Tows Analysis for Strategic Choice of Business Opportunity and Sustainable Growth of Small Businesses

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Abstract
For every entrepreneur, it is very important to have the foresight and quality of sensing right opportunity. It is an important entrepreneurial function which calls for the ability and eagerness to perceive and receive the curious signals, sieve and process them for arriving at a final decision in favor of an 'enterprise'. Thus, a correct business opportunity is the feasible economic idea which can be implemented to create an enterprise, earn profit, and leads to sustainable growth. This requires careful study and investigation of the inter-relationship between entrepreneur, environment and the enterprise through which the best business opportunity is identified. Typically, SWOT analysis is being done by prospective entrepreneurs for the screening of best business idea/opportunity which is followed by Project report formulation, Appraisal and Resourcing. Despite the fact that entrepreneurs and professionals perform very mindful and prudent SWOT analysis for opportunity sensing, a major of Small businesses fail and shut down in their initial years only. in 2016, more than 1000 startups shut down their operations in India. More than half of these were founded in the Indian startup ecosystem’s takeoff period between 2013 and 2014. According to reports, these sizeable numbers of startups were ventures with very promising ideas and no shortage of funds. This is the rough estimate of failed enterprises which were registered or incorporated and started by trained personnel, however no official data is available for unregistered small and micro enterprises and the last year has seen tremendous increase in the number of enterprises shutting down their operations due to some or various reasons. According to Forbes, most of them failed as they started for wrong reasons, improper planning, poor management and leadership, failure to market, lack of differentiation, etc. This grabs the attention of experts, consultants, entrepreneurs, bankers, policy makers, etc to analyze the reasons behind such failures as they lead to huge waste of resources of society. They need to reevaluate the very first step of starting an enterprise i.e. selection of the project. While selection, instead of merely focusing on maximizing Strengths of entrepreneur and Opportunities available in environment, these days it's equally important to minimize threats posed by environment and weaknesses of entrepreneur in order to have sustainable growth of business and preventing a startup from death. Therefore, this paper will focus on TOWS analysis which is Threat, Opportunity, Weakness and Strength analysis matrix which helps to select not the best but a better business opportunity and strategy formulation for minimizing the impact of threats and weakness on enterprise and maximizing strengths and opportunities, helping in clear mentioning of the Aspirations (preferred future/what an organization desires to be known for) and Results (measurable) which is crucial to decide whether an enterprise will have sustainable growth or shut down in future.

Keywords: Entrepreneurship, Project Selection, TOWS Analysis, Strategic decision making

Introduction
Entrepreneurship refers to “identification/innovating ideas; products and services; mobilizing resources; organizing production/services; and finally marketing them covering the risk with constant strive for growth and excellence” (Akhouri,1988). For an entrepreneur, it is very important to have the foresight and quality of sensing right opportunity which is the first and foremost crucial decision to be taken by him. It is an important entrepreneurial function which calls for the ability and eagerness to perceive and receive the curious signals, sieve and process them for arriving at a final decision in favor of an ‘enterprise’. An entrepreneur is a person who searches for and identifies an opportunity before working energetically to convert it into a business reality. (Robert W Ferrel,1977). He does it by being alert to the world around him,that is, his curiosity and interest helps in sensing opportunity. The anxiety and eagerness to know, can be further heightened by providing opportunity for
• Interaction with consultants, area experts and entrepreneurs;
• Providing published or unpublished literature;
• Industrial visits and field study; and
• Greater Information flow on new product/processes.
Sensing Opportunities

These are the few ways through an entrepreneur smells the opportunity around him and takes further action. Opportunity sensing, however, is completed through three stages:

1. Scanning the environment
2. Product Identification and Selection
3. Settling with an idea.

Scanning the Environment

Thorough scanning of the environment coves the understanding of socio cultural, economic, technological fashion and even the changing life styles and aspiration of local people. It is not a matter of just observing the ‘obvious’ in the environment but sensing the emerging opportunities out of the interaction of such futuristic/emerging needs of goods and services which otherwise are not perceived by general masses, is the unique and basic quality of an entrepreneur.

According to Bracker and Pearson (1986), even though the practitioners and academicians are engaged in inconclusive debate about the merits of strategic planning, some clear link between strategic planning and small business have been established through some researches. Thus, the environmental scanning becomes a part of strategic planning in small firms in particular. Scanning has also been found to be positively correlated with the financial performance of the firm (Dollinger, 1984).

Environmental scanning can be defined as the process of collection, interpretation of relevant information and forging the results into the organizations’ decision making process (Lenz and Engledow, 1986). An entrepreneur scans the environment to find out and external changes or events which may affect his/her enterprise. In fact, the concept of environmental scanning has been developed as a part of open systems concept. The open systems theory implies that the growth and development of an organization directly depends on its ability to adjust to its environment. Hence, it is essential for the organization/entrepreneur to be well aware of current environment and also what it would be in course of time.

Environment scanning process and intensity vary in terms of large and small scale industries. Bigger firms may have specialized environment staff, but small scale entrepreneurs/managers might follow different environmental scanning practices. Moreover, in large scale industries, target planning is done at the highest cement level, but a small firm manager concurrently work both at operational and strategic level. Again the structure of the organization also affects the nature and type of environmental scanning. For example, in a large scale firm, environmental scanning can be done by either a specialized department or a sales.In case of a small firm, however, all these functions are performed by a single individual. Again there is much more formalized nature of environmental scanning in larger firms that in smaller ones. External organizational linkages also influence the nature of environmental scanning between a large and a small firm. The smaller firms may be handicapped in scanning services of specialized agencies for environmental scanning due to financial constraints.

Smeltzer, Faun and Nikolaisen (1988) conducted a study on “Environmental scanning process in small business” in USA and concluded that more than 75% respondents considered economic conditions or the market place as the most important units of environmental scanning; family, friends and customers were most relevant sources of information along with informal sources like magazines, journals, newspapers, etc. All this information is required to ensure that the identified entrepreneurial opportunity is compatible with various environmental factors like developmental and institutional factor, political, financial, social, culture, etc.

Identification and Selection of Project

Proper project/business opportunity identification based on environmental scanning will be a major determinant of the success of an entrepreneur. Entrepreneurial decision regarding a particular project, however, is the function of entrepreneur’s personal characteristics and environmental factors (Singh, 1986). A graphical depiction of an entrepreneur’s business sensing ability would be extremely complex but would have a general trend as portrayed in Figure 1:

Figure 1: Business Opportunity Sensing Ability
When personal characteristics are less entrepreneurial, even increasingly favorable environmental factors do not heighten the business opportunity sensing ability, whereas a highly entrepreneurial personality sees a business opportunity when others do not and this ability to sense and grab the opportunity heightens sharply with a favorable business climate.

The identification and selection of a project therefore, is an outcome of the interaction between the three - the enterprise; the entrepreneurial personality and the environment. The interactive model is depicted in figure 2.

Figure 2: Dynamics of Project Identification/Selection

The model clearly brings out the two way interaction between the factors. Thus, the type of environment in which an entrepreneur would operate shall determine the coordinates of his project in terms of type and size. Similarly, the type and size of the project will decide the kind of environment in which the entrepreneur should operate. The personal background of the entrepreneur will also be determinant of the type and size of a project. And the project in turn, will determine the traits required of an entrepreneur who wishes to operate successfully. Thus a hi-tech project initiated by a person with weak technical background demands his acquiring sufficient knowledge or else he builds up a team of technically competent persons to successfully operate his enterprise. A similar correlation is perceived between the entrepreneur and his environment.

Among the personal factors, family background, previous experience, special interest, managerial and technical skills, and other personality traits have been found to influence the sensing ability of an entrepreneur. Attitude and encouragement of parents directly effects the entrepreneurs’ sensing and decision. In the Psychodynamic model, Elizabeth Chell (1985) propounds “early life experiences are said to shape prominent patterns of behaviour amongst entrepreneurs”. Thus an entrepreneur is quite at ease with a project whose elements he can match with familiar concepts. Besides, such a personality traits as self confidence, creativity, innovativeness and willingness to take risks, have been found influencing entrepreneurial decision regarding product/services.

Identifying good projects is synonymous with locating sound business opportunities. An opportunity can be sensed provided there is a felt need. Availability of resources can be fructified with entrepreneurs’ capability. Without capability, the available resources are not resources and the felt need remains unsatisfied. This can be put up as an equation

\[ \text{Need} + \text{Capability} + \text{Resources} = \text{Opportunity} \]
Fundamentally anything seen under the sun should offer a good opportunity. After all, if an item is being manufactured and supplied, it must be technically feasible and economically viable. No person can continue to be in business in such product/s if these were not so. But an entrepreneur who wishes to take up a similar product may not experience so unless he knows the methods that are being employed.

It is in this sense that no two ventures are identical even if the inputs and outputs are similar. The set of associated factors like the timing and the set of enveloping environmental factors would never be identical. And for this reason, any business venture becomes a distinctive project.

Settling with an Idea

The final selection of project is best done by matching the entrepreneur, enterprise and environment related factors. Any entrepreneur would not work in seclusion but shall constantly interact with the environment around him.

Rising Small Business Failure

At early stage, every entrepreneur can effortlessly visualize the success trajectory of startup, but harsh truth is that the success probability of startup is 1/10 i.e. 9 out of 10 startups fail. According to survey conducted by FS Labs, results shows that only 1% of startups get funds based on their distinguished business model, potential team and sustainability limits, around 80% of the running startups are self-funded and around 19% of the running startups are dependent of the angel investors, friends and relatives. This fund dependency rate of running startups when combined with success probability produced horrible results for overall scenario.

The above saying is 100% true as majority of the entrepreneurs get inspired by the success trajectories of efficacious entrepreneurs and start implementing their concepts into reality without knowing the entire practice. Initial stage of startup is quite promising as every co-founder has high motivation but eventually it comes on a down track once the actual hurdles start entrapping the market base. FS Labs did a comprehensive analysis on failed startups and the major factors of their failure. A general survey comprehends that around 98% of the startups fail because of their business model i.e. the wrong selection of project or product idea; around 87% startups failures are driven by poor management, around 91% failures are because of financial issues.

Startup Business Model Failure - A sustainable business model is the most critical requirement of any startup. Product or service of any of the startup would only be appreciated by mass if it addresses some problem and provides better solution than the existing ones. Successful startups are always driven by providing solution to major problem of large potential market. One of the major reasons of startup failure is a short lifespan business model. The main reasons of startup business model failure are Product doesn’t solve Any Problem, Product doesn’t Stand against Competitors, Product doesn’t infiltrate in the Market or Product is not Scalable,

Startup Management Failure - Proper management is the major requirement for any of the startup. Since the strategies need to be modified as per market trends and competitors strategies, a strong management is necessary to ensure the achievement of fluctuating and demarcated baselines. Startups fail because new entrepreneurs have limited experience due to which there is poor planning, Improper Approach to Capture the Market and Disharmony on Team/Investors.

Startup Financial Failure - Funds are the most critical to run a business model in long terms. Success of startup depends on the proper utilization of its funds to generate a profitable business. Around 91% of the startups fail because of improper funds management. Startup financial failure occurs due to unsustainable Business Model, Cash crunch, Pricing / Cost Issue, etc.

Other Failures - Legal Issues, lack of passion, wrong selection of location are some other reasons too. The failure reasons vary for individual cases but ultimately its results in the motivational loss of new entrepreneurs. According to worldwide survey, around 75% of the founders give up after their one failure, remaining 25% learns from their failure and moves forward with another model.

Literature Review

There have been various studies conducted by researchers and experts to identify the best method of sensing and screening business opportunities. Most of them revolve around the concept of scanning the environment for idea generation and selection of appropriate project. Several researchers have worked on the same concept.

According to Akhouri, MMP (1988), the whole exercise of sensing opportunity embodies an introspection of the self to identify personal strengths and weaknesses and analyze the environment to determine the opportunities and threats. According to figure 3, it clearly shows that coordinate 2, 2 is the optimum and 2, 1 or 1, 2 require care and caution while 1,1 is not recommended under any circumstance. To be successful an entrepreneur has to choose a project where he has strengths, can overcome his weakness, grab opportunities offered by the environment and prepare for the threats posed. In the dynamics of project identification a movement from coordinate 1, 1 to 2, 2 becomes a desirable trend.
This model is very popular and still used extensively for project identification or product selection. However, the major limitation of this model is that it focuses mainly on strengths of entrepreneur and opportunities from environment for decision making. A startup is just like a newly born child who learns crawling, walking, standing tall only with the passage of time and thus needs care and protection in initial years of learning. Similarly, a small business learns to overcome problems with experience and passage of time. However, in dynamic world where technology and customer needs change very fast, time is not an excuse and it is impossible to ignore the threats external to organization as well the weaknesses internal to entrepreneur. The large firms can overcome internal weakness by building up team of technically competent persons, but the small firm owners cannot do so initially due to financial constraints. Moreover, the threats like competition change in fashion and technology, etc can be coped up easily by big firms but not by small enterprises. Therefore, the results are lacking uniqueness and value, poor marketing, low sales, leadership failure, unprofitable business model, poor financial management and finally the SHUTDOWN. And in such situation, the opinion of small business owners is that they were wrong in selection of business idea and thus, everything went wrong.

It is very essential to focus equally on threats and weakness, so if a project selected from coordinate 2,2 cannot face threats or the weakness of entrepreneur comes in the way of enterprise's success, the so called best project will not turn out to be best and have higher chances of failure. An ideal selection of project may not give ideal results as the real world changes constantly. So a project from coordinate 2,1 or 1,2 will be more sustainable because they consider threats or weakness too. Projects in coordinate 2, 1 are have advantage of internal strengths which can be further fortified and projects in coordinate 1, 2 have advantage of more opportunities and internal weakness which can be overcome through hiring of right people. Now, the question arises how to decide which business idea is sustainable among 2, 2 or 2, 1 or 1, 2 coordinates. This strategic choice of business idea requires clearly defined strategies formulated in advance wherein the Strengths and Opportunities are maximized as well as Weaknesses and Threats are minimized so that the enterprise is fully equipped to bear the shocks of external threats and internal vulnerabilities, at the same time dominates strengths in the environment and opportunities within. And clearly explain the Aspirations of enterprise i.e. what it wants to be known for or it's preferred future as well as the measurable results of enterprise in terms of growth rate, return on investment, etc.

Keeping in mind the above points, a strategic choice for idea selection can be done through TOWS Analysis in which Threats and Opportunities are examined first and weaknesses and strengths are examined last unlike SWOT and entrepreneurs can examine ways an enterprise can take advantage of opportunities and minimize threats by exploiting strengths and overcoming weaknesses. According to Michael Watkins of the "Harvard Business Review", focusing on threats and opportunities first helps lead to productive discussions about what is going on in the external environment rather than getting bogged down in abstract discussions about what a company is good at or bad at.
TOWS Analysis

As we are aware that the identification and selection of a project is an outcome of the interaction between the three - the enterprise; the entrepreneurial personality and the environment. TOWS analysis is a method of strategic analysis used to study the environment and the entrepreneurial personality analysis. TOWS concept is closely related to SWOT analysis. According to H. Weihrich (1982), “Threats, Opportunities (in the environment) Weaknesses, Strengths (of the organization) should be analyzed in this order, as a problem solving sequence in the process of strategy formulation. He also states that many experts suggest that a firm uses its strength to take advantage of opportunities, but they ignore other important relationships, such as the challenge of overcoming weaknesses to exploit opportunities”.

TOWS analysis is the method of strategic analysis, involving systematic and comprehensive assessment of external and internal factors that determine current competitive position and growth potential of an enterprise. As Michael Watkins of the "Harvard Business Review” has stated that SWOT implies wrong order of doing things and starting from analysis of Strengths is wrong, because managers should first identify all threats from environment in order to do following steps of planning and preparation to protect against these threats. This concept of TOWS analysis can be used while sensing and screening business opportunities for better decision making. This can be better understood with the help of description of various components of TOWS analysis with respect to enterprise development.

Analytical categories in TOWS analysis

Just like SWOT analysis, TOWS analysis has following fields:

Strengths of an Entrepreneur are the internal traits, positive characteristics which distinguish him in the environment and from the competition. They also enable adaptation to changing conditions of the environment and are key success factors. For example - the personal factors like family background, previous experience, special interest, managerial and technical skills, self confidence, creativity, innovativeness and willingness to take risks, etc.

Weaknesses (internal negative factors or challenge) are mostly due to insufficient skills, bad work habits or traits like poor communication skills, poor networking, ineffective leadership qualities, lack of technical expertise, lack of IT knowledge, lack of understanding of market research, lack of marketing expertise, etc due to which wrong decisions are usually taken.

Opportunities (external positive) are the phenomena and trends in the environment that if used appropriately can stimulate the development of an enterprise and weaken the threat. An opportunity is always something outside, something on what the leadership does not have direct influence, something that can change in an unexpected way like favorable entrepreneurial culture, ease of technology, change in lifestyles, increased purchasing power, easy access to intellectual inputs and knowledge, government incentives, etc.

Threats (external negative) are all external factors which are perceived as barriers to the development of the enterprise, inconveniences causing additional costs of action. A threat according to strategic management is always something outside of an enterprise, something on what entrepreneurs/managers do not have an influence and can change in an unexpected way. For example, underestimation of competition, change in customer choice, new entrants, new competitive products, channel conflicts, change in IT trends, etc. Comparing opportunities and threats with strengths and weaknesses of entrepreneur allows to define its strategic position, and can also be a source of innovation, and ideas of breakthrough products or services.

The next step is the preparation of TOWS Matrix of strategic alternatives which enables selection of sustainable opportunity easier and measurable in terms of results. TOWS matrix provides four basis strategies depending on the prevalence of the analyzed group of factors (negative or positive) in the environment and within an entrepreneur. Internal are the weaknesses and strengths and external are the threats and weaknesses. Four quadrants with different strategic situations are developed as follows:

SO situation - maxi-maxi strategy. This situation applies to the situation for which dominates strengths in the environment and opportunities within. This situation corresponds to the maxi-maxi strategy whereby it is possible to have strong expansion and diversified development.

WO situation - mini-maxi strategy. This situation has more vulnerabilities - weaknesses, but its environment gives more opportunities. The strategy should include the use of these opportunities while reducing or correcting weaknesses within.

ST situation - maxi-mini strategy. The source of difficulties in growth and development are unfavorable external conditions (prevalence of threats). The strategy should use large internal strengths in attempt to overcome threats from environment.

WT situation - mini-mini strategy. This situation is devoid of any development opportunities. It operates in hostile environments, and its potential for change is small. It does not have significant strengths, which could withstand threats. Mini-mini strategy boils down to a pessimistic version of the shut down or in optimistic situation - to strive for survival with hopes of revival.
How to use TOWS Matrix for proper idea selection

1. Draw up this matrix on paper or computer, four quadrants namely SO, WO, ST and WT. Now, keeping in mind the business opportunity selected from coordinate 2, 2 of Figure 3 (say Business Opportunity No. 1), write in place the strategies for all four quadrants i.e. maxi Strengths maxi Opportunities, mini Weaknesses maxi Opportunities, maxi Strengths mini Threats and finally mini Weaknesses mini Threats. Keep special focus on two quadrants SO and WT i.e. maxi Strengths maxi Opportunities, & mini Weaknesses mini Threats of Business Opportunity No. 1.

2. Now repeat this step 1 for business opportunity selected from coordinate 2, 1 of Figure 3 (say Business Opportunity No. 2). Keep special focus on two quadrants SO and WT i.e. maxi Strengths maxi Opportunities, & mini Weaknesses mini Threats of Business Opportunity No. 2.

3. Again repeat the step 1 for business opportunity selected from coordinate 1, 2 of Figure 3 (say Business Opportunity No. 3). Keep special focus on two quadrants SO and WT i.e. maxi Strengths maxi Opportunities, and mini Weaknesses mini Threats of Business Opportunity No. 3. Repeat the whole exercise for all opportunities available.

4. Let's assume we have selected only 3 opportunities. Evaluate them one by one.

5. Consider Business Opportunity No. 1, look at the quadrant WT, the strategies made to minimize Weaknesses and minimize Threats (which tells what an entrepreneur will do in worst or hostile conditions) and match them with strategies made for SO quadrant (maxi Strengths maxi Opportunities). This will inform a decision maker/entrepreneur about three things - Sustainability (life of an enterprise), Aspirations (the preferred future/ what an enterprise desire to be known for) and measurable Results (expected growth rate) of business opportunity. In detail, matching WT with SO provides an information that if the business opportunity no. 1 is selected and project plan formulation and resourcing are done, then after some time (say 3 months) will an enterprise have defensive mechanism or strong immunity in place to reduce the impact of weaknesses or threats as the enterprise has been launched and the decision cannot be reversed, while using maximum strengths to take maximum advantage of the opportunities. And this should be expressed quantitatively, not qualitatively. Through the strategies decided in SO & WT quadrants, make rough estimation about life span, expected growth rate of enterprise and its competitive position if Business Opportunity No. 1 is selected.
6. Repeat same process for Opportunity No. 2 and Opportunity no. 3.

7. Compare the results of three in terms of expected life span, growth rate and position of product/service in market.

8. Select the one with better results, preferably with higher life span as growth rate may fluctuate depending upon real time financial management. Higher life span indicates more chances of sustainability of small business and potential to learn and cope up with setbacks in future.

With the help of TOWS matrix, better and strategic decision can be made while settling with an idea and proceeding further with project preparation, appraisal and resourcing. Therefore, by using rational and logical TOWS analysis matrix in combination with SWOT analysis model (fig. 3) described by Dr M M P Akhouri (1988), an entrepreneur reduces the risk of wrong selection of business opportunity, which makes next steps easier, viable and sustainable. This will also reduce the risk of major startup failures resulting due to poor business models. This will help entrepreneurs from losing interest or passion and also encourage them to diversify or expand business lines. And overall, reduce the wastage of economic, natural and human resources of society and nation, at large.

**Recommendation**

Due to rapidly changing times, it is advisable to consider time dimension in TOWS Analysis which will help to predict future in better way by considering past trends. Due to dynamic character of external and internal environments, some or all factors change in time. Therefore, entrepreneurs should then prepare at least 3 TOWS matrices (fig. 5), starting analysis in past (year or two before present moment), continuing with an analysis of the present situation, and then focus on analysis of the future external and internal situation. This will give better results for decision making.

**Figure 5: Time Dimension in TOWS Analysis**

**Conclusion**

With the help of TOWS matrix, better and strategic decision can be made while settling with an idea and proceeding further with project preparation, appraisal and resourcing. Therefore, by using rational and logical TOWS analysis matrix it is possible to select not the best but a better business opportunity and strategy formulation for minimizing the impact of threats and weakness on enterprise and maximizing strengths and opportunities, and clear stating of the Aspirations (preferred future/what an organization desires to be known for) and Results (measurable) which is crucial to decide whether an enterprise will have sustainable growth or likely chances to shut down in future.

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