Using environmental scanning to collect strategic information: A South African survey

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ABSTRACT

This article investigates the extent of environmental scanning activities at South African enterprises. The literature review discusses environmental scanning variables and steps in the environmental scanning process. In the empirical survey a questionnaire was e-mailed to the CEOs of 1000 South African enterprises, on 20 March 2015 asking them to return the questionnaire before 30 April and a response rate of 32.5% was achieved. Ninety five per cent of the respondents indicated that they regarded the competitive situation in South Africa as intense or very intense and most respondents were convinced that they coped above average with changes in the business environment. Only 30% of respondents had a separate environmental scanning department and only 27% had a formal environmental scanning system. Annual reports, market research reports, newspapers and trade journals were the most important secondary information sources, while customers, sales staff and suppliers were the most important primary information sources. All entities responding used competitor analysis, industry macro-environmental analysis and SWOT analysis to analyse environmental information.

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1. Introduction

"The reality is that information has no value, unless it is available immediately before you need it" (Grulke, 2000:15). Obtaining information on several variables of the external environment facilitates alignment between an enterprise's business strategy and the environment (Karami, 2008:2). The environment in which an enterprise functions is complex and unstable. According to Albright (2004:39), enterprises today face unprecedented challenges to survive and environmental scanning can be used to gain understanding of the environment in which an enterprise functions. An enterprise has no influence on the external environment and it is not possible for it to monitor and control the variables in the external environment, but when the enterprise conducts environmental scanning, it has the opportunity to respond rapidly to challenges in a timely and effective manner. Babatunde and Adebisi (2012:26) mention the complex external environment and its impact on an enterprise. Enterprises in industries with higher levels of uncertainty therefore tend to increase the amount of environmental scanning. According to Shaikh (2010:2) the external environment constitutes all the factors outside an enterprise that offer opportunities or threats. Smit, Cronje, Brewis and Vrba (2011:65) postulate that the amount and accuracy of information available to management will determine the levels of uncertainty associated with the business environment.

When enterprises scan the environment, they are able to cope with uncertainties and to improve their competitive position (Bhardwaj & Kuman, 2014:40). Effective strategic planning can only happen if an enterprise conducts environmental scanning (Agbim, Oriarewo Zever, 2014:252). All managers intuitively scan the external environment and the majority prefer personal information sources to formal, impersonal ones (Choo, 2001:30). Choo (2001:34) mentions that in spite of the importance of environmental scanning in the strategic management process, theoretical understanding of the process remains limited.

The purpose of this article is to show the extent to which South African enterprises scan the external environment to assist them in future courses of action. The article attempts to answer questions such as whether managers in South Africa regard environmental scanning as an important activity, what sources of information they use and if they have an environmental scanning department in their enterprises.

2. Business environment in South Africa

The business environment in South Africa is unstable and unpredictable (Smit et al.,2011:71). South Africa is an exporter

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of minerals and South African enterprises need to compete in the global economy and need to face socio-economic challenges (Sewdass & Du Toit, 2014:85–86). In the global economy, the business environment in South Africa accommodates foreign investments and new trade (South Africa's competitive advantage in the developing world, 2014). Legislation affects the risks of doing business in South Africa and many businesses operate informally in South Africa (South African Local Government Association, 2014). China is South Africa's leading trading partner (South Africa's competitive advantage in the developing world, 2014) with India second (Fifth BRICS summit, 2013:19).

South African enterprises need to enter the global market, because the domestic market offers limited returns on investment (Du Toit & Strauss, 2010:27; Fatti & Du Toit, 2013:6). The enterprises that benefited from direct investment have demonstrated that they can compete internationally (Du Toit & Strauss, 2010:19). The African head office of many multinational enterprises is in South Africa (Du Toit & Strauss, 2010:22) and Du Toit and Strauss found that is very important for South African enterprises (Du Toit & Straus, 2010:27). Competitiveness is a contemporary issue in South Africa and the competitiveness of South African enterprises increases every year (Smit et al., 2011:84).

The financial, insurance, real estate and business services industry has been globally recognised as being competitive compared to other BRICs countries (Fifth BRICS summit, 2013:21). The intensity of competition will differ from industry to industry. Environmental scanning is most prevalent in the South African pharmaceutical industry with 69.9% of enterprises conducting environmental scanning (Fatti & Du Toit, 2013:8).

South Africa is the biggest investor in Africa (Subramoney, 2010:1). Since South African enterprises have easy access to European and Asian markets, South African enterprises have an advantage over other enterprises from other African countries to invest in Africa. South African enterprises such as MTN, Shoprite, Standard Bank, South African Airways, Eskom Enterprises, Sun International, Vodacom and Sasol invest in Africa and they make a positive economic impact in these countries (Laverty, 2011:2).

3. Environmental scanning

According to Bhardwaj and Kumar (2014:40) environmental scanning is "the collection and use of information about events, trends, and relationships in an organization's external environment, the knowledge of which would assist management in planning the organization's future course of action." Lau, Liao, Wong, and Chiu (2012:1230) define environmental scanning as a process to gather and interpret information and using the results in the strategic planning process. Fleisher and Bensoussan (2003:269) describe the organisational environment as all the forces emanating or operating from outside the enterprise. "Organisations scan the environment in order to understand external forces of change so that they may develop effective responses that secure or improve their position in the future" (Jansen Van Vuuren, 2002:107). The increasingly turbulent and complex external environment makes that management are not focused on the most important issues, they do not consider new forces in the environment and do not make a sincere attempt to understand the full range of threats and opportunities (Cheng, Kadir, & Bohari, 2014:440). The objective of environmental scanning is to identify changes that will influence an enterprise's activities.

Cancellier, Blageski, & Rossetto (2014:617) quote Aguilar (1967:19) who identified four modes of environmental scanning:

- Undirected viewing: general awareness of the environment and scanning broadly with no specific purpose, for example by reading a newspaper.
- Conditioned viewing: scanning for data that might influence the employee's work for example scanning for information in defined areas to track trends.
- Informal search: an active search for information to identify key issues and assess their impact but in a limited and unstructured manner.
- Formal search: a deliberate, planned attempt to gather specific information for specific purposes.

According to Hyde (2000:59) an enterprise should employ a combination of all four modes to do effective environmental scanning. The environmental scanning process comprises the following steps:

- Scan the environment for strategic indications, trends and events (Bhardwaj & Kumar, 2014: 42).
- Analyse the information to determine relevancy, influence and urgency and understand the interrelationships between trends (Fleisher & Bensoussan, 2003:280–283).
- Link the trends to issues (Fleisher & Bensoussan, 2003:280–283) and repackage the information by making projections of what may happen in future. Dispatch the information to top management so that they can assess the implications of trends and make the necessary decisions.

Formal environmental scanning enables the management of an enterprise to identify threats and demands in the environment in good time and, where necessary, to transform these into opportunities. Environmental scanning identifies emerging issues and potential pitfalls that may affect an enterprise's competitive advantage (Albright, 2004:40). Customer needs change rapidly in a changing environment and if an enterprise consistently monitors the external environment, it will become aware of unexpected changes that will affect an enterprise (Albright, 2004:41). Information that will have an impact on an enterprise should be identified to determine changes in the external environment (Ford, Huerta, Menachemi, & Babik, 2013:40) and by using organisational abilities, environmental uncertainty can be reduced (Rubĉić & Sekan, 2012:1133).

3.1. Socio-cultural, technological, economic, ecological, political situation (STEEP) analysis

External variables such as the political situation, economic situation, ecological situation, socio-cultural situation and technological situation (STEEP) should be monitored (Fleisher & Bensoussan, 2003:270). These variables are elaborated on further in ensuing paragraphs.

Demographic changes in the population such as age, income and education may increase or decrease the demand for an enterprise's products (Albright, 2004:42). Information should also be collected on cultural attitudes, literacy rates and social trends (Smit et al., 2011:71).

Technological changes increase the risk factor of an enterprise. New equipment can change production cycles (Albright, 2004:41) and technology can lead to product and process innovation (Fleisher & Bensoussan, 2003:272).

Local and international economies can change an enterprise and information of the economic situation can help an enterprise to prepare for the future. Issues that should be monitored are inflation rates, unemployment, exchange rates, gross national product, and economic growth rates, personal disposable income and purchasing habits of consumers (Smit et al., 2011:71). These aspects may