



## Scanning, perceived uncertainty, and the interpretation of trends: A study of hotel directors' interpretation of demographic change

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### ABSTRACT

This paper examines how scanning can affect the interpretation of a specific trend and the uncertainty related to this interpretation. Based on a two-stage interpretative process, this study tests a series of hypotheses linked to scanning, trend interpretation and perceived environmental uncertainty, using survey data from the Swiss hotel industry concerning the ageing population trend. The study uncovers considerable evidence to support the main propositions, and in particular, shows how general scanning relates to positive interpretations of change and builds confidence in managers, whilst lowering perceived uncertainty. It is further found that high performance hotels engage in more scanning and experience lower uncertainty related to specific issues than do low performance hotels. This paper is innovative in examining how general scanning, not just issue-specific scanning, can reduce two types of issue-specific uncertainty, as well as influence interpretations.

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### 1. Introduction

Executives devote a significant proportion of their time to picking up information signals from both the internal and external environments of their organization. Indeed, the manager is nothing short of an information worker (McCall and Kaplan, 1985; Walsh, 1995). Whereas information emanating from within the organization is typically used to exploit existing resources, the external environment is the source of both opportunities and threats for the organization (Dutton and Jackson, 1987; Jackson and Dutton, 1988), and the interpretation of this external environment influences the reallocation of resources in response to any environmental change (Dutton, 1993). This reallocation is typically made under conditions of uncertainty with which managers must cope (Lawrence and Lorsch, 1967; Starbuck and Milliken, 1988). The cognitive processes leading to this type of change interpretation have been studied intensely over the past few decades, at the level of the individual manager, of management teams, and of the organization as a whole (Walsh, 1995). Strategies and strategic actions may be the direct result of these cognitive processes (Thomas et al., 1993; White et al., 2003), and the correct perception and interpretation of the environment may lead to superior performance of the organization (Bourgeois, 1985; Pfeffer and Salancik, 1978). Yet, despite the growing body of literature, there are some important grey areas

in need of further exploration, in particular relative to scanning, interpretation and uncertainty.

The scanning literature typically argues that scanning is contingent on perceived environmental uncertainty (PEU), such that higher PEU leads to higher scanning among executives. In what has possibly become the most popular strategic uncertainty/environmental scanning model, Daft et al. (1988) suggest that the combination of uncertainty and strategic importance of a given sector of the external environment will influence scanning (Elenkov, 1997). Scanning in this view is thus considered a reactive behavior contingent on strategic uncertainty. However, empirical tests of this traditional view have produced mixed results, and it is judged too simplistic in the more recent literature (Boynton et al., 1993; Elenkov, 1997; Jogaratnam and Wong, 2009; Lang et al., 1997). In particular, there is a systematic failure to clearly differentiate between general scanning, defined here as the typically regular activity of monitoring the external environment for strategically important issues, and issue-specific scanning, defined as scanning in response to the interpretation of a previously identified issue (Sund, 2010). More worryingly, despite recent advances in our understanding of PEU as a multi-dimensional, or multi-component construct (Milliken, 1987), and despite numerous authors pointing out that there may be more to gain by examining relationships with sub-dimensions of PEU, rather than with PEU as an overall or uni-dimensional concept (Downey et al., 1975; Gerloff et al., 1991), the field has failed so far to produce such empirical studies exploring the scanning-environment relationship.

This paper fills a void in the literature regarding on the one hand, the impact of general scanning on executives' interpretations of

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specific issues in the external environment, and on the other the impact of general scanning on issue-specific perceived environmental uncertainty. This paper thus proposes and tests a series of hypotheses relating to general scanning, cognitive interpretation and perceived uncertainty. The analysis of findings from a survey of Swiss hotels shows that general scanning helps reduce the feeling of uncertainty relating to a particular trend and influences the interpretation of trends, such that high levels of scanning lead to more positive interpretations and less uncertainty relative to predictions of both the probability of a particular trend or environmental change taking place, and the probability of the change impacting the executive's organization. In an extension of the analysis this study examines the performance implications of scanning, and finds that high performance hotels exhibit higher levels of scanning and lower uncertainty regarding environmental issues than do low performance hotels.

The paper is structured as follows. After this introduction, section two reviews the interpretative process and perceived environmental uncertainty, before presenting hypotheses for the links between the various concepts. These hypotheses are then tested with data from a survey conducted among Swiss hotels and the results commented. As a result of the investigation some conclusions are drawn about environmental perception. Possible avenues of future research are pointed out and the relevance of the findings for practitioners is briefly discussed. In addition to making and testing novel theoretical propositions, this paper adds evidence to suggest the importance of scanning procedures for hotel managers. Such procedures can include the regular collection of customer feedback, the monitoring of competitors and attention to industry reports as well as more general publications.

## 2. Background and hypotheses

Numerous studies of cognition and interpretation processes examine the likely factors affecting such processes, and the possible origins of the underlying knowledge structures, including strategy (Thomas and McDaniel, 1990) and strategic type (Citrin et al., 2007), market orientation (Qiu, 2008), degree of diversification (Ginsberg, 1989), organization culture (Harris, 1994), industry velocity (Nadkarni and Barr, 2008), dynamism (Garg et al., 2003) and cognitive motivation (Anderson, 2008). Daft and Weick's (1984) popular work embodies a three step interpretation process of scanning, interpretation and action. They suggest that managers scan the environment and collect data (step 1), which is later analyzed and interpreted, thereby giving meaning to the data (step 2). Finally, actions are taken which result in organizational learning (step 3). The existing literature focuses largely on the relationships between interpretation and action, and consequently our understanding of the relationships between scanning and interpretation remains underdeveloped (Anderson and Nichols, 2007). This paper examines more closely this part of the interpretation process in the case of a specific issue or trend.

### 2.1. Scanning and interpretation

Managers in general and top managers in particular, rely heavily on both existing mental maps and on new information to inform their decisions and shape their strategies (Stubbart, 1989). This new information feeds into mental maps and alters the structure of these maps. Given that the organization depends on the external environment for its resources, just as opportunities and threats arise from this environment (Dutton and Jackson, 1987), external information scanning, i.e. collecting data about the outside environment, is a key strategic capability (Daft and Weick, 1984; Fahey and King, 1977; Garg et al., 2003).

The information-processing capability of any individual manager is, however, limited (Simon, 1991), as is the amount of time a manager can devote to scanning. A variety of studies therefore show that scanning is done selectively across sub-sectors of the environment (Boyd and Fulk, 1996; Daft et al., 1988; Garg et al., 2003; Hambrick, 1981), and that managers exhibit varying levels of environmental scanning and use various methods of scanning (Beal, 2000; Fahey and King, 1977; Lang et al., 1997; Sutcliffe, 1994). Additionally, it has been suggested that executives in high performing organizations scan the environment more broadly and frequently than those in low performing organizations (Daft et al., 1988).

Interpretation is the process of giving data meaning, and at the organizational level, of translating external events into a shared understanding amongst organizational members (Daft and Weick, 1984). As pointed out above, it is during this crucial phase of the interpretative process that cognitive or mental maps play an important role (Huber, 1991). Managers use their knowledge and mental maps to categorize the events and trends that surround them (Lenz and Engledow, 1986; Thomas et al., 1993; Weick et al., 2005). How a given event is categorized therefore forms a part of the interpretation (Dutton and Jackson, 1987).

The event categorization the most commonly mentioned and investigated in the literature is the labeling of an event as a potential threat or opportunity to the organization (Dutton and Duncan, 1987). A number of dimensions to this threat/opportunity categorization have received particular attention in the literature, including (1) an evaluation of the event by managers in negative or positive terms, (2) an estimation by managers of potential losses or gains resulting from the event, and (3) a consideration of the controllability by the organization over the event (Barr, 1998; Jackson and Dutton, 1988; Thomas and McDaniel, 1990). Other dimensions include the likelihood and predicted level of impact of an event (Milliken, 1990). The interpretation given to a particular event ultimately influences the organizational actions taken in response to the event (Barr, 1998; Julian and Ofori-Dankwa, 2008; Thomas et al., 1993). This interpretation therefore precedes and directs organizational responses. The actual responses can be changes of a strategic nature, of a competitive nature or of a structural nature (Dutton and Duncan, 1987; Ginsberg, 1988). Little work considers what factors lead to differences in individuals' interpretation of events (Barr, 1998). In this paper, general scanning is considered one such factor.

Managers may seek new information as they interpret a specific issue, in which case the interpretation given to a specific issue can be argued to affect scanning (Lang et al., 1997). However, as already pointed out, this study focuses on general scanning, as opposed to issue-specific scanning. First the effects of scanning on a manager's sense of controllability are considered. Information use in general has the effect of reducing feelings of uncertainty and increasing the sense of confidence in executives (Ellis and Shpielberg, 2003; Milliken, 1990; White et al., 2003). Furthermore, some studies suggest that managers who collect and use more information tend to perform better (D'Aveni and MacMillan, 1990; Eisenhardt, 1989). Therefore, the greater the amount and the completeness of information available to managers, the greater the likelihood that they will sense they master a situation and perceive any environmental change as controllable (Eisenhardt, 1989; Thomas et al., 1993). Kuvaas (2002) finds that managers whose organizations have information about the external environment more readily available tend to feel greater control. The fact that general scanning enhances the early detection of events before threat interpretations can emerge should further contribute to increasing the sense of control (Jackson and Dutton, 1988).

**Hypothesis 1.** Managers who engage in more versus less general scanning will label a given event as more controllable.

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