ENHANCING STRATEGIC DECISION CHOICES THROUGH EFFECTIVE BUSINESS ENVIRONMENT

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Abstract
The study was on enhancing strategic decision choices through an effective business environment. Three objectives were raised to examine the effect of economic factors, technological factors, and political factors on strategic decision-making. Literature was reviewed qualitatively in addressing the study. The contract theory was the underpinning study. Findings revealed that economic factors and technological and political indicators influence positively the business environment. Recommendations were raised on continued application to enhance business performance and organizational profitability.

Keywords: Strategic Decision, Technological, Economic, Political, Business Environment.

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1. Introduction
Within the last few years, the way businesses operate has been changing constantly and the evolution of new strategies happened. Striving to receive the best results, companies face a high number of challenges and after all want to perform superior compared to their competitors (Schoenberg, Collier & Bowman, 2013). According to fast-changing environments and therefore shifts within markets, businesses have to adapt to the circumstances and develop a
strategic model with the option to be flexible (Alcacer, 2015). The practice of strategic management enables a company to analyze, understand, and plan for the development of a strategy (Kifordu, 2022).

Within the business environment differentiating from competitors becomes more difficult due to high competition, uncertain environments, and the fit with customers’ demands, just to mention a few (Verbeke et al., 2018). It has been shown that through the investigation of strategic analysis in the internal and external environment of a company, strategic planning is facilitated (Wolf & Floyd, 2017). With a successful strategy implementation companies may minimize or even overcome the challenges mentioned above (Grant, 2016). A strategy exists on three levels: Corporate, business, and functional. Therefore, the analysis is a complex process happening at various stages with the usage of various tools and techniques (Kifordu, Eneh, Effiong & Etuk, 2022). Furthermore, it has to be mentioned that strategic analysis plays a crucial role in the development of a strategy, but also the decision-making of managers (Helfat & Martin, 2015). Nowadays economic markets underly some trends in the contemporary business environment. Due to the changing surroundings, companies gain new opportunities. On the other hand, the process of such an analysis gets more challenging due to these changes (Papula & Gazova, 2016). First of all, economic globalization is a current issue that triggers cross-border movements of goods, services, technology, and capital (Igweh & Kifordu, 2022). Due to the growing facilitation of doing business abroad, the size of a company’s operations becomes larger (Savrul, Incekara & Sener, 2014). Therefore, markets become more competitive and companies start moving into international areas. Hence, strategies focus more on a global basis with a tendency to either adaptation or standardization (Ghemawat, 2007).

Recently companies have been facing a high number of challenges which differ from those a few years ago. To minimize them a suitable strategy for a firm’s internal and external environment should be established (Grant, 2016). The traditional set of tools that has been always used for strategic analysis may not be appropriate anymore for companies operating in a global, dynamic business environment. The evolvement of new ways of doing business has effects on strategy establishment. These changes and dynamics force companies to innovate business models but before doing so an applicable set of analyzing techniques has to be applied (Teece, 2018).
The Problem

The need to study the business environment has become imperative because business organizations do not control vacuity and effective management in a multifarious and energetic society. For survival and growth, organizations must become accustomed to their business environment. Some sets of enterprises are still battling with many problems and definite constraints that exist in promoting their development, growth, and performance at large. They are faced with momentous challenges that hinder their capability to function and contribute optimally to the economy.

Both internal and external environmental factors significantly affect the growth and development of small and micro enterprises. The external environment that bears on the institution includes the legal, technological, political, economic, and socio-cultural contexts, the demands and needs of external clients and stakeholders, and relations with other pertinent institutions.

Objectives

i. Examine the effect of economic factors on strategic decision choice.

ii. determine the effect of technological factors on strategic decision choice.

iii. ascertain the effect of political factors on strategic decision choice.

Research Questions

The following research questions were formulated to guide the study;

1. To what level do economic factors influence strategic decision choice?
2. To what extent do technological factors affect strategic decision choices?
3. To what extent do political factors affect strategic decision choices?

2. Review of Related Literature

Conceptual Review

Business Environment

Before being able to scan and analyze the environment, managers need to know about the constellation of the surroundings which may influence the business. The business environment...
brings opportunities and threats for marketers (Johnson, Whittington, Scholes, Angwin, & Regner, 2017). A business environment is defined as “an environment that tends, to shape the outlook, and goal of the organization by placing constraints on them.” (Eruemegbe, 2015; Oghojafor, 1999) As strategic analysis strives to examine internal and external factors, the constellation of the surrounding settings with belonging aspects has to be taken into consideration (Johnson, Whittington, Scholes, Angwin, & Regner, 2017).

According to (Wheelen, Hunger, Hoffman, & Bamford, 2018) an organization’s environment consists of four layers, as shown in Figure four. In the very middle where the company is, the surroundings include the structure of the business according to company culture. Furthermore, resources are also part of this so-called internal environment where the strengths and weaknesses of a firm are examined. At this level, the corresponding industry is relevant where the consideration of various parties takes place. Shareholders, competitors, customers, suppliers, etc. are essential for an organization and may influence the activities of a company. Moreover, the societal environment embraces the latter discussed layers. Socio-cultural, economic, political/legal, and technological forces are part of this macro surrounding. It impacts the total economy as a whole. The very outward level is the natural physical environment which describes the atmosphere including climate, physical resources, and wildlife. Even this layer receives awareness, as the earth generates resources for businesses and human beings that can be manufactured, sold, or distributed (Kifordu, Ibegbulem & Odita, 2023).

**Characteristics of Environment**

The following are the characteristics of the environment identified by Griffin and Ebert (2002).

i. **Environment is Complex:** The environment consists of several factors, events, conditions, and influences arising from different sources. All these do not exist in isolation but interact with each other to create entirely new sets of influences. It is difficult to comprehend at once what factors constitute a given environment. This is why the environment is relatively easier to study in parts but difficult to grasp in totality.

ii. **Environment is Dynamic:** The environment is constantly changing in nature. Due to the many and varied influences prevailing, there is dynamism in the environment causing it to continuously change its shape and character.
iii. **Environment is multi-faceted.** What shape and character an environment assumes depends on the perception of the observer. A particular change in the environment or a new development may be viewed differently by different observers. This is why when new development occurs, some companies see it as an ‘opportunity’ while others perceive it as a ‘threat’.

iv. **Environment has a great impact.** The environment has a far-reaching impact on organizations. The growth and profitability of an organization depend critically on the environment in which it exists. The environment could also be ‘Static’ wherein changes may not be occurring frequently.

**Classification of Environment**

The environment can be divided into two major classifications, these are:

i. External Environment

ii. Internal Environment

**External and Internal Environment of Business**

The external environment includes all factors outside the organization that provide ‘opportunities or threats’ to the organization.

The internal environment refers to all factors within an organization, that ‘impact strengths’ or ‘cause weaknesses of a strategic nature.

The environment in which an organization exists can, therefore, be described in terms of the opportunities, threats, strengths, and weaknesses therein. These four environmental influences could be described as follows:

**Strength:** This is an inherent advantage that an organization can use to gain a strategic advantage over its competitors e.g. superior research and development skills, which can be used for new product development so that the company can gain competitive advantage. Another area of strength is having an experienced and skilled labor force.
Weakness: This is an inherent limitation or constraint, which creates a strategic disadvantage. An example of weakness is over-dependence on a single product line, lack of finance, and shortage of skilled labor force.

Opportunity: This is a favorable condition in the organization’s environment, which enables it to consolidate and strengthen its position. An example of an opportunity is growing demand for the products or services that a company provides, tax relief, liberalized government policies on business, protection by the government, subsidy, etc.

Threat: This is an unfavorable condition in the organization’s environment that creates a ‘risk’ or ‘causes damage’ to the organization. An example of a threat is the emergence of strong new competitors who are likely to engage in stiff competition with the existing company in the industry, exposure to foreign competitors, government strict policies on taxes and business operations, etc.

An understanding of the external environment, in terms of the opportunities and threats, and the internal environment, in terms of the strengths and weaknesses, is crucial for the existence, growth, and profitability of any organization. A systematic approach to understanding the environment is known as the SWOT Analysis (Cartwright, 2001).

Environment factors

It covers a broad dimension and influences its surroundings which create the overall not unavoidably associated with other specific. Each dimension exemplifies the conditions and events that have the potential to influence the organization in special ways.

Economic factor

Griffin (1997), in his write-up, stressed much about the overall health of the economic system in which many organizations operate. The important economic factors, that affect many businesses, are inflation, interest rates, and unemployment. To recover such money, companies raise the price of their product and the consumer demand will fall because they will be unwilling to pay more for a product. When there is a high rate of unemployment, the company becomes selective in the recruitment of personnel and this could cause low production, which eventually makes the company lose its customer’s demand.
Technological factor

It refers to the method of converting resources into finished products and services by using new machines. The technology, which is applied within an organization, comes from the general environment. It includes inventions and improvements of existing methods, machines, and materials. This could mean the vast storage of organized knowledge of doing things mechanically rather than manually. The result of technological influence is on the methods of work, design of production as well as machine and improved services.

The benefit to the society can be itemized as follows:

i. Increased in the availability of goods and services to the society.

ii. Reduction in price, though it encourages large-scale production and improves the standard of living of society

iii. Efficiency of production is maintained.

iv. It improves the design, planning, scheduling, and control of the production system.

v. Mechanization and automation of the organization system are made possible. Mechanization is said to be the substitution of machinery, which is for labor. Capital-intensive equipment while automation is the manufacturing of a product or its parts automatically from one process to another.

Social factor

This includes the customers, ethical values, rules, and demographical characteristics of the society in which the organization functions. The ethical behavior process is imperative since it determines the product, services, and level of conduct that the society is probable to get. It allows for a pleasant affiliation among management, workers, and their customers. Oyebanji (1994) said that behaviors are interwoven with each other and it is complicated to differentiate individuals and their behavior, that the attitude of individuals differs in work habits, risk-taking, accepting challenges, and appraising the level of authority. Ethical legacy is apparent in certain behavioral patterns being observed in business operations.
**Political factor**

It is observed that political factors are the government regulations on business. The connection between business and government is important for three basic reasons. First, the legal system partially defines what an organization should or should not do. Secondly, the pro-business or anti-business sentiments which the government uses to influence business activities in the organization. Thirdly, the political permanence has consequences on planning, for example, no organization wants to set up business in another country where the trade relationships are not relatively defined and steady.

Oyebanji (1994) believed that a steady political environment enhances growth and development and also encourages both foreign and local investors. As regards to legal atmosphere, it encourages business organizations to stay alongside each other in any business legislation. For business organizations to be legally fit, the big ones need to establish legal departments while the small ones hire the service of legal experts. In Nigeria, the present political dispensation does not encourage investors both foreign and local.

**Concept of Macro Environment**

According to Olannye, (2013), the macro environment aspect is concerned with larger societal forces that affect the micro environment. It consists of those constraints that are largely not controllable by management; however, they are not uncontrollable. The macro-environment involves factors that influence the whole economy of the business. How much influence the microenvironment has on a company depends on how intertwined they are. Some factors, such as the economy, will gradually affect all businesses. But companies facing economic downfall, and potentially bankruptcy, are hurt more considerably than businesses in booming industries. The economy also affects consumers. What they are willing to spend, on what, and how commonly hinges on the macro environment. If consumers aren’t buying, or feel they are not in a position to buy definite products, sales suffer.

Additionally, price increases, redundancy rates, and taxes are macro environment factors that influence businesses and consumers on a day-to-day basis. The economy and consumers are controlled in the macro environment that affects all businesses. And they are vital when conducting a macro environment analysis. PEST analysis examines the influences of political, economic, social, and technological factors on a business. These factors can’t be controlled by firms directly. Yet each factor affects any and every business, no matter their industry.
Understanding how macro factors control corporations is essential when building or expanding a business. By examining how outside influences, uncontrollable by the average person, are connected to business, 'll reflect on how to keep ahead of the competition and reduce risks as they arrive (www.pestanalysis.com).

**Political Factor/Instability**

The failure to incorporate the impact of political organization into the studies on miniature firms is founded on the view that miniature firms operate in local markets and have to follow the political rules, no matter where these political units are situated. Miniature firms’ business performance is confronted with hesitation from not only their domestic country’s political organizations but also from those in other countries or unions like the African Union (AU). Political Factor is the main factor that can favor or hinder SMEs' performance depending on the government stability of such an environment. Therefore, Owners/Managers of SMEs must tread carefully when operating in an unstable economy in a developing or under-developed country (i.e. Nigeria), in which the economy is not stable due to political instability.

**Tax Laws**

A tax is an obligatory financial charge or some other type of levy forced upon a taxpayer by a governmental organization in other to fund various public expenditures. A failure to pay, or avoidance of or confrontation with taxation, is liable to be punished by law. Taxes consist of direct or indirect taxes and may be paid in money or as labor comparable. Most countries have a tax system in place to pay for public national needs and government functions.

Some levy a flat fraction rate of taxation on individual yearly income, some on a scale based on yearly income amounts, and some countries compel roughly no taxation at all, or a very stumpy tax rate for a definite area of taxation. Some countries charge a tax both on cooperate income and dividends; this is often referred to as double taxation as the individual shareholders receiving this payment from the company will also be levied some tax on that personal income.

**Technology**

Technology is the compilation of practices, proficiency, methods, and processes used in the production of goods or services or the achievement of objectives, such as scientific exploration (https://en.m.wikipedia.org). Technology can also be defined as the use of scientific knowledge
to solve practical problems, particularly in industry and commerce. As the economy advances, new technologies come into play. No organization, most particularly small and medium enterprises will like to remain stagnant but rather would prefer to grow higher in its operation and for this to be achieved, the organization will have to improve its current technology for it to be able to compete with other firms and follow the current trends in the economy. Technology is hardly controlled by managers of SMEs because it is a factor or a tool that comes up/develops almost every time and can’t be avoided or stopped from being generated.

**Government Regulations**

Every organization operates in an economy and every economy has its government regulations for its smooth running as such every organization must adhere to the rules and regulations guiding the economy most especially the part that affects/concerns organizations. This factor is something that can never be controlled or dictated by owners/managers of SMEs. Therefore, no SMEs can avoid government regulations.

**Components of External Environment**

An organization’s external environmental factors include the following:

(a) **The Socio-Cultural Environment:** Societal trends regarding how people think and behave have major implications for the management of the labor force, corporate social actions, and strategic decisions about products and markets. The social-cultural dimension of the external environment consists of the social and cultural fabrics that affect the behavior of both people and organizations. It refers to the laid down ways of life and human relationships that exist among people and organizations. Under this, we have the following factors:

i. Demographic characteristics, such as population, its density, and distribution, rural-urban migration changes in population, age distribution, and income distribution.

ii. Social concerns such as the role of business in society, environmental pollution, corruption, good and non-deceptive use of mass media, and consumerism.

iii. Family values, family structure, and changes in it.

iv. Role of women in society, the position of children and adolescents in the family.

v. Social structures, social mobility, prestige, and status symbols.

vi. Educational level, awareness, and consciousness of rights.
vii. Work ethics of members of the society, societal values, beliefs, mores, customers and norms, and most importantly religion.

viii. The social-cultural environment primarily affects the strategic management process within the organization in the areas of the organization’s vision, mission, objectives, and decisions on survival and growth.

(b) The Political – Legal Environment

The political environment consists of factors relating to the management of public affairs (government) and their impact on the business of organizations while the legal environment deals with the due process of making laws and the interpretations of laws that are made and their effect on business operations. Some of the important factors and influences on operations in the political/legal environment are:

(a) The political system, nature of political parties, and center of power.

(b) The political structure, its goals, and stability

(c) Political processes like the operation of the party system, election, funding of elections, and legislation concerning economic and industrial promotion and regulation.

(d) Political philosophy, government’s role in business, its policies, and interventions in economic and business development.

(e) The constitutional framework, directives, principles, environmental rights, and division of legislative powers.

(f) Policies relating to licensing, monopolies, foreign investments, and financing of industries.

(g) Policies relating to imports and exports.

(h) Policies relating to registration and operation of business organizations.

(i) Other policies relating to the public sector, small and medium scale enterprises, sick industries, development of backward areas, control of environmental pollution, and consumer protection.
(C) Economic Environment

General economic conditions and trends are critical to the success of all organizations. The economic environment therefore consists of macro-level factors concerned with the means of production and distribution of wealth that have an impact on the business of organizations. Some of the important factors and influences operating in the economic environment are:

(a) The economic structure; is it capitalistic, socialistic, or mixed economy?

(b) Economic planning e.g. annual budgets etc.

(c) Economic policies e.g. industrial, monetary, and fiscal policies.

(d) Economic indices e.g. national income, distribution of income, wages, rate of savings and investments, value of exports and imports, balance of payment, Gross domestic product (GDP), interest rate, etc.

(e) Infrastructural factors, such as financial institutions, banks, modes of transportation, communication facilities, energy sources, etc.

Strategists are acutely aware of the importance and impacts of the economic environment on their organizations’ survival and growth and therefore monitor the environment for changes.

(d) Technological Environment

The technological environment consists of factors relating to knowledge applied and the materials, machines, and methods used in the production of goods and services. Technological factors advance in basic sciences such as physics, as well as new developments in products, processes, and materials. The level of technology in a society or a particular organization determines to a large extent what products and services will be produced, what equipment will be used, and how operations will be managed. Gene and Thakur (1995) state that, one of the principal means by which an organization competes is by differentiating its goods and services from those of other firms and this can only be achieved through innovations and inventions.

Some of the important factors and influences operating in the technological environment are as follows:
i. Sources of technology like company sources, external sources, and foreign sources, cost of technology acquisition, collaboration in, and transfer of technology.

ii. Technological development, stages of development, change, and rate of change of technology, research and development, etc.

iii. Impact of technology on human beings, the man-machine system, and the environmental effect of technology.

iv. Information and Communication Technology (ICT).

v. In management, technology can have strategic changes on the organization via the following:

   It can change relative competitive cost positions within the business.

**Strategic Decision Choice**

Strategic choice refers to the options available to top management during decision-making at the corporate and business levels of organizations (Child, 1997). Strategic choices at the corporate level consist of growth, stability, and retrenchment while strategic choices at the business level focus on price leadership, differentiation, focus, and stuck-in-the-middle (Porter, 1998). A stuck-in-the-middle is a hybrid of any two generic strategies of Porter such as cost leadership, differentiation, and focus that firms use to create a competitive advantage over their rivals (Porter, 1980).

Scholars have debated the most appropriate strategic choice for unstable business environments (Peng and Heath, 1996). For instance, White (2000) criticizes overreliance on the organizational environment as a determinant of strategic choices while Peng (2000) argues for the consideration of factors influencing strategic decisions such as the organizational environment, new entrants, and increasing corporate diversity. Corporate diversity consists of major business groups in both state-owned and private enterprises; entrepreneurial start-ups; and foreign entrants. Hill (2017) identifies strategic choices comprising the selection of products or services; target market or segment to operate; marketing and advertising methods; competitor acquisition to increase market share; and the choice to focus on trade fairs and shows instead of mainstream advertising to reach clients or customers. Scholarly investigations
in the construction industry by Langford and Male (2001), and Price et al. (2003) note the challenges of applying traditional strategic planning models.

3. Theoretical Framework

Contract Theory

In contract theory, asymmetric information arises when one of two parties engaged in a business transaction happens to have more or more diverse information than the other. In such a situation, one party often does not know enough about the other party and fails to make an accurate decision. This situation leads to an impending undesirable selection and moral peril problems in the credit market. An undesirable medley is a problem arising from asymmetric information that occurs before a transaction is entered into. A lender may decide not to lend money although the borrower is worthy of the loan and has the potential to make loan repayments as expected.

Moral peril is a problem of asymmetric information that arises after alteration has occurred. The borrower might engage in activities that are objectionable from the lender’s point of view, and this makes it less probable that the loan will be paid back. For these reasons, formal financial institutions insist on collaterals as a precondition for providing loan money to small enterprises. The disbursement of loan money without securing ample collateral is considered too hazardous. Stiglitz and Weiss (1981) have pointed out that information asymmetry is one major cause of credit restriction in small businesses and enterprises. According to the authors, capital does not always flow to small firms because of undesirable selection and moral hazard, two factors that are known to have a devastating negative impact on small enterprises.

Empirical Review

Farouk & Saleh (2010) argued that the support of micro-enterprises in developing countries is defensible in their capabilities to faster economic growth, lessen poverty, and generate employment. They have added their voice to the positive contributions of SMEs when they challenged that small and medium-scale enterprises have been the driving force in the booming economy of China by contributing 68.8 billion tonnes to the National Industrial Output. SMEs and Entrepreneurship are now recognized universally as a key source of enthusiasm, innovations, and elasticity in advanced industrialized countries as well as in emerging and developing economies. It becomes imperative to determine to what degree the above
affirmation applies to Nigeria.

To Akwani (2007) SME banking or SME lending is very risky. This according to him is because they do not have collateral or security to offer. It would seem that this is the main problem restraining the performance of SMEs in Nigeria. The promotion of micro-enterprises in developing countries is reasonable because of their capabilities to promote economic development. However, according to Cooper (1993), the main blockage faced by small business enterprises is capital. Despite the alleged capacity of SMEs to generate employment and reduce poverty, Okwu et al. (2013) have taken the view that many small firms are more capital-intensive than large firms in some industries.

In other words, the generalization of the immense capacity of SMEs to perform by reducing unemployment and poverty may not be wholly tenable. For Davis and Cobb (2010) the weight of evidence suggests that larger employers offer better jobs in terms of wages fringe benefits, working conditions, and opportunities for skills enhancement as well as job security than small and medium-scale enterprises. Davis's postulation is certainly germane when considering variables impacting the performance of SMEs. In Nigeria's context, several studies by different researchers have been carried out to appraise the role of finance on the performance of small and medium-scale industries which normally translate into growth and development of the economy (Jasra, et al. 2011).

However, studies on this topic tend to have benefited immensely from the works of various scholars. The purpose for which a loan is sought is also seen as having a significant impact on whether or not such loans would be disbursed. Moorthy et al., (2012) opined that access to loans is one of the main problems facing SMEs in Nigeria. The idea of creating Micro Finance Institutions (MFIs) is to provide an easy convenience for SMEs to finance/fund predominantly those that cannot access formal bank loans. To determine SMEs accessibility to MFIs loans,

4. Conclusion

The study revealed that SMEs face a lot of challenges which can be classified into internal and external factors. The result showed that the major factors that determined the non-performance of the SMEs in Nigeria are the external factors.

It also revealed that in the external factors, the major hindrances to SMEs' performance are government policies and technology. While the other external factors are finance and
marketing of the SMEs are less likely to affect the performance of SMEs. However, these factors do not significantly affect the performance of SMEs.

Based on the results, the role and importance of SMEs cannot be over-emphasized. Therefore, to achieve the desired objective of achieving growth and development through SMEs, there must be leverage on government policies are the inclusion of workers in decisions about tax laws.

**Recommendations**

i. Managers should be sensitive toward the external environment which is so dynamic, that it extremely influences the decision-making.

ii. Managers ought to be flexible, and change the way they act and make decisions if they want their business to have a sustainable competitive advantage.

iii. Small-scale enterprises should focus on investing in projects where they have a strong competitive advantage and core competency. Each business has its own unique set of skills and limitations, thus, they should do what they are best at.

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