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# Empirical Evidence of Executives' Perception and Scanning of Business Environment in Nigeria

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## Abstract

*Strategic thinking about firms' environment enables management to identify relevant environmental factors and industry drivers that weigh on the firms' objectives, direction, strategy and business model. This study based on administered questionnaire examines executives' perception of the characteristics of the business environment and its relationship with corporate performance. It was found that while variables in the task environment were considered most uncertain the general environment is the most scanned; and executives' perception of the nature of the environment has a low association with the intensity of their scanning efforts. It is recommended that managerial discretion and judgement should play a significant role in determining the sections of the environment to be scanned and scanning void should not be permitted if effective and efficient organisation-environment fitment required to secure superior competitive advantage is to be attained.*

**Keywords:** *strategy, strategic uncertainty, environmental variables, environmental scanning, scanning intensity*

**JEL Classification:** *M10, M19*

## Introduction

Strategy formulation is an intellectually demanding exercise that tasks human creativity in terms of decisions and analysis of environmental variables of strategic concern. In Mintzberg's words (1979) strategy formulation involves the interpretations of the environment. An understanding of the environmental forces: their nature, changes, trends and interactions including the "ripple effects" is a basic requirement for effective strategy formulation to guide the enterprise to a profitable future. Managers' ability to assess potential impact of changes in the external environment is an advantage for the organisation. This is because it enables decision makers to narrow the range of options and eliminate options that are inconsistent with opportunities (Pearce and Robinson, 2005).

Consequently, far sighted organisations devote tangible efforts and resources, in terms of both quantity and quality, to scanning the environment. Indeed, Hambrick (1981) considered environmental scanning as the first step in the chain of perceptions and actions leading to an organisation adaptation to the environment. Such environmental adaptation is secured through the development of strategies that are consistent with the firms environment, resources capabilities and with organisational systems (Grant, 1995). Corporate executives know experientially that the quality of their decisions is increased by considering relevant features of

the environment before irrevocable decisions are made. Costly errors are thereby minimised and the patterns in the streams of organisational decisions enable them to maximize their competitive positions in spite of changes occurring in the environment.

Environmental variables exert significant influences on corporate performance. According to Grant these environmental variables are critical determinants of threats and opportunities a company will face in the future. The complexity of the environment is heightened by the fact that change is a regular feature of these environmental variables and they are also in constant interaction. The demand on management, therefore, is to establish a framework for understanding this complex web of interaction and changes in order to survive (Wendy, 1997). Therefore, managers' task of influencing the rate and direction of change within their organisation becomes an uphill task if the enterprise is ignorant of the events and trends outside the organisations. The fact is that managers' perception and scanning of business environment are crucial for the formulation and attainment of corporate goals and objectives.

Despite its critical, costly nature, available evidence suggests that environmental scanning is not necessarily a formal task assigned specifically to certain executives or that it may not be a conscious activity in most Nigerian organisations. However, direct supporting empirical evidence on environmental scanning efforts of Nigeria executives is scanty. In addition, perceptions of environmental factors may differ among nations (Bluedorn et al, 1994; May et al, 2000), and managers' perceptions of the environment are expected to influence strategy formulation and adoption (Hambrick, 1981; Schneider, 1989). Therefore, the present study is an attempt to fill a void and enrich the understanding in respect of Nigerian executives' consciousness of the business environment and the implications of such endeavour for corporate performance.

In sum, the purpose of this paper is to introduce evidence of the knowledge of Nigerian executives of the business environment and examine the business environment factors with respect to perceived uncertainty and determine the relationship between environmental scanning and corporate performance.

## **Conceptual Framework**

Strategy formulation is premised on the analysis of the environment in which the enterprise interacts. Indeed, extant literatures have stressed the need to scan and assess the environment in order to properly match opportunities with organisational capabilities (Hambrick, 1981; Aguilari, 1967, Andrews, 1971). This is because structure and decision making in an organisation is influenced by environment complexity and volatility (for example, Miles and Snow, 1978, May, et.al 2000). In addition, consistency of organisation strategies with the demand of their environment has been found to lead to their outperforming organisations that failed to achieve such alignment (Chagnanti and Mahajan, 1989; Venkatraman and Prescott, 1990; Beal, 2000).

According to Grant (1997) a firm's environment can be regarded as all external influences that impinge upon the firms' decision and performance. Extant literature's view of business environment is not significantly different, for example, Ducan (1972) defined business environment as all factors outside an organisation that are taken into considerations by the organisation in its decision making. Business environment is usually classified by source or proximity. Bourgeoise (1980) segregated the environment to general (macro) and task (micro) environment: both have implications for the organisation, especially in strategy formulation and adaptation and consequent performance.

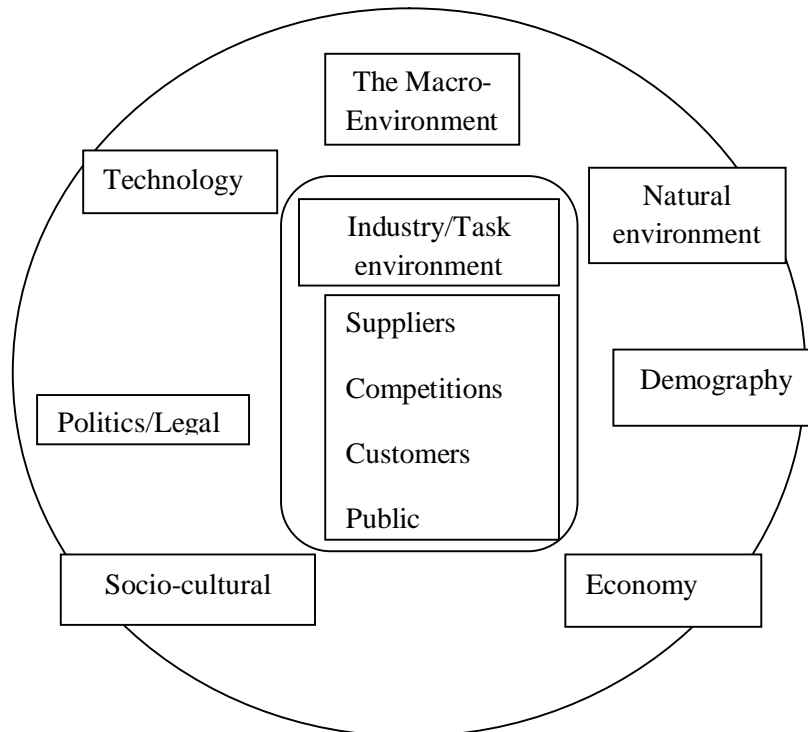
The general environment is a relatively remote environment with its element having an indirect influence on the organisation (Kourteli, 2005). The influence of the general environment is broad and as Bourgeoise asserted corporate strategies are enacted at the general environment

level. This segment of the environment is made up of economic, technological, demographic, social legal, governmental, natural resources and behavioural factors (Asheghian and Ebrahim,1990; Grant,1997).These forces and their condition originate beyond and usually irrespective of any single firms immediate operating environment and provide the framework within which competing firms operate.(Pearce, et.al, 2005).

### **Task or Micro Environment**

This is Bourgeoise’s domain of business or competitive strategy. It encompasses forces or conditions in specific competitive operating situation, external to the firm, which influences the selection and attainment of alternative objectives or strategy combinations (Pearce, 1981). Daft, Sourmunen and Parks (1988), Auster and Choo (1993) are of the opinion that factors in the task environment usually create greater perceived uncertainty to organisations than the general environment. Thus most organisations are more concerned with the components of the task environment. This is because it is the closest environment to the organisation and its elements have direct influence on the organisation (Kourteli, 2005). Forces in the task environment include suppliers’ competitors and customers. Changes in the task environment are often the result of strategic actions taken by a firm or their competitors, consumers, suppliers or appropriate regulatory group. Thompson, Gamble and Strickland (2004) suggest the need to think strategically in respect of the environment in order to identify relevant factors that bear significantly on the firm’s decisions, objectives, directions and business model.

However, isolating relevant trends and variables in the firm’s environment demand a reasonable exercise of managerial discretions and judgement to scan the firm’s environment. Managerial intuition, experience and analytical skills will be significant in scanning efforts due to the fact that the environment creates both problems and opportunities for the organisation because it depends on the environment for scarce and valued resources.



**Fig. 1. Environmental factors**

Source: Grant, R. M., *Contemporary Strategy Analysis: Concepts, Techniques and Application*, Second Edition, 1997

Consequently, there is the need to understand and cope with the unstable and sometimes unpredictable external and internal events through scanning of the environment. Environmental scanning includes both looking at (viewing) and looking for information (searching) (Benczur, 2005). It is in scanning the environment that the corporate entity learns and gains information about events, trends and relationship in the organisations' environment (Donald, 1981; Auster and Choo, 1993). Thus, one means of superior competitive advantage is to acquire superior information about opportunities and threats in the environment more than competitors do (Hambrick, 1981). It could then be reasonably expected that the organisation will strive to be more knowledgeable about the environment. However, unionisation and common industry resource pool, as it is common in the Nigerian environment, may seem to moderate this reasoning.

Daft and Weick (1984) hypothesized that perceptions of environmental analyzability are due to the characteristics of the environment in addition to management previous experience. It is believed that environmental analysis is related to perceived environmental uncertainty. Perceived uncertainty itself measures the totality of the scanners' perception of the external environment complexity and changeability. Environmental variables are not mutually exclusive but related. This interrelatedness contributes to the need to understand how environmental factors influence scanning activities. We, therefore, hypothesized that:

*H<sub>0</sub>: Perceived strategic uncertainty is positively related to scanning intensity across environmental sector*

Performance is the major objective of any organisation. This performance dimension, however, demands that organisations secure a reasonable match between the organisation and its dynamic environment. From this perspective, organisations' strategy for performance involves the environment (Mintzberg, 1979). Wendy (1997) suggested that there is the need to establish a framework for understanding the complex web of interactions and changes in the environment in order to survive. Therefore focused environment scanning effort should be instrumental in identifying "drivers of change" likely to affect the structure of the industry or the market (Johnson, Scholes and Whittington, 2006). The combined effect of environmental factors could be important in driving corporate performance. This logic informs the second hypothesis in this study:

*H<sub>02</sub>: Environmental scanning does not contribute positively to corporate performance*

## **Materials and Methods**

Data for this research were collected from five service organisations. Most of these organisations have their headquarters in Lagos which is the commercial and economic centre of Nigeria. Emphasis was on selecting companies in the service industry as against the traditional focus of scanning research on medium and high technology manufacturing industries. Some of the participating organisations had experienced severe market and financial difficulties though not explicitly evidenced by the review of available financial statements.

Therefore, the sampling procedure utilised in the study can be described as a combination of purposive, convenience and random sampling. The participating organisations were selected on purposeful and convenience basis. Specifically, five samples of companies in the banking industry were selected for the study. The Nigerian banking industry is noted for its managerial and strategic sophistication, thus, at a nominal level all the organisations should be environmentally conscious.

Subjects for this research consisted of managing directors, corporate planners, managers and senior officers responsible for strategic issues, and or supplying informational input on which strategic decisions are based in their respective banks. Most of the respondents had formal

university education; 38% of the respondents had postgraduate degrees while the rest had first degree. Their working experience ranged from 5 to more than 25 years. Therefore, it can be expected that these subjects were qualified enough, both from their position in the hierarchy and managerial experience, to assess their organisations’ environmental scanning efforts. Indeed, the logic is to accept both the evaluative impression and practical experience of these subjects as valid environmental scanning and consciousness of their respective organisation.

A total of 75 copies of the research instrument (questionnaire) were evenly administered among top corporate executives in each of the five banks. The research instrument consisted of two parts. Part one relates to respondents’ background such as working experience, age, educational and professional qualifications and rank in the organisation. Section two is focused on obtaining information on the environmental scanning efforts of these organisations. The study adopted the frequency approach which requires that executives indicate how frequently, on average, they learn of events or trends in subsections of the environment. The environmental variables were compartmentalised into three broad groups: task, internal and external/general environment. And, each of the variables in the questionnaire aligns with one of the broad sectors defined. Respondents were to indicate their organisation’s environmental awareness and extent of scanning efforts using a five-point anchored Likert scale which reflects their intensity of awareness, and scanning effort. Environmental variables used include competition, customer, technology, government policy, economic factors, demographic and socio-cultural factors, among others. In the second part of the research instrument a section required respondents to provide quantitative measures of their organisational performance such as return on assets over the past two years.

Of the 75 copies of the research instruments administered, 71 were completed and useable. This represents a return rate of 94.7%. These reasonable response return rates have been obtained as a result of the use of contacts within the organisation to administer and follow-up on the questionnaire. Though these executives are quite busy their educational level permits their understanding of the nature and purpose of the research study. In addition, the questionnaire was respondent-friendly with respect to design and wordings.

**Results**

Executives’ perceptions of the uncertainty characteristics of the Nigerian business environment seem to be somewhat high (table1). However, uncertainties in respect of elements in the task environment were considered by many to be the highest. This finding is somewhat consistent with literatures (Daft, et.al, 1988 and Auster, et.al, 1993). That is, actors that seem to have direct impact on the firm’s ability and success such as competition, customers, technology, among other variables, were perceived as the most uncertain. The perceptions may have been informed by the difficulties these executives face in exercising insight to define, operate and find profitable meanings for their enterprise. The nature, changes and complex web of interactions of elements in the broader general environment is considered next most uncertain in dealing with the variables therein. A plausible explanation for this is that executives’ concern is more on the implications of development in the general environment for their enterprise capability to secure and maintain competitively superior match between the enterprise and the environment. Development in the general environment may have varying implications for different strategic emphasis and internal thrusts of corporate actions.

**Table 1.** Number of respondents

Factors	Levels of uncertainty					Mean rating
	Low 1	2	3	4	5 high	
<b>Task</b>	1	-	7	17	46	4.5
<b>Internal</b>	1	2	9	35	25	4.1
<b>General</b>	-	-	13	27	31	4.3

Table 2 indicates that variables in the general environment are the most scanned. Evidently, these variables have the most permeating influence on business performance; and, the fact that its nature, transition, stability or otherwise, even when such is based on mere assumptions is a barometer determining the shape and tempo of the entire environmental elements. It could be discerned that the intensity of scanning (Table 1) of the general environment informs executives' judgement and provides a guide to further scanning and operation in the task environment though the task environment is considered more uncertain than the general environment.

**Table 2.** Variables

Rating	Scanning Frequency					Mean rating
	Low 1	2	3	4	5 high	
Task environment	1	-	18	41	11	3.9
Internal environment	1	2	16	34	18	3.7
General environment	-	2	13	27	29	4.1

Interestingly, the internal environmental variables which are largely under management control and considered as uncertain receive the least scanning efforts. This supports the propositions that these firms may be unaware, on the basis of credible evidence, of their own strengths and weaknesses and may be most unprepared to meet developments in the environment. Scanning of the internal environment is most likely to provoke emphasis on efficient operations and improve corporate performance. A cause and effect focus on the development in the Nigerian banking industry may possibly reveal that failures of some firms may have been occasioned by failure on internal search rather than environmental development.

### Relationship between Environmental Characteristics and Scanning Frequency

Executives' perceptions of the characteristics of various segments of the environment as certain or uncertain should reasonably motivate decisions and scanning efforts. However, the hypothesised relationship between executive perception of the characteristics of subsectors of the environment and scanning intensity found mixed support. For example, no statistically significant relationship was found between uncertainties perceived of the general external environment and the intensity of scanning of this subsector (table 3). However, a low but significant association was found between perceptions of uncertainty of the internal environment and intensity of scanning efforts in this subsector of the environment ( $r=.39$ ;  $p<0.01$ ). And, though not statistically significant, a low but positive relationship exists between uncertainty characteristics of the internal environment and executives' intensity of scanning efforts of the general external environment ( $r=.17$ ;  $p>0.01$ ), and task environment  $r=-.03$ ;  $p>.01$ . The implications of this are that efforts to resolve issues in the internal environment are thinly perceived as related to industry or general environmental development. Such an approach, generally, will result in warped perceptions of opportunities and threats; and this may have been responsible for the crisis experience in the Nigerian banking sector in 2005.

**Table 3.** Correlations between environmental uncertainty and scanning intensity

Variable	Task Intensity	Internal Intensity	External Intensity
Task Uncertainty	.302*	.288*	.107
Internal Uncertainty	.027	.392**	.116
General Uncertainty	.225	-.084	.183

Note: \*Correlation is significant at the 0.05 level (2-tailed); \*\*correlation is significant at the 0.01 level (2-tailed)

Executives’ perception of uncertainty of the task environment, however, is positively related to the intensity of scanning of both task and internal environment:  $r = .30$ ;  $p = .05$ (task);  $r = 0.29$ ;  $p = 05$  (internal) and  $r = .11$ ;  $p > 0.01$ (general). This is indicative of the fact that developments in the task environment have direct impact on firms’ internal environment and consequent performance. And, though the task environment is influenced by the general environment which shapes the industry opportunities and threats, uncertainty in this general environment sector has low and statistically insignificant relationship with scanning intensity in other subsectors of the environment. It has a weak and negative association with the scanning intensity of the internal environment ( $r = -.08$ ;  $p > 0.010$ )

$H_2$ : *Environmental scanning does not contribute positively to corporate performance*

**Table 4.**  $X^2$  Summary

Variable	N	df.	$X^2$ -obs	P-value
Indifference	2	2	34.5	<0.05
Agree	27			
Strongly agree	42			

Professional managers acting in harmony with their personal values orientations are apt to pursue courses of action that might not enhance optimal performance for their organization.

For example, managers who have theoretical values orientation are primarily interested in the discovery of the truth, empirical, critical and rational (Guth and Tagiuri, 1965). Their interest in environmental scanning activities may not be primarily oriented towards practical affairs of business which could promote economic performance of the enterprise. A study has revealed that the enterprise showed superior performance when executives’ values are well aligned with the demand of the firm context (Ling, Zhao and Baron, 2007).

We reasoned that environmental search may be influenced by managers’ personal values and focused on objectives different from ultimate enhancing performance; thus, our hypothesis on the contributory role of environmental scanning on corporate performance. The calculated value of  $X^2$  exceeds the critical value at  $p < 0.05$  significance, indicating the rejection of this hypothesis. This indicates that these executives’ environmental scanning effort does contribute to enhancing the performance of these organisations. It is probable that the perceived contributory role of such scanning efforts to corporate performance inform the frequency of usage of scanning output (table 5 provides a sum overview of some of the variables considered in the study). Scanning focus, to these executives, extends beyond awareness to focusing on guiding the performance of the firm.

**Table 5.** Frequency of scanned information usage

Environmental Dimension	Daily	Weekly	Monthl y	Few times	Once yearly
Competitor	1	31	19	14	6
Customers	15	21	30	2	3
Technology	14	23	28	4	2
Regulatory policy	8	21	28	8	6
Economic	12	22	23	10	4
Socio-cultural	12	17	25	14	3
Demographic	-	17	34	14	6

## Managerial Implications and Conclusion

This study provides some empirical insight into the relationship between managers' perception of the nature of environment, scanning efforts and corporate performance in a developing economy like Nigeria. As asserted in earlier literatures the task environment, in a developing economy like Nigeria, was considered as creating greater uncertainty than the general environmental variables. In addition, findings from this study indicate a rather limited relationship between executives' perception of the nature of the environment and the intensity of scanning activities of the various sections of the environment. This may have implications for executives who are responsible for and, or need to build and maintain organisations suited for adaptation. Securing superior competitive match with the environment demands effective scanning and adjustment to relevant sections of the environment, however, scanning inappropriate sections of the environment or scanning not supportive of organisational objectives in sections of the environment results in wasteful scanning expenditures both in terms of time and financial resources. The frequency of use of scanned information demands that scanning void is not permitted especially against the backdrop that focused scanning is required as one of the chain of action leading to organisation-environmental match

Furthermore, the link between scanning and corporate performance demonstrates that scanning the appropriate segment of the environment could make a difference in performance outcomes. Managerial discretions and judgement may, therefore, be required in determining the section of the environment that needs most attention. This is required in order to secure a more effective and efficient result-oriented scanning than competitors'.

Managers' inadequate attention to the internal environmental variables has the potential of constraining the ability of the organisation to explore variables that provide information for both potential opportunities and threats. It could be problematic if perceptions of the nature and trends in the environment are not matched by informed and appropriate managerial attention in obtaining information about interactions related to other sections of the environment. Focusing on internal variables alone on the account of perceived uncertainty in this section ignores a system view commonly advocated in management. This approach hides the interrelationship that exists between various sections of the environment. This will represent a rather myopic view of the environment by the management which could have implications for strategy formulation. Indeed, such myopic view of the environment has the potential likelihood of leading management to crafting and adopting sub-optimal strategies or responses to the prevailing situations or wrong strategic moves required to moving the organisation forward.

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## Dovezi empirice ale percepției executivilor și analizei mediului de afaceri în Nigeria

### Rezumat

*Gândirea strategică asupra mediului firmelor permite managementului să identifice factorii de mediu relevanți și conductorii industriali care influențează obiectivele, direcția, strategia și modelul de afaceri ale firmei. Studiul de față, bazat pe administrarea unui chestionar, examinează percepția executivilor asupra caracteristicilor mediului de afaceri și relației sale cu performanța corporatistă. S-a descoperit că în vreme ce variabilele din mediul analizat erau considerate ca fiind cele mai nesigure, mediul general este cel mai urmărit; iar percepția executivilor cu privire la natura mediului este puțin asociată cu intensitatea eforturilor lor de scanare și analiză. Se recomandă ca discreția și judecățile de valoare să joace un rol semnificativ în determinarea componentelor de mediu care trebuie analizate, iar lipsa analizei nu ar trebui permisă dacă echilibrul eficient și eficace dintre organizație și mediu - necesar în vederea asigurării unui avantaj competitiv superior - urmează să fie realizat.*