

A study of owner - manager's environmental awareness and small business performance

~ Lecturer **B. Nimalathasan** (Department of Commerce, Faculty of Management Studies and Commerce, University of Jaffna, Sri Lanka)

Abstract: The Importance of strategic planning as a major activity of organizational management is being increasingly accepted both academicians and professional managers. As one of the important components of strategic planning process, environmental scanning has received importance to explore new opportunities and to identify threats for making important strategic decision. The present study indicates the relationship between owner-manager's environmental awareness and business performance of the Small Business. Bollinger (1994) found that scanning is positively correlated with the firm's financial performance. Similar results were also found by Orpen (1993) reported that small firm which possesses more information about themselves and their environment engage in formal strategic planning and they perform better financially than their counterparts. Authors in the area of small business and entrepreneurship have recognized the need for conscious and continuous study of the environment and integrate the environmental information into their strategic planning. Finally, Environmental awareness contributed significantly to the relationship with overall performance of small business under the study

Key Words: Owner- Manager, Environmental Awareness, Small Business, and Performance.

Background of the Study

The literature on planning in small business has grown considerably over the past decades. With a few notable exceptions, many scholars have recommended that small firms need to use strategic planning as an essential tool for their improved performance. Sup-

port for the planning process in small firms comes from a variety of writers in a number of forms (Gibb and Scott, 1985).

Importance of strategic planning as a major activity of organizational management is being increasingly accepted both academicians and professional managers. As one of the important components of strategic

planning process, environmental scanning has received importance to explore new opportunities and to identify threats for making important strategic decision. The notion of environmental scanning developed as apart of open system concept that maintains that organizational survival and growth depend on an organization's ability to adopt to its environment. Indeed, many of the important reasons for small business failures, such as deficient planning, over-investment, unrealistic pricing, low sales can be traced to small business owner-managers' inattention to the world beyond the office doors (Pearce II, Chapman and David, 1982). The identification of strategic opportunities and threats becomes increasingly vital as the business environment becomes more complex and dynamic. In such an environment, the awareness of the current events and the anticipated changes may pay off in an improved planning and decision-making that may in turn, lead to improved performance (Gibb and Scott, 1985; Deakins, 1996). Despite the prescribed benefits of such awareness, empirical knowledge of its influences on small business performance has been very limited. Authors in the area of small business and entrepreneurship have recognized the need for conscious and continuous study of the environment and integrate the environmental information into their strategic planning. Despite this recognition, studies on the effects of environmental awareness on small business performance are very limited. Knowledge of these issues in developing countries hardly exists. Generalizations derived from the studies in developed countries may not be appropriate when applied to small firms in developing countries. Hence, this study is an attempt to examine the influence of owner-manager's

environmental awareness and small business performance and thus it contributes to some extent in fulfilling the gaps in knowledge.

Environmental Awareness

Strategic planning was defined operationally by three elements of the strategic planning process-environmental awareness, the existence of idea or formal documentation of a future strategic course of action, and an awareness of both short and long-term implications of strategies. It is often asserted that strategic planning is essential for a small as well as a large business for no other reason than that it helps them to take better advantage of the opportunities which lie in the future and to forestall the threats that it contains (Steiner, 1967). Environmental awareness is a concept from business management by which businesses gather information from the environment, to better achieve a sustainable competitive advantage. To sustain competitive advantage the company must also respond to the information gathered from environmental scanning by altering its strategies and plans when the need arises.

Timmons (1978) noted that one of the most striking characteristics of successful entrepreneurs their attitude towards and their use of planning. Similarly, Carland, Hoy, Boulton and Carland (1984) used the term 'entrepreneur' to mean the innovative owners of small firms who use strategic management practices.

The research in small businesses has demonstrated that owner-managers in small firms place more importance than larger firms

on external information (Johnson and Kuehn, 1987) and that they conduct environment scanning fairly regularly (Smeltzer, Fann, and Nikolaisen, 1988). Their environmental scanning, however, is frequently reactive, informal and unsystematic (Gibb and Scott, 1985; Fann and Smeltzer, 1989). Some authors argued that because of the reactive nature of information search planning in small firms is often impeded by imperfect and insufficient information (Gibb and Scott, 1985; Deakins, 1996). Johnson and Kuehn (1987) indicated that relying primarily on verbal exchanges with suppliers, distributors, and customers, small business owner-managers find market place information sources both more accessible and easier to interpret than technology-based media. Smeltzer (1988) investigated the environmental scanning practices and information sources by using semi-structured interviews of 88 owner-managers in the Phoenix and Kansas City metropolitan areas in the United States. Similar to the study of Johnson and Kuehn (1987), this study also found that small business owner-managers judge family and friends to be more valuable than the traditional formal sources of information and advice, such as, lawyers, bankers, and accountants. Market place was found to be the most important environment unit of analysis, and personal information sources were considered to be more valuable than impersonal sources. Holland, Stead, and Leibrock (1976) found that managers faced with a difficult task preferred personal information sources because they enabled the manager to learn about a complex topic in a short time. Written information sources, such as the professional literature and technical manuals, were found to be preferred when task assignments were well understood.

Small Business Performance.

Measuring firm performance has become an important component of empirical research in the field of strategic management or marketing strategy. Researchers frequently take the performance of firms into account when investigating such organizational phenomena as structure, strategy and planning. Research which incorporates performance must address two basic issues (1) selection of a conceptual framework to define performance, and (2) identification of accurate, available measures that operationalise performance (Dess and Robinson, 1984). Scholars have suggested a number of frameworks to define performance. Regardless of the framework chosen to conceptualize performance, it has been apparent that performance, it has been apparent that performance is a complex and multidimensional phenomenon and operationalising such a concept is inherently difficult. Dess and Robinson (1984) indicated that obtaining accurate economic performance data is often a problem in measuring performance of business units of multi-industry firms and privately-held firms. In providing a framework for operationalising performance, Venkatraman and Ramanujam (1986) referred to the narrowest conception of business performance that centers on the use of simple outcome-based financial indicators that are assumed to reflect the fulfillment of the economic goals of the firm. These financial indicators have been dominant models in empirical research. Typical of this approach would be to examine such indicators as sales growth, profitability, earnings per share, and so forth. Venkatraman and Ramanujam (1986) viewed that a broader conceptualization of business performance would include emphasis on indicators of operational performance.

(i.e., non-financial) it is logical to treat such measures as market-share, new product introduction, product quality, marketing effectiveness, customer satisfaction, customer loyalty, manufacturing value added, and other measures of technological efficiency with the domain of business performance. The inclusion of operational performance indicators takes us beyond the 'black-box' approach that seems to characterize the exclusive use of financial indicators and focuses on that key operational success factors that lead to financial performance (Venkatraman and Ramanujam, 1986). While business performance can be measured using financial indicators, operational indicators, or both, a further issue in its operation is the sources of data (Venkatraman and Ramanujam, 1986). The sources of performance data are either primary or secondary. Using the conceptualization of business performance (financial versus operational indicators) and data sources (primary versus secondary) as two basic but different concerns in the overall process of measuring business performance,

Similar experience was also observed in a number of researches in other countries. Harriss (1981) quoted the following statements from some studies of Indian small traders... "they lie when it came to statements about wealth, business, capital, turnover and so forth which they never correctly told to anyone. Similar Fox (1969) pointed out merchants are extremely reticent regarding money matters in business. Unni (1981) indicated confidentiality of responses was assured, the pre-testing of the questionnaire revealed an unwillingness of small businessmen to specify their profit and sales over the last few years. Orpen (1993) described small firms as notorious for their inability and unwillingness to provide desired information.

Environmental awareness and Small Business performance

On the issue of the importance of environmental scanning on small business performance, Bollinger (1984) found that scanning is positively correlated with the firm's financial performance. Similar results were also found by Orpen (1993) in a study of 51 small firms in England. In this study, he reported that small firms, which possess more information about themselves and their environment, engage in formal strategic planning and they perform better financially than their counterparts. Bamberger (1980) noted, there is a positive relationship between the existence of a more or less formal strategic planning system and the firms' growth. Watts and Ormsby (1990) pointed out the relationship between strategic planning and performance of small businesses, and that there is a tension between normative statements and the findings of empirical research (Hanlon and Scott, 1993), increasing evidence has confirmed that strategic planning has a positive effect on the performance of small businesses.

Orpen (1993) argued that formal strategic planning follows improved performance, and another view is that formal strategic planning provides a structure for decision making, helping small businesses to take a long term view, and that in general, it benefits small firms. Others have claimed that formal strategic planning enables organizations to better prepare for and to deal with rapidly changing environments that most of them face. Lyles, Baird, Orris, and Kuratko (1993) argued that as small business owners adopt a more formal planning process. There is a significant increase in the thoroughness

of their decision process, the breadth of strategic options emphasized in their business activity, and their overall performance. Strategic planning can almost certainly influence the growth of the company and provide a framework for enhancing this or it can also help maintain the existing size and capability of the firm (Gibb and Scott,1985).

Gibb and Scott, (1985) and Flavel (1991) indicated that strategic planning in small business is formal, unstructured, and irregular, supported by insufficient and ineffective information, usually obtained through informal sources, and reactive rather than proactive. Although managers in small firms engage in strategic thinking, such deliberation is seldom formal (Gibb and Scott,1985; Mintzberg,1994). Many reasons have been identified for the absence of formal strategic planning in small business. These include lack of time, cost, expertise, information, training, education and skills of owner-managers (Robinson and Pearce, 1984; Shrader, Mulford, and Bluckburn, 1989). As with the study of Gibb and Scott (1985) reported the most owners-mangers of small firms have ideas or

portfolio of ideas of projected action to avail themselves of relevant opportunities and for dealing with the threats that existed in the environment.

Conclusion

Bollinger (1994) found that scanning is positively correlated with the firm's financial performance. Similar results were also found by Orpen (1993) reported that small firm which posses more information about themselves and their environment engage in formal strategic planning and they perform better financially than their counter parts. Authors in the area of small business and entrepreneurship have recognized the need for conscious and continuous study of the environment and integrate the environmental information into their strategic planning. Based on the empirical research, the researcher found that positive relationship between environmental awareness and small business performance. Finally, Environmental awareness contributed significantly to the relationship with overall performance of small business under the study.

REFERENCES:

1. **Bamberger, I.** (1980), *Development and Growth of Firms- A Theoretical Frame of Reference of Research Project Concerning Small and Medium Firms*, Unpublished paper, University of Rennes; in Gibb, A.A.and Scott, M. (1985). Strategic Awareness, Personal Commitment and the Process of Palling in the Small Business, *Journal of Management Studies*, Vol. 22, No. 6, Nov, pp. 597-631.
2. **Bollinger, M.J.** (1984), *Environmental Boundary Spanning and Information Processing Effects on Performance*, *Academy of Management Journal* Vol. 27, No. 2, pp. 351-368.
3. **Carland, J.W., Hoy, F., Boulton, W.R., and Carland, J.A.** (1984), *Differentiating Entrepreneurs from Small Business Owners*, *The Academy of Management Review*, Vol. 9, No. 2, pp. 354-359.
4. **Dess, G.G.and Robinson, R.B., Jr.**(1984), *Measuring Organizational Performance in the Absence of Objective Measures: The Case of the Privately -held Firm and Conglomerate Business Unit*, *Strategic Management Journal*, Vol. 5, No. 3, pp. 265-273.
5. **Deakins, D.** (1996),*Entrepreneurship and Small Firms*, Berkshire: McGraw-Hill.

6. **Fann, G.L., and Smeltzer, L.R.**(1989), *The use of Information from and about Competitors in Small Business Management*, Entrepreneurship Theory and Practice, pp.35-46.
7. **Flavel, R.W.** (1991), *Strategic Management: Does It Enhance in Business Enterprise Performance*, unpublished Master of Philosophy dissertation, The Flinders University of South Australia.
8. **Fox, R.G.** (1969), *From Zaminder to Ballot Box – Community Change in a North Indian Market Town*, Cornell University Press, Ithaca, USA.
9. **Gibb, A.A. and Scott, M.** (1985) *Strategic Awareness, Personal Commitment and the Process of Palling in the Small Business*, Journal of Management Studies, Vol.22, No.6, Nov, pp.597-631.
10. **Harriss, B.**(1981), *Transitional Trade and Rural Development*, New Delhi: Vikas Publishing House PVT LTD.
11. **Hanlon, D., and Scott, M.G.** (1993), *Strategy Formation in the Entrepreneurial Small Firm*.
12. **Holland, W.E., Stead, B.A., and Leibrock, R.C.** (1976), *Information Channel/Source Selection as A Correlate of Technical Uncertainty in a Research and Development Organization*, IEEE Transactions on Engineering, Vol. 23, pp. 163-167.
13. **Johnson, L.J. and Kuehn, R.**(1987), *The Small Business Owner/Manager's Search for External Information*, Journal of Small Business Management, Vol.25, No., pp.53-60.
14. **Lyles, M.A., Barid, S.I., Orris, J.B., and Kuratko, D.F.**(1993), *Formalized planning in Small Business: Increased Strategic Choices*, Journal of Small Business Management, pp.38-50.
15. **Mintzberg, H.** (1994), *The Rise and Fall of strategic Planning*, Prentice Hall, Hertfordshire, UK.
16. **Orpen, C.**(1993), *Strategic Planning, Scanning Activities and the Financial Performance of Small Firms*, Journal of Small Business and Entrepreneurship, Vol.11, No.1, pp.62-72.
17. **Pearce II J.A., Chapman, B.L. and David, F.R.** (1982), *Environmental Scanning for Small and Growing Firms*, Journal of Small Business Management, Vol. 20, July, pp. 27-34.
18. **Robinson, R.B. and Pearce, J.A.** (1984), *Research Thrusts in Small Firm Strategic Planning*, Academy of Management Review, Vol.9 (1), pp.128-137.
19. **Shrader, C.B., Mulford, C.L., and Blackburn, V.L** (1989), *Strategic and Operational Planning, Uncertainty, and Performance in Small Firms*, Journal of Small Business Management, pp.45-60.
20. **Steiner, G.A.**(1967) *Approaches to Long Range Planning for Smaller Business*, California Management Review, Vol. 10, No. 01, pp. 3-16.
21. **Smeltzer, L.R., Fann, G.L., and Nikoaisen, N.V.**(1988), *Environmental Scanning Practices in Small Business*, Journal of Small Business Management, Vol. 26, No. 3, pp. 55-62.
22. **Timmons, J.A.**(1978), *Goal Setting and the Entrepreneur*, Journal of Small Business Management, Vol.16, No. 02, pp.1-9.
23. **Unni, V.K.**(1981), *The Role of Strategic Planning in Small Business*, Long Range Planning, April, Vol. 14, pp. 54-58.
24. **Venkatraman, N. and Ramanujam, V.** (1986), *Measurement of Business Performance in strategy Research: A Comparison of Approaches*, Academy of Management Review, Vol.11, No.4, pp.801-814.
25. **Watts, L.R. and Ormsby, J.G** (1990), *The Contribution of Operational and Strategic Planning to Small Firm Performance*, Paper presented at the 19th annual meeting of the Western Decision Sciences Institute, in Schwenk, C.R., and Shrader, C.B. (1993), *Effect of Formal Strategic Planning on Financial Performance in Small Firms: A Meta-Analysis*, Entrepreneurship Theory and Practice, Vol.17, No. 3, pp. 53-64.