
SCENARIO ANALYSIS AS A USEFUL TOOL IN STRATEGIC MANAGEMENT PROCESS: A QUALITATIVE STUDY

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Abstract

This paper assesses scenario analysis as a useful tool in strategic management process. A qualitative approach was adopted. Therefore, we looked at what has already been studied about the strategic management process and the impact that scenario planning and analysis may have on it. Theoretically, scenario planning has proven to be an invaluable resource for developing country businesses attempting to navigate a variety of complex threats (mostly external). Hence, it was concluded that scenario analysis is a valuable approach that aids corporate managers in strategic planning, development, and execution, and is one of the most widely used "future tools" developed by academics and professionals. Consequently, managers of organisations, especially those in developing countries, would do well to recognise scenario planning as a useful tool for proposing strategies that will help their businesses take advantage of opportunities and mitigate threats posed by the unpredictable evolution of technologies and the business environment. This is because scenario analysis provides so much useful data that it may be used to construct a sound company strategy and plan centred on repurposing current resources and developing new areas of expertise.

Keywords: Scenario Analysis, Strategic Planning, Strategic Management Process

Introduction

As a result of increased global rivalry, businesses have turned to strategic management techniques to ensure their continued success (Wasiu, 2022). No company can expect to thrive in today's cutthroat economic climate only by luck. It is the end result of long-term planning that takes into account the company's strengths and weaknesses, competitors, market opportunities and threats, and available resources (Dozie & Emma, 2020). The importance of strategic management to any organization's growth is so well accepted (Wasiu, 2022). Strategic management practises are the end product of managers' thinking on how to recognise the drivers of change and exploit both internal and external possibilities. Managers strive for optimal efficiency, meaning they want to get the most out of their resources while spending as little as possible. Only by carefully selecting the most successful management strategy methods and tools/techniques can all of these goals be met and more (Wasiu, 2022).

To put it simply, strategic management is the process through which an organisation determines its purpose, vision, and objectives, formulates strategies to attain these goals (typically in the form of projects and programmes), and then allocates resources to put these strategies into action (Suleiman et al., 2022). An organization's goals, methods for achieving them, consideration of the whole scope of the strategic management process, and the sum of money and manpower it will take to put those plans into action are all elements of a plan (Umar & Adamu, 2020).

Strategic management, as defined by Stonehouse and Pemberton (2002), is "a collection of ideas and concepts, underpinned by tools and processes that is intended to help managers of organisations in engaging in strategic thinking, planning, and action." Without a doubt, the strategic management process would not be complete without the use of tools and approaches for strategic management. Every resource that helps with strategy development and execution falls under the umbrella term "strategy tool" (Stenfors et al., 2007). In strategic management, there are a wide variety of strategies, tools, methods, models, frameworks, approaches, and processes available to aid in making decisions. Tools created and recommended by consultants or academics are too many to include here (Jarzabkowski & Kaplan, 2015).

Yet, many writers have given a range of strategic analysis tools with the intent of serving as a roadmap for executives. Prescott and Grant (1988) were among the first to analyse and categorise 21 different strategic methods along 11 different aspects. Webster et al. (1989) made a list of the 30 tools that are most often used for strategic planning. Clark (1997) studied 66 methods of strategic management, of which 33 were widely implemented. According to Vaitkevicius's (2006) research, there are 41 distinct methods for strategic management. A scenario plan or analysis is an example of one of these tools or procedures (Qehaja et al., 2017).

Strategic decision makers, according to Wan et al. (2022), can benefit from "futures approaches" (Allwood et al., 2008) including scenario analysis (Dyner & Larsen, 2001) in order to better prepare for the inevitable changes that will come with the advancement of technology. While scenario planning may be used to illustrate potential future outcomes, it is not the same thing as forecasting or prediction (Wan et al., 2022). Decision-makers can benefit from scenario analysis because it provides them with alternative courses of action in the face of ambiguity (Roxburgh, 2009). Possible future occurrences and their potential outcomes are laid out in a scenario. To account for the many possible outcomes in the future business environment, scenario analysis creates a number of hypothetical scenarios (Wack, 1985a; 1985b).

Scenario analyses are a method used in strategic management, which is the focus of this research. In other words, the purpose of this qualitative research is to determine whether or not scenario analysis is an effective method for strategic management.

Literature Review

Scenario Analysis/Planning

Most people try to predict the future by looking at previous events. Predictions are frequently made based on the assumption that past and present patterns are equally relevant going forward (van der Merwe, 2008). Strategic choices should not be made by businesses and other organisations based on a single future scenario (Börjesson & Larsson, 2020). Instead, they should aim to depict scenarios that include a wide range of possible future outcomes as a means of dealing with rising levels of uncertainty (Gausmeier et al., 1998). Thus, successful businesses are those that can see forward to a variety of scenarios, allowing them to seize opportunities as they arise and remain competitive (Schoemaker, 1997).

Scenario planning might mean different things to different people (Amer et al., 2013; Chermack, 2011; Schwartz, 1996; van der Heijden, 2005). As a tool for future planning in the face of uncertainty and ambiguity (Schwartz, 1996; Van vanHeijden, 2005), as a means of organizing perceptions and facilitating creative thought, and so on, scenario planning is widely employed in a variety of contexts (Schwartz, 1996). Strategy and leadership may both benefit from the use of scenario planning (Amer et al., 2013; Chermack, 2004; Chermack, 2011; Ogilvy & Schwartz, 1998). Ogilvy & Schwartz (1998) improved upon the scenario planning approach developed by Pierre Wack for Shell Oil. A recent integrative addition to the continuing issue of scenario planning definitions may be found in the work of Spaniol and Rowland (2018).

Several different outcomes are possible in scenario planning. In certain studies, it was shown that this method improved both organisational culture and communication (Chermack & Lynham, 2002; Chermack, 2011). Others argue that enhanced leadership abilities—such as quick decision making and responsiveness—can boost organisational effectiveness (van der Heijden, 2005; Schwartz, 1996). The field is open for other link points between skill development and scenario planning, and research is continuing to build on the data to support such assertions. The breadth of current literature on the subject suggests several avenues for further research.

Strategic Management Process

To fulfil an organization's goals and priorities, managers must engage in strategic management, which involves determining the most effective policies to implement (Stamevski et al., 2018). It has been shown that more and more businesses, at all levels of administration, are using strategy management as a means of preparing for and responding to unforeseen internal and external challenges. Management strategy is the central tenet of every comprehensive administrative framework. Strategic planning is ingrained at every level of major businesses with intricate organisational structures and strict regimentation.

Maintaining the company's strategic competitiveness is strategic management's primary goal. We can do this by formulating and enacting business strategies that increase profitability. It involves analysing the environment, taking into account the company's strengths and shortcomings, and planning for the future success and expansion of the business. Complexity theorists may describe strategy as the process through which the interplay of an organization's internal and external factors leads to decisions and actions in a social and economic setting. This is supported by recent research (Terra & Passador, 2016).

Institutional goals and the means to attain them can be defined through the strategic management process. Strategic management is a catch-all word for how decisions are made. Predicting the future (via better planning), thinking strategically (through faster reactions, more carefully weighing strategic alternatives, and more dynamically allocating resources), and creating the future themselves are all necessary steps in the development of strategic management (strategic planning). Many models and frameworks have been established by scholars and working managers to facilitate strategic choice making in the face of uncertainty and intense competition (Ghemawat, 2002).

Approaches to Scenario Analysis

Many approaches may be taken while performing a scenario analysis. Several of the available scenario techniques have common features and are focused on the needs of actual users (Jetter et al., 2013). Different approaches utilise different strategies for gathering data and analysing it, with some relying on qualitative methods and others favouring quantitative methods supported by various types of computer programmes (Jetter et al., 2013). According to Jetter et al. (2013), there are primarily three types of scenario analysis methodologies that each make use of a number of different techniques. Among these are the intuitive logics of the British and American methods, the PMT methodology of the British and American, and the La prospective technique of the French (Börjesson & Larsson, 2020).

Intuitive Logics: According to Cairns et al. (2013), this method analyses the connections between crucial uncertainties, important predetermined trends, and the behaviour of stakeholders who are active in the projected future to determine how the future might unfold up until the year defined in the specific scenario project. The PESTEL framework intends to incorporate political, economic, social, technical, environmental, and legislative elements into the investigation (Cairns et al., 2013). Most of these elements exist beyond the control of the company itself, however they are crucial to comprehending potential change drivers that may influence the company's external environment (Honton & Huss, 1987). Some of these elements are explicit, quantifiable, and predictable, such as demographics, while many others are less particular, qualitative, and harder to anticipate, such as consumer behaviour, political climate, and technology advancement (Honton & Huss, 1987).

Probabilistic Modified Trends (PMT) Methodology: The probabilistic modified trend technique is the second strategy, and it makes use of two distinct matrix-based methodologies: trend impact analysis (TIA) and cross effect analysis (CIA) (Jetter et al., 2013). These approaches originate from the realisation that conventional, quantitative forecasting techniques grounded in the analysis of past data are deficient. For the most part inaccurate estimates may be made using conventional approaches since they presume ongoing patterns and little effects from future occurrences (Gordon, 1994). To better predict the future, forecasters might use a technique called trend impact analysis, which modifies extrapolated previous patterns by factoring in the consequences of extraordinary future occurrences. Important qualitative aspects are integrated with quantitative techniques like time series analysis (Gordon, 1994).

French Approach of La Prospective: Developed in France during the 1970s, the La prospective technique is more commonly associated with public sector planning than business planning (Van Der Heijden et al., 2005). The method was created on the basis of the idea that the future does not belong to a progressive continuity and so cannot be consistently forecast with precision (Jetter et al., 2013). The future unfolds as a result of interactions among many determining elements and the interplay of diverse dynamic forces, and as a result, there are a wide variety of possible outcomes. According to Godet (1986), the

goals of the La prospective approach are to (1) identify the relationships between the variables of the specific system through systemic analysis in order to detect the most important issues for study; (2) identify the main actors in the system environment and their strategies related to key variables; and (3) describe, with scenarios, the development of the specific system by analysing the potential outcomes of key variables and the behaviour of key actors.

Scenario Analysis as a Useful tool in Strategic Management Process

The scenario analysis has been advocated in several existing papers as a legitimate method for strategic management. According to Schoemaker's (1995) research, scenario analysis is unique in strategic planning since it can capture a wide variety of possibilities with great precision. Step-by-step instructions on scenario building and how to apply the resultant tales in strategic planning are provided, with examples drawn from the experiences of the global advertising agency Interpublic and the South African firm Anglo-American Company. We draw the conclusion that managers can build a series of scenarios that will assist compensate for the common flaws in decision-making by detecting underlying trends and uncertainties.

Taking the view that scenarios help strategic decision-makers and are particularly useful in handling uncertainties, Postma and Liebl (2005) tried to address some shortcomings of the conventional scenario method that is specifically aimed at handling these uncertainties and indicated possible avenues for methodological adaptations. Their research provides evidence of several approaches to scenario building. It talks about combining several kinds of situations, such as recombinant scenarios, context scenarios, inconsistent scenarios, and so on.

Doval (2010) argues that strategic management is significantly influenced by the uncertainty and risk inherent in the organization's external environment. Managers will need to prepare contingency plans in order to deal with this issue. They acknowledged that forecasting is a powerful tool in strategic planning, but that it is challenging to implement in an unpredictable setting. That is why they advocated a methodology for scenario-based strategic planning in their study.

Scenario analysis, as described and evaluated by Venable et al. (1993), is a technique used in strategic planning to characterise and assess the external environment in which a company operates. Supporting this claim, they provided an approach to scenario analysis by focusing on the Jefferson County Department of Health and the challenges it faces on a national, state, and local level. The end result was a group of realistic scenarios that enhanced managerial dialogue and communication, prevented managers from being caught off guard by unexpected changes in the environment, and improved strategic planning.

Conclusion and Implications

The purpose of this research is to evaluate scenario analysis in terms of its utility in the wider context of strategic management. Literature shows that scenario planning or analysis is one of the most popular "future tools" created by academics and professionals. Moreover, a literature assessment showed that scenario analysis is a genuine technique that helps business managers with strategic planning, development, and execution.

This has far-reaching consequences for businesses. Organizational managers, particularly those in developing nations, would do well to recognise that scenario planning is a valuable tool for proposing strategies that will help their businesses take advantage of opportunities and mitigate threats posed by the unpredictable evolution of technologies and the business

environment. The wealth of information provided by scenario analysis allows for solid strategy and planning that centres on reshaping the business with the help of already-existing assets and the creation of new competencies. The process of developing the strategy necessitated the application of systems thinking, and the scenarios offered a wide range of dynamics for managers to evaluate and contrast.

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