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Impacts of External Business Environment on Organisational Performance in the Food and Beverage Industry in Nigeria.

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Abstract

This paper examines the impact of external business environment on organisational performance in the food and beverage industry in Nigeria. The minor objective of the paper is to investigate the influence of economic and political environment on organisational performance. A questionnaire was developed to collect information from the respondents based on a sample of 3 companies with 150 sample size. Data collected were analysed using multiple regression analysis. The findings of the analysis shows that the external business environment (political, economic, socio-cultural, technological, e.t.c.) have impact on organisational performance (effectiveness, efficiency, increase in sales, achievement of corporate goals e.t.c.).Thus, organisations should pay more attentions to their environment by doing periodic scanning.

Keywords: External Business Environment, Economic Environment, Political Environment, Organisational Performance, Food and Beverage Industry, Nigeria.

1. Introduction

The modern business manager operates in a more dynamic environment. The change in the environment has been rapid and unpredictable. Economic variables have been complex both in form and impact on the practice of business in Nigeria. Consumers and clients having been showing complex behaviours both in local and international markets. The most dramatic change has been that exhibited by competitive pressures. Competitors have been applying one strategy or the other to adapt to the dynamic and unpredictable nature of the business environment.

The most single significant influence on organisational policy and strategy is the environment outside and inside the organisation (Duncan, 1972 and Grant, 1999). Organisations are institutions deliberately designed to achieve and accomplish certain goals. The activities in these organisations are affected by both the situations within the organisation and also, the situations within the larger society or environment in which the organisations operate. Currently, business environment is perceived to have been rarely exceeded in complexity, turbulence and rapid in change, all Nigerian organisations (large or small) must pay greater attention than ever before to their environments when formulating and implementing policies and strategies in order to survive and grow (Otokiti & Awodun, 2003).

In contemporary Nigerian business environment, performance of Nigerian companies is predicated on factors such as low-sales, high cost of production, low capital utilisation, lack of foreign exchange to source needed inputs, poor power supply, and low quality of goods and services, among others. These issues have led to lack of proper integration and coordination of various corporate subsystems in Nigerian organisations, resulting in the failure to achieve the stated goals and objectives. Enterprises are subsumed in the environment with which they interact by importing inputs and exporting outputs. Thus, the vagaries and the extremities of the environment affect the fortunes of organisations (kennerly & Nelly, 2003).

Considering that performance is crucial objective of an organisation, it is generally accepted that the structure and decision making in an organisation is influenced by environmental complexity and volatility (Miles & Snow, 1978; May et al., 2000). Furthermore, it is argued that the alignment of strategies of organisations with the requirements of their environment outperform organisations that fails to achieve such alignment (Chaganti et al., 1989, Venkatraman & Prescott, 1990; Beal, 2000).

Thus, business organisations had perceived the environment as opportunities and threats presented by such external environment as variables as socio-cultural, legal, political, economic, technology and infrastructural factors. This is not to conclude that other factors found in the micro (internal) and intermediate business environments are not important. It shows how important the scanning of the macro (external) environment is, because this in turn affects the other two environments.

Where the is absence of good understanding of the external business environment, the attendance effect of this on organisational performance cannot be over emphasised. After all, it is the good performance (effectiveness, efficiency and responsiveness) that can guarantee the sustainability of the organisation in relation to its corporate goals and objectives.

It must be noted, that amidst the environmental scanning and considering the fact that the Nigerian business environment is fast changing which deserves the means by which future opportunities and problems can be anticipated by organisation and company executives and administrators needs adequate attention.

2. Review of Literature

In the literatures, there had been divergent views about the concept of environment through contributions of different authors and scholars. Okoh and Munene (1986) posited two views of perceived environment in the literature. The first is inter-organisational view, which considers the environment as a collection of person, groups and other organisations that provides inputs to, or receives outputs from a local organisation. The second consideration is that environment is a set of general, social, economic and technological conditions. Obasan (2001) says environment is the sum total of the physical and social forces and institutions that are relevant to the organisational goal setting and goal attainment which are taken directly into consideration by members of the organisation when making business decisions and plans. According to Osuagwu (2001) environment has been seen as the totality of the factors that affect, influence, or determine the operations or performance of a business. The environment determines what is possible for the organisation to achieve. In summary, environment is the combination of many factors both tangible and non-tangible that provides the lifeblood for the organisations success by providing a market for its products and services and also by serving as a source of resources to others.

2.1. Environmental Factors

According to Milliken (1987), environmental uncertainty arises from the organisation's inability to predict its environment, or in other words, to predict the factors that characterise its environment. These factors are usually classified into two groups (Bourgeois, 1980) i.e. ‘‘general’’ and ‘‘task’’ external business environmental factors.

2.2. Factors of the General External Business Environment

The general environment is a relatively remote environment and the elements that compose it have an indirect influence on the organisation. This environment is typically composed of factors such as social values, educational, political, economic, legal, behavioural, demographic, natural environment, natural resources, and technological (Asheghian & Ebrahimi, 1990; Grant, 1999).

2.3. Factors of the Task Environment

Asheghian & Ebrahimi (1990) and Grant (1999) argued further that the task environment is the closest environment of the organisation and the elements that made it is influencing the organisation directly. This environment is made up of factors such as consumers, competitors, suppliers, labour market, industry and financial resources. Daft et al.(1988) and Auster & Choo (1993) opined that factors in the task environment usually create greater and perceived uncertainty to organisations than factors in the general environment. This is because it is believed that the task environment, which is connected with the short-run, is more volatile than the general environment that is connected with the long-run.

2.4. Types of External Business Environment

Duncan (1972) viewed external business environment as the totality of factors outside an organisation that are taken into consideration by an organisation in its decision making. These factors depend largely on the complexity and dynamism of the environment (Duncan, 1972; Dess & Beard, 1984). Thus, external business environment has been classified as being stable when it does show any changes, unstable when it shows relative changes, and dynamic when it shows changes continuously (Aguilar, 1967).However, perceptions of the organisations about the type of the external business environment to a large extent depends on their size and industry in which it operates.

2.4.1. Economic Environment

Ogundele (2005) says that is vital concern to an organisation. He further said that, the economic environment goes a long way to determine and define the opportunities for an organisation; this is because an expanding economy provides operational scope for the organisational existence as well as for the establishment of new ones. However, a period of recession can bring about failures and probably liquidation of the organisation. It is of paramount importance that the management should be able to distinguish between short-run phenomena and more fundamental changes in its assessment of the overall economy.

2.4.2. Political Environment

The political environment is viewed via the legal framework where the organisation operates and this is done through the laws and regulations that guides the operations of the business in question. The political stability of the environment is also a necessity for effective and efficient operation of the business. The management of the organisation must take cognisance of these constraints, actual and potential, and seek out the implications for the business organisation from legal advisers (Ogundele, 2005).

Hypothesis: economic and political environments have no impact on organisational performance.

2.5. Organisational Performance

Organisational performance (OP) has been taught with many conflicting definitions and it is not a new phenomenon among the academics and the industrialists as well as public institutions. OP has been a source of influence to the actions taking by companies and the degree to which an organisation realises its goals as well as the stated objectives of the organisation through the strategies and policies of the organisation (Folan & Browne, 2005; Etzioni, 1964). The idea of OP is hanged on the position or premise that it is a combination of productive assets made up of human, physical, and capital resources, for the major reason of fulfilling a dream, vision or accomplishing a shared purpose (Barney, 2002; Carton & Hofer, 2006). OP is also viewed as the measure of how a manager utilises the resources of the organisation efficiently and effectively to accomplish the goals of the organisation as well as satisfying all the stakeholders (Jones & George, 2009). In their own contribution, Richard et al. (2009) described OP as the real output measured against the intended or expected output. They viewed OP as a term that is made up of three major areas of firm outcomes and these three areas are:

- Financial Performance that is made up of profits, return on assets (ROA), return on investment (ROI) etc.
- Product Market Performance such as sales, market share, etc.
- Shareholders return such as total shareholder return (TSR), economic value added (EVA).

Selden & Sowa (2004) looked at OP as what is designed to assume that organisations are to accomplish certain goals that are both specified intrinsically and implicitly. Perrow (1961) distinguishes between two kinds of organisational goals, official goals which are the general purposes of the organisation's founders and leaders, while the operative goals designates the end sought through the actual operating policies, the modifications and subversions of these ends by personnel in decision making positions and by the forces of pressure from the external environment. Kast & Rosenzwig (1985) argued that performance is a function of ability, effort and opportunity. Ability is dependent upon knowledge and skills and technological capabilities that provide an indication of range of possible performance. Effort is a function of needs, goal- expectation and rewards and it depends on the degree to which individuals and/or groups are motivated to aspirant effort. Opportunity must be provided by the managers for individual's ability and effort to be used in ways that will result in the achievement of goals. OP can be summarised to be an approach used in assessing the progress made toward goals, identifying and adjusting factors that has limit the progress of the organisation in a competitive environment.

3. Methodology

The survey research method was adopted in this study. A sample of 3 organisations in the Food and Beverage industry were randomly selected from the list of quoted companies in this sector. The sample was obtained by employing the stratified sampling techniques. Each company was divided into strata. The stratification variables are based on homogeneity and relatedness. One hundred and fifty (150) questionnaires were administered to the respondents in these 3 companies. One hundred and twenty-four (124) completed questionnaires were returned back by the respondents which is the actual for this study. Thus, 84% of the questionnaires were returned successfully.

4. Analysis

In analysing the data collected from the respondents, multiple regression analysis was employed. The variables of the study can be expressed in algebraic form. Thus,

OP = F (E, P, T, S ………………………………………U)

Where

OP= organisational performance which include efficiency, effectiveness, increase in sales, achievement of short and long-term goals, and achievement of customer/client satisfaction.

E= economic environment (monetary policies, interest rate, availability of funds)

P= political environment (political terrain in the country, legal framework, authority relationship)

T= technological environment (technological innovation, technological development)

S= socio-cultural environment (values, norms, belief, attitudes, religions)

In order to provide an answer to the research question and hypothesis; that the economic and political environment has no impact on OP.

Hence, from the regression analysis, the regression line is:

$$Y= -85.31 + 4.69x_1 - 3.01x_2$$

This implies that the economic environment and political environment has a positive and significant impact on OP in the food and beverage industry. Thus, the change in the economic environment will have a greater contribution on the OP. The value of rx_1^2 is 0.93 and rx_2^2 is 0.68. This indicates that the economic environment has 93% significant impact on OP while the political environment has 68% impact on OP. The value of R^2 is 1.28. This implies that external business environment has 128% impact on OP i.e. they have combined effect on OP in the food and beverage industry in Nigeria. Thus, the null hypothesis of this study will be rejected. Hence, the economic and political environment has impact on OP.

5. Conclusion

The main aim of this paper was to examine the impact of external business environment on organisational performance in the food and beverage industry in Nigeria. Thus, the findings of the study reflect that external business environment has an impact on organisational performance. Hence, the external business environment of Nigerian organisation impinges upon the operations of a business other than the availability of capital and the ability of the manager or businessman himself. The study also revealed that all things being equal, controlling of the external business environment can be done to some extent. This entails and calls for constant monitoring and conducting environmental scanning always.

However, a company that wants to succeed must develop a clear understanding of the trend of external business environment and forces that shape competition. The understanding will enable an organisation to choose the appropriate strategy or strategies that fit the trend in the external business environment. Also, given the dynamic and rapidly changing environment in which most organisations compete, it is important that organisations maintain their performance measurement system so that remains appropriate and provides information that is relevant to the issues that are of current importance.

The conclusion of this study should be considered in the light of its limitations. First, the sample used was rather small; if we consider that the study covers other sectors of the economy. Second, the generalisation of the results was rather limited due to the fact that the sample covers only the food and beverage industry in Nigeria. Thirdly, there might be element of biasness in the information given by the respondents. This however does not rob this study of its generalisation. Hence, the frontier of this study could be expanded by using other environmental variables and combining other sectors of the economy.

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