

## ENVIRONMENTAL ANALYSIS AND STRATEGIC ALTERNATIVES: THE STRATEGIST'S OPTIONS AND CHOICE DILEMMA PERSPECTIVES IN SELECTED FIRMS IN NIGERIA

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### **ABSTRACT**

*The main objective of this study is to empirically examine and have a good understanding of the influence of organizational business environment and its analysis in order to determine strategic alternatives that will usher options and choices for feasible strategy crafting and implementation. The study involved ten (10) statistically selected firms operating in Rivers, Bayelsa and AkwaIbom States. Data were sourced from 140 strategic managers, with the aid of structured questionnaire. Data analyses were done with the aid of Statistical Package for Social Science and computer simulation modeling. Issues relating to environmental diagnosis leading to environmental threats and opportunity profile as well as the strategic advantage profile were also examined. The different processes and methods of generating strategic alternatives in different external and internal factors examined were discussed. The study further analyzed different environmental situation scenarios. The study arrived at the proven fact that, the development of a manageable set of the most attractive strategies should be the probable option and choice. It therefore, made recommendations on which strategic alternatives would be suitable for each business environment, options and choices for the strategist to adopt.*

**KEYWORDS:** *Environmental Analysis; Strategic Alternatives; Options and Choice Dilemma Perspectives; Diagnosis*

### **INTRODUCTION**

It is widely believed within and outside organizational management that the environment in which organizations operate has evolved into something that makes the inner life of organizations increasingly challenging to managers. Also, the world outside many organizations has become more complex and changes faster than before. It does also seem undeniable that environment is a powerful determinant of managers' concerns and activities. The impact of more complex and rapidly changing environments upon organizations renders the task of management more challenging than it would in simpler and more placid conditions.

An organization's environment can literally mean to be surroundings, events, external objects influences or circumstances under which something, or someone exists. Davis (1975) defined the environment of an organization as, the aggregate of all conditions, events and influences that surround and affect it. Relatedly, Daft (2008) argued that an organizations environment include all events that exist inside and outside the boundary of the organization and have the potential to affect all or part of the organization. Since the environment of an organization influences it in a multitudinous

ways and as such, it is proper for us to venture into the analysis for the primary purpose of comprehending strategic alternatives options and ultimate choice of strategy.

Environmental analysis is the process of scanning the environment to identify changes or trends that have the potential to generate opportunities and treats to the organization's current or future intended strategies. The form and means by which the process may be operationalized within an organization will vary from company to company and can be undertaken formally or informally or using quite sophisticated analytical tools and techniques that may require significant employment of organizational resources.

The focal point of strategic management is the business in which the company operates or want to be in. This implies that the definition of the business forms the core of strategic management. Having generally analyzed and diagnosed the external environment for opportunities and threats, and having critically assessed the internal environment or organization's capability in terms of strengths and weakness, the strategist is therefore ready to assess the strategic alternatives. The search for the availability and assessment of strategic alternatives lead to the choice phase of selecting probable strategy. This implies that strategic options relate to strategic choice.

### **Objectives of the Study**

- The general purpose of the study is to carry out the environmental analysis and strategic alternatives of the selected firms as well as the options and choice dilemma perspectives, with the following specific objectives amongst others.
- The determination of the respective environmental profile factors weightings.
- The determination of the respective environmental profile factors impacts.

## **REVIEW OF RELATED LITERATURE**

### **Approaches or Techniques to Environmental Analysis**

Environmental analysis could be done by statistical measures using both formal and informal approaches. These approaches can also involve systematic, ad hoc and processed form of information generated from sources within and outside the organization. Formal approach may typically take the form of analyzing the societal and general environment (often termed macro-environment) through the lens of PESTLE analysis which focuses attention on Political, Economic, Socio-cultural, Technological, Legal and Ethical issues. Also, the matching of environmental threat and opportunity profile (ETOP) with the strategic advantage profile (SAP) could be adopted. There could be other possible combinations and situation scenarios at the disposal of the analyst. Formal and informal may also take the form of sourcing information about, and from the organization's customers, suppliers, rivals, consultants and pressure groups. Related information arising from customers could, for instance, be sourced through structured questionnaires, fliers or feedback from the firm's personnel detailed to such services or functions. For example, sales or retail staff of the firm could be detailed to visit local rival superstores or shopping centres to get information relating to prices and designs of products, as well as other promotional activities of their competitors' and price reactions. Such informal sources of gathering data may not have a detailed structure, and the cost of implementing the activities may be relatively low, which need not be undervalued. These and related sources of information are very important irrespective of the size of the organization or level of sophistication involved. However, larger organizations may prefer a more analytical or systematic and formal means of gathering data or

analyzing the environment. In clear terms, these broad and deliberate approaches to environmental analysis tend to focus more on the company's social and task or relevant or immediate competitive environment. These synonymous concepts are frequently termed the microenvironment. Some other techniques employed for analyzing the environment include: verbal and written information, search and scanning, spying (espionage), forecasting, as well as formal studies and scenario planning. Verbal information relates to that which we learn by hearing. This information can be sourced informally or formally, for instance, in such experiences as meetings and conferences. Sources of verbal information include, radio and television, company's employees, others outside the firm, such as enterprises customers, organs within the distribution channels, enterprise suppliers, financial executives such as banks, stockholders, stock analysts, consultants and so on.

On the other hand, written information is the one gathered from information materials such as, business times, financial times, and other economic and management journals. In some firms, a department is set up with the sole responsibility of searching through the daily paper and periodicals and summarizes the relevant information for management.

Another important technique or method of environmental analysis used by management to fish out information is by spying (espionage). In this case, individual or individuals such as the employee of the organization or the competitor, supplier or customer of the competitor or a professional spy is engaged to determine trade secrets. Another relevant technique or approach to analyzing business environment is forecasting. By making use of a number of forecasting techniques available such as trend extrapolation, statistical modeling techniques, simple and multiple regression analyses, and other related trend-impact analysis used sometimes by large companies. In conjunction with other methods of forecasting, including the Delphi approach and opinion canvassing, the desire to predict the future on all the factors in the environment can be done. However, the fundamental drawback in the use of trend analysis as a forecasting tool is that there is no guarantee that the trends identified from historic patterns will continue in the future. This is so because, sudden discontinuities can invalidate or undermine the existing assumptions on which a trend was predicted. In a majority of cases, trends are based on a series of patterns or relationships among a wide range of variables, a change in any one of which can drastically alter the future course of events. These variables are not always easy to identify and the interactions between them are not necessarily fully understood. Attempts to link a simple cause with a simple effect can make one run the danger of underestimating the complexities of the business environment.

### **Scenario Planning**

This is a strategic tool and involves undertaking a disciplined method for imaging and examining possible future. It is not an attempt to predict the future, and indeed it would be typical for an organization to generate between two and four generically different possible futures as an outcome of the scenario planning process. This technique often focuses on 'best case' and 'worst case' scenarios. The Royal Dutch shell is the company most renowned for the use of scenario planning as a core component of its environmental analysis activities for over thirty years. It is worth noting that scenario planning as a strategic tool can be traced back to the Rand Corporation in the early 1960s, and is often associated with the work of its employee, Physician and Mathematician, Herman Kahn (Worthington and Britton, 2009).

In business organizations, scenario planning seeks to consider the possible effects of, and interactions between, various external environmental forces on the future and to test the resiliency of specific strategies that the organization may be considering in such a scenario. In specific therefore, scenario planning is most relevant to large organizations, it is a

resource-intensive technique, most commonly found in industries considered to have highly dynamic, complex and uncertain environments and industries that require heavy forward investments. Scenario planning process normally starts with the organization making consideration of which key environmental trends to consider, and over what time period.

### **Environmental Diagnosis**

Environmental analysis is the process of scanning the environment to identify changes or trends that have the potential to generate opportunities and threats to the organizations current or future intended strategies. The outcome of the environmental appraisal is the environmental diagnosis. Environmental diagnosis therefore, consists of managerial decisions made by assessing the significance of the data (opportunities and threats) of the environmental analysis. The decisions are strategic and lead to other decisions on whether to react, to ignore, or anticipate opportunities or threats. This, in fact, is the head of diagnosis. A systematic approach to environmental diagnosis is the Environmental threat and Opportunity profile (ETOP), and that of assessing the strengths weaknesses is the Strategic Advantage Profile (SAP).

### **SWOT or TOWS Analysis**

This pertains to situation analysis, which is the analysis of strengths, weaknesses, opportunities and threats. Situation analysis is vital to all organizations because of diverse environments in which they are expected to operate. External information concerning opportunities and threats may be obtained from a variety of sources, including but not limited to customers, professional journals, government reports, suppliers, bankers, friends and close relations, other organizations, consultants or other meetings associations (Daft, 2008). Daft noted that many firms hire special scanning organizations to provide them with newspaper clippings, internet research and analysis of relevant domestic and global trends, hiring of competitive intelligence professionals to cope with competitors.

It is also widely believed and accepted that corporate performance is influenced by a combination of internal and external factors. These factors can be characterized as the organization's internal 'strengths' and 'weaknesses'; and its external 'opportunities' and 'threats' (Chikwe, 2018). Systematically analyzing these factors as an aid to strategic decision making represents a form of situational analysis known commonly by the acronym SWOT (or TOWS) This acronym SWOT is used to describe four particular environmental influences, particularly known as, strengths, weaknesses, opportunities, and threats, that are strategic factors for a specific business organization. SWOT analysis is a widely used technique through which managers create a quite review of a company's strategic situation (Chikwe, N.D.). Chikwe advances that, it is a major step forward in bringing explicitly competitive thinking to bear on questions of strategy, and based on the assumption that an effective strategy is derivable from a sound "fit" between a firm's internal resources (strengths and weaknesses) and its external situation (opportunities and threats). A good fit maximizes a firm's strengths and opportunities and minimizes its weakness and threats (Pearce and Robinson, 2003). This simple assumption has powerful implication for the design of a successful strategy, if and when accurately applied.

It is interesting to note that, SWOT analysis should not only result in the identification of a company's distinctive competencies, but also in the identification of opportunities that the company is not currently able to take advantage of due to lack of appropriate resources (Wheelen and Hunger, 2004). What this preceding statement means is that, the analysis of opportunities and threats cannot be absolute, since what might at first appear to be an opportunity may not be so, when viewed against organization resources, or its culture, or the expectation of its stakeholders. Moreover, the true value of

SWOT approach lies not in the listing of influences, but in their contribution to the formulation of appropriate organization strategies (Chikwe, N.D.). One means of focusing attention on the latter is to produce a SWOT (or TOWS) matrix analysis which matches the opportunities and threats against its internal strengths and weaknesses (see Table 1). The result is four sets of possible strategic alternatives, termed, SO, ST, WO and WT strategies. These may range from the positive exploitation of strengths in order to take advantage of opportunities to the essentially defensive strategy of minimizing weakness and avoiding anticipated threats (Chikwe, N.D.). He concludes by pointing out that organizational success comes from effective matching of opportunities with capabilities.

**Table 1: SWOT Matrix Analysis**

<b>Internal Aspects</b> <b>External Aspects</b>	<b>Strengths (S)</b> List major organizational strengths (e.g. quality products or resources)	<b>Weaknesses (W)</b> List major organizational weaknesses (e.g. poor products distribution or organizational climate)
<b>Opportunities (O)</b> List major organizational opportunities (e.g. new markets)	<b>SO</b> Strategies	<b>WO</b> Strategies
<b>Threats (T)</b> List major organizational threats (e.g. competition)	<b>ST</b> Strategies	<b>WT</b> Strategies

**Source:** Worthington, I. and Britton, C. (2009). *The Business Environment*. United Kingdom: Pearson Education Limited

**Criticisms of SWOT Analysis**

Despite the merits of SWOT analysis in finding a propitious niche and properly positioning and making an organization to achieve better strategic alternative in the business environment, it is worthy to note that SWOT analysis, by itself, is not a panacea, in view of the following, but not limited criticisms relatedly advanced by Hill and Westbrook (1997) and Chikwe (n.d.).

- There is no logical link to strategy implementation for the purpose of achieving organizational objectives.
- It uses no weights to reflect priorities.
- It generates lengthy lists.
- It uses ambiguous words and phrases.
- The same factor can be placed in two categories (e.g. a strength may also be a weakness).
- There is no obligation to verify opinions with data or analysis.
- It requires only a single level of analysis.

**Strategic Alternatives**

Most firms' strategic alternatives revolve around changes in the business the enterprise is currently in, and in the efficiency

and effectiveness by which they achieve their corporate objectives in their chosen business sector. In view of these the central strategic alternatives that strategists consider according to Glueck (1980) are the following:

- What is our business? What should it be? What business should we be in 2 years from now?
- Should we stay in the same business?
- Should we get out of this business entirely or some parts of it by merging, liquidating or selling off part of it (divestment)?
- Should we do a more efficient job in the business we are in, in a slimmed down way?
- Should we try to grow in this business by:
  - increasing our present business?
  - acquiring similar business?
  - trying to grow primarily in other business?
  - doing alternatives 3 and 5?

It is to be noted that, if the answer to question 2 is no, and alternative 3 or 4 is chosen, the strategy is called “retrenchment”. Relatedly, alternatives 5 and 6 are called “growth strategies” while alternative 7 is called combination strategy”

#### **Methods of Generating Strategic Alternatives**

For the purpose of generating strategic alternatives however, different methods as opined by Glueck (1980) can be used and as hereunder itemized.

- Routine
- Creative
- Active/Passive
- Incremental steps
- Environmental Threat and Opportunity, Profile (ETOP).
- Strategic Advantage Profile (SAP) Techniques
- These are briefly explained below for proper understanding.

The Routine Technique: in this technique, the strategist will look at what the organization has done before in such or related cases. The understanding of the outcome will form the basis of alternative generation and consequent choice of strategy.

Creative Techniques: this approach involves some techniques such as brainstorming for the enhancement of strategic alternative.

Active/Passive Strategic Alternatives: An active or offensive strategic alternative is one in which the strategist act before they are formed. To react to environmental threats or opportunities on the other hand, a passive or defensive strategy is one whose major characteristics is not to react, or react to environmental pressure only when forced to do so by circumstances.

Generally, Glueck (1980) is of the view that, large dominant firms will be effective if they develop active strategic alternatives in their major market segments. Small firms in their own perspective will survive if they have passive strategies toward large firms' major market and if they have active strategies toward market segments ignored by the dominant(s) which they can develop. In sum, firms can develop strategies which are offensive (active) with regard to one part of the environment, and passive toward others. It is worthy to note that, a crucial characteristic determining the choice of active (offensive) or passive strategies may be related

- Incremental Steps Approach: the consideration of strategic alternatives in the approach may be viewed form:
- What you know about
- What you think will work, and
- What are not major breaks with the past (unless situation has been diagnosed as desperate).
- As such, alternatives could be chosen by trying to:
- Work forward from the present to the future
- Picture the future state and see how you can get there from where you are now
- ETOP/SAP methods; this method according to Glueck (1980) allows a matching of the environmental threat and opportunities profile (ETOP) with the strategic advantage. Profile (SAP).
- Nevertheless, the different types of alternative strategy options that organizations can pursue, and depending on their strategic situations in the business environment include, but not limited to the following:
- Concentration strategy (e.g. market presentation market development, product development, horizontal merger and Niching)
- Vertical integration strategies (forward integration, horizontal, and backward integration)
- Diversification strategy (related or concentric diversification, unrelated or conglomerate diversification, and horizontal diversification).
- Mergers and acquisition strategy
- Joint venture strategy
- Retrenchment strategy
- Liquidation strategy
- Turnaround strategy

- Abandonment strategy
- Divestiture (divestment) strategy
- Combination strategies
- Captive company strategy
- Outsourcing strategy.

It is important to remark that each alternative strategy has countless variations. For instance, market penetration can include adding sales persons as a strategy, increasing advertising expenditures, and so on, and using similar actions to increase market share in a given geographic area.

## METHODOLOGY

The process of defining strategic alternatives in this research begins by identifying problems from ten (10) statistically selected firms in South-South Nigeria (notably, Rivers, Bayelsa and AkwaIbom States), based on information from structured research questionnaire administered to 140 strategic managers. The process continues in three strategic situation scenarios with summary of Environmental threat and Opportunity Profile (ETOP) and Strategic Advantage Profile (SAP) sub-factors, as well as Strength, Weakness, Opportunity and Threat (SWOT) Analysis and their weighting format, making use of computer simulation modeling. For instance, economic factors such as monetary and fiscal polices, balance of payment surpluses or deficits; market/marketing sub-factors such as customer or client related sub-factors viz: the needs, preferences, perceptions, buying behaviour and satisfaction of customers indices. Products related sub-factors such as the demand, image, features, utility, function, design, life cycle, price, promotion, distribution and availability of products or services were also considered. Marketing intermediary sub-factors such as quality of customer service, middlemen, distribution channels, costs, delivery systems and financial intermediaries were also examined. Government/legal sub-factors such as political systems and ideologies, political structures, government influences and so on were looked into. Finance and accounts sub-factors, production and operations management sub- factors; personnel/labour sub-factors and so on were equally examined.

The weighting format was done using Likert scale ranging from +5 (strongly positive) to 0(negative), to -5(strongly negative); the impact and significance of the fact makes it an opportunity. Very high impact (+50) to neutral/no impact (00) to serious threat (-50)

## RESULTS AND DISCUSSIONS OF FINDINGS

**Table 2: Strategic Situation Scenario**

ETOP	Weighting of factors	Impact of factor	SAP	Weighting of factors	Impact of factors
Gov./Legal factor	-15	-10	Fiancé/acct. factors	+1	+25
Market competitive factors	+15	120	Market/distribution factors	+2	+35
Social factors	+10	+15	Corporate level	+1	+15
Economic factors	+15	+10	-	-	-

**Source:** Research Data and SPSS Software Output



The strategic situation scenario 1 in table 2 shows a strategic indication of some environmental threats and Opportunities profile factors as well as that of Strategic Advantage Profile Factors of selected firms that are most probably adopting growth strategies as a grand, basic or generic or general strategy, as related argued by Glueck (1980).

**Table 3: Strategic Situation Scenario**

ETOP	Weighting of factors	Impact of factor	SAP	Weighting of factors	Impact of factors
Economic factors	+3	+30	Finance/Acct. Factors	+2	+20
Gov./Legal factors	+0	00	Market/distribution factors	+3	+15
Market/competitive factors	+4	+50	Prod./operations factors	+4	+20
Supplier/ Technological factors	+2	+10	Personnel, Labor factor	0	
Geographic factors	+1	+30	Corporate level factors	+1	+10
Social factors	+4	+10	-	-	-

**Source:** Research Data and SPSS Software Output

As noted and could be seen in table 3 in strategic situation scenario 2, the conditions favour the adoption of growth strategy option and choice. Based on the analysis, the economic and market/competitive factors are positive. Specially, in some geographic areas, the firms as indicated in SAP, are strongly positive in marketing and distribution. In such condition, the organizations can take advantage of some, production and financial factors. However under this scenario, less risk-oriented managers may be advised to consider those zeros in ETOP factors and zero, and less overwhelming positives in SAP, and decide seriously to consider growth strategies.

**Table 4: Strategic Situation Scenario**

ETOP	Weighting of factors	Impact of factor	SAP	Weighting of factors	Impact of factors
Economic factors	-1	-15	Finance/Acct. factors	-1	-15
Govt/Legal factors	0	00	Market/distribution factors	-2	-25
Market/competitive factors	-2	-30	Production/Operation Mgt. factors	-1	-10
Supplier/technology factors	2	-15	Personnel/labour factors	0	00
Geographic factors	0	00	Corporate level factors	0	00
Social factors	0	00	-	-	-

**Source:** Research Data and SPSS Software Output

Based on the data and the analysis in strategic situation scenario 3 above, the opposite is the case from the figures as compared to what were obtainable in tables 2 and 3 herein. In this strategic situation scenario 3, both economic and market/competitive factors are strongly negative. This implies that the firms analyzed under such strategic situation are not somewhat strong financially as well as in production/operation management. In essence, retrenchment optimistic or risk-oriented managers or strategists may consider the zeros and appreciate that stable growth could be a feasible strategic alternative possibility.

## CONCLUSIONS

The study revealed that many processes of generating and selecting strategies for the advancement of organizations objectives abound. However, the study also observed that the strategists may not consider all supposedly feasible alternatives that are envisaged to benefit the firm, in view of the fact that there are numerous infinite possible actions and infinite number of ways to implement those strategic actions. Based in the result of analysis, the study therefore concludes that the development of a manageable set of the most attractive alternative strategies should be the probable option and choice.

## RECOMMENDATIONS

The study therefore, recommended that the advantages, disadvantages, trade-offs, cost implications, and benefits of these strategies should be determined, in order to achieve an appropriate set of alternative strategies. The study further made recommendations on which strategic alternatives would be suitable for each business environment, as well as the options and choices for the strategist to adopt.

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