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Potential challenges of employing a formal environmental scanning approach in hospitality organizations

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Abstract

Most previous studies on environmental scanning (ES) in the field of hospitality management suggest that hospitality organizations establish formal systematic ES procedures and have a freestanding ES unit to identify opportunities and threats in their external environment. However, some serious criticisms have been raised in the field of strategic management against the employment of such a formal and systematic approach to ES. These opposing views have rarely been discussed in the hospitality management literature. The aim of this paper, therefore, is to bring these views to the fore in the process of reviewing previous research into ES, and to discuss the major challenges involved for hospitality organizations in employing such a formal approach to ES. The discussion throughout this paper reveals that ES is essential for every organization; however, it is even more complex and difficult to accomplish than portrayed in most previous studies in the hospitality management field. The paper identifies and discusses major challenges and problems in employing a formal ES approach in hospitality organizations. It also provides recommendations about how ES activities can best be carried out in complex and dynamic environments.

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Keywords: Strategic management; Strategy; Environmental scanning; Analysis; Schools of thought; Planning; Hospitality; Hotel management

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1. Introduction

Environmental scanning is defined as the employment of systematic methods by an organization to monitor and forecast those external forces and developments that are not under the direct control of the organization or its industry (Bates, 1985; Jain, 1984). It is also seen as consisting of the systematic procedures of searching, gathering and analyzing relevant information about changes, developments and relationships in an organization’s external environment (Jennings and Jones, 1999). Zhao and Merna (1992, p. 7) refer to ES as ‘a systematic process to collect information, interpret trends and events, and provide feasible courses of action’. Overall, ES can be defined as an approach to gathering relevant information from the external environment and turning it into knowledge that can be widely used in managing hospitality organizations. Some studies, giving almost similar definitions, refer to ES as environmental analysis or issues analysis (Ansoff, 1980; Diffenbach, 1983; Engledow and Lenz, 1985; Murphy, 1989). However, environmental scanning seems to be the most widely used term.

Starting from the late 1960s, a substantial number of studies have been carried out in this area, and the literature on ES is still growing fast. However, previous studies into ES in the field of strategic management can be divided into two groups. The first sees ES as an important managerial activity and discusses its importance to organizations. These studies provide systematic guidelines and models to explain how ES can best be undertaken (see Aguilar, 1967; Ansoff, 1980; Bates, 1985; Diffenbach, 1983; Fahey and King, 1977; Hambrick, 1982; Jain, 1984; Miller and Friesen, 1983; Nanus, 1982; Stubbart, 1982; Thomas, 1980; Weihrich, 1982). The second group of studies raises criticisms of the applicability of the propositions raised in the first group. Included in the second group are studies carried out by Brownlie (1994), Engledow and Lenz (1985), Lenz and Engledow (1986a,b), Mintzberg (1994) and Stubbart (1982). Stubbart (1982), for example, stated that ‘Environmental scanning is one of those many ideas which look good on paper, but prove intractable in implementation.’ (p. 144). These conflicting views on ES result from the fact that scholars of strategy come from different schools of thought. As discussed by Quinn (1980), Mintzberg (1994), Mintzberg et al. (1998), Okumus and Roper (1999), Pettigrew and Whipp (1991), Stacey (2000) and Whittington (1993) there are different approaches to strategic management such as the traditional planning, emergent, contingency, configurational, and complexity approaches, each of which has differing assumptions and propositions regarding ES, strategy formulation and implementation. Those studies advocating the introduction of formal ES procedures belong to the traditional planning approach; whereas other studies, critical of formal ES methods, fall under recent strategic management approaches, including the emergent, configurational and complexity approaches.

ES has also received much attention in the field of hospitality management in the last two decades (Olsen and Roper, 1998). In terms of volume, ES appears to be the most written-about area in the field of strategic hospitality management (Okumus, 2002). However, these studies mainly make suggestions on formal ES procedures and
rarely include any criticisms about the applicability of these practices in complex and dynamic situations. Given this, this paper aims to review the literature on ES and discuss potential challenges in employing a formal ES approach in hospitality organizations. It begins by reviewing the previous studies on ES, and then analyzes the assumptions and propositions found in the previous studies into ES. The paper ends with several conclusions and provides a number of suggestions for practice and further research.

2. Environmental scanning in hospitality organizations

The major studies on ES in the field of hospitality management field are listed in Table 1; however, some previous work may have been unintentionally omitted. In previous studies, the external environment is seen as being comprised of the relevant physical and social factors outside the boundary of an organization. It is grouped into the two broad categories of ‘general environment’ and ‘task environment’ (Costa and Teare, 1996; Costa et al., 1997; Olsen et al., 1998; West and Olsen, 1989). The general environment is referred to as the national and global context of political, economic, social, technological, legal and ecological conditions. The task environment is composed of suppliers, competitors, customers, regulators and other interest groups. ES is seen as an essential managerial tool and it is suggested that, through employing systematic scanning procedures, hospitality firms can identify opportunities and threats and then develop successful plans (Costa et al., 1997; Olsen et al., 1992; Zhao and Merna, 1992). It is further claimed that better and systemic ES could lead to improved economic performance. For example, in their empirical work West and Olsen (1988) found a high correlation between firm scanning behavior and performance in the food industry in the US. Several researchers have also found a positive relationship between environmental scanning, strategy and performance (Dev and Olsen, 1989; West, 1990).

With reference to the time scale of the scanning activities, it has been stated that scanning can be irregular, periodic and continuous (Fahey and King, 1977; Fahey et al., 1981). Irregular systems respond to a current crisis and their focus is on the solving of immediate problems. Periodic systems are more sophisticated and focus on longer-term problem solving. Finally, continuous systems focus on identifying opportunities rather than on problem solving. Organizations with such systems have a long-term horizon and allocate resources to activities in pursuit of these long-term goals. A formal continuous system of ES is recommended for hospitality firms (Costa and Teare, 1996; Olsen et al., 1994; West and Olsen, 1989). Regarding the scope of the scanning activities, two approaches are identified: the outside-in approach and the inside-out approach (Fahey and Narayanan, 1986). The first views the environment from a broad perspective. In this approach, all the existing elements in the outside environment are scanned and the longer-term trends, the development of alternative views and their implications are considered. The inside-out approach, on the other hand, takes a narrow view of the environment and concentrates upon
Table 1
Previous studies in environmental scanning in the field of hospitality management

| Authors                  | Type         | Issues covered                                                                                                                                                                                                 |
|--------------------------|--------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Olsen (1980)             | Conceptual   | The concept of environment and ES is introduced into the hospitality management literature. The study defines ES and discusses its importance to the food service and lodging manager. |
| Olsen and DeNoble (1981) | Conceptual   | Focuses on the relationships among environment, lifecycle and technology. The study also discusses the impact of the environment on strategic planning in hospitality organizations. |
| Reichel and Preble (1984)| Conceptual   | Argues that constant changes in the environment force companies to carry out ES activities if they are to survive and prosper. Recommends both informal and formal ES activities. |
| Slattery and Olsen (1984)| Conceptual   | Summarizes key external issues to be considered by hospitality organizations and recommends ES as essential to hospitality organizations.                                                                          |
| DeNoble and Olsen (1986) | Empirical    | Provides empirical evidence about the volatility of the food service environment in the US.                                                                                                                     |
| Pinto and Olsen (1987)   | Empirical    | Investigates the information needs of finance executives in the hospitality industry in the US. Data were collected from 46 finance executives using a questionnaire. It was found that finance executives use daily newspapers and trade journals to collect information about the external environment. |
| Nanus and Lundberg (1988)| Conceptual   | Proposes that the Quick ES Technique system be used in strategic planning in hospitality organizations.                                                                                                         |
| West (1988)              | Empirical    | A Ph.D. project that investigated how strategy development and ES activities effect the performance of firms in the food service industry in the US. Data was collected from 65 firms in the food service industry in US (See West and Olsen (1998), West (1990) and West and Anthony (1990). |
| West and Olsen (1988)    | Empirical    | Investigates the relationship between the intended strategies and ES activities of firms in the food service industry in the US and their impact on performance. Data was collected from 65 firms in the US food industry, and findings indicate a positive correlation between scanning behavior and financial performance. |
| Dev and Olsen (1989)     | Empirical    | Investigates the relationship between environmental uncertainty, business strategy and the financial performance of firms in the US lodging industry. The findings indicate that a ‘match’ between the environment facing an organization and its business strategy is essential for high performance. |
| West and Olsen (1989)    | Conceptual   | Discusses the evaluation of ES and the concept of industry structure in the general business environment and, in particular, their present state of utilization of in the US restaurant industry. Proposes a formal ES model. |
| West (1990)              | Empirical    | Reports the results of a survey of 65 foodservice firms in the US, which questioned CEOs about their firm’s strategy, environmental scanning, and performance in the US.                                                |
| West and Anthony (1990)  | Empirical    | Discusses strategic group membership and environmental scanning in the US food service industry. Data was collected from 65 hospitality firms. This study found significant performance differences not
| Author(s)                | Year   | Type   | Summary                                                                                                                                 |
|-------------------------|--------|--------|-----------------------------------------------------------------------------------------------------------------------------------------|
| Brotherton and Leslie   | 1991   | Conceptual | ES is defined, its importance is discussed and an ES framework is proposed for hospitality organizations.                               |
| Zhao and Merna          | 1992   | Conceptual | Provides a good review of the ES literature in both strategic management and international management fields. Defines ES and recommends that a formal ES unit be set up in international hospitality firms. |
| Kim and Olsen           | 1993   | Empirical | The Delphi research methodology was used to collect data from 21 respondents in Asia: Hong Kong, Korea, Malaysia and Singapore. A framework was developed for the identification of political issues faced by multinational hotel chains in newly industrialized countries in Asia. Fifty-eight key events in the political environment were identified. |
| Brownell                | 1994   | Conceptual | Discusses the concept of a listening environment within hospitality organizations from a cultural perspective.                      |
| Costa and Teare         | 1994   | Conceptual | Reports on a study of how hotel firms in Portugal can use ES to help with strategic planning. Relates ES literature with the business environment and especially with the changing needs of Portuguese hoteliers. |
| Olsen et al.            | 1994   | Empirical | Reports on a survey of 52 CEOs of multinational hotel chains assessing ES practices in these hotel firms, and investigates how CEOs of these hotels view the uncertainty of the global business environment. Provides a good discussion about the importance of ES for multinational hotel firms and proposes a framework for ES. The study found a marked short-term focus among the CEOs. Found the overall business environment to be relatively stable, with the exception of the financial markets and the actions of competitors. |
| Costa                   | 1995   | Conceptual | Reviews the concept of ES and discusses its importance for organizations. It is claimed that ES can help companies to position themselves in their business environment and also identify trends and events that can affect strategy directly or indirectly. |
| Go and Vincent          | 1995   | Empirical | Discusses how ES might be harnessed to support the process of hotel development in the Asia-Pacific region. Uses Holiday Inn Worldwide as a case study and provides suggestions for each Asia-Pacific country. |
| Olsen et al.            | 1995   | Empirical | Reports on the results of a survey assessing the ES activities of 43 CEOs of multinational hotel firms. Provides a list of key opportunities and threats as perceived by the CEOs of multinational hotel firms. |
| Costa and Teare         | 1996   | Conceptual | Defines ES and proposes a model for it. Claims that ES activities are essential to creating and maintaining a competitive advantage. Further suggests that an ES inside-out approach should be chosen and that a specific department should carry out ES practices. |
| Costa et al.            | 1997   | Conceptual | Previous research into ES is reviewed. ES is seen as a crucial activity for hospitality companies to survive and make successful strategies. There are important similarities between this study and Costa’s previous works. |
| Olsen et al.            | 1992;1998 | Conceptual | Defines ES, discusses the importance of ES and provides guidelines for the carrying out of ES activities in hospitality firms. There are important similarities between this study and Olsen’s previous works. |
Wu et al. (1998) Empirical Unit-level perspectives on ES and the business expansion strategies of transnational hotel companies operating in China and Eastern Europe are presented and analyzed. Data was collected from 24 hotel managers of transnational hotel firms in China and Eastern Europe. The study concludes that managers at the unit level in transnational hotel firms need to be more conscious about environmental issues.

Olsen (1999) Conceptual Explains the major environmental challenges for hospitality managers, which include: globalization and economic change, a knowledge-based environment, the future of labor and quality in service delivery systems, and the growing consumer desire for improved well-being.

Simons and Namasivayam (1999) Empirical Reports on the perceptions of threats and opportunities of 96 US-based hotel company CEOs. Two main perceived threats are overbuilding and economic downturn, but no such convergence was found for opportunities. States that threats may be universal, whereas opportunities can be unique for each company.

Costa and Teare (2000) Empirical Investigates the ES activities of 49 hotel units from 11 hotel chains operating in Portugal. Compares the attitudes towards ES of companies whose strategy was formalized through a formal written strategic plan (intenders) with those whose strategy was informally developed (realizers). The study provided several propositions related to decision-making and the ES process in hotel firms.

Kay 2001 Empirical Reports on a survey of journals and periodicals read by managers in the hospitality industry. The data was collected from 61 hotels in the US and a total of 139 surveys were used for analysis. The study found that hospitality managers tend to use hospitality-industry periodicals over academic research journals such as Hotel & Motel Management, Lodging Hospitality, Cornell Hotel and Restaurant Administration Quarterly and Harvard Business Review were found to be the two academic journals followed by hospitality managers.

Jogaratnam and Law (2003) Empirical Reports on a survey of the ES activities of hotel and tourism executives in Hong Kong. According to the research findings, customers, WWW and business associates are the main and frequently used sources of information for hotel and tourism executives in Hong Kong.

Table 1 (continued)

| Authors                     | Type          | Issues covered                                                                                                                                 |
|-----------------------------|---------------|-----------------------------------------------------------------------------------------------------------------------------------------------|
| Wu et al. (1998)            | Empirical     | Unit-level perspectives on ES and the business expansion strategies of transnational hotel companies operating in China and Eastern Europe. |
| Olsen (1999)                | Conceptual    | Explains the major environmental challenges for hospitality managers.                                                                           |
| Simons and Namasivayam (1999)| Empirical    | Reports on the perceptions of threats and opportunities of 96 US-based hotel company CEOs.                                                       |
| Costa and Teare (2000)      | Empirical     | Investigates the ES activities of 49 hotel units from 11 hotel chains operating in Portugal.                                                   |
| Kay 2001                    | Empirical     | Reports on a survey of journals and periodicals read by managers in the hospitality industry.                                                |
| Jogaratnam and Law (2003)   | Empirical     | Reports on a survey of the ES activities of hotel and tourism executives in Hong Kong.                                                           |
only some elements in the outside environment. Concerning which approach hospitality organizations should adopt, Costa and Teare (1996) recommend that

[T]o develop and implement an environmental scanning process that is relevant to the organization and has the potential to be successful, it has to be based on an inside-out perspective by selecting the areas of information need and the adequate sources to use. (p. 19)

Previous studies stress the importance of the role and support of senior executives in carrying out ES activities. In addition, applying the propositions of previous studies on ES in strategic management, Costa et al. (1997), Costa and Teare (1996), Olsen et al. (1992, 1998), West and Olsen (1989) and Zhao and Merna (1992) suggest that companies should have an ES committee/unit responsible for scanning activities made up of people possessing relevant skills and experience. In the above studies, three separate roles for ES units are identified. The first is policy-oriented, where an ES unit is ranked at the corporate level and given direct access to top management. The unit scans the relevant environment and informs the executives of major emerging trends and issues. The second role integrates environmental scanning and strategic planning. The ES unit can be either at corporate or divisional level, reporting to or operating as part of the planning department. Its purpose is both to motivate managers at the corporate and business levels and integrate issues in the planning process. The third role is a function-oriented one, in which the ES unit is part of a function at the corporate or business level aiming to improve future performance. Hospitality researchers appear to advocate the policy-oriented role for ES units and further suggest that scanning activities should be linked to long-term planning practices.

Adapting previous studies (e.g., Ansoff, 1980; Jain, 1984) in strategic management, Costa et al., (1997), Olsen et al. (1992) and West and Olsen (1989) propose ES models that consist of several linear steps. They suggest that there should be clear rules and guidelines by which ES units identify events, trends and changes. A strict schedule for the review and analysis of the collected information is also recommended. Finally, several key factors are identified in the successful adoption of a formal ES unit in hospitality firms (Costa et al., 1997; Olsen et al., 1992; Zhao and Merna, 1992). First, the top management of the hospitality firms should be committed to the activities of the unit. Second, the company should have an adaptive culture to welcome an ES unit, and have formal scanning practices. Third, ES should be linked to long-term planning if it is to be beneficial for the hospitality organization.

The previous studies into ES in the field of hospitality management have been reviewed above. It appears that majority of these studies are conceptual, particularly the early ones. They have been undertaken by scholars mainly from the US and report conceptual and empirical evidence mostly from the US, Europe and Asia. There are much repetition and many similarities among these studies, particularly in conceptual studies written by the same authors. Without exception, all of these studies take a prescriptive approach and suggest that a formal ES approach be adopted in hospitality organizations. The following section will discuss and evaluate
why some of the proposals raised in these previous studies may not be relevant and practical in hospitality organizations.

3. The challenges of employing a formal environmental scanning approach in hospitality organizations

A number of deterrents to employing a formal ES approach in hospitality organizations are listed in Table 2. Each of them is discussed below.

3.1. Difficulty of defining the external environment

There are various definitions and models of the external environment, such as the industry structure model, the cognitive model, and the ecological and resource dependence model. Each of them has a different understanding and interpretation of the environment and how it should be viewed and scanned (Lenz and Engledow, 1986b). For example, according to the cognitive model, it is not the physical environment, but rather the enacted environment that exists in the collective ‘cause maps’ (perceptions) of hospitality managers. This makes it difficult for hospitality managers to draw a coherent concept of the external environment since each manager will have a different understanding of the company’s external environment. Moreover, the literature on ES fails to provide sufficient guidelines for practitioners to analyze the external environment since, as stated by Lenz and Engledow (1986a), it is not always simple and easy for managers or ES units to isolate political, economical, social and technological factors. In addition, the ES literature is not very clear about how the general environment (political, economic, socio-cultural and technological conditions) can be linked or separated from the task environment (suppliers, competitors, customers, regulators and other interest groups). These areas are often interrelated and overlap with each other; a change in one area can easily have a dramatic impact on other areas, subsequently, on a hospitality firm. For example, a political problem in one region may have negative consequences for a

|   | Deterrents to employing a formal ES approach in hospitality organizations |
|---|--------------------------------------------------------------------------|
| 1 | Difficulty of defining the external environment                          |
| 2 | Difficulty of predicting the future                                      |
| 3 | Difficulty of collecting reliable data and accurately interpreting it    |
| 4 | Difficulty of defining something as an opportunity or a threat           |
| 5 | Do opportunities and threats emerge or are they identified?              |
| 6 | Problems with utilizing a formal and inside-out ES approach              |
| 7 | Are ES activities for short-term problems or long-term planning?         |
| 8 | Environmental scanning and economic performance                          |
| 9 | Difficulty of creating harmony between ES activities and the company’s culture |
| 10| Survival and acceptance of ES units                                     |
country’s economy; this, in turn, may lead to marked changes in socio-cultural behavior, particularly in the travel behavior of people. The difficulty is here to decide whether this change is a political, economic or socio-cultural issue related to the general environment, or a customer issue related to the task environment.

There are also difficulties in clearly indicating the actual borders between a hospitality organization and its environment. For example, many hotels accommodate customers who either visit them very frequently or essentially use the hotels as long-term homes or offices. Customers may also buy a hotel company’s shares in the stock market. One may find it difficult to decide whether these customers are internal or external to the hotel. Many hospitality organizations outsource some of their services, including laundry, restaurants, IT, security and staff dining. However, even if these services are outsourced, the contracting companies may operate within the hospitality organization. They may have direct contact with the hotel’s employees and customers and, moreover, have an impact on the quality of the services offered by the hotel. Again, the question is whether these contracting firms should be seen as external or internal to the hotel company.

3.2. Difficulty of predicting the future

There has been much discussion about whether the future can accurately be predicted. The external environment has become less predictable due to wars, acts of terrorism, increased competition, rapid changes in customer attitudes, technological developments and radical changes in economies. Although these changes may mean that there is an increased need for environmental scanning, because of their complexity and low predictability, it is impossible to gain a comprehensive and reliable understanding of the external environment (Jennings and Jones, 1999). For instance, there are many examples of crises that were not predicted by experts, which then greatly affected the tourism and hospitality industries. Such examples include Iraq’s invasion of Kuwait in 1990, beginning of the Asian financial crisis in 1997, the September 11th terrorist attacks on America in 2001, the Bali bombing in 2002 and the recent outbreak of Severe Acute Respiratory Syndrome (SARS) in March 2003. From the point of view of hospitality companies, a good example is the Forte hotel group’s failure to predict the takeover bid from Granada. For example, Rocco Forte and Teare (1991) explained Forte’s overall strategy and long-term strategic plans with confidence, but his company was taken over by Granada in 1996. Reporting this takeover case, Teare et al. (1997, p. 9) revealed that ‘At no time before 22 November 1995 did Forte think that it was about to be involved in a takeover bid.’

In a recent hospitality journal article, Watkins (2003) predicted that in 2003 there would be a mild economic rebound, no additional large-scale accounting irregularities or corporate governance abuses, no major terrorist attacks against the US, and no US war with Iraq. Based on these assumptions, he further stated that in 2003 occupancies would rise and the hospitality industry would have a better year than 2002. However, within the first couple of months of 2003, some of the above assumptions had already lost their validity with the terrorist attack on US citizens in
Saudi Arabia in early 2003, the outbreak of a war with Iraq in March 2003, negative signals from the US economy and the outbreak of SARS in Hong Kong and China in March 2003. Diffenbach (1983) and Edgar and Nisbet (1996) note that the output of environmental scanning and strategic planning is either inaccurate or uncertain because managers often carry out ES with wrong assumptions, make false predictions and fail to properly characterize uncertainties in the external environment in understandable and meaningful terms. In short, supporting the complexity strategic management view, Edgar and Nisbet (1996) suggest that given the complex and dynamic nature of the external environment, hospitality organizations should not try to predict their environment but instead change their management approach, and develop competencies to quickly adapt their operations and services to the changing environment.

3.3. Difficulty of collecting reliable data and accurately interpreting it

Collecting relevant and necessary information can lead to major challenges for hospitality managers because of problems involving the confidentiality and reliability of the desired information. Moreover, as Stubbart (1982) observed, even if managers have access to all sources of information, it is not often easy to decide what information is worth collecting and analyzing since information does not come prepackaged into clear opportunities or threats. It is often complex, vague and inaccurate, and requires further interpretation. The ability of hospitality managers to gain comprehensive understanding of information is also limited through the bounded rationality (March and Simon, 1958). In addition, given the vast amount of information available particularly from the Internet and the media, separating the relevant environment from the irrelevant is undoubtedly a challenging task for many hospitality managers. In many cases, there are clashing reports and statistics on the same topic. The following quote from a hospitality journal illustrates the situation: ‘Whether the [hospitality] industry is emerging from recession or still has a long way to go depends on whose statistics you read and analyze’ (Anon, 2002, p. 12). The importance of data can also vary depending upon the backgrounds and experiences of managers. For example, a manager with a marketing background tends to identify issues related to the marketing and ignore issues related to other functional areas.

3.4. Difficulty of defining something as an opportunity or a threat

Being able to determine the impact of an environmental trend on a hospitality business is problematic. As stated by Hill and Westbrook (1997) and Whittington (1993), in most cases there is no clear borderline between an opportunity and a threat. The Chinese appear to embrace this idea well. The symbol of their word for crises (or threat) called ‘weiji’ actually means both ‘danger’ and ‘opportunity.’ One person might regard a case of development and rapid change as a significant opportunity, while another might interpret it as a threat and respond to it in a very different way. In a survey (Olsen et al., 1995) assessing the ES activities of Chief
Executive Officers of multinational hotel firms, the respondents indicated that economic growth, growth in tourism, technological innovations and environmental issues are the main opportunities for multinational hotel firms. One can perhaps argue that some of the opportunities identified in this study may also be seen as threats. For example, technological developments in information technology provide significant opportunities for hospitality firms to reach out to their customers and to set up efficient central reservation systems. On the other hand, because of these technological developments, many business people may no longer need to travel as often as they used to, as they can reach their clients through tele-conferencing, e-mail, etc. Second, hospitality companies need to invest in these newly developed technologies in order to maintain their competitive edge. This may mean more investment in IT, which hospitality firms, especially small ones, cannot always afford.

A further example is that economic and political crises are often referred to as major threats to hospitality organizations. This may be partly true in terms of occupancy rates and revenue figures. However, these crises may provide an opportunity to re-engineer hospitality organizations and to acquire new hotels due to low property prices. Take, for example, the 2001 financial crisis in Turkey, which provided both opportunities and threats to the Turkish hospitality industry (Okumus and Cicek, 2002). The crisis was seen as an opportunity, since the Turkish lira lost over 40% of its value, making Turkey a cheaper tourist destination. As a result, Turkey experienced higher growth in inbound tourism compared to previous years. On the other hand, the financial crisis was seen as a threat, since the domestic travel market diminished in 2001 and operating costs in hospitality organizations rose. Another interesting example is the introduction of a single European currency, the euro. In terms of opportunities, tourists and hospitality organizations no longer have to shoulder commission charges and the expense arising from the discrepancy between buying and selling charges. There is now also greater price transparency, making price comparisons easier. In terms of threats, hospitality organizations needed to adjust their accounting reporting systems and train their staff. Exchange bureaus, travel agents and hotels lost some revenue from their foreign exchange transactions.

It is worth emphasizing that the perception of an issue as a threat or an opportunity may very much depend upon the type, size and ownership structure of the company as well as how its executives interpret and respond to developments in the external environment. On this point, Simons and Namasiyavam (1999) state that issues in the external environment can have different implications on different types of hospitality organizations, or that these strategic issues can be interpreted differently by hospitality companies depending on their market segment, ownership structure and company size. A market trend may affect one group of customers but may have little effect on another group, and competition in one segment may have little impact on other segments. The ownership structure of hospitality companies can also affect the interpretation of external issues, since subsidiary companies, privately held companies and publicly traded companies face different capital environments. Simons and Namasiyavam (1999) further note that a fall in the stock
market might mean a threat for publicly traded company and an opportunity for a privately held company. Supporting these views, Taylor and Enz (2002) provide interesting empirical findings. According to their study, after the terrorist attacks of September 11 2001 in the US, high-priced hotel segments experienced a greater decline in business than hotels at lower price segments in the US. Highway hotels were found to be less affected by the events of September 11. After the terrorist attacks upscale hotels accelerated their renovation schedules. The hotels also took different approaches in trying to increase their business. For example, upscale hotels relied on marketing strategies to attract new customers while lower-priced hotels offered rate discounts.

Factors such as position in the hierarchy, language, and occupational and national culture have been found to have an influence on what issues are noticed and identified (Ireland et al., 1987). For example, Jackson and Dutton (1988) found that using up-beat language improves the average ratings of opportunities, and threatening language increases people’s anxiety over threats. They further note that people are more sensitive about threats than opportunities. Stevenson (1976) found that top managers were concerned mainly with financial issues, and middle and lower managers with technical issues. Concerning the influences of national culture, Schneider and DeMeyer (1991) found that in comparison with managers from other cultures, Latin European managers interpret issues as a threat and prefer to adopt a proactive approach.

3.5. Do opportunities and threats emerge or are they identified?

Previous studies suggest that PEST analysis and Porter’s (1980) industry structure are useful models for identifying opportunities and threats. However, it is argued that neither the PEST analysis nor Porter’s framework is always helpful in the precise identification of opportunities and threats (Hill and Westbrook, 1997; Mintzberg, 1994). Mainly supporting the emergent and the configurational strategic management views, the argument of these scholars of strategy is that the identification of opportunities and threats comes from studying existing practices, problems and gradual or radical changes in the external environment, rather than through a formal analytical process. For example, Honda’s motorbike strategy in the US emerged by chance when some people showed an interest in the small motorbikes that were used by Honda’s employees (Pascale, 1984). In the hospitality industry, there are many examples of companies that failed when entering new markets or introducing new products after undertaking serious formal environmental analyses. For example, Paris Disneyland (also known as Euro Disney) was opened in 1990 after serious analyses, business plans and projections pointed to the conclusion that it would be a great success. However, after its grand opening, major problems relating to the product and its marketing approach emerged. The company encountered serious operational and financial difficulties and eventually had to readjust its product, marketing and human resource management policies in Europe. Paris Disneyland now operates as one of the Europe’s top destinations. More examples can also be given about how McDonalds and Kentucky Fried Chicken
started as small restaurants and eventually become national and global players through responding and overcoming emerging problems relating to their products and marketing approaches, and turning them into opportunities.

3.6. Problems with utilizing a top-down formal and inside-out ES approach

Previous studies in hospitality management recommend a formal, top-down and continuous approach to ES. However, it has been claimed that trying to adopt such a formal ES approach is not always helpful and practical, since the formalization of management activities often hinders and even kills creativity in organizations, particularly at the lower levels (Mintzberg, 1994; Stacey, 2000). Forming an ES unit and establishing standard ES activities in a hospitality organization mean that only this scanning unit will be responsible for these activities. As found by Engledow and Lenz (1985) and Stubbart (1982) doing this can create the impression that the suggestions and activities of other managers, particularly managers at lower levels, will no longer be needed or considered. In other words, formal ES activities carried out at the head office level may stop or discourage irregular and informal ES from being carried out at regional and operational levels. In addition, if ES activities are carried out by an ES unit at the head office level through formal and standardized methods, the unit may not be able to provide accurate and important information for the whole organization. For example, Calori et al. (2000) explained how Novotel’s quality control system, which was also responsible for ES activities for the company, provided wrong signals about the organization’s health; moreover, it inhibited local and individual initiatives. In order to rejuvenate Novotel, the company abolished the top-down quality control system and encouraged decentralized, bottom-up and informal ES activities that proved to be very beneficial for the company.

In terms of employing a top-down formal and inside-out ES approach in hospitality organizations, it is worth noting that many hospitality organizations are small establishments such as B&B, restaurants, bars and cafes, which are run as family businesses. The owners or managers of these establishments often do not have formal qualifications and experience in management; moreover, these small companies have limited financial resources and staff. Therefore, they do not (or cannot) usually employ formal and sophisticated management practices, including formal ES techniques. It has also been reported that even in larger hospitality organizations hotel managers prefer verbal communication and analysis (Wood, 1994; Mullins, 2001). Concerning utilizing the inside-out or the outside-in ES approach in hospitality organizations, the latter certainly takes into account a broader environment and therefore requires more time, resources and people. By contrast, the inside-out approach takes a narrow view, concentrates upon only some elements in the environment and therefore requires less time, resources and people. However, this approach may not be appropriate for hospitality organizations in a rapidly changing and complex environment since looking at only certain areas and factors in the external environment and ignoring the rest can be detrimental if hospitality organizations identify opportunities and threats and based on these develop and implement strategies.
3.7. ES activities for problem solving or long-term planning

Previous studies suggest that ES should be undertaken for long-term planning rather than for dealing with tactical issues. The problem with this is that, as stated above, the hospitality industry often faces unexpected crises, which force hospitality managers (and ES units if there are any) to drop everything and devote their time and resources to tackling these new problems, rather than spending them on devising long-term plans. Therefore, ES activities cannot be just for long-term planning, but should be linked to current operations and problems. Concerning this, Engledow and Lenz (1985) stated that ES

must engage the attention of current decision-makers and enter into current decisions. This requires careful blending of: line and staff participation, outside-in and inside-out perspectives; and present vs. prospective future strategies. This blending, in turn, requires an expert, politically savvy staff with strong top-level backing. (p. 102)

Previous studies in the hospitality industry have not provided empirical evidence on whether ES activities are used for problem solving or long-term planning in hospitality firms. However, a number of studies in strategic management have found that a very high majority of the firms they studied did not use ES results in their long-term planning activities, claiming that data gained from ES were not very helpful (Brownlie, 1994; Fahey et al., 1981; Lenz and Engledow, 1986a). For example, as noted earlier, the data and signals provided by the Novotel’s ES system was not relevant and reliable and therefore in the process of undergoing a strategic organizational change the company decentralized ES activities, encouraged local initiatives and particularly focused on short-term problem-solving activities and this proved to be key in the company’s strategic change process (Calori et al., 2000). There is another issue worth mentioning here related to the carrying out of ES activities solely for long-term strategic planning. It has repeatedly been reported in the generic strategic management field (Mintzberg, 1994; Lorange, 1998; Pettigrew and Whipp, 1991; Whittington, 1993) that many organizations abandoned their strategic planning units and activities. Again, there is still limited knowledge in the hospitality literature on how far strategic planning is being undertaken by hospitality organizations. Considering the limited use of sophisticated management methods in hospitality organizations, one may question how ES activities can be linked to non-existent planning practices in hospitality organizations.

3.8. Environmental scanning and economic performance

It has been suggested that ES will lead to improved economic performance in hospitality firms (Costa and Teare, 1996; Olsen et al., 1992; West and Olsen, 1988). For example, Costa and Teare (1996, p. 12) argued that ‘a firm which examines its environment accurately tends to achieve a higher than average level of economic performance.’ However, one should bear in mind that ES is not the only factor influencing the economic performance of organizations. For hospitality
organizations, there are many other factors that will perhaps lead to improved economic performance than ES. Regarding this, Stubbart (1982) claims that:

any casual link between environmental scanning and organization performance must be long and tenuous one. Effective scanning of the business environment will achieve positive effects only if, (1) proper actions are taken, (2) proper evaluations are made and (3) a long time passes and timely actions yield good results. (p. 143)

These issues are not covered in-depth in the hospitality management literature, and there are not many longitudinal empirical studies showing a strong correlation between formal ES activities and economic performance. Studies in the hospitality management field on the factors leading to success and better economic performance are also limited. In their Harvard Business Journal article, Kim and Mauborgne (1997) provide a good explanation about what may perhaps lead to success and economic performance in hospitality organizations. They explain how Accor’s Formula 1 hotel chain achieved success and better economic performance by implementing a different approach to hotel management. Rather than following the conventional management approach suggested by the traditional planning view in the strategy field, Accor questioned the fundamental assumptions of managing hotels, introduced new concepts and achieved value innovation. The result was a greater market share, higher customer satisfaction and superior economic performance than their competitors.

3.9. Difficulty of creating harmony between ES activities and the company’s culture

One of the requirements of employing ES is that there should be coherence between the organization’s culture and the proposed ES approach. The emerging question here is whether harmony can be achieved between formal ES practices and the culture of a hospitality organization. Considering the different types and sizes of business in the hospitality sector, it may be difficult to come to any kind of conclusion. However, the following observations can be made. Although there are some large multinational firms in the hospitality industry, as stated earlier small and owner-managed firms dominate, and these firms are often lacking in professional management skills, experience and resources. Behind their formal organizational structure, most hospitality firms have an informal and organic structure, characterized by a reliance on informal verbal and lateral communication (Wood, 1994, 1997). In addition, the hospitality industry employs large numbers of individualistic people who prefer to employ a ‘hands on’ management style and who enjoy having close contact with clients and employees rather than following methods of structured formal analysis. Tourism and hospitality organizations have long relied on the entrepreneurial traits of initiative and intuition. Methodological management and decision-making approaches are not often applied in hospitality organizations (Reichel and Preble, 1984). The above characteristics of the industry provide very little support for the applicability of rational and formal ES activities in hospitality organizations. Some previous studies provided findings supporting this claim. For example, West and Olsen (1989) stated that ‘most executives utilize a
rather informal approach to the environmental scanning process. They also heavily rely upon other members of management or other executives for their information’ (p. 290). Costa and Teare (1996) stated that ‘environmental scanning is not in widespread use among hospitality organizations’ (p. 15), while Olsen et al. (1998) noted that hospitality managers are not very much committed to formal and continuous types of ES activities. In a recent study by Jogaratnam and Law (2003), hospitality managers in Hong Kong were found to rely on customers, WWW and business associates for ES activities.

3.10. Survival and acceptance of ES units

It is stated that ES should be a separate function from ‘strategic planning,’ and that hospitality firms should therefore form freestanding ES units at their head offices reporting directly to CEOs (Costa and Teare, 1996; West and Olsen, 1989; Zhao and Merna, 1992). However, empirical studies in the field of strategic management reveal that freestanding ES units face serious difficulties and do not survive (Engledow and Lenz, 1985). A number of reasons can be given why ES units cannot survive in hospitality organizations. First, as stated above, the majority of businesses in the hospitality industry are small establishments, which have limited resources and knowledge for establishing ES units or for recruiting someone especially for the task of ES. Second, the majority of hospitality organizations do not have an organizational culture that allows for the employment of professional management approaches, including formal ES activities. Third, due to organizational politics and differing perceptions at various management levels, other departments and lower management levels may not always believe in the importance of ES units and their activities (Engledow and Lenz, 1985). A further reason is that ES units do not always provide any visible output such as profits and, therefore, are seen as cost centers in the long term. For example, Stubbart (1982) found that when there are performance problems or changes in top management and ownership, companies often introduce radical structural changes and cut costs initiatives and under these circumstances ES units are seen as vulnerable targets. Such examples can also be seen in the hospitality industry. For example, it is well known that for the last ten years a large majority of hotel groups have acquired other hotel chains or have been acquired by other companies. As in the case of Forte it has been the general practice of takeover companies to replace top management teams and make structural changes to cut costs and run hotels more efficiently than before. A final reason for why ES units cannot survive is that many hospitality organizations can use external consultants or buy essential information from organizations offering a variety of external reports, forecasts, and other services, rather than produce this information within their own organizations.

4. Conclusions and further implications

This paper has reviewed the literature on ES in the field of strategic hospitality management and discussed the potential challenges and problems of employing a
formal ES approach in hospitality organizations. A number of conclusions emerge from the above discussion. First, previous studies in hospitality management apply ES concepts and frameworks to the hospitality management field from the normative traditional planning approach in the strategic management field without seriously questioning whether they would be relevant and practical in hospitality firms. As discussed above, hospitality organizations would face major challenges and deterrents when following such a formal approach to ES. Second, this paper does not suggest that ES in hospitality organizations is unnecessary or unimportant. In fact, it argues that ES is crucial for every hospitality organization, but that the ES function is more complex and difficult to accomplish than most previous studies in our field might lead a reader to believe. Third, it is suggested in this paper that hospitality organizations should not form ES units (or recruit some especially for this task) and undertake formal ES activities before critically evaluating the potential cultural and political problems and implications. The argument here is that effective ES depends on the interpretation and experience of managers and employees from all levels in hospitality organizations. Rather than having several people solely responsible for ES and strategic planning, everybody in a hospitality organization should be responsible for ES and try to continuously identify and evaluate the patterns emerging within and outside the company. They should not only consider the implications of these developments for a specific part of the company but also for other functional areas and for the customers, competitors, suppliers and the public organizations. However, this requires that hospitality organizations establish a network organizational structure and train their managers at all management levels about advance strategic management schools of thought, particularly the emergent, configurational and complexity views.

Finally, more research is certainly needed into ES in the tourism and hospitality management field. This is because, despite the substantial number of previous research studies, there is still a limited empirical evidence on how many leading hospitality organizations have free-standing ES units, how these organizations carry out their ES activities, and their implications on the development of strategy and financial performance. In addition, more research is also needed to investigate how all levels of hospitality organizations can best engage in ES activities. Future studies can also provide empirical evidence about potential challenges and difficulties in employing formal ES procedures in hospitality organizations. Previous empirical studies into ES in the hospitality management field have generally collected data via surveys. It is believed that following a longitudinal research strategy and employing hands-on qualitative research methods could lead to a deeper and better understanding of ES issues in hospitality organizations.

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