

Appraisal of the impact of environmental scanning on corporate performance in selected Nigerian banks

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Abstract: *This research study examines the Impact of Environmental Scanning on Corporate Performance in Selected Nigerian Banks. Our goal was to establish whether the knowledge of organizations environment and its scanning has any relationship with corporate performance.*

This research was conducted to increase our level of understanding of the subject investigated and to add to the existing literature on the subject especially in the Third World countries where such study is not popular.

Survey research method was used in carrying out the study. Analysis was done using Difference of Mean and Pearson Correlation Coefficient with the aid of Statistical Package for Social Sciences.

From the study, the findings show that environmental scanning firms outperform non-scanning firms, that information derived from environmental scanning is increasingly been used to drive the strategic management process, that managers have a significant knowledge of their environment, that the fold up of some banks in the Nigerian banking industry was due to its inefficiencies in scanning its environment for threats and opportunities and that the scanning intensity in each sector is based on the level of perceived strategic uncertainty in each of these sectors.

Base on the findings of the study, recommendations were made that more financial resources should be provided by organisation to put the required systems in place for environmental scanning

Key Words: *Businss Organisations, Environmental Scanning, Management, and Performance.*

Introduction

Environmental analysis (scanning or appraisal) is very important to modern organization. It is used by corporate planners to monitor the economic factors, competition, government legislation, suppliers, technology and market setting to determine the opportunities for and threats to the enterprise. Organizations scan the environment in order to understand external forces of change so that they may develop effective responses which secure or improve their position in the future.

The importance of environmental analysis lies in its usefulness for evaluating the present strategy, setting strategic objectives, and formulating future strategies. The banking industry is a very strategic catalyst for the overall economic growth in any country. In Nigeria the industry is generally regarded as an engine room for economic growth and development because of the crucial role it plays in linking all segments of the economy in the main stream (Udoaja, 2002). The fortunes of business enterprise are known to have been determined by changes in the social, economic, political, technological, business and industrial conditions. It is therefore pertinent that a thorough and careful analysis be carried out on these factors.

However, with the recent changes brought into the Nigerian banking industry by the Central Bank of Nigeria (CBN), the entire macro economic structure was altered with new opportunities and threats emerging. The financial sector got a boost, an after effect of the raise in the capital base from #10 Billion to #25 Billion. This resulted in a conducive investment climate.

The general problem of environmental scanning faced in the industry however, could anchor on total ignorance of environmental characteristics which affect them or inadequacy of information for management, to plan, implement and control certain events within and outside the organizations environment.

A number of studies have been conducted on the subject of environmental scanning and corporate performance. Miller, (1994) carried out analysis on eighty-one detailed case studies of successful and failing businesses. The study found that environmental scanning was by far the most important factor in separating the successful companies from the unsuccessful, that this, it accounted for more than half of the observed variance. Newgren et al. (1984) compared the economic performance of twenty-eight corporations that practiced environmental scanning with twenty-two non-practicing firms. They measured performance over a period of five-year (1975-1980) using the firm's share price/earning ratio, normalized by industry. The results showed that scanning firms significantly outperformed non-scanning firms. The average annual performance of the scanning firms was also consistently better than the non-scanning firms throughout the period. The study concluded that environmental scanning and assessment has a positive influence on corporate performance. That scanning also benefits small businesses.

West (1988) examined the relationship of organizational strategy and environmental scanning to performance in the food service industry. Data were collected from sixty-five companies over the period 1982 to 1986. The study found that environmental scanning had a substantial influence on the

firm's return on assets and return on sales. High-performing firms in both differentiation and low cost strategies engaged in significantly greater amounts of scanning than low-performing firms in those two strategic groups.

Daft et al.'s (1988) study of scanning by chief executives found that executives of high-performing firms (those with higher return on assets) increased the frequency, intensity, and breadth of their scanning as external uncertainty rose.

From the foregoing, it is obvious that many organizations regard environmental scanning as a potentially beneficial way of running an organization. However, the extent to which Nigerian banks regard environmental scanning and the performance impact of practicing it have not received adequate research attention. Besides, most of the studies on environmental scanning that have been reported were carried out in industrialized countries. This implies that there is a major dearth of relevant literature on Third World countries, including Nigeria, which has to be covered by research. The study attempts to examine the impact of environmental scanning on corporate performance. Thus, it is hoped that this study will add new information to the present state of knowledge in the field and this will be of assistance to academics and other researchers in this field and other related research areas. Moreover, this study will also be of immense benefits to practicing managers who might be willing to consider this approach in managing their organizations.

In order to address the issues raised above, the following questions will be addressed in this study:

1. What is the level of organizations knowledge of their environment?
2. What is the relationship between environmental scanning and corporate performance?

Hypothesis will be tested in order to know how much knowledge the organization have about their environment and to know if there is any relationship between environmental scanning and

The literature

Environment creates both problems and opportunities for organization. Organization depends on the environment for scarce and valued resources, and organization often must cope with unstable and unpredictable external and internal events. The environment itself perhaps, more than any other factor, affect organizational structure, internal processes and managerial decision making. From an information processing perspective, the environment is important because it creates uncertainty for managers. Environmental uncertainty increases information processing within organization because managers must identify opportunities, detect threats, interpret problem areas and implement strategic or structural adaptation (Hambrick, 1982). One means of competing for policy and decision makers is to acquire superior information about the environmental opportunities and threats depends on management's perception of signal that other organizations miss (Dulton and Freeman, 1984).

Despite research on environmental uncertainty, the question remains how do senior managers learn about and if they know the impact of the environment? Before an organization can begin strategy formulation, it

must scan its environmental for strengths and weaknesses. Strategic managers view environmental scanning as a prerequisite for formulating effective business strategies (Beal, 2000). Environmental scanning includes both looking at information (viewing) and looking for information (searching) (Benczúr, 2005). As leaders, strategic managers are challenged to anticipate changes in the environment and be flexible enough to adjust strategies to creatively seek out new opportunities. Applying the process of environmental scanning creates the opportunity to weave together the past, present, and future change (Mason, 2001). A corporation uses this tool to avoid strategic surprise and to ensure its long-term health. It is against this background, the researcher believes that there is a positive relationship between environmental scanning and corporate performance.

Wheelen and Hunger (2006), defined environmental scanning as the evaluation, monitoring, and dissemination of information from the external and internal environments to key people within the corporation.

Nickole (2004) defined it as the activity of acquiring information about company's outside environment, the knowledge of which would assist top management in its task of charting the company's future course of action.

Hagen et al. (2003), the term environmental analysis refers to the process of picking up signals from the larger environment, analyzing their significance for the organization, and tracking the most relevant of these signals.

An organized activity of the group responsible for strategy, which improves a firm's competitiveness by gathering, processing and internally diffusing information,

in order to rule the environment. (Bournois and Romani, 2000).

Choo (1999) defines environment scanning as the acquisition and use of information about events, trends, and relationships in an organization's external environment, the knowledge which would assist management in planning the organization's future course of action.

Auster and Choo (1993), Environmental scanning is the activity of gaining information about events and relationships in the organization's environment, the knowledge of which would assist management in planning future courses of action.

To Donald (1981), environmental scanning is the managerial activity that entails learning about events and trends in the organization's environment; it is one of the tasks comprising the broader boundary spanning role.

Environmental scanning refers to the exposure to and acquisition of "information about events and relationships in a company's outside environment, the knowledge of which would assist top-management in its task of charting the company's future course of action (Aguilar 1967). This interrelated set of categories contributes to understanding how environmental factors- (external and internal) to the organization, influence the scanning activity, and also how perceived environmental change affect strategic change (Correia, 1997).

The business environment

Every business organization operates in an environment that transcends its official boundaries. Organisation's environment can be defined as all the forces and conditions

within and outside the organisation that affect the organization in its day- to-day activities .

Meanwhile the environment of business is a highly dynamic, complex, and competitive one. The forces a business is to contend with are varied as they are continually changing. Thus managers must take into account the influence of the environmental forces that can affect the performance of their organisations. They must have sufficient knowledge to be able to identify, evaluate and cope with environmental forces that may affect the operations of their organizations. A thorough understanding and analysis of the business environment by managers will enable the business to cope with the changing forces within the environment.

To adequately understand organisational environments, we must borrow some concepts from "System Theory". One of the basic assumptions of system theory is that organizations are neither self sufficient nor self-contained. Rather, they exchange resources with and are depended upon the external environment, which is defined as all elements outside an organization that are relevant to the physical operations (some of these elements connect the organization to the physical world) (Stoner, 2004).

Organization take 'input' i.e. raw materials, money, labour and energy from the external environment, transform them into products and/or services and then send them back as 'outputs' to the external environment (ibid).

The external environment has both direct- action and indirect -action elements, also called stakeholder include shareholders union, suppliers and many others who directly influence an organization. Indirect action

elements; such as the technology, economy, and politics of a society, affects the climate in which an organization operates and have the potential to become direct element.

The business environment has been classified by various authors to suit their purposes. In this research paper we shall classify organisation environment into two major ways: the external environment and the internal environment. The external environment refers to all relevant forces and conditions outside the organisation's boundaries that affect its activities. The internal environment, on the other hand, consists of all forces and conditions within the organization that influence its activities. The external environment can be subdivided into two broad groups for proper analysis. These are the general environment and the task environment. The general environment consists of the major forces in the external environment that reflects the broad conditions in the societies in which an organization operates. The general environment is made up of the following elements; economic, technological, socio-cultural, political-legal, demographic, ecological, and international. The task environment is that part of the external environment made up of the specific outside parties such as competitors, customers, suppliers, new entrants, regulators and shareholders, which an organization interact with in the course of performing its day-to-day business activities (Ojo, 2007).

Models of environmental scanning

Despite its importance, theoretical understanding of organizational scanning remains limited. Although all forms of scanning necessarily involve the seeking and use

of information about the environment. Different organizations operating in different environments may be expected to scan quite differently. Aguilar (1967) identified four modes of managerial scanning based on his field research. Weick and Daft (1983) Daft and Weick (1984), and Choo (1998a) built on Aguilar’s work and developed a general model of organizational scanning based on the two dimensions of environmental analyzability (‘can we analyze what is happening in the environment?’) and organizational intrusiveness (‘do we intrude actively into the environment to collect information?’). This research work made use of objective of Aguilar, Daft and Weick, and Choo model in two ways. First, since scanning is an essential

form of organizational information seeking, it explained the model by detailing the information needs, information seeking, and information use patterns that characterize organizational scanning. Second, since the goal of scanning is the gaining of new knowledge that enables action, the model also details: the sense making, knowledge-creation, and decision-making processes that constitute organizational scanning.

Depending on the organization’s beliefs about environmental analyzability and the extent that it intrudes into the environment to understand it, four modes of scanning may be differentiated: undirected viewing, conditioned viewing, enacting, and searching.

Figure 1: Models of Environmental Scanning.

	UNDIRECTED VIEWING	ENACTING
Unanalyzable		
	CONDITIONED VIEWING	SEARCHING
Analyzable		
	Passive	Active
	Organizational Intrusiveness	

Source: Summary of Principal Findings from Research on Environmental Scanning (Choo, 2001)

Undirected Viewing: Consists of reading a variety of publications for no specific purpose other than to be informed. The goal is to scan broadly in order to detect signals of change early. As a result of undirected viewing, the individual becomes sensitive to selected areas or issues.

Conditioned Viewing: In this case the individual directs viewing to information about selected topics or to certain information with the purpose of evaluating the significance of the information encountered in order to assess its relevance on the organisation.

Informal/Enacting Searching: The individual actively seeking specific information to deepen the knowledge and understanding of a specific issue, but doing it in a relatively limited and unstructured way.

Formal Searching: The individual makes a proactive effort to obtain specific information or information about specific purposes. (Morrison 1992).

According to Choo (2001), from the works of Daft and Weick, they suggested that organizations differ in their modes of scanning, depending on management's beliefs about the analyzability of the external environment, and the extent to which the organization intrudes into the environment to understand it. An organization that believes the environment to be analyzable, in which events and processes are determinable and measurable, might seek to discover the 'correct' interpretation through systematic information gathering and analysis. Conversely, an organization that perceives the environment to be unanalyzable might create or enact what it believes to be a reasonable interpretation that can explain past behaviour and suggest future actions.

Daft and Weick (1984) hypothesize that differences in perceptions of environmental analyzability are due to characteristics of the environment combined with management's previous interpretation experience. Analysis done in the environment is said to be closely related to the concept of perceived environmental uncertainty. Perceived environmental uncertainty is the variable that measures the totality of the scanner's perception of the external environment's complexity and changeability (Choo, 2001).

Besides environmental uncertainty, the level of knowledge and information available about the environment may also be an important factor. Some industries regularly collect and analyze data about products, markets, and competitors. In many cases automation and the use of information technology have made it possible to efficiently gather and analyze data and trends. Information that is available affordably, and that is sufficiently detailed and timely to support decision making, may lead to the perception that the environment is analyzable.

An organization that intrudes actively into the environment is said to be one that allocates substantial resources for information search and for testing or manipulating the environment. A passive organization on the other hand takes whatever environmental information comes its way, and tries to interpret the environment with the given information.

Research hypotheses

Two major hypothesis are proffered and will be tested in order to know how much knowledge the organization have about their environment and to know if there is any re-

relationship between environmental scanning and corporate performance in the banking industry using Zenith International Bank, Oceanic Bank International, Guaranty Trust Bank, Bank PHB and First Inland Bank Plc as the case study. Thus, the following hypotheses were formulated in order to provide a necessary sense of action to the study.

HYPOTHESIS 1

H_0 : There is no significant difference in organizations knowledge of their environment.

H_1 : There is significant difference in organizations knowledge of their environment.

HYPOTHESIS 2

H_0 : Environmental scanning does not contribute positively to corporate performance.

H_1 : Environmental scanning contributes positively to corporate performance.

Research methods

We shall concisely describe the methods and procedures employed in carrying out this research work.

The basic idea of this study will only be beneficial if proper research design is clearly spelt out. The design of this study is the survey research design.

The study population of this research work was made up of executives, directors, corporate planners, managers and senior staff of the Nigerian banks. Owing to the widespread of the network of branches of these banks all over the country, it is therefore impossible to carryout this research using the whole population. A representative

sample of randomly selected branches in the South West geo-political zone comprising Ekiti State, Lagos State, Ogun State, Ondo State, Osun State, and Oyo State was used. Although the entire country was expected to be covered, but due to paucity of financial resources, the study is restricted to the aforementioned States.

Stratified sampling method was used for the selection of samples. The reason for stratified sampling method was that we want the sampled elements to reflect the various strata of the population. In all, 75 elements were ultimately selected as our sample..

Both primary and secondary data were used. A well-structured questionnaire was used to collect primary data while Annual Report and Accounts of the selected companies were used to garner secondary data based on the research questions and objectives

In our design, 75 respondents were selected through stratified random sampling technique in various branches these banks and 71 (94.67%) of the respondents actually participated in the study.

Our data were collected, collated, coded and analyzed sequentially through the use of Statistical Packages for Social Sciences (SPSS). In specific terms, Difference of Mean and Pearson Correlation Coefficient were used in the analysis of data.

Hypotheses testing

HYPHESIS ONE

H_0 : There is no significant difference in organizations knowledge of their environment.

H_1 : There is significant difference in organizations knowledge of their environment.

DIFFERENCE OF MEAN TEST

	N	Mean	Std. Deviation	Std. Error Mean
Do you have knowledge of environmental scanning?	71	4.85	.402	.048
scanning is done to provide better knowledge of the environment and help the organisation to achieve strategic fit	71	4.61	.547	.065

One-Sample Test

	Test Value = 0					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
	Lower	Upper	Lower	Upper	Lower	Upper
Do you have knowledge of environmental scanning?	101.630	70	.000	4.845	4.75	4.94
scanning is done to provide better knowledge of the environment and help the organisation to achieve strategic fit	70.924	70	.000	4.606	4.48	4.74

Interpretation: This is a two - tailed test with a Degree of Freedom (DF= n- 1) i.e. (71-1 = 70). From the statistical value for 0.05 at 70 the df of is 4.94. While the calculated value t=101.630. Since the calculated in both cases (questions) is greater than the tabulated value we reject H0 and accept the alternative hypothesis H1. This implies that there is a significant difference in organizations

knowledge of their environment.

HYPOTHESIS TWO

H₀: Environmental scanning does not contribute positively to corporate performance.

H₃: Environmental scanning contributes positively to corporate performance.

CORRELATION TEST: Environmental Scanning Contributes Positively to Corporate Performance.

	task uncertainty	internal uncertainty	external uncertainty	Task intensity	Internal intensity	External intensity
Task Pearson Correlation	1	.215	.238(*)	.302(*)	.288(*)	.107
uncertainty Sig. (2-tailed)		.072	.046	.011	.015	.373
N	71	71	71	71	71	71

		task uncertainty	internal uncertainty	external uncertainty	Task in- tensity	Internal intensity	External intensity
Internal uncertainty	Pearson Correlation	.215	1	.181	.027	.392(**)	.116
	Sig. (2-tailed)	.072		.131	.826	.001	.334
	N	71	71	71	71	71	71
External uncertainty	Pearson Correlation	.238(*)	.181	1	.225	-.084	.183
	Sig. (2-tailed)	.046	.131		.060	.489	.127
	N	71	71	71	71	71	71
Task intensity	Pearson Correlation	.302(*)	.027	.225	1	.169	.160
	Sig. (2-tailed)	.011	.826	.060		.158	.183
	N	71	71	71	71	71	71
Internal in- tensity	Pearson Correlation	.288(*)	.392(**)	-.084	.169	1	.017
	Sig. (2-tailed)	.015	.001	.489	.158		.887
	N	71	71	71	71	71	71
External intensity	Pearson Correlation	.107	.116	.183	.160	.017	1
	Sig. (2-tailed)	.373	.334	.127	.183	.887	
	N	71	71	71	71	71	71

* Correlation is significant at the 0.05 level (2-tailed).

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

INTERPRETATION: The above table indicates the degree of association or relationship between the perceived uncertainties in each of the environmental sector: Task, internal and external environment and the frequency with which organisation scan the environment. (Most of the correlations i.e. are significant at 0.05 and 0.01 significance level). For example, the frequency or intensity of the company's scanning of internal environment has a fairly association with their perception of uncertainty in this environmental sector at $r = 0.39$. Such scanning however, has a weak and negative association with their perception of uncertainty in the environment ($r = -0.084$).

Empirical findings

The empirical findings of this research study, refers to the hypotheses tested in chapter four of this research study. They include:

1. That the Nigerian banking indus-

try have knowledge of its business environment: it was found that directors, managers, corporate planners etc have a sound knowledge of environmental scanning, that scanning is done to provide better knowledge of the environment and help the organisation to achieve strategic fit and that it is actually a vital part of the organisation, that firms scan frequently, and that sufficient resource are provided by organization for scanning.

2. That environmental scanning has impact on corporate performance: it was discovered that this positively contributes to corporate performance. That the success of organisation depends on its ability to scan its environment for opportunity and threats which will be used to its own advantage.

3. That folding up of some banks is due to the failure of not scanning the environment for threats.

4. The result of this study also indicates that scanning is done based on the level of

uncertainty across environmental sector. That the task (were more attuned to monitoring threats from competitors) and external environment causes the greatest uncertainty and influences the organisation most.

Recommendations

Environmental scanning leads to knowledge and information acquisition, and a better understanding of the organisations business environment. Organisations which do not scan end up not attaining maximum performance (in terms of profitability, increased growth etc) and may eventually die (i.e. fold up). Hence, the researcher recommendations are centered on the following.

1. Organisations should provide the necessary financial resources which will aid in putting the required systems in place for environmental scanning.

2. Implementation of programmes to train both directors and strategic/ corporate planners on how to scan its environment when ever the need arises.

3. Enterprises should endeavor to include other lower levels of management in its scanning activities.

4. The task and external environment should be closely monitored since these are very intense (turbulent) and causes a greater uncertainty to the organisation.

5. Organisations should make policies that favour the course of environmental scanning since the survival of the organisation depends on it.

Conclusion

This study provides some empirical insights on the relationship between environmental scanning activity and corporate performance, it determined if there is a significance difference of organizations knowledge about their environment and the level of perceived strategic uncertainty across environmental sectors.

When managers scan their organizational environment, they simultaneously explore variables that provide information for both potential opportunities and potential threats; in fact, they do not deliberately ignore either one. They do so, so that they can be adequately equipped for the challenges presented by the environment.

However, the researcher came to the conclusion that the very foundation of strategic management in organisations hinges on environmental scanning activities. And that environmental scanning plays a vital role in organizational planning and implementation process, which if properly implemented results in enhanced and sustained long-term performance of the enterprise.

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