

# Scanning the Environment for Competitive Advantage: A Study of Corporate Banking Managers in Nigeria

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This article looks at how bank managers in Nigeria scan the external environment for information to have competitive advantage in the banking industry. Investment analysis, improved services, conflict resolution, market research and business strategy were the areas of environmental scanning.

The uncertainty of the environment was found to be associated with the amount of scanning done. The study revealed that the customer and competition sectors were the most strategically uncertain. The study recommends that electronic information services be used in environmental scanning.

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## *Introduction*

Banking institutions occupy a central position in the nation's financial market and are catalytic agents in the development process of the economy. By intermediating, between the surplus and deficit spending units, banks increase the quantum of national savings and investments and hence national output. By granting credits, banks create money and thus influences the level of money supply which is a crucial item in the growth of national income as it determines the level of economic activities in any nation. Ebhodaghe (1995) posits that banks are central to the payments system by facilitating economic transactions between various national and international economic units and by so doing encourage trade, commerce and industry! For banks to be able to function effectively and contribute purposefully and meaningfully to the development of a country today, information utilisation is the answer. In modern banking business, it is information that makes the banking industry stable, safe and sound.

Just as the pressure of competition and the need to improve productivity have generated a need for better information to manage banking

operations, so have they also increased the need for managers operating at tactical and strategic levels to make more effective use of information to improve the quality of the decision- and policy-making process within the bank. The provision of information, which will improve the quality of the decisions, about where the organisation is going and how it gets there is imperative in a deregulated economy like Nigeria.

However, the bank managers for effective planning, decision-making and control need a wide range of information. Such information relates to market situation, competitors' strategy, exchange and interest rates, share prices, insurance, future trends in technology, potential customers, wages and salaries, government legislation relating to banking regulations and the general state of the economy. Also, bank managers need to consider information about what is happening within the bank, looking at sales against marketing information, at cash flows against interest rate projections etc. In a nutshell, the information needs of managers in the banking industry are complex and extensive in nature. They are exposed to a large volume of information from a wide spectrum of sources and selec-

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tively use this information to provide high quality banking services to their customers and to formulate longer-term strategies. Yet much remains to be known about the information behaviour of bank managers as a distinct user group.

### *Objectives of the study*

This study seeks to achieve the following objectives:

1. To determine the environmental sectors that are perceived as strategically uncertain in the banking industry by the respondents.
2. To find out the major information sources used by the respondents.
3. To know the degree of relationship between information sources used, their perceived accessibility and quality.
4. To ascertain the environmental sector information coming to the knowledge of the respondents and the level of interest in keeping informed about the sector.
5. To investigate their main purpose in environmental scanning.

### *Literature review*

Auster and Choo (1993) see environmental scanning as the acquisition and use of information about events and trends in an organisation's external environment, the knowledge of which would assist management in planning the organisation's future courses of action. Also, Lester and Waters remark that environmental scanning is needed to provide the information for top management to make decisions that create strategic advantage for the organisation to succeed in a changing environment (Lester and Waters 1998). Daft et al. (1988) and Auster and Choo (1992) looking at the effect of environmental uncertainty found that managers who perceive greater environmental uncertainty tend to do more scanning.

However, Jain (1984) and Ghosal and Kim (1986) focus their studies of environmental scanning on market-related environmental sectors. They found that information about customers, competitors, and suppliers is of great importance. Kobrin et al (1980) reported that the information sources most often used by managers and staff within the organisation are personal sources,

while sources like the company library and online databases were less used.

Scanning methods can range from ad hoc informal activities to systematic formalised efforts, depending on the organisation's size, its experience, and its perception of the environment (Preble et al. 1988).

Taylor (1991) suggests that a more complete picture of information seeking by a group of users may be gained by analysing their information use environment, which includes sets of people, dimensions of the problems to be solved, the work setting, and the ways problems are considered to be resolved. When an organisation places a high priority on external information, its decision-makers access various sources to aid their strategic planning and find solutions to problems confronting the organisation. Presently, the effective adaptability of bank business operations to external change (i.e. turns in the business cycle, technological advances, governmental policies and laws, and labour union programmes) can be increased through environmental scanning.

The banking industry in a deregulated economy like Nigeria with a high political instability is full of uncertainty. Also, uncertainty arises because the bank managers experience a dearth of information about an external environment that is complex and variable. Furthermore, the more important or strategic that environmental change is perceived to be, the greater the amount of scanning. Therefore, perceived strategic uncertainty is assumed as endogenous variable that would affect the bank managers' scanning behaviours. Information searching entails both selection and utilisation of sources. Allen (1977) argued that users prefer information sources that are perceived to be more accessible rather than sources that are perceived to be of higher quality. However, Nilan et al. (1988) and Halpern and Nilan (1988) believed that perceived source quality based on relevance and reliability of the information provided by the source may influence the users' environmental scanning. Relevance information could be viewed as information that is needed and useful with respect to the goals and activities of the users' banks, while information is reliable when it is authoritative and dependable.

Although it is possible to look at other organisational and personal variables that could affect

scanning, focusing on environmental uncertainty, source accessibility, and source quality, provides a helpful guide in knowing key informational parameters that influence the amount of scanning and the utilisation of information sources to do the scanning. Culman (1983) opined that perceived source accessibility could be operationalised as the amount of effort required to locate a source and then to get the needed information from that source.

Effective study of environmental scanning of a specific user group begins with a clear identification of their environmental sectors. The external business environment of a bank is classified into six main environmental sectors from which scanning can be done. These are:

- i) Customer sector implies those banks or individuals that buy or consume the services offered by the bank.
- ii) Competition sector includes the banks, services, and competitive strategies banks that offer similar services, substitute services or value – added services, competitive actions between banks and other financial institutions in the same industry.
- iii) Technological sector consists of development of new service techniques and methods, innovation in materials and services, and general trends in research and science and technology especially information technologies relevant to the bank.
- iv) Regulator sector includes government legislation and regulations, policies, and political developments affecting your banking operations.
- v) Economic sector comprises of economic factors such as stock markets, rate of exchange, rate of inflation, governmental budgets, external trade balance, unemployment and economic growth rate.
- vi) Socio-cultural sector encompasses social values in the general population, the work ethnic, banking habit, crime rate, and rate of women in the work force.

According to Boyd (1989) “the perceived importance of trends in the various environmental sectors has a major effect on scanning activity.” The perceived strategic uncertainty, a combination of uncertainty measured by the complexity and variability of an environmental sector, and the importance to the bank of event in the sector are key factors to be considered in the environmental scanning of managers in the banking industry. Also Auster and Choo (1994) posit that to know the amount of scanning, it is necessary to consider how each environmental sector comes to the knowledge of the user and the degree to

which the user keeps himself informed about developments in each sector. Thus, the level of interest of the user would be affected by his cognitive traits and value system, while the frequency with which information comes to his knowledge would be associated with other factors like the type of information channels in the bank industry and the manager’s scanning style.

Similarly, the use of environmental information in decision making is also a vital aspect of the study of environmental scanning of bank managers. Accessibility to information and positional authority empowers the manager to perform four basic decisional roles (Mintzberg 1973). These are entrepreneurship, resource allocation, disturbance handling and negotiation; they form the basic functions of managers in the banking industry.

### *Research methodology*

The target population is the managers at the headquarters of 124 licensed banks operating in Nigeria as of 31 December 1997. The sampling technique adopted for this study is stratified quota. The population was stratified by type of banking business before a realistic sample size of 550 managers was finally selected. The break down of the sample is reflected in Table 1 below.

The assigning of quotas to each stratum was based on the status of each of them in the banking industry. Due to problems with the sampling framework, inadequate finance, the heterogeneous nature of the population and administrative convenience, stratified quota sampling is preferred. The questionnaires were administered to the 550 selected managers in Lagos. The reason for selecting Lagos was that much of the corporate banking business takes place there and most of the banks being studied have their headquarters and branches in the Lagos metropolis.

A response rate of 81.8 percent was achieved. The reliability of the instrument used was 71.5 per-

Table 1: Allocation of sample

Banking business	Number Sampled	Number Responded
Commercial banks	250	200
Merchant banks	150	130
Development banks	100	80
Mortgage banks	50	40
TOTAL	550	450

Table 2: Perception and scanning of environmental sector

Environmental sector	IPSU	FISCA	Correlation (r)	Likis	Correlation (r)
Customer	45.80	3.87	0.68	4.35	0.70
Competition	43.25	3.70	0.52	4.29	0.64
Technological	40.33	3.75	0.64	4.10	0.58
Regulatory	38.91	3.84	0.61	4.20	0.60
Economic	35.22	3.60	0.50	3.94	0.53
Socio-cultural	33.74	2.90	0.48	3.85	0.45

cent using the Cronbach Alpha coefficient method in the form:

$$\alpha = n/n-1 - \Sigma S_1^2 / \Sigma S_x^2 \dots\dots (1)$$

where

$S_1^2 = 3.2$  the variance of a single score.

$S_x^2 = 9.8$  the variance of the total instrument.

$n = 25$  the number of items.

### Data analysis and discussions

For the purpose of this study, both descriptive and inferential statistical tools of analysis were employed to analyse the data collected from the field. Of the 450, 270(60%) are males while the remaining 180 (40%) are females. The average age of a manager in the banking industry is 34.8 years with a standard error of 8.5 years. This means that these classes of workers belong to the economically productive age group of 14–55 years in the Nigerian economy who produce the wealth of the nation. The greatest proportion of them had put in between 15–20 years of active service in their banks. Also, their academic qualifications ranged from the Associate Institute of Bankers certificate to the masters' degree especially in business related courses. Indeed, this study found a significant relationship between academic qualification and the use of information sources of the respondents ( $P < 0.001$ ). Academic background is known to have a great influence on environmental scanning of the users.

However, the respondents were asked to score each of the six environmental sectors based on its complexity, variability and importance using a 5-point Likert scale. The complexity and variability scores were added and multiplied by the importance score to obtain an overall index of perceived strategic uncertainty as recommended and used by Auster and Choo.

In Table 2, the environmental sectors show that perceived strategic uncertainty (IPSU) of the re-

spondents ranges from 33.74 to 45.80 with the overall mean of 39.54. The customer and competition sectors are perceived to be the most strategically uncertain, followed by the technological and regulatory sectors.

In the banking industry, the managers (business executives) are most concerned with the market and competitor sectors of the environment. The reason for this is that they are the basis upon which profit can be maximised. The perceived importance of the technological sector is perhaps due to the recognition that technology is developing at a fast pace and in ways that can revolutionise how businesses operate. For instance, the introduction of information technologies into the banking industry in Nigeria has assisted the banks in providing value-added services to their customers. Concerning the frequency of information about sector coming to attention (FISCA), i.e. amount of scanning, respondents reported that information about the customer, regulatory and technological sectors came most frequently to their attention. Also, it was found that they were most interested in keeping themselves informed (Likis) about the customer, competition and regulatory sectors. The perceived strategic uncertainty is positively correlated with the amount of scanning and the level of interest of the respondents in keeping informed about the environmental sectors. All correlation coefficients are statistically significant, ( $P < 0.001$ ). For a sector that is perceived to be strategic, the bank managers feel a need to be well-informed about trends and developments in a sector which may affect their banks in some major way. Also, for a sector perceived to be unstable and in which numerous factors have to be considered, the respondents feel a need for more information so as to keep abreast of the current developments and to know the cause-and-effect chains connecting the factors. In a nutshell, it is found that the sum total effect of an environmental sector's strategic

Table 3: Perception and utilisation of information sources used

Information Source	Frequency of Use	Perceived source Accessibility	Perceived source Quality
Colleagues	5.64	7.96	8.48
Customers	5.51	6.70	8.95
Private files	5.35	7.98	8.80
Newspapers/Magazines	5.20	7.85	8.45
Radio/Television	5.08	7.70	5.08
Report	4.80	7.75	8.40
Trade Associations meetings	4.68	7.30	6.75
Board Members	4.55	7.65	7.50
Books/Journals	4.47	7.50	8.88
Competitors	3.98	5.68	7.02
Government Publications	3.84	6.89	5.85
Corporate Library	3.74	7.38	7.40
Government Officials	3.69	6.34	4.84
Company Directories	3.55	5.25	6.20
Electronic information Services	2.96	5.20	5.10

importance, variability and complexity influences the amount of scanning of that sector in the Nigerian banking industry.

Table 3 depicts the mean perception and use of information sources by the respondents. The mean frequency the respondents use each source to scan the environment was measured on a 6-point Likert scale (6 = once a day, 5 = once a week, 4 = once a month, 3 = few times a year, 2 = once a year and 1 = never). Colleagues are the most frequently used source of information, followed by customers, private files, newspapers/magazines and radio/television. This implies that the respondents relied more heavily on the use of informal sources of information than on formal sources. On the perceived accessibility of the source, a 5-point Likert scale was used to measure the time and effort needed to approach, locate and easily retrieve needed information from the source. Private files, colleagues and newspapers/magazines are perceived to be the most accessible sources of information. However, the least accessible sources are company directories, electronic company directories and electronic information services. Similarly, perceived quality of the source is operationalised as the perceived relevance and reliability of the information provided by the source using a 5-point Likert scale. Customers, books/journals and private files are perceived to provide information of the greatest relevance and reliability to the bank managers in Nigeria. Government officials and radio/television are perceived to provide information of low

quality. This means that information they provide is judged to be less relevant and reliable. Moreover, a multiple coefficient, which measures the degree of relationship between frequency of use, perceived source accessibility and perceived source quality, was computed using equation 1 below

$$R_{1,23} = \sqrt{r_{12}^2 + r_{13}^2 - 2r_{12}r_{13}r_{23}/1-r_{23}^2} \dots (1)$$

where:

$r_{12}$  = 0.76 the simple correlation coefficient between the frequency of use and perceived source accessibility.

$r_{13}$  = 0.84 the simple correlation coefficient between the frequency of use and perceived source quality.

$r_{23}$  = 0.76 the simple correlation coefficient between the perceived source accessibility and perceived source quality.

$$R_{1,23} = 0.74.$$

The correlation coefficients computed were tested for and found to be statistically significant ( $P < 0.001$ ) using equation 2:

$$t = r_{ij} \sqrt{n-2} / \sqrt{1-r_{ij}^2} \dots (2).$$

where

$n$  = 15 the sample size i.e. the number of information sources used for scanning. Therefore, there is a significant relationship between the frequency of use, perceived source accessibility and perceived source quality. In a nutshell, the perceived source accessibility and the perceived source quality influence the use of information source for environmental scanning of the bank managers in Nigeria.

Table 4: Rank order distribution of purposes of environmental scanning of respondents.

N = 450

Purpose	Frequency	%
Investment analysis	440	97.8
For improved services	425	94.4
Market research/strategy	380	84.4
Conflict resolution	300	66.7
Resource allocation	225	50.0
Human resource management	215	47.8
Policy formulation	180	40.0
Recreation	110	24.4

Table 4 shows the rank order distribution of the purposes for environmental scanning of respondents. Investment analysis for improved services, market research/business strategy and conflict resolution are the purposes for which respondents scanned the environment for competitive advantage in the banking industry. The low percentage prevalence of human resource management and policy formulation of the respondents could be attributed to a wrong notion they had that these activities are meant for the board of directors. The work of managers in the banking industry starts with scanning the environment for relevant and reliable information for planning, decision-making and control.

Their success depends on how well they are able to scan the business environment for solving managerial problems arising from their job performance.

### Conclusion and recommendations

The nucleus of information handling tasks of managers in the banking industry is to collect, process, analyse and interpret the information taken from the business environment in achieving their banks' goal of profit maximisation. Thus, the information from scanning could be used to chart the bank's future course of action. Also, it may be used to make decisions that could have long-term effects on the business operations of the banks. The information sources mostly used for environmental scanning by the respondents are colleagues, customers and private files. It was found that the customers and competition sectors are perceived to be the most strategically uncertain. Also, both perceived source accessibility and quality have great influence on the use of information by the respondents.

It is therefore recommended that when scanning the environment, information sources of high quality (relevance and reliability) must be the mode used for strategic planning by the respondents. The objective of environmental scanning should be based on having competitive advantage over the competing banks in the banking industry for profit making. Electronic information services should be used in environmental scanning.

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