Strategic Environmental Scanning and Organization Performance in a Competitive Business Environment

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Abstract

This work justified “the impacts of Strategic Environmental Scanning on Organization performance in a competitive business environment” by studying Nestle Nigeria Plc and Cadbury Nigeria Plc. The opinions of the selected respondents were sought by the use of structured questionnaire; the collected data were analyzed and interpreted with regression and coefficient of correlation method of analysis. Hypothesis one revealed that there is significant relationship between strategic environmental scanning and organization performance, the coefficient of determination (R2) is 0.297. It shows that 30% of the variation or change in effective organization performance is caused by variation in strategic environmental scanning. Hypothesis two also shows that the coefficient of determination (R2) is 0.301. It means that 30% of the variation or change in organization productivity is caused by variation in external environmental factors, which connotes that the external environmental forces have positive impact on organization performance. And as such, the use of strategic environmental scanning in evaluating the external environmental forces (opportunities and threats) helps in seizing the opportunities and avoiding threats and it leads to organization profitability. Hence, since the findings shows positive signal, the researcher recommends that, organization should strategically, periodically, and continuously involve in strategic environmental scanning and pay strong attention to the threats (so as to avoid) and opportunities (so as to seize) in the environment.

Key words: environmental scanning, business environment and regression analysis

JEL Classification: M10, M30, M39

Introduction

In today’s business environment, competition is order of the day. The International or global environment consists of all those factor that operate at the transactional, cross-cultural and across the border level which have an impact on the business of an organization. Before the complexity of environmental analysis started, traced back to post-second world war period, then it was characterized as essential political in nature with little in common with the interests of business and industry (Kazmi, 2008). The classification of the general environment into sectors after this period brings more light and exposes most of the business owner into real business
environment. These then help most of organization to cope with it complexity, to compete the various difference factor that influence the operation of business in a particular area.

A company’s marketing system must operate within the framework of forces which constitute the system’s environment, the major environmental forces are external variables which are not easily control or manipulate by the executives in a firm. (Adebisi 2006). Proper planning must put in place to ensure that the business environment is conducive enough and ready to put the organization to the best position in the market place. Any business that is not aware of its environment is bound to run into some crises that will definitely arise from the increasing complexity of the environment in which such business operates.

The major objective of this study is to critically examine the effects of strategic environmental scanning on organization performance and to establish clear position about the result of company that adopts continuous environmental scanning and the company that merely operate with it. Organizations can use environmental scanning to determine whether or not to enter new market and also to know the present situation or condition of its environment. Its purpose is to identify strategic factors- external and internal elements that will determine the future of the organization. The simplest way to conduct environmental scanning is through PEST Analysis. PEST is the acronym used for describing the Political, Economical, Social-Cultural, and Technological factors that affect the organization. The external environments consist of variables opportunities and threats that are outside the organization and not typically within the short-run control of the top management. The management of any organization has little or no influence on the external environment.

Most managers feel that in today's turbulent business environment the best scanning style is continuous scanning using PEST analysis because this allows the firm to act quickly, take advantage of opportunities before competitors do and respond to environmental threats before significant damage is done, this will allow the organization to survive, sustain the environment hardship. As a way of managing organization strategies, the managers have to keep abreast of everything about his environment (internal and external) for the purpose of achieving the organization goals and objectives. It is the fundamental decision about the future direction of an organization, its purpose, its resources and how it interacts with the world in which it operates (the environment of the organization).

**Literature Review**

Understanding of management strategy or organization policy and effectiveness is not as easy as some people believe; it requires looking at how company is gripped with the challenges and opportunities facing it. It requires proper evaluation on the position of an organization, whether the adopted strategy is working well and if not why and how should we go about it? Strategies are means of operationally signing a policy for goals and objective. For company to function very well and to be productive even to its maximum standard effective strategy should be impeded in such company, with this it will have positive effect on sales performance of such organization. According to Dess, et al (2005) management’s strategies consist of the analysis, decision and action an organization undertakes in order to create and sustain competitive advantages. This definition captures two main elements that go to the heart of the field of management strategy. Adebis (2011) explained that strategic management is also about assessing why some organization are doing fine and why some are doing otherwise in the same environment with opportunities and threats.

Kazmi (2008) said the management strategy of an organization entails three (3) processes: Analysis, decision and actions. This is management strategy that is concern with the analysis of strategy goals (vision, mission, and strategic objective) along with the analysis of the internal and external environment of the organization. Leaders must make strategic decisions these
“decision” broadly speaking, address two basic questions: what industries should we compete in? How should we compete in those industries?

These questions also often involve organization’s domestic as well as its international operations. And last, the “action” that must be taken. Decisions are of little use, of course, unless they are acted on. Firms must take necessary actions to implement their strategies. This requires leaders to allocate the necessary resources and to design the organization to bring the intended strategies to reality.

Managers need to determine, how a firm is to compete so that it can obtain advantages that are sustainable over a length period of time. That means focusing on two fundamental questions. How should we compete in order to create competitive advantages in the market place? For example, managers need to determine if the company should position itself as the low-cost producer, or develop products and services that are unique which will enable the company to charge premium prices or some combination of both. Managers must also ask how to make such advantages sustainable, instead of highly temporarily in the market place.

Porter argues the sustainable competitive advantage cannot be achieved through operational effectiveness alone. Most of the popular management innovations of the last two decades- total quality, just-in-time, bench making, business process re-engineering, out sourcing- all are about operational effectiveness. Operational effectiveness means performing similar activities better than their rivals. Each of this is important, but none led to sustainable competitive advantage, for the simple reason that everyone is doing them. Strategy is all about being different from everyone else. Sustainable competitive advantage is possible only through performing similar activities in different ways. A company with good business strategy must have clear choices about what it wants to accomplish. Trying to do everything that your rival does, eventually leads to mutually destructive price competition, but long term advantages.

However, strategy could be further defined as the means to achieve the ends, (objective). In issue that is much important and relevant finding a common thread. It will be necessary, however to explain what is meant by the term “common thread” and as illustration will be made to this effect. Perhaps, the railway corporation of Nigeria will view itself part of Nigeria transportation business within the country. But, in reality, this can only be true to some extend because the present system of operation give no future effectiveness or efficiency compare to other types of transportation in the country such as road and air transportation. (Adebisi 2006)

The weakness, however, with some organization concept of their area of focus are so business, hence, the common thread is missing. This is merely a relationship between present and future desire (ends). Hannis’s study of three conglomerates (Litto, India. Head and Bangor Pruta) found that their strategy making did not involve deleting specific product service business at all but seeing beyond the competitors to gain maximum competitive advantage.

The Concept of Environmental Scanning

Environmental scanning is the monitoring, evaluating, and disseminating of information from the external and internal environment to key people within the corporation or organization. (Kazmi, 2008). Environmental scanning is a process of gathering, analyzing, and dispensing information for tactical or strategic purposes. The environmental scanning process entails obtaining both factual and subjective information on the business environments in which a company is operating or considering entering.

There are three modes by which organizations scan their environment:

- ad-hoc scanning - short term, infrequent examinations usually initiated by a crisis: organizations scan it environment as a result of crisis that is affecting the company at the moment and analyze the situation to know if the problem is internal or external;
- **regular scanning** - studies done on a regular schedule (e.g. once a year): most very conscious organizations can see environment scanning as a program that should be done regularly and as such, most of such organizations do it every year;

- **continuous scanning** (also called continuous learning) - continuous structured data collection and processing on a broad range of environmental factors. (Kazmi, 2008).

### SWOT Analysis Application

A scan of the internal and external environment is an important part of the strategic planning process. Environmental factors internal to the firm usually can be classified as strengths (S) or weaknesses (W), and those external to the firm can be classified as opportunities (O) or threats (T). Such an analysis of the strategic environment is referred to as a **SWOT analysis**.

The SWOT analysis provides information that is helpful in matching the firm's resources and capabilities to the competitive environment in which it operates. As such, it is instrumental in strategy formulation and selection.

### PEST Analysis Application

**PEST analysis** stands for "Political, Economic, Social-cultural, and Technological analysis" and describes a framework of macro-environmental factors used in the environmental scanning component of strategic management. It is a part of the external analysis when conducting a strategic analysis or doing market research, and gives an overview of the different macro environmental factors that the company has to take into consideration. It is a useful strategic tool for understanding market growth or decline, business position, potential and direction for operations.

The growing importance of environmental or ecological factors in the first decade of the 21st century have given rise to green business and encouraged widespread use of an updated version of the PEST framework.

### Composition

- **Political** factors regard how and to what degree a government intervenes in the economy. Specifically, political factors include areas such as tax policy, labour law, environmental law, trade restrictions, tariffs, and political stability. Political factors may also include goods and services which the government wants to provide or be provided (merit goods) and those that the government does not want to be provided (demerit goods or merit bads). Furthermore, governments have great influence on the health, education, and infrastructure of a nation.

- **Economic** factors include economic growth, interest rates, exchange rates and the inflation rate. These factors have major impacts on how businesses operate and make decisions. For example, interest rates affect a firm's cost of capital and therefore to what extent a business grows and expands. Exchange rates affect the costs of exporting goods and the supply and price of imported goods in an economy.

- **Social-cultural** factors include the cultural aspects and include health consciousness, population growth rate, age distribution, career attitudes and emphasis on safety. Trends in social factors affect the demand for a company's products and how that company operates. For example, an aging population may imply a smaller and less-willing workforce (thus increasing the cost of labour). Furthermore, companies may change various management strategies to adapt to these social trends (such as recruiting older workers).

- **Technological** factors include technological aspects such as R&D activity, automation, technology incentives and the rate of technological change. They can determine barriers to
entry, minimum efficient production level and influence outsourcing decisions. Furthermore, technological shifts can affect costs, quality, and lead to innovation.

![Porter's Diagram](source: Kazmi, A (2008)).

**Threat of New Entrants:** Industry that is perceived as being profitable tends to attract new entrants. These new entrants are firms that are interested in investing in the industry to share the growth prospects. Such new entrants augment the existing product capacity and often possess a desire to make large investments and secure substantial market share. The existing firms have either to share a growing market pie with a large number of competitors or part with some of their own market share to the new entrants. Either way, new entrants may cause comparatively lesser sales volume and revenue and lower the returns for all the firms in the industry. The entry barriers may arise as a consequence of several factors such as Economies of Scale, Capital requirement, Switching Cost, Production differentiation, Access to distribution etc.

**Rivalry among Competitors:** Competition is a game in which normally, one player loses at the expense of the other. A move on the part of a player may cause other player to make counter moves or initiate efforts to protect themselves from the danger posed by the initial move. In this manner, firms within an industry are mutually dependant. The situation in an industry keeps changing with the actions and reactions and reactions of the constituent firms. The desire to be the market leader or to corner a leader market share leads to rivalry among competitions in an industry affects the competitors within that industry. When the rivalry is weak, there is likely to be lesser competition, when such rivalry is high, the level of competition is higher. (Azhar 2009)

**Bargaining Power of Buyers:** The bargaining power of buyers constitutes the ability of the buyers, individually or collectively, to force a reduction in prices of prod The major objective of this study is to critically examine the effect of strategic environmental scanning on organization performance and to establish stand position about the result of company that adopts continuous environmental scanning and the company that merely operate with it.

Products and services demand a higher quality or better service or to seek more value for their purchase in any way. A high buyer bargaining power enables a firm to pass on the cost escalation to buyers or to make the buyers accept a lower quality of product and services at a higher price.
Bargaining Power of Suppliers: Like the bargaining power of buyers, suppliers too, have a level of bargaining power. The bargaining power of suppliers constitutes their ability, individual or collectively, to force an increase in the price of the product or level of service. A high supplier bargaining power constitutes a positive feature for the existing firms or new entrant of an industry. A low supplier bargaining power prevent a firm from passing on it cost increase to the buyers to make the buyers accept a lower quality of product and service at a high price.

Threat of substitute product: Substitute products or services are those that apparently are different, but satisfy the same set of customer need. (Azhar, 2009)

Importance of Environmental Scanning

Environmental scanning is the process of dealing with the measurement, projection and evaluation of changes in the different environment variables (Oladele 2006). Most of the organization today are developing different types of strategies that will sustain them in their business environment, and this can only be achieved through the analysis of the environment. (Opportunity and Threats). Oladele (2006) stated some importance to environmental scanning as follows:

- the environment is dynamic in nature, therefore scanning is necessary to keep abreast of change;
- it reveals the elements or factors that constitute threats and opportunity to the overall objectives of the organization;
- competitor’s activities can be monitored and appropriate strategies put in place to check market incursion;
- it gives necessary inputs to the formulation and implementation of potent marketing strategies.

Methods of Environmental Scanning

This aspect of environmental scanning has caused much debate among the scholars in the field of Management. However, the following are therefore suggested:

- secondary data collection approach such as articles, textbooks, magazines and ready-made information etc.
- primary data collection approach, using research instruments such as questionnaire, personal interview, personal observation etc.
- establish a unit within the organization which will responsible to scan wide range of environmental factors and makes forecast about specific variables through qualitative and quantitative means.

Methodology

The methodology used in this paper as well as its research design, procedure, technique and validity of instrument are spelt out.

Research Design

Research design is a systematic plan for collecting data in order to provide answers to specific questions. It is a plan, structure and strategy of investigation which guides the collections and analysis of data in a piece of research (Fakokunde, 2006). This are usually in two forms viz:
Sampling Design and Procedure

The sample size for this study, however, are 70 management staff of Nestle Nigeria Plc and also 70 management staff of Cadbury Nigeria Plc at their corporate head office in Lagos. In total, 140 respondents were chosen as sample size in both organisations.

Data Collection Instrument

Well structured questionnaires were used for the collection of data in this study. This was employed by the researcher in order to minimize the problems associated with the collection of data.

Validity and Reliability Test of the Instrument

Validity test implies ascertaining whether the research or the research instrument used in conducting the test of the research work is used in another place has the same or similar variables with the earlier data used, the result of the test will be very similar. Hence, reliability of a measurement can be said to be the extent to which a measurement is free from viable errors. This implies that a research methodology can be said to be reliable only when it produces the same result after repeated use.

However, the reason for testing reliability of research work is to ensure that variability of the generalization of the conclusion.

Method of Data Analysis

In analyzing and assessing strategic environmental scanning on organization performance, the study shall employ a simple tabular method of presentation, a time series of analysis as well as simple linear regression and coefficient of correlation analysis. The data for this paper work were collected by means of questionnaire administered on the respondents (management staff) of Nestle Nigeria Plc and Cadbury Nigeria Plc. 140 questionnaires were distributed to the respondent at both organization (70 at Nestle Nigeria Plc and 70 at Cadbury Nigeria Plc) but only 120 representing (85.7%) were successfully retrieved.

Test of Hypotheses

Hypothesis 1

Ho: There is no significant relationship between strategic environmental scanning and organization performance.

Question Used in Testing the Hypothesis

B2: Strategic environmental scanning is responsible for your effective organization performance.
Table 1. Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Change Statistics</th>
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<td>3.2832</td>
<td>.297</td>
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</tbody>
</table>

a. Predictors: (Constant): VAR00001
b. Dependent Variable: VAR00002

This shows that the coefficient of determination ($R^2$) is 0.297. It shows that 30% of the variation or change in effective organization performance is caused by variation in strategic environmental scanning. When the remaining 70% unexplained variation is due to other variables outside the regression model.

Hypothesis 2

$H_0$: The use of strategic environmental scanning will not enable an organization in seizing opportunity and avoiding threats existing within the environment.

Question Used in Testing the Hypothesis

B13: The external environmental force has positive impact on your organization profitability through opportunity seizing and threat avoidance.

Table 2. Model Summary$^b$

<table>
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<tr>
<th>Model</th>
<th>R</th>
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<td>1</td>
<td>.329a</td>
<td>.301</td>
<td>.282</td>
<td>3.87651</td>
<td>.301</td>
</tr>
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</table>

a. Predictors: (Constant): VAR00001
b. Dependent Variable: VAR00002

Table 2 shows that the use of strategic environmental scanning in evaluating the environmental forces (opportunities and threats) has help in seizing the opportunities and avoiding threats and it leads to organization profitability. $H_0$ (Hull Hypothesis) is rejected and $H_1$ is accepted (Alternative Hypothesis). Also, the coefficient of determination ($R^2$) is 0.301. It shows that 30% of the variation or change in organization productivity is caused by variation in external environmental forces. When the remaining 70% unexplained variation is due to other variables outside the regression model.

Hypothesis 3

$H_0$: There is no significant relationship between strategic environmental scanning and organization market shares.

Question Used in Testing the Hypothesis

B16: Environmental scanning has positive effect on your organization market share.
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Table 3. Model Summary\(^b\)

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<th>Model</th>
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a. Predictors: (Constant): VAR00001
b. Dependent Variable: VAR00002

This shows that the coefficient of determination (R\(^2\)) is 0.287. It shows that 29% of the variation or change in organization market share is caused by variation in environmental scanning. When the remaining 71% unexplained variation is due to other variables outside the regression model.

Findings

Findings revealed from the two companies that organization management pay more attention to environmental scanning and as such leading to positive organization performance. It revealed that the level of significant in tested hypothesis is greater than 30% (R\(^2\)) which implied that there is relationship between strategic environmental scanning and organization performance. That is, strategic environmental scanning is responsible for effective organization performance.

Also testing hypothesis 2, which connotes that the external environmental force has positive impact on organization performance at about 30% (R\(^2\)). And as such, the use of strategic environmental scanning in evaluating the environmental forces (opportunities and threats) has helped in seizing the opportunities and avoiding threats and it leads to organization profitability. It also indicated that 29% of the variation or change in organization market share is also caused by variation in environmental scanning.

Conclusion

The organization’s effective and efficient growth depends on the kind of environment in which it operates either directly or indirectly. Having sampled the opinion of the various stakeholders as far as this research is concerned, it should be noted that the environment should be flexible and directed towards the organizational achievement of goals and organization objectives. It should be more than a target, against which performance is routinely assessed, in viable and vibrant plan for success of the organization.

In conclusion, management needs to take into cognizance the environmental dynamism and uncertainty in adopting strategy. Thus, hypothesis 1 from Table 1 revealed that the relationship exists, it shows this at f change = 49.852, which implied that there is significant relationship between strategic environmental scanning and organization performance. That is, strategic environmental scanning is responsible for effective organization.

Hypothesis 2 from Table 2 revealed that the relationship exists, it shows this at f change = 50.816, which implied that there is relationship between external environmental force and organization profitability.

Hypothesis 3 from Table 3 revealed that the relationship exists, it shows this at f change = 47.498, which implied that Environmental scanning has positive effect on organization market
share. That is, strategic environmental scanning is responsible for the better organization of the market share.

The management need to thoroughly and strategically scan the environment at which it operates before commencement of operation and also periodically scan the environment when the operation has begun.

In view of this, the researcher can rightly conclude that if the organization can strategically, periodically, and always involve in strategic environmental scanning and pay strong attention to the threats (so as to avoid) and opportunities (so as to seize) in the environment, the level of such organization performance will be very high at all ratification.

**Recommendations**

This research work aims at finding lasting solutions to the generated problems. It is paramount on the part of the researcher having carried out this research work to recommend as follows:

1. Since the environment is an indispensable tool in management, it should not be taken with kids’ glove as it can influence the organization to achieve its stipulated objectives from time to time.
2. The organization should endeavourer to train and retrain their employee in areas of environment so as to create a conductive working environment for the organization.
3. There should be technological planning and innovation towards organization performance.
4. Manager should keep abreast of the development in the level of technology in business parlance.
5. Communication of the strategies to all key managers so as to have uniform objectives.
6. There should be regular review of strategies as the environment tends to change to other factors.
7. Problems facing the strategic environment scanning should be dealt with before it affects the performance of the organization.
8. There should be more research on best strategies to be adopted in the organization so as to ensure the achievement of the organization goals and objectives.
9. The management of the organization should continue to take environmental forces (both internal and external) seriously as a way of controlling and minimizing the impact of environment instability.

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Explorarea strategică a mediului și performanța organizației într-un mediu de afaceri competitiv

Rezumat

Această lucrare justifică „impactul explorării strategice de mediu asupra performanței organizatorice într-un mediu de afaceri competitiv” prin studiul companiilor Nestle Nigeria Plc and Cadbury Nigeria Plc. Părerile respondenților selectați au fost colectate prin intermediul chestionarului; datele colectate au fost analizate și interpretate prin metoda regresiei și a coeficientului de corelație. Prima ipoteză dezvăluie faptul că există o relație semnificativă între explorarea strategică de mediu și performanța organizatorică, coeficientul de determinare fiind (R2) 0.297. Se arată că 30% din variația sau schimbarea în performanța organizatorică este cauzată de variația în explorarea strategică a mediului. Cea de a doua ipoteză indică de asemenea faptul că (R2) - coeficientul de determinare – are valoarea 0.301. Aceasta înseamnă că 30% din variația sau schimbarea din productivitatea organizației este cauzată de variația factorilor externi de mediu, ceea ce presupune că forțele de mediu externe au un impact favorabil asupra performanței organizației. Astfel, utilizarea explorării strategice de mediu în evaluarea forțelor de mediu externe (oportunități și amenințări) contribuie la identificarea oportunităților și la evitarea amenințărilor și conduce la rentabilitatea organizației. Prin urmare, din moment ce rezultatele indică un semnal pozitiv, cercetătorul recomandă ca organizația să se implice strategic, periodic și continuu, în explorarea strategică a mediului și să urmărească atent factorii problematice (pentru a-i evita) și oportunitățile (pentru a beneficia de ele) din mediu.