Environmental Scanning: An Imperative for Business Survival and Growth in Nigeria

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Abstract
There is no doubt that the business environment of the 21st Century has been more volatile and challenging than those of centuries before it. This volatility is largely the consequence of globalization that has turned the world into a global village where event in one region transmits to others almost immediately. In spite of this environmental turbulence, organizations must effectively depend on its environment for operations and survival. This paper sought to assess the place of environmental scanning as a means of business survival and competitiveness in Nigeria. This study used mainly secondary data which it analytically adapted to suit its unique objectives. Findings generally reveal that environmental scanning is critical to business survival not only in Nigeria, but in other parts of the world. Nigerian specific data reveal that educational level of managers significantly impact on their tendency to scan the business environment. It also found out that informal sources are more used to gather data from the environment than formal sources and that customers and competitors are the most unpredictable and yet, the most attended factors of the environment.

Key Words: Environment Scanning, Business Growth, Competitiveness, Survival

I. INTRODUCTION
The symbiotic relationship, which exists between business entities and their environment, is no more a subject of controversy. It is axiomatic. Consequently, there is need for managers across the various business organisations to continually scan the environment so as to keep tab of development thereof as a means of survival. This issue of environmental scanning or audit has assumed a heightened dimension lately. This is as a result of increased spate of environmental changes which has become so frequent that it is so fatal to ignore. This has exacerbated the need and demand for updated information for decision making (Popoola, 2000). The increased complexity of business milieu has exposed firms to hypercompetitive or high-velocity environment (D’Aveni, 1994; Brown and Eisenhardt, 1997:1-34). Globalization is one of the factors that have altered tremendously the texture of global business environment. In particular, it has sharpened competition and factors driving it. These factors are falling trade barriers, fast paced technological advances, declining communications and transport costs, international migration and highly mobile investment (Badrinath and Wignaraja, 2004). The implication is that the world has turned into a global village and nations are now benchmarked in the light of international standard and global indices. Multinational corporations and venture capitalists move investment to the regions where resource inputs are cheaper and where the business environment is more genial.

The business environment of Nigeria is generally seen as harsh and uncomplimentary (Doing Busines, 2010). The costs of production have been relatively high, making firms not to be competitive in Nigeria. The resultant effect is that the mortality rate of business organisations in Nigeria is so high. This has made studies on how to effectively contend with challenges from the environment as a means of survival very imperative. It is this challenge that this paper seeks to address. This paper is divided into six sections. Following this introduction is the theoretical and conceptual issues in environmental scanning. The third section explores the various models for scanning the environment. The fourth section deals with the reasons why it is necessary to scan the environment. The fifth section presents evidence to establish relationship between environmental scanning and business survival and last section concludes the paper.

2.0 THEORETICAL AND CONCEPTUAL ISSUES IN ENVIRONMENTAL SCANNING
Effective discussion of the theoretical and conceptual issues in environmental scanning can only proceed by first looking at the meaning of the key concepts used in this Paper. The two key operative words are: Environment and Scanning. We shall define each concept and merge them by way of synthesis.

Environment in the literature is a term used to capture certain factors or forces which are outside the control of an organisation, but which such an organisation must react and respond to if it must survive and realize goals, it has set for itself (Koontz et al, 1980; Onodugo, 2000). It generally influences the efficiency with which different firms and industry operate (World Bank, 2005). It is a truism that one cannot appreciate the circumstances
surrounding the activities of an organisation unless one fully understands the environment wherein such an organisation thrives and operates. For simplicity, there are three approaches usually adopted in the literature when it comes to the subject of understanding the concept of environment. We shall briefly look at them below: First, is the approach of what could be called input-system–output analysis (Werther and Davies, 1989). In this approach, the organisation is seen as a system, which imports various kinds of inputs from the environment, such as labour, management, capital, etc, which it transforms to products, which are either goods or services as outputs back to the environment for consumption and satisfaction of the needs and wants, which initiated the production exercise in the first place. This relationship is illustrated in the Figure 1 below:

**Fig 1: Input – System -Output Analysis**

![Input-Output Analysis Diagram](image)

**Inputs**
- Challenges
- Human Resources
- Education
- Skills

**Transformation Process**
- Human resource management activities
- Recruiting
- Selection
- Others

**Outputs**
- Human resource contribution
- Capable workers
- Motivated workers

Figure 1: Input-Output simplification of the Human Resource Management System


The second approach of capturing the relationship between organisation and its environment is by looking at the mutual demands and expectations between it and its various stakeholders. These stakeholders who sometimes are seen as its wider publics comprise the government, customers, shareholders, management, employees, and the community at large. Again, we can simulate these myriads of mutual demands and expectations below as follows:
<table>
<thead>
<tr>
<th>Public</th>
<th>Expectations/demands</th>
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</thead>
<tbody>
<tr>
<td>Government</td>
<td>- Payment of taxes, adherence to government policies, and improvement of the welfare of its citizenry.</td>
</tr>
<tr>
<td></td>
<td>- To provide enabling environment that is secured and peaceful to operate.</td>
</tr>
<tr>
<td>Shareholders</td>
<td>- Dividends arising from increased profitability and survival.</td>
</tr>
<tr>
<td></td>
<td>- Adequate supply of capital as and when due.</td>
</tr>
<tr>
<td>Employees</td>
<td>- Payment of salaries, provision of good working conditions and survival.</td>
</tr>
<tr>
<td></td>
<td>- Maximum work effort and productivity.</td>
</tr>
<tr>
<td>Management</td>
<td>- Good pay, enhanced working conditions, growth and survival.</td>
</tr>
<tr>
<td></td>
<td>- Good management, full of innovation and creativity.</td>
</tr>
<tr>
<td>Customers</td>
<td>- State of the art goods and services that is time compliant.</td>
</tr>
<tr>
<td>Community</td>
<td>- operating as a good corporate citizen, and discharging social responsibilities.</td>
</tr>
<tr>
<td></td>
<td>- Welcome and peaceful relationship.</td>
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The third approach is to view organisation as operating in an environment which offers to it opportunities and constraints. These opportunities and constraints are classified into what is generally regarded as the elements of the environment. They are:

**Economic Environment:** This has to do with the mode of production, distribution, and consumption in an economy. It also includes the state of the economy and the existing government economic policies thriving at the time.

**Socio-cultural Environment:** This has to do with the totality of the prevailing values, norms, attitudes, mores, beliefs, etc, in a society. These impact heavily on businesses, nay all the organisations that operate in such society.

**Political and Legal Environment:** This has to do with the existing laws and government policies. These laws and policies change from time to time and must be adhered to by organisations. Again, this offers business organisations a number of opportunities as well as threats.

**Technological Environment:** The way business is carried out had witnessed a lot of transformations. New techniques come to replace the old ones, and give a new flavour to service delivery. In fact, competitions in most industries develop along the lines of technological advancement and innovation. Any business that is slow to adapt to technological changes is courting problems, not in the least, extinction.

There are other elements of the environment which time and space will not allow us to mention here. One thing that is noteworthy is that these elements in their dynamism present to business organisations varying opportunities and threats simultaneously. It therefore behoves managers to seek strategies on how to maximize the opportunities, while minimizing threats and constraints.

Scanning, which is the next operative word simply means careful examination of an area with a view to seeking out a person or a thing in that area. (Longman Dictionary of Contemporary English)

Put together, environmental scanning simply means a careful examination of the environment with a view to identifying opportunities to maximize and containing and minimizing threats along the lines dictated by missions and goals of a particular business. Wheelen and Hunger (2000) define scanning as the monitoring, evaluating and dissemination of information from the external environment to key people within the corporation. It is important to reiterate that this exercise must be done on continual basis so as to keep track of changes in the environment.

**3.0 MODEL FOR ORGANIZATIONAL SCANNING**

Over the years, several models for appropriately understanding the task of organizational scanning and information seeking have emerged. In most cases, each is a modification and refinement of the existing models.
The initial foundational work was done by Aguilar (1967), which received modifications and refinements from Draft and Weick (1984:284-295) and Choo (2001) among many other scholars within the period in between. This model has four main typologies for scanning the environment. They are: undirected viewing, conditioned viewing, enacting and searching. To fully appreciate the essential thrusts of the model, it is expedient that we attain uniform understanding of the complimentary concepts that are used for the building of the model. The key ones are explained below:

- **Environmental analyzability**: This is used in the model to mean the susceptibility of the events and elements of the environment to be subjected to prediction and measurement. Given this definition, there is a positive relationship between environmental analyzability and environmental scanning. This means that the extent to which an organisation seeks to intrude in the environment to seek information depends on the extent to which it believes that the environment is analyzable. Duncan (1972:313-327) identifies the factors responsible for the analyzability or otherwise of the environment to be predicated on the number of factors from the environment that impacts on decision making, on the one hand, and the frequency of change of these factors on the other. The first aspect is what he calls ‘simple-complex’ dimension. This means that the more the variable from the environment that is factored into decision making the more the complex the environment and vice-versa. The second aspect he calls ‘static-dynamic’ dimension. This means that the complexity of the environment and hence its un-analyzability increases as the variables in the environment are given to change.

- **Organizational Intrusiveness**: This is used in the model to mean the extent to which an organisation allocates resources for information gathering, analysis and use from the environment. Of course, intrusiveness is in itself a function of the analyzability of the environment. Depending on which divide the management belongs. Some believe that the more threatening and hostile the environment or when an organisation depends heavily on the environment the more it intrudes to gather information from it (Wilensky, 1976; Choo, 2001). Some others believe that the more the environment is hostile and un-analyzable, the less the resources devoted to intervene in it. In either case, an organisation that devotes huge resources towards intrusion is said to be active, while those that spend little resources to intrusion is said to be passive.

- **Sense Making**: This is the process by which people enact or actively construct the environment in which they attend to by bracketing experience and by creating new features from the environment (Weick, 1995). Sense making can be informed by the manager’s belief system or actions. In the case of the former, this takes place when he filters events from the environment from the prism of his belief system, while in the case of the latter; he tries to build meanings and justifications around the actions already taken to manipulate the environment.

- **Decision Making**: This is the process of selecting a course of action among alternatives (Onodugo, 2000). Rational decisions at all levels require information gathering and processing. The level of information required at the level of the organisation is however more detailed and more complex. There are various modes of taking organizational decisions. They are:
  - **Boundedly rational mode**: Under this mode the decision making takes place under goal clarity, procedural certainty and choice is guided by performance programmes (March and Simon, 1993).
  - **Process mode**: This is decision making under clear goals but procedural equivocality. In most cases, the variation in the process is to adapt to frequent changes in the environment.
  - **Political mode**: Under this mode, decision making is influenced by the various and often conflicting interests and the bargaining strengths of the groups within the organisation. And finally;
  - **Anarchic mode**: This is organizational decisions that follow neither clearly predetermined goals nor procedural certainty. Decisions under this mode are generally driven by independent streams of spontaneous problems which are resolved more or less on a trial and error basis.

Having clarified the key terms used in the model. The ensuing section will now concentrate on analyzing the model in its entirety. Below is the figurative portrayal of the model.
Modes of Environmental Scanning

<table>
<thead>
<tr>
<th>Assumptions About Environment</th>
<th>Analyzable</th>
<th>Analyzable</th>
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<tbody>
<tr>
<td></td>
<td>CONDITIONED VIEWING</td>
<td>SEARCHING</td>
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<tr>
<td>Undireceted Viewing</td>
<td>UNDIRECTED VIEWING</td>
<td>ENACTING</td>
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<td>Passive</td>
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<tr>
<td>Active</td>
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Fig 2: Modes of Environmental Scanning


**Undirected Viewing:** This is an environmental scanning mode that operates on the assumption that the environment is unanalyzable and as such does not intrude into the environment to understand it. Most organisations that operate under this mode are satisfied with limited, soft and mostly chanced information. Information needs of such organisations are hazy and ill-defined. Information use is mainly to reduce the adverse effects of environmental volatility. Under this mode, sense making is characterized by informal identification and analysis of signals from the environment. In some situations it requires many cycles of sense making to reduce the equivocality from the environment. This may require many episodes of face-to-face communication involving dialogues, negotiations and persuasions (Choo, 2001).

**Conditioned Viewing:** this is a scanning mode that works on the assumption that the environment is analyzable and yet is passive about intruding in the environment. Information needs are limited to a relatively few and well defined issues and areas of concern. Data sourcing is usually done through standard procedures that are non-people oriented and which enjoys industry-wide acceptance. In most cases, it is restricted to routine documents, reports, publications and data generating systems that have evolved over the years (Draft and Weick, 1984:284-295). Under this mode, sense making is predicated on clearly defined assumptions and beliefs about the environment which inform the organisation’s paradigm of analyzing issues from the environment. Consequently, it requires fewer cycles of sense making to reduce environmental equivocality. Decision making follows standard procedures and draws heavily on past data trends.

In a nutshell, scanning and decision making under this mode, make use of existing knowledge about what is important in the environment and the established ways of sourcing information.

**Enacting:** This is the scanning mode that is anchored on the assumption that the environment is not analyzable and yet it actively engages in information seeking from the environment. Information needs under this mode is open ended and exploratory in nature. In most cases, it seeks to identify fruitful areas of interventions. Data sources are mainly external that is usually the creation of the organisation in its efforts to construct its own environment. During enacting, sense making is built around the interpretation given to the actions taken to intrude on the environment. Decision making under this mode makes use of process and in some cases, anarchic modes. In other words, it involves iterative process of design-implement-evaluate cycles. Choices are settled for when solutions appear to work and attached to problems. Usually actions are not goal driven but taken to discover goals. In all, the general method of scanning is by trying out new actions in order to identify new goals and methods.

**Searching:** This scanning mode relies on the assumption that the environment is analyzable and as a result, it
actively engages in information seeking from it. Information needs are based on well defined goals that are broad, detailed and open-ended (Choo, 2001). In addition to other pursuits, the organisation is prepared to stumble on new information from the environment. This is where it departs from conditioned viewing. The latter is limited to few already predetermined issues and for the most part is close minded. Sense making is formal, systematic and belief driven. It seeks to logically arrive at the objective facts of what happens in the environment. The process makes use of hard, formal and often quantitative data. Decision making uses formal and rational procedures and relies heavily on quantitative tools of data analysis. Organisations that use this mode often have well established scanning department with experienced staff.

When Do We Scan Our Environment?

Providing answer to this question will gradually lead us into identifying managerial situations and activities which require effective audit of the environment in its process. Again, it will help us capture the importance of the environmental scanning to business survival and performance. It is evident that what is accentuating the need for environmental scanning is the increased rate of change and uncertainty of the variables in the environment (Wheeler and Hunger, 2000).

Below are some of the vital functions of management that require environmental audit;

- **Planning:** This is a very important managerial function which helps organisational incumbents set future goals. Since planning tries to anticipate future events, it takes careful and systematic analysis of the environment so as to identify variables that will play in the future, and troubleshoot them. Survey conducted by Diffenbach (1983:109) of fortune 500 firms in the States, listed better strategic planning and decision making as one of the payoffs of environmental scanning. This is corroborated by Choo (2001:9) who remarks that “information derived from environmental scanning is increasingly being used to drive the strategic planning process by business and public-sector organisations in most developed countries.” It is pertinent to note in the years ahead the demand for scanning the environment prior to planning, whether short term or strategic, will generally increase. This is because of the increased spate of global changes in the environment.

- **Opportunity Identification and Exploitation:** Managers scan the environment to identify opportunities and exploit them. As we mentioned earlier, the environment continually present ever changing scenarios of opportunities. It takes good watchers of the environment to capture the opportunities which it presents and subsequently exploit them. For instance, in Nigeria, political incumbents in trying to fulfill their political promises and endear themselves to the public, in relation to the next elections have embarked on projects such as construction and building of the international market, international airport, international trade fair ground, etc. While ordinary citizens are enraptured with the boost and impetus it will give to the economy, financial managers could see the opportunity of financing such investment either by the government directly or through the contractors handling the projects. Again, depending on the feasibility reports of such ventures, they could undertake to finance the project and manage its leasing for some time before handing back the project to the government. This is what environmental scanning could facilitate.

- **Identifying and Containing Threats:** Just as the environment presents opportunities, it equally presents threats and constraints. Environmental scanning is necessary to identify these threats, and put in place things that will help organisation to overcome them. Failure to anticipate major changes in the business environment has led many a company to be beaten by their competitors and driven into bankruptcy (Harrison et al, 1993). For instance, the era of computerized banking services in the Nigerian financial system, which has engendered stiff competition leaves old generation banks like First Bank PLC, UBA plc, Union Bank Plc, etc, with no option but to reengineer to survive. This has been a serious challenge considering their size and intensive branch network. In any event however, they must reengineer or be left out, even if it entails downsizing.

- **Strategy Formulation and Implementation:** According to Morrison (1992), scanning provides strategic intelligence useful in determining organizational strategies. Strategies are ways and means put in place by organisation to realize their objectives and survive competition in the business environment. It usually comes on the heels of identifying opportunities and threats and matching same with the organization’s strengths and weaknesses in an interactive process called SWOT ANALYSIS. In effect, strategies are formulated after SWOT analysis which is only done through rigorous analysis of the environmental factors. Strategies are formed, revised and changed on the basis of certain changing forces emanating from the environment. So it is an on going process.

- **Performance Evaluation:** This is another managerial exercise that requires extensive appraisal of environmental factors. After implementing strategies and programmes aimed at realizing the
organisation’s mission and objectives, it becomes necessary that in assessing the extent of success, there is the need to look at the operating environmental factors and see how it aided or impeded the pursuit of set goals. Not to do environmental audit in appraisal is to live in the world of utopia and idealism devoid of realism and pragmatism.

**Discharge of Social Responsibility:** The subject of social responsibility arose in the wake of agitations from the society demanding that businesses should respond to the needs of the host communities in which they operate. It requires organisations to maintain cordial relationship with its host community by identifying its needs and problems. This identification could mean in practical terms, the provision of infrastructural facilities, awarding scholarships, being law abiding, etc. A business organization that regularly fulfils this social obligation is perceived as a good corporate citizen and will endear itself to its host community. The point being made here is that it requires effective environmental scanning to articulate the needs of the society; and thus adequately prepares the enterprise in the area of providing social responsibilities.

### 4.0 ENVIRONMENTAL SCANNING AND BUSINESS SURVIVAL: EMPIRICAL EVIDENCE

A number of studies in the literature have emerged to support that environmental scanning improves organizational performance and hence survival. Specifically, Wheeler and Hunger (2000) assert that research has identified a positive relationship between environmental scanning and profit. Study by Newgren et al (1984:12-15) compared the economic performance of 28 US organisations that practiced environmental scanning with 22 others that did not. Performance was measured over a five-year period, using the share price/ earning ratio standards by the industry. Findings indicate that firms who scan the environment clearly do better than those that do not. The average annual performance of the scanning firms consistently fared better than those of the non-scanning firms for the period under review.

West’s (1988) study looked at the relationship between performance and organisational strategy and environmental scanning in the US foodservice industry. Study data covered 65 firms over a period of four years (1982-1986). Findings indicate a strong positive relationship between a firm’s turnover and return on assets and its strategy and environmental scanning. It was equally clear from the study that firms that engaged in scanning performed significantly better than those that did not.

Another study by Diffenbarch in Wright et al (1996:30) revealed that the “fortune 500 firms that were asked to identify the major payoffs of their environmental-scanning activities included an increased general awareness of environment changes, better strategic planning and decision making, greater effectiveness in governmental matters, and sound diversification and resource allocation decisions.”

A study of similar nature by Subramanian, et al (1994:104-115) corroborated the findings above. It involved a survey of over six hundred hospitals who were members of American Hospital Association. Findings show that hospitals which engaged in active scanning performed significantly better than their counterparts who did not scan environment. The information obtained in the process of scanning was used mainly in the strategic planning process.

The empirical benefits of environmental scanning transcend performance in strictly economic sphere. In analyzing the survey by Coker and Blong (1991), Meixell (1990), and Pritchet (1990) in Wright et al (1996:6), it was found that a growing number of colleges and tertiary institutions used environmental scanning to boost their planning process and by extension their performance. Most of the institutions found it necessary to embark on active environmental scanning in response to “declines in enrollment and reductions in state appropriations”. This supports findings by Murphy (1987) who studied an in-depth case study Georgia Centre for Continuing Education and concluded that environmental scanning was instrumental to the Center’s ability to respond to disequilibrium in the external environment.

In Nigeria specifically, studies by Popoola (2000) and the more recent one by Babatunde and Adebisi (2012) all empirically support the claim that environmental scanning is vital to organizational survival. The latter study stumbled on certain interesting findings with respect to environmental scanning in Nigeria. Using data sourced from a total sample size of 550 managers drawn from 124 licensed banks in Nigeria, the study reached the following conclusions:

1. That the educational background of the managers greatly influences managers’ tendency for environmental scanning.
2. The market, specifically the active customer segment and the competitors command the greatest objects of attention during environmental scanning. They are also the most volatile factors to be subjected to assessment.
3. Although most Nigerian organizations have formal means of scanning the environment, the study found out that these organizations rely heavily on informal sources for gathering data than on formal sources.

4. Private files, colleagues, newspapers and magazines are perceived as the most accessible sources of information, while customers, books/journals and private files are the sais to provide information of the greatest value.

5.0 TECHNIQUES FOR EFFECTIVE ENVIRONMENTAL SCANNING

Environmental scanning is a complex set of business activity which requires care, skill, and expertise. Below are some of the mainline techniques for analyzing the environment:

**Opinion Survey:** This technique used to be an exclusive preserve of organisations in developing countries but it is increasingly gaining popularity among developing countries. This approach garners feedback information from the public using survey method. Depending on the literacy level of the population, oral interviews or questionnaire could be used. At the end, analysis of these instruments could generate information ranging from opinion on service rendered to expectation of how they could best be attended to.

**Forecasting:** This is simply the act of predicting, projecting and estimating future variables (Imaga 1999). According to Wikipedia, the free Encyclopedia, forecasting is the process of estimation in unknown situation. This technique of environmental scanning is of vital importance, particularly in the area of planning and designing strategies for managing change. It helps one forecast the future factors that play in the environment of business and thus, helps in its trouble shooting.

Forecasting is as vital as it is complex. There are various hands on methods of forecasting that can be used in auditing the environment. Some of them are:

- **Leading indicators:** These are economic indicators that signal the likely direction of the economy. For instance, the prices of stock are a major indicator of the investors’ confidence in the economy which affects its growth or fall. A persistent fall in the prices of stock as is the case with the American economy at present, is a leading indicator of the imminence of depression in the economy.

- **Lagging indicators:** This is the reserve side of leading indicator. It is the major outcome of a certain economic shock and disequilibrium. For instance a major lagging indicator of arbitrary increase in the income of civil servants in Nigeria is inflation.

- **Historical trend analysis:** This is making future projections on the basis of identifiable past trend. Once the forecaster identifies a trend in the past it can use it to predict future activities.

- **Scenario writing:** This is a written description of some future state presented in a coherent script-like or narrative fashion. It is multiple scenarios, when alternative descriptions of the future events are formulated (Fahey and Narayanan, 1986; Schoemaker, 1993:195)

- **Quantitative methods:** There a number of quantitative tools of analysis for predicting future economic scenario. They include but not limited to regression analysis, econometric models, factor analysis, etc. Most of these tools are only applicable to quantitative data collected over a period of time.

**Critical Analysis of Government Policies:** Government policy instruments play major role in determining the shape, pace, and flavour of economic activity in both developing and developed countries. In Nigeria for instance, the annual budget details an array of fiscal as well as monetary policies aimed at regulating the economy. One way of scanning the environment is to critically analyse these policies to anticipate their likely consequences and impact on the various aspects of the economy and prepare how to respond to them.

**Professional Educated Opinion:** This technique is used to scan the environment by seeking the advice and inputs of experts and pundits in the particular area(s) of interest. There a number of international and national publications that can improve ones understanding of its environment. For instance, these professional inputs could be obtained from World Bank publications, various professional associations’ newsletters, United Nations research reports and findings, national bureau of statistics outputs, central bank reports of various nations, etc. Further, useful information could be got from consultants and researchers in the particular field of interest in network method called Delphi Technique.

6.0 CONCLUSION

This study’s main interest is on the place of environmental scanning as a means of business survival. It submits that no business entity can realize its goals, grow and survive without continually analyzing and responding to the vagaries of the forces from its environment. This is more so, in this dispensation, where change in the environment is so rapid and so complex.

The work identifies situations in the organization that make it imperative to scan the environment. They include: strategic planning, identification and maximization of opportunities, minimization of threats, design and
implementation of strategies and fulfilling of social responsibilities. Further, organizational performances are evaluated in the light of constraints from the environment.

The study presents existing models and techniques for effective forecasting and scanning of the environment and highlights empirical evidence from companies outside the country and those from Nigeria to show that organizations that actively embark on environmental scanning do better than those who do not.

REFERENCES


