change of a business environment can be identified as mild or turbulent. Changes in the Nigerian business environment occur rapidly such that it can be described as turbulent. The turbulent changes occurring in the Nigerian business environment have imposed economic pressure on the competitiveness of Nigerian SMEs and have weakened their market performance. To remedy this situation, it is expected that SMEs put in place decisions that are effective. Effective decisions are those that are capable of mitigating the impact of environmental uncertainty.

A necessary condition required to put in place decisions that are effective is to thoroughly understand

the dimensions of the environmental factors that are responsible for the turbulence. In light of this, Nigerian SMES must understand and anticipate the opportunities and threats the turbulent business environment presents. However, Kotler (2001) remarked that the dynamics in most business environments fast out-pace the capability of SMEs to keep abreast with the changing trends. If this is the case, it becomes logical to get puzzled as to how Nigerian SMEs make decisions. To put this research in perspective, the study poses the following questions: do the decision making process of Nigerian SMEs contingent upon information from the business environment? Or do they tend to use intuitive methods? In either choice, do the decisions mediate the effects of environmental uncertainty such that market performance is significantly improved? An attempt to provide answers to these questions gives the rationale for this study.

Environmental analysis and strategic fit of Nigerian SMES

The analysis of the business environment is pre-requisite

Abbreviation: SMEs, Small and medium enterprises.

to making effective decisions (Beale, 2000). Environmental analysis is the internal communication of external information about issues that can have potential effect on the market positions of SMEs. Albright (2004) noted that the process of environmental analysis comprised of five steps: identify the environmental information; gather the information; analyze the information; communicate the information and results; and make informed decisions. Nigerian SMEs face plethora of challenges in carrying out these tasks. These challenges include poor managerial skills, poor technical skills and inadequate finance (Ogunsiji, 2002; Akande and Laduna, 2010; Olutunla and Obamuyi, 2008). In analysing the business environment managerial skills are required to diagnose the threats and opportunities that lie therein, technical skills are required to synthesize the nature and complexity of the interaction of the threats and opportunities and capital is needed to finance the inputs associated with these arduous tasks. If Nigerian SMES lack these core capabilities, it will not be overemphasis to state that the spates of closure of SMEs in Nigeria are adduced to a lack of these essential requirements.

Inputs from the business environment enable SMEs to create "strategic fit" with the environments in which they operate. To create a strategic fit, Zhang and Lado (2001) divided the tasks involved into two phases. According to these authors, the first phase entails scanning of information from the micro and macro environments. The analysis of the information yields intelligence which is utilized for strategic decisions. The second phase comprised of four activities namely: strategic formulation; corporate capability; real time strategic response and the implementation of the strategies. On the basis of environmental analysis, SMEs are likely to achieve higher sales growth, high market share, high returns on assets, and high margins on profit (Carland and Carland, 2003; Gibson and Casser, 2005). Similarly, SMEs tend to be more innovative, employ new processes and achieve international growth if their decisions are contingent on a thorough understanding of the business environment (Lucio et al., 2002; Beaver and Prince, 2002; Jocumsen, 2004). It is evident from the foregoing that environmental analysis is critical to the survival of SMEs in today's rapidly changing business environments. Given the importance of environmental analysis, it is pertinent to examine the way Nigerian SMEs create the so-called strategic fit.

Conceptual framework and hypotheses

The conceptual framework considers two paths to decision making by Nigerian SMEs (Figure 1). The first path presumes that SMEs scan the turbulent business environment for the purpose of data collection. The data generated are analysed and transformed into useful information. On the basis of the information, SMEs make their decisions. This postulate leads to the six (6) hypotheses which states that:

H_{1a}: there is significant relationship between decisions made based on information about technological variables and market share of Nigerian SMEs.
H_{1b}: there is significant relationship between decisions made based on information about socio-cultural variables and market share of Nigerian SMEs.
H_{1c}: there is significant relationship between decisions made based on information about economic variables and market share of Nigerian SMEs.
H_{1d}: there is significant relationship between decisions made based on information about political variables and market share of Nigerian SMEs.
H_{1e}: there is significant relationship between decisions made based on information about customers' and market share of Nigerian SMEs.
H_{1f}: there is significant relationship between decisions made based on information about competitive variables and market share of Nigerian SMEs.

The framework asserts in the second path that SMEs are perplexed with the interconnectedness of the factors that constitute the Nigerian business environment. For this reason, they are unable to discern the environmental factors that constitute threats and opportunities. In light of this assumption, SMEs chooses to intuitively make decisions which are guided by needs and values of decision makers. Against this backdrop, the study hypothesizes that:

H_2: There is significant relationship between decisions made based on intuition and market share of Nigerian SMEs.

MATERIALS AND METHODS

The sampling frame for the study was collected from the Corporate Affairs Commission, Abuja. The frame contains list of registered companies on industry basis. From the frame, probability sampling technique was used to select the 129 SMEs that were studied. The 129 SMEs satisfy the European Union (2003) definition of Small and medium sized enterprises. Although, a total of 147 SMEs were originally sampled, the responses from 129 SMEs were found useful. The questionnaire used to generate the research data examined environmental issues relating to Technological, Socio-cultural, economic, political, customer and competitive factors. These factors were measured on a five point likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). These factors according to Kotler (2001) constitute the effective ingredients of a business environment. Market share, which is a prime measure of market performance was also measured on a five point likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). Decision making pattern was examined by asking if SMEs decision making activities are based on information from the business environment or not. In other words, decision making pattern was measured using
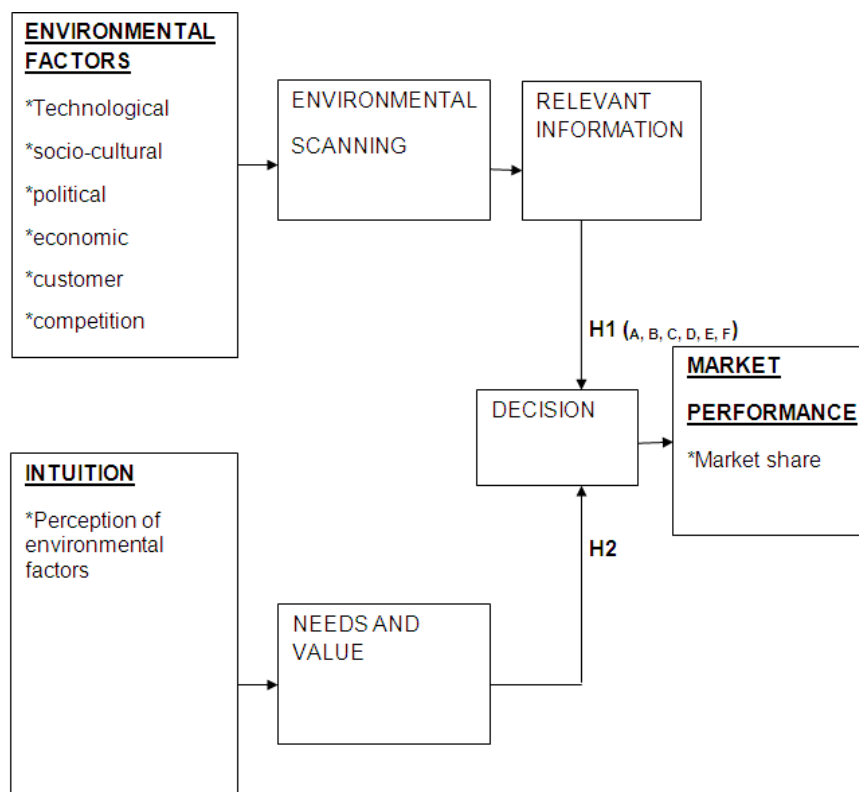
Figure1. The conceptual model.

dichotomous scale. The data generated was subjected to descriptive and correlation analyses.

RESULTS

The result of the descriptive analysis is shown in Table 1. According to the table, the decision making pattern of 56 SMEs is based on information from the turbulent business environment. This accounts for 43.4% of the sampled SMEs. 73 SMEs based their decision making activities on intuition. This accounts for 56.6%. The result of the correlation analysis is presented in Table 2. According to the table, one of the four items used to measure technological factor of the Nigerian business environment shows positive correlation with market share ($r = 0.463$, $P \leq 0.01$). Similarly, one of the three items used to measure socio-cultural factor reveals statistical significance with market share ($r = -0.186$, $P \leq 0.05$). There is no correlation found between market share and economic factor as well as between market share and political factor of the Nigerian business environment. One of the five items used to measure customer factor correlated with market share ($r = 0.411$, $P \leq 0.01$). The analysis of industry competition indicates that one of the four items used to measure this factor shows statistical

association with market share ($r= 0.378$, $P \leq 0.01$). The examination of the relationship between decision making based solely on intuition and market share indicates inverse statistical association ($r= -0.252$, $P \leq 0.01$).

DISCUSSION

The results of the correlation analyses reveal that technological factor partially promotes the market position of Nigerian SMEs. This is as a result of the correlation of one of the four items used in measuring this factor. The study therefore partially accepts H_{1a}. The test of H_{1b} reveals inverse relationship between market share and socio-cultural factor. This indicates that the market performance of Nigerian SMEs decreases as they engage in the analysis of the socio attributes of the Nigerian business environment. On the basis of this, H_{1b} is partially accepted. The tests relating to H_{1c} and H_{1d} did not show statistical significance. These results indicate that the analyses of these two factors do not have impact on the market performance of Nigerian SMEs. In light of this, the study refutes H_{1c}, H_{1d} and H_{1e} is partially accepted because one of the five items used in measuring customer factor shows statistical significance with market share.

Table 1. Decision based solely on environmental Information.

		Frequency	Percent	Valid percent	cumulative percent
	Yes	56	43.4	43.4	43.4
Valid	No	73	56.6	56.6	56.6
	Total	129	100.0	100.0	100.0

Table 2. Correlation.

Decision based on information from the business environment	
Analysis of socio cultural factor	**Market share**
We have a strong commitment to knowing the population size and distribution	-.186*
We have a strong commitment to knowing the age distribution of the population	.095
We have a strong commitment to knowing the income distribution of the population	-.088
Analysis of technological factor	**Market share**
We have a strong commitment to knowing new manufacturing processes	-.162
We have a strong commitment to knowing new products and services of our competitors	.057
We have a strong commitment to knowing new technology that could impact our enterprise	.463**
We have a strong commitment to knowing the costs and accessibility of electrical power	.041
Analysis of political factor	**Market share**
We have a strong commitment to knowing the political stability and risks pertaining to our enterprise	.002
We have a strong commitment to knowing the budget deficit or surplus	.103
We have a strong commitment to knowing the copyright and patent laws	-.084
We have a strong commitment to knowing the minimum wage laws	-.072
Analysis of economic factor	**Market share**
We have a strong commitment to knowing the GDP and per capita	-.053
We have a strong commitment to knowing the unemployment rate	.041
We have a strong commitment to knowing the current exchange rates	-.114
We have a strong commitment to knowing the consumers and investors confidence	-.154
We have a strong commitment to knowing the economic growth	-.098
We have a strong commitment to knowing the inflation rate	.028
Analysis of the customer	**Market share**
The enterprise always look forward to finding new ways of creating customer value in our products	-.013
The enterprise encourages customer feedback	.054
The enterprise measures customer satisfaction on a regular basis	-.077
The enterprise's objectives are customer driven	.102
The enterprise has a strong commitment to customers	.411**
Analysis of industry competition	**Market share**
The enterprise responds rapidly to competitors actions	.378**
The enterprise regularly collects data on competitors activities	-.168
The enterprise regularly monitors competitors marketing activities	-.066
The enterprise regularly collects data on industry competition	.097
Intuition	-.252**

** Correlation is significant at the 0.01 level (2-tailed).

The relationship indicates that the market performances of Nigerian SMEs appreciate as a result of engaging in analyzing the customer. The study partially accepts H_{1f}. This is due to the fact that one of the four items used to measure industry competition correlated with market share. This suggests that the analysis of industry competition have partial impact on the market performance of Nigerian SMEs. The analysis further reveal that decision based on intuition have partial correlation with market share. In view of this, H_2 is partially accepted. The nature of the partial correlation shows inverse relationship. This suggests that that the market performance of Nigerian SMEs is negatively affected when decisions are based on intuition. The partial nature of the correlations corroborates the view that Nigerian SMEs lack the managerial skills, technical skills and finance to carry out effective audit of the turbulent business environment (Ogunsiji, 2002; Olutunla and Obamuyi, 2008; Akande and Ladanu, 2010).

Conclusion

This paper examines the moderating effect of environmental audit on market performance of Nigerian SMEs. The results reveal that the environmental audit of Nigerian SMEs has partial effect on market performance. Specifically, in quest to improve market performance, Nigerian SMEs attempt to analyse the technological, customer and competitive factors of the business environment.

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