

Gabriela Menet

Uniwersytet Ekonomiczny w Krakowie

## The importance of strategic management in international business: Expansion of the PESTEL method

Not only global but also regional links have strengthen considerably in the recent years. Globalization can be both a threat and an opportunity for international companies. To take advantage of the globalisation changes, companies must rethink their strategies and seek new tools that would help them stimulate innovation and growth in international markets. Managers should avoid strategic myopia, which arises as they merely follow the established tools, step by step, without a wider understanding of a concept. The purpose of this paper is to demonstrate the importance of strategic management in international business and to present an expansion of the PESTEL method. The conceptual paper introduces a new tool in strategic management theory: REGLO analysis, an improved version of PESTEL analysis which marks out globalisation and regionalisation forces that are a great part of today's external environment. Moreover, the article emphasizes the need for improvement of some popular strategic management tools that are used by the majority of companies in the current decade.

Keywords: strategic management, international business, PESTEL analysis, globalisation, REGLO analysis

JEL classification: F23, L63, L21, M13, M16

### Znaczenie zarządzania strategicznego w biznesie międzynarodowym. Rozwinięcie analizy PESTEL

W ostatnich latach znacząco nasiliły się zmiany wynikające z procesów globalizacji i regionalizacji. Dla międzynarodowych firm globalizacja stanowi zarówno zagrożenie, jak i okazję. Aby skorzystać z możliwości, jakie stwarza, przedsiębiorstwa winny przemyśleć swoje strategie i wypracować nowe narzędzia stymulujące innowacje i rozwój na rynkach międzynarodowych. Członkowie zarządu powinni unikać strategicznej miopii – opierania się na dawno powstałych narzędziach bez szerszego zrozumienia kontekstu, w którym są używane. Celem artykułu jest ukazanie znaczenia zarządzania strategicznego w biznesie międzynarodowym oraz zaproponowanie udoskonalonej wersji analizy PESTEL. Artykuł wprowadza nowy instrument w teorii zarządzania strategicznego – analizę REGLO, która stanowi rozwiniętą wersję analizy PESTEL i wyróżnia czynniki wynikające z procesów globalizacji i regionalizacji, które w ostatniej dekadzie stanowią znaczącą część zewnętrznego otoczenia przedsiębiorstwa. Artykuł zaznacza potrzebę rozwijania nowych narzędzi w teorii zarządzania strategicznego.

Słowa kluczowe: zarządzanie strategiczne, przedsiębiorstwo międzynarodowe, analiza PESTEL, globalizacja, analiza REGLO

Klasyfikacja JEL: F23, L63, L21, M13, M16

## Introduction

In times of strong globalization and rapid changes in technologies, more and more companies decide to internationalize their operations, especially in the countries that have a lower GDP in comparison to neighbouring states. They seek to export at least some of their goods outside of their own country. International companies that undertake transactions beyond their national borders are most vulnerable to the effects of economic or political instability in other countries. That is why they should understand the importance of strategic management in international business, be careful and prepare complex strategies in an international context. Management in a national context requires a much smaller number of factors and conditions to be taken into account than management on an international scale [Simpson, 2015], which obligates managers to pay attention to currency changes, conflicting government policies and laws, as well as cultural differences between countries. As the links between the economy, politics and culture strengthen together with the escalation of the ongoing globalization process, management can easily get lost in the rapid changes that surround their company. Therefore, strategic management in international business requires not only a theoretical approach, but also a practical attitude toward the changing environmental factors. A practical perspective facilitates the modification of strategic instruments to adjust them to a company's needs, especially by considering the ideas of employees, who directly deal with actions deriving from strategic decisions. A very interesting view on strategy has been developed by Sir Roland Smith, Professor of Strategic Management at the University of Lancaster's Management School, and his collaborators. From a practical point of view, strategy is defined as an activity. Strategy is what people do within an organization, in ways that are hard to imitate. As a result, managers should be concerned with what employees do, both literally and directly. Strategy is thus essentially understood as an activity undertaken within organizations, typically the interaction of people, rather than as a property of organizations [Johnson et al., 2007].

There is a number of common strategic management instruments used by companies nowadays. In a research conducted in 2007 in the Czech Republic it was observed that 15 strategic management tools and techniques were used by over 50% of companies, namely: SWOT analysis, customer satisfaction analysis, price analysis, analysis of views and employee attitudes, cost-benefit analysis, analysis of customers' complaints, analysis of customers' opinions and attitudes, Porter's five forces, PEST analysis, level of service analysis, market segmentation, market share analysis, customer profitability analysis, benchmarking, and analysis of customer defection [Afonina, Chalupský, 2012]. This proves that even though the PESTEL (PEST) method is a rather 'old' instrument, it is still popular

among organizations. The author chose to expand this method, as it directly deals with external environment of a company.

The purpose of this conceptual paper is to demonstrate the importance of strategic management in international business and to present an expansion of the PESTEL method. The paper focuses on the importance of strategic management and describes briefly the PESTEL tool. Then, through the use of the improved variant of the PESTEL analysis: the REGLO analysis, it identifies the globalization and regionalization forces that surround a company.

## 1. The importance of strategic management in international business

For the purpose of further discussion, the term 'strategy' should be combined with the term 'international business'. The approach taken by Verbeke in his description of international business strategy is considered to be sufficient to explain the process. Verbeke [2009] states that 'international business strategy means effectively matching a multinational enterprise's internal strengths (relative to competitors) with the opportunities and challenges found in geographically dispersed environments that cross international borders. Such matching is a precondition to creating value and satisfying stakeholder goals, both domestically and internationally'. In other words, there is no satisfying stakeholder goals without a good strategy. It is apparent that the pros of practicing strategic management in an international company outweigh its cons. According to an analysis conducted in 2012 on a representative sample of Romanian companies of different profiles, sizes and economic and financial conditions, the crucial advantages of practicing strategic management include: ensuring the company's ability to prevent problems, providing unity in conception and action at all hierarchical levels within the company, ensuring consistency of strategic decisions with the current and tactical ones, improving coordination of all operational and functional units within the company, and contributing to the clarification and understanding of the mission and the purpose of the organization [Bradutan, Sarbu, 2012].

Additionally, strategy provides us with a guide – a philosophy for a company and its employees to follow. It takes into consideration internal and external conditions. In analysing the external environment, it is crucial to identify the factors that might in turn impact a number of essential variables [Kotter, Schlesinger, 1991; Johnson, Scholes, 1993]. An international company should seek opportunities in the following aspects of external environment:

- the economic conditions of a particular country (GDP trends, interest rates, money supply, wage/price controls, currency markets, etc.),

- in the dimension of technology and innovation: total government spending for R&D, patent protection, productivity improvements through automation, telecommunication infrastructure, etc.,
- political-legal position: antitrust regulations, environmental protection laws, global warming legislation, immigration laws, tax laws, foreign trade regulations, laws on hiring and promotion, stability of government, etc.,
- socio-cultural intricacies: lifestyle changes, career expectations, consumer activism, growth rate of population, age distribution of population, life expectancies, birth-rates, pension plans, health care, level of education, etc.,
- globalization process: internationalization trends, with the emphasis on strengthening its position among competitors and risk diversification while penetrating new markets [Bednarz, 2011; Rymarczyk, 2004; Witek-Hajduk, 2009], ratio of the value of exports and imports to the GDP of countries that are important from a company's point of view, high level of a country's openness; relevant international trade patterns, high level of a country's globalization (KOF globalization index); high level of economic, social and political globalization, geographical structure of production chains, etc.),
- regionalization impacts: availability of funds from regional and cohesion policy, international links across a region, role of a region, Europeanisation of firms and politics, etc.

The study of strategic management concentrates on the monitoring and evaluation of external opportunities and threats, taking into account the company's strengths and weaknesses, resulting in a new, upgraded direction for the company's operations. The main aim of strategic planning is to drive change within an organization, which must catch up with the innovations that surround the company. This is the major difference between the corporations of the 21<sup>st</sup> and the 20<sup>th</sup> century. Some 30 or 40 years ago, the external environments were stable and sustained competitive strategies. Today, this kind of approach is no longer viable, as there is no such thing as a permanent competitive advantage. Companies must be flexible in terms of strategy, and senior managers should seek to transform their organizations into learning organizations. According to Hunger and Wheelen [2011], a learning company is 'an organization skilled at creating, acquiring, and transferring knowledge and at modifying its behaviour to reflect new knowledge and insights'. It is apparent that the learning companies of the 21<sup>st</sup> century need new tools for taking advantage of the opportunities arising in the global environment.

## 2. PESTEL analysis and its extension into REGLO analysis

Research has shown that the external environment plays a significant role in the growth and profitability of companies [Kotha, 1995]. Nowadays, environmental conditions that surround firms are much different from those of past decades. Lots of companies compete globally rather than in domestic markets. With the changes in technology and the massive influx of information, managements face a greater demand to deliver extensive systems and procedures. In high-performing, strategically competitive organizations, managers must identify complex patterns if they are to understand their external situation [Hitt, Ireland, Hoskisson, 1996]. To identify possible opportunities and threats, the company must perform a detailed survey of its environment. As this process requires the monitoring, evaluation and dissemination of information, the key people within an organization must be able to exercise responsibility in order to avoid strategic problems in the long-term. One of the techniques often used to identify the external opportunities and threats is the PESTEL analysis. Kotler [1998] claimed that the PESTEL analysis is a useful strategic tool for understanding market growth or decline, business position, a company's potential for development and direction for operations. This analysis, accompanied by other tools (the SWOT analysis and Porter's Five Forces models), assists the company in operating in an environment which is complex and rapidly changing. The PESTEL also ensures that company's performance is aligned positively with the powerful forces of change that are affecting business environment [Porter, 1985].

According to the assumptions of the PESTEL analysis, external variables that can impact on companies derive from natural, societal or task-driven environments. The natural environment refers to physical resources, the climate or even wildlife, and ecological systems. In contrast, societal environment is 'mankind's social system – which includes general forces that do not directly touch on the short-run activities of the organization that can, and often do, influence its long-run decisions' [Hunger, Wheelen, 2011]. As shown in Figure 1, these forces are: economic (they concern exchange of materials, money, energy, and information), technological (these push new inventions that help to solve problems within an organization), political-legal (laws and regulations) as well as sociocultural (values, customs and beliefs of society). Large corporations classify their societal environment by geographical regions into many different categories. They also take into consideration ecological trends, and this formula is included in the name of PESTEL analysis (Political, Economic, Sociocultural, Technological, Ecological and Legal). The final type of environment – the task environment – concerns those elements or groups that directly affect a company, but which the company can respectively influence. These include shareholders, employees, governments, local

communities, suppliers, competitors, customers, creditors, labour unions, special-interest groups and trade organizations. An analysis of the task environment takes the form of an individual report written by managers engaged in different departments. The reports are then directed to the top management and are used in the strategic decision-making process. They contain analyses of interest group factors, communities, markets, competitors, suppliers and governmental issues. On these bases, high- and medium-level managers opt for strategic factors: namely, opportunities and threats. If they fail to do so properly and miss or ignore some important findings, strategic myopia may ensue. Strategic myopia refers to a willingness to reject unfamiliar or negative information [Hunger, Wheelen, 2011]. The senior management should strive to avoid strategic myopia, as it can lead to erroneous and stilted strategies.

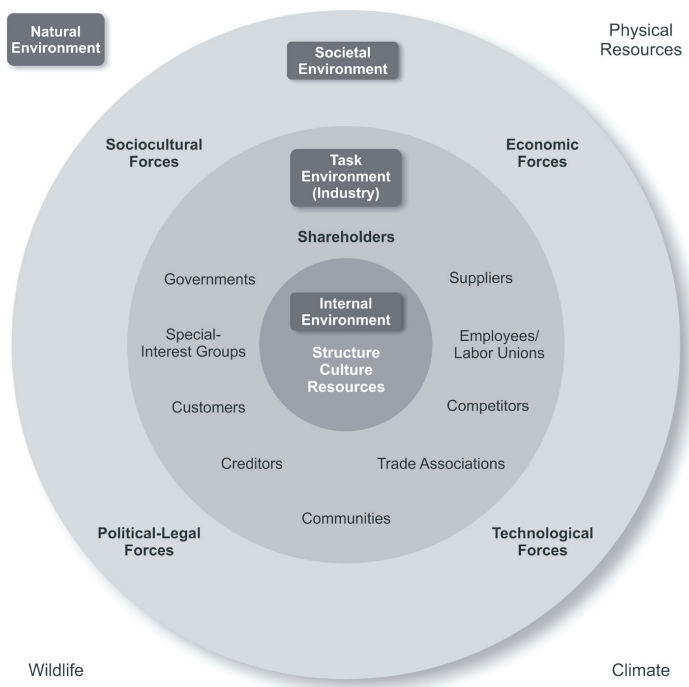


Figure 1. The PESTEL analysis: Division of environmental variables

Source: [Hunger, Wheelen, 2011, p. 32].

It is important to remind that the internal environment, task environment, societal environment and natural environment somehow overlap and have impacts on each other. For example, technological forces influence suppliers' production abilities or competitive advantages of rivals within an industry. Therefore, there is no straight border between those four types of environments.

The PESTEL analysis may seem obsolete and might not be enough to handle the ongoing globalization process. That’s why this paper introduces another analysis that shall be performed simultaneously with the PESTEL: the REGLO analysis. The REGLO analysis is the improved variant of the PESTEL and it distinguishes the globalization and regionalization forces in external environment (Figure 2) which impact on international companies on an even larger scale than the forces described by the PESTEL. The research on the globalization and regionalization forces has been conducted by the IMF group of scientists who state that these inexorable forces have reshaped the world economic landscape over the past quarter-century. Both global trade and financial flows have registered unprecedented growth during this period. Moreover, intra-regional economic linkages have also become much stronger with the proliferation of regional trade agreements and common currency areas [Hirata, Kose, Otrok, 2013]. Therefore, as the PESTEL division of external environment shown in the Figure 1 might not be sufficient in the 21<sup>st</sup> century, this paper extends this division into five types of environment, adding the global environment driven by globalization and regionalization forces. Of course, it has an impact on the societal environment, task

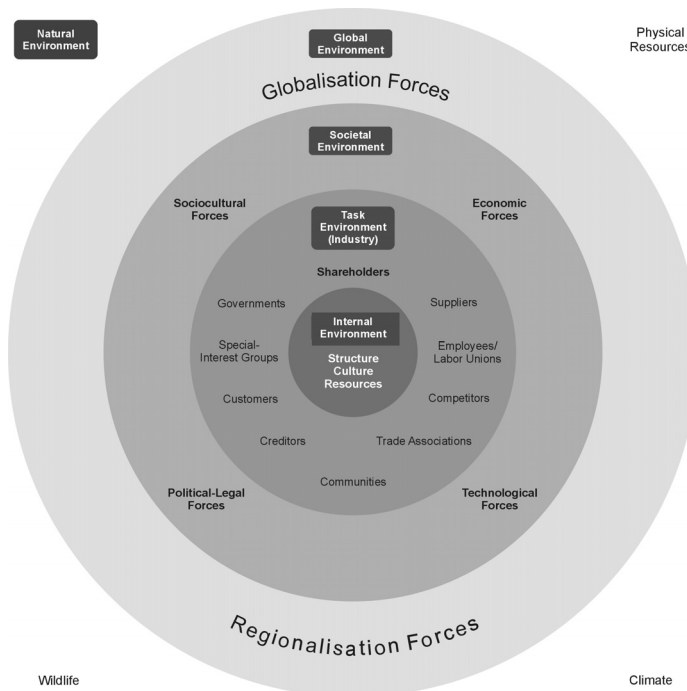


Figure 2. The REGLO analysis: Division of environmental variables distinguishing the globalisation and regionalisation forces

Source: Own elaboration.



environment and internal environment. Nevertheless, the globalization and regionalization forces are distinguished due to their scale and the enormous changes they create. The concept of globalization refers to the growing interdependence of countries, resulting from the increasing integration of trade, finance, investments, labour markets and ideas in one global marketplace [Frunza, Maha, Mursa, 2009]. The globalization forces are measured by: internationalization trends [Bednarz, 2013], ratio of value of exports and imports to GDP of countries that are important from a company's point of view [Bhandari, Heshmati, 2005], level of country's openness, relevant international trade patterns, level of a country's globalization: KOF globalization index, level of economic, social and political globalization, geographical structure of production chains as well as the New Globalisation Index [Vujakovic, 2010]. The regionalization forces include: availability of funds from regional and cohesion policy, international links across a region, role of a region and Europeanisation of firms and politics [Wach, 2015].

## Conclusions

The purpose of this paper is to demonstrate the importance of strategic management in international business and to present an expansion of the PESTEL method. This conceptual paper is intended to emphasize the need for improvement of some popular strategic management tools that are used by the majority of companies in the current decade. Therefore, an extensive research has to be undertaken thereafter. The research should aim at verifying which existing strategic management tools are obsolete and shall be rethought. The author suggests to start from reviewing the SWOT analysis and the Porter's Five Forces tool, as they form a consistent instrument in tandem with the PESTEL method.

It is important to note that not only huge multinational corporations need to be managed strategically. There are also small entities operating in international markets which require adequate management. It is advised for all business owners to learn about strategic management and use some of its tools in their companies. Their strategic plans do not need to be extensive and complicated. For the small international businesses, it is enough to establish the main goals for the next few years and tasks that would help to achieve these goals. Furthermore, the SMEs' owners should identify the external factors that can affect their companies. Additionally, they should estimate the probability of their existence. There is a long way to achieve success in a particular industry, and one of the core elements to succeed is, without doubt, strategic management.

Every key executive in a corporation should know that strategy is important. However, many can find it daunting because it forces them to confront unknowns.



Strategic planning requires making immediate decisions about the (sometimes long-term) future, choosing between certain options and omitting others. Making the wrong decisions can destroy the executives' careers. The worst thing they can do is to merely follow the established tools step by step, without a wider understanding of the concept. It is important to notice that both the PESTEL analysis and the REGLO analysis offer robust platforms to identify potential opportunities and threats in a market and influence the strategic decision-making. Nevertheless, the art of strategic management needs also to be flexible and to react to unexpected changes. Once a strategy has been prepared, it is not set in stone. It needs to be revised to respond to external changes if the company is to survive a crisis. Strong strategy is the key to long-term success in international business.

## References

- Afonina A., Chalupský V., 2012, *The Current Strategic Management Tools and Techniques: The evidence from Czech Republic*, Journal of Economics and Management, no. 4.
- Bednarz J., 2011, *Podmioty gospodarki światowej*, [in:] *Globalizacja i regionalizacja*, eds. K. Żołądkiewicz, R. Orłowska, Polskie Wydawnictwo Ekonomiczne, Warszawa.
- Bednarz J., 2013, *Konkurencyjność polskich przedsiębiorstw na rynkach europejskich na przykładzie wybranych branż*, Wydawnictwo Uniwersytetu Gdańskiego, Gdańsk.
- Bhandari A., Heshmati A., 2005, *Measurement of Globalization and Its Variations Among Countries, Regions and Over Time*, IZA DP no.1578, <http://anon-ftp.iza.org/dp1578.pdf> [access: 05.06.2016].
- Bradutan S., Sarbu A., 2012, *Advantages and Disadvantages of the Strategic Management in the Current Economic Context*, The Management of Sustainable Development Journal, no. 1.
- Frunza R., Maha L., Mursa C., 2009, *Globalization and Regionalization in International Trade*, CES Working Papers, no. 2.
- Hirata H., Kose M., Otrok C., 2013, *Regionalization vs. Globalization*, IMF Working Paper, [https://www.ecb.europa.eu/events/pdf/conferences/multi\\_country\\_modelling/20130607\\_Regionalization\\_vs\\_globalization.pdf?e7af59b7287542a4b261dc4ec3f829f3](https://www.ecb.europa.eu/events/pdf/conferences/multi_country_modelling/20130607_Regionalization_vs_globalization.pdf?e7af59b7287542a4b261dc4ec3f829f3) [access: 11.08.2016].
- Hitt M.A., Ireland R.D., Hoskisson R.E., 1996, *Strategic Management: Competitiveness and Globalization*, An International Thomson Publishing Company, Minneapolis – St. Paul.
- Hunger J.D., Wheelen T.L., 2011, *Essentials of Strategic Management*, Prentice Hall, New Jersey.
- Johnson G., Langley A., Melin L., Whittington R., 2007, *Strategy as Practice: Research Directions and Resources*, Cambridge University Press, New York.
- Johnson G., Scholes K., 1993, *Exploring Corporate Strategy: Text and Cases*, Prentice-Hall, Hemel Hempstead.
- Kotha S., Nair A.P., 1995, *Strategy and Environment as Determinants of Performance: Evidence from the Japanese Machine Tool Industry*, Strategic Management Journal, no. 16, [https://www.researchgate.net/profile/Anil\\_Nair4/publication/227656142\\_Strategy\\_and\\_environment\\_as\\_determinants\\_of\\_performance\\_evidence\\_from\\_the\\_Japanese\\_Machine\\_Tool\\_Industry/links/0f31752f282b98aa18000000.pdf](https://www.researchgate.net/profile/Anil_Nair4/publication/227656142_Strategy_and_environment_as_determinants_of_performance_evidence_from_the_Japanese_Machine_Tool_Industry/links/0f31752f282b98aa18000000.pdf) [access: 16.03.2016].
- Kotler P., 1998, *Marketing Management: Analysis, Planning, Implementation, and Control*, Prentice-Hall, Englewood Cliffs.

- Kotter J., Schlesinger L., 2008, *Choosing Strategies for Change*, Harvard Business Review, July–August Issue.
- Porter M., 1985, *Competitive Advantage*, Free Press, New York.
- Rymarczyk J., 2004, *Internacjonalizacja i globalizacja przedsiębiorstwa*, Polskie Wydawnictwo Ekonomiczne, Warszawa.
- Simpson D., 2015, *The Importance of Cultural Intelligence in Managing International Teams*, International Business and Global Economy, no. 34.
- Verbeke A., 2009, *International Business Strategy: Rethinking the Foundations of Global Corporate Success*, Cambridge University Press, Cambridge.
- Vujakovic P., 2010, *How to Measure Globalisation? A New Globalisation Index (NGI)*, Atlantic Economic Journal, no. 38.
- Wach K., 2015, *Conceptualizing Europeanization: Theoretical Approaches and Research Designs*, Cracow University of Economics, Kraków.
- Witek-Hajduk M., 2009, *Motywy internacjonalizacji polskich średnich i dużych przedsiębiorstw*, [in:] *Współczesne problemy międzynarodowej działalności przedsiębiorstw*, eds. J. Schroeder, B. Stępień, Wydawnictwo Uniwersytetu Ekonomicznego w Poznaniu, Poznań.