



**EXECUTIVE'S PERCEIVED STRATEGIC UNCERTAINTY AND  
ENVIRONMENTAL SCANNING PATTERN OF SMALL AND MIDDLE  
SERVICE FIRMS IN WEST SUMATERA**

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ABSTRACT

This study examined the relationship between executive's perceptions of strategic uncertainty and environmental scanning behavior. Environmental uncertainty is inability to predict an organization's environment. To understand the change of external forces, organization scan the environment to develop effective response to those changes and stay survive in the future. Environmental scanning is generally viewed as prerequisite for formulating effective business strategies in achieving outstanding performance. A sample of 54 middle and small service firms in West Sumatera was used to test hypotheses related to strategic uncertainty and environmental scanning behavior. This research found that sectors of task environment generated greater level of strategic uncertainty rather than sectors of general/remote environment. When the level of strategic uncertainty is high, executives is reported greater frequency of scanning and broader scope of scanning. Executives in high performing firms scanned environment more frequent and broader in response to uncertainty than low performing firms. The result of this research than compared with the similar prior researches on small manufacturing firms in US and Nigeria to draw conclusion for theories of uncertainty and scanning behavior in various industries and environmental characteristics.

Keywords: uncertainty, scanning, small service firms

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# CHAPTER I

## INTRODUCTION

### 1.1 Problem Background

In the last two decades, organizations have experienced a shift in both the rate of change and the degree of change. This shift is emerging as one aspect of globalization and technological advancement which is linked to societal changes, intense competition, deregulation of markets, dramatically shifting markets and political uncertainty.

By the late 1970s, researchers estimated the typical organization experienced a significant change at least every four or five years (Kotter & Schlesinger, 1979). Change and instability now constitute the 'typical' environment for organisations creating a world where the future is increasingly uncertain and 'unknowable'. This 'turbulent' environment is experienced by individuals and groups in organizations as being uncertain, unpredictable and at times, chaotic.

Since most organizations operate in chaotic, complex, confusing, and ambiguous environments, shunning uncertainty creates an organizational conundrum. Leaders can no longer ignore uncertainty and assume their organizations operate in stable environments. The emerging global market place and the growing power of the Internet are just two of the many factors threatening the traditional organizational thinking that focuses on making detailed plans, clearly defining job responsibilities, and meeting carefully established objectives.

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Environmental uncertainty is inability to predict an organization's environment (Milliken, 1987; May et. al, 2000). Huber & Daft (1987), a dilemma created by a lack of information about organization, activities, and events in the environment.

To understand the change of external forces, organizations scan the environment so that they may develop effective responses which secure or improve their position in the future. They scan in order to avoid surprises, identify threats and opportunities, gain competitive advantage, and improve long-term and short-term planning (Sutton, 1988). To the extent that an organization's ability to adapt to its outside environment is depends on knowing and interpreting the external changes that are taking place, environmental scanning constitutes a primary mode of organizational learning (Choo, 2001). Effective scanning of the environment is seen as necessary to the successful alignment of competitive strategies with the environments requirements and the achievement of outstanding performance (Beal, 2000 p.27)

Executives can learn about environmental sectors (customers, suppliers, competitors, technology, economic, etc) in several ways. They may scan the environment directly or learn from others in the organization. They may increase and decrease the frequency with which they scan, and they may select among information modes and channels.

The tendency and pattern of environmental scanning that conducted by manager is influenced by their perception about level of strategic uncertainty and importance of each sector in environment. The process of interpret something

## CHAPTER V

### CONCLUSION AND SUGGESTION

#### 5.1. Conclusion

The aim of this research to investigate the executive's perceived strategic uncertainty and environmental scanning pattern of service industry in West Sumatera. This research also conducted to examine the difference of executive scanning behavior with different level of perceived strategic uncertainty. The differences of scanning activities between higher and lower performance firms also examined.

The result of this study indicate that executives of service firms in West Sumatera perceived different level of uncertainty on seven sectors of environment with manufacturing firms. This is caused by each sector of environment create different level of uncertainty on different industry. Sectors in task environment create greater perceived strategic uncertainty than sectors in general environment because task environment has direct impact to organization.

Based on this investigation and analysis, frequency of scanning and scope of scanning positively related to the level of perceived strategic uncertainty. Higher level of uncertainty, executives will scan environment more frequent and broader. Executives of higher performance firms scan environment more frequent than executives of lower performance firms.

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