



EXTERNAL FACTORS AND THEIR IMPACT ON ENTERPRISE STRATEGIC MANAGEMENT – A LITERATURE REVIEW

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Abstract:

Businesses can't control external factors but must respond to them. These political, economic, social, technological, environmental and competitive factors are represented by the acronym PESTEC. This research is based on secondary data following the methodology of literature review for different periods of time to understand which of these 5 factors has the greatest impact on the strategic management of the enterprise. From the data obtained we have concluded that all external factors have a high impact on the strategic management of the enterprise. The management of the enterprise in time should be informed of the expected changes that may come from political, economic, social or cultural factors. All these factors have their importance and impact on the good management of the enterprise and even more so in its strategic aspect.

Keywords: strategic management, business, political factors, economic factors, social factors, technological factors, environmental and competitive factors

1. Introduction

The management of an organization's resources to achieve its goals and objectives is based on strategic management. Setting objectives, analyzing the competitive environment, studying the internal organization, reviewing strategies, and ensuring that management implements the plans across the organization are all part of strategic management. Business culture, employee skills and knowledge, and organizational structure are all key elements in determining how an organization achieves its stated goals. If a barrier exists between the preparation of plans and their implementation, managers may find it difficult to determine whether objectives were met efficiently. Therefore, taking into account external factors and their analysis by the management directly affects the performance of the business. Businesses, according to Morrison (2006), are so influenced by external macro-environments that they are unable to plan for the

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political, economic, social, technological, environmental, and legal challenges they face. External factors are not controllable but taking measures in advance and identifying them in time has a positive effect on the business. The group of external factors that affect the management of the enterprise are: political, economic, social, technological, environmental and competitive factors and are represented by the acronym PESTEC. Each factor has its importance and impact as an external factor in business management. But the main research question of our paper is which of these factors has the greatest impact on the management of the enterprise and of course its impact on performance. Most management and organizational theories were established between the 1950s and 1980s, during a period of tremendous industrialization and economic growth in the United States and Europe (Dr. Yadong Lu, 2020):

- Edith Penrose (1959)'s theory of the firm growth;
- Herbert Simon (1957)'s bounded rationality view;
- Alfred Chandler (1962)'s strategy-structure alignment theory;
- John Adams (1963)'s equity theory;
- Cyert and March (1963)'s behavioral theory of the firm;
- Lawrence and Lorsch (1967)'s contingency theory;
- John Child (1972)'s strategic choice theory;
- Katz and Kahn (1976)'s open system view;
- Hannan and Freeman (1977)'s organizational ecology theory;
- Aldrich and Herker (1977)'s boundary spanning theory;
- Pfeffer and Salancik (1978)'s resource dependence theory;
- Tushman and Nadler (1978)'s information processing theory;
- Richard Scott (1987)'s and DiMaggio and Powell (1983)'s institutional theory;
- Levitt and March (1988)'s organizational learning theory;
- Wernerfelt (1984) and Barney (1991)'s RBV.

As a result of this, organizational leaders focus on analyzing the broader environment and learning from prior ways. The pooled knowledge is then utilized to plan future initiatives and drive employee behavior to guarantee that the entire organization is moving forward. As a result, effective strategic management requires an internal as well as an external focus. The paper is based on secondary data, which was gathered through reviewing the literature over time to reach conclusions regarding our research subject.

The paper is structured as follows: Part I, presents of the problem; Part II, literature review; Part III, conclusions and recommendations.

2. Literature Review

Considering the importance of the influence of external factors in the strategic management of the enterprise in this regard, many different authors have been taken, starting from the political factors: Ibetto (2011), (Griffen, 2015). Walter (2014), (Phung, 2009). Economic factors: (Gomez 2008), Wang and Walker (2012), Ghani et al. (2010), Siow

and Teng (2011). Sociological factors: Aldridge (2004), Scholes and Whittington (2005), Fisher (1992), (Gallie, 2000). Kirim (2008), Theur, (2007), Leinwand & Mainardi, (2009). Technology factors: Morin (1992), Namusonge (2010), Abera (2012), Abdissa and Fitwi (2016). Environmental factors: (Chinowsky & Meredith, 2000), (Al Ghamdi, 2005), (Godet et al., 1996).

The acronym PESTEC is used to represent the various types of external forces. These are the following: economic - for example, unemployment and inflation political - for example, new laws. Sociological - developments in taste and fashion, as well as a surge in the buying power of one group, such as the elderly. Technology, such as the capacity to sell things online or the usage of automation in the manufacturing industry. Environmental - for example, winter weather affecting sales or production, and increased interest in being "green", such as through recycling - the impact of a competitor that may provide a similar item or lower prices.

3. Political Factors

The actions and legislation made by governments are political variables. These include:

- tax;
- laws;
- political stability.

Governments have the power to raise or lower corporate taxes, which will impact profitability. They can also affect businesses by increasing the value-added tax on items and increasing business rates. They have the authority to establish new legislation that affects profits and employee rights, such as the National Minimum Wage. Governments can also enact new health and safety legislation, requiring businesses to alter their operations, such as by training their employees. The political environment refers to pressures and challenges arising from government policy decisions that have the potential to change the expected result and value of a given economic action by modifying the probability of accomplishing corporate objectives. Ibetto (2011) defined the political environment as elements resulting from changes in legislation and programs that affect economic entities' ability to achieve their objectives. Adverse political actions can range from severely destructive, such as massive destruction caused by revolution, to more financial activities, such as the introduction of rules restricting capital movement (Griffen, 2015). Walter (2014), the political environment's risk to a corporation is a measure of the possibility that political events would obstruct its pursuit of profits through direct (such as taxes or fees) or indirect (such as regulations). The assessment of the political climate helps global company performance in two ways: it protects new and current making it more expensive and operations, and it capitalizes on opportunities created by political change (Phung, 2009).

The referendum to leave the European Union, also known as Brexit, will have an impact on the United Kingdom's trade with the EU single market. The result could be either negative (loss of commerce with EU customers) or positive (increased trade with

EU consumers) (fewer restrictions placed on firms by EU lawmakers). Scottish fishermen, for example, are hoping that leaving the EU would help them grow their industry. On the other hand, carmakers in the United Kingdom are concerned about losing free access to rich clients in France and Germany.

4. Economic Factors

Economic factors are all concerned with the so-called 'levers' of the economy. These include:

- economic growth;
- interest rates;
- unemployment;
- inflation;
- exchange rates.

Small businesses are the primary sources of employment, poverty reduction, and equitable improvement (Gomez 2008). Wang and Walker (2012) discovered that SMEs with growth-oriented owner-managers have greater levels of strategic planning than those with owner-managers that pursue non-economic personal agendas. Ghani et al. (2010) conducted a descriptive research study among private developers in Kedah and Perlis, Malaysia, to identify significant internal and external factors affecting firm strategic planning. They discovered that the government's proactive and economic factors involvement and support had an effect on companies' external critical factors. In an external factor research study with precisely the political factor by Siow and Teng (2011), is reported that government and the economic factor play a very critical role in helping businesses in general by providing a favorable environment for business growth and development and this can facilitate strategic planning.

5. Sociological Factors

Companies must consider their strengths and weaknesses, as well as act with the objective of production and economic benefit from being a company founded and managed by interdependent individuals, in order to live and maintain their future goals for a long time. Similarly, one of the most crucial measures is to implement strategic management and follow this road. The socio-cultural environment, according to Aldridge (2004), is the entire range of behaviors and relationship issues in which individuals are involved in their highly confidential lives, including population characteristics such as age, gender, race or ethnicity, class, values and attitudes, lifestyles, and relationships. According to Scholes and Whittington (2005), organizational culture can either impede or facilitate the achievement of the organization's aims and objectives. Because business is a unique sphere of activity with distinct responsibilities, attitudes, and behavior, the culture of a company can have a significant impact on its success or failure, and building this culture is a critical managerial duty. While Fisher (1992) affirms

that understanding the organization behavior is critical to ensuring the organization's success in a quickly changing environment. The organization's environment includes a continually changing environment. A strategic plan is an organization's basic roadmap to the future; it offers direction and supports top-level coordination. The formulation of long-term strategies for the effective management of the organization's environmental opportunities and threats while taking into consideration the organization's strengths and limitations are referred to as strategy development. When determining an organization's strengths and shortcomings, significant attention must be made to the culture of the organization. The organization develops goals and objectives after the swot analysis is done (Gallie, 2000). Kirim (2008) declares that customer perception analysis aids in the development of a firm foundation for an organization's strategy. It is critical for a company to understand its customers and how they perceive the company. This will aid the corporation in developing a business strategy that produces outcomes when establishing its strategic plan. Consumers are frequently depicted as 'rational maximizers', meaning that they spend in order to maximize their own self-interest. Theur (2007) says that a company can understand people and the business by evaluating customers' perspectives. Its management staff should be capable of conducting in-depth interviews and possess customer management expertise, hence enhancing its sector expertise. For monitoring and analyzing such changes as part of the business environment, the organization's exclusive perception assessment models and procedures are critical. According to Leinwand & Mainardi (2009), the first is business analysis and program planning. The second phase is to manage customer and supplier communication. The third step is to conduct interactive interviews with important customers and key relationships. Reporting, conclusion, and analysis are the fourth and last steps. The presenting of strategic recommendations is the fifth step. The sixth stage is to define an action plan, and the final step is to follow up and review it.

6. Technology Factors

Technology has altered the way businesses work by allowing organizations and management to operate more efficiently. Businesses use a variety of technologies to gain competitive advantages in the economy, ranging from servers to mobile devices. For seamless integration and future expansion, owners and management should consider incorporating technology into their planning process. As a result, Morin (1992) combines the concepts of resources and technology, proposing a definition of technological resources as a set of tangible and intangible tools that enable a company to access design, production, marketing, information, and management of all functions that contribute to the concretization of its activities. According to Namusonge (2010), the main factors affecting the overall value of companies and that keep changing the business environment are culture and technology. Additionally, a study conducted by Abera (2012) identified eight key challenges that appear to have an impact on the overall performance of SMEs, including insufficient funding, scarcity of workplaces, marketing

problems, poor infrastructure, terrible management practices, and technological, entrepreneurial practices. The study by Abdissa and Fitwi (2016) found that external and internal factors influenced the overall performance of MSEs, and that their existence might increase the performance of micro and small businesses on a daily basis. Political, legal, financial, technological, probability seeking, tenacity, commitment to the task, demand for affectivity and quality, self-improvement, hazard taking, data searching, and self-confidence are all found to have a favorable impact on MSEs' (profit) performance in the studied area.

7. Environmental Factors

All of the factors that affect the management and operation of a company organization are included in the business environment. These elements have an impact on the day-to-day operations of a company and can have a positive or negative impact. The conditions that exist in a company environment are known as environmental factors in business. These environmental elements are further divided into particular and broad categories. An individual business organization's operations and management are influenced by a variety of factors. They include things like the company's location, the industry in which it operates, and the number of competitors in that field. With advancements in many areas of life, such as science and technology, market innovation, and communication, the business world has altered dramatically (Chinowsky & Meredith, 2000). Furthermore, numerous problems like as globalization, technological innovation, free trade, the formation of new industries and markets, and economic restructuring have prompted the organization to be more proactive in developing its firm's plans (Al Ghamdi, 2005). General factors, on the other hand, are the external influences that affect all businesses within a certain market segment across the whole business industry. Government laws, market trends, competition, technological advances, the economy, the business environment, and customer want and expectations are among these factors. Internal and external environmental elements are the forces driving this development in business. Staff, company budget, and corporate culture are among the internal issues. Customers, competition, the economy, technology, political and social situations, and resources are all examples of external influences that affect a company. In order to fulfill its corporate objectives, the successful organization now recognizes the need for strategic planning (Al Ghamdi, 2005). If an organization has well-thought-out strategy, it is said to have the most competitive advantage. This is because any action made will be ineffective unless it is accompanied by well-thought-out strategies (Godet et al., 1996).

8. Conclusion

With a confidence level of 99 percent, Gica (2012) discovered that the external factor component of the overall planning indicator was positively connected with a greater degree of target achievement in a survey of 200 SEs in northwestern Romania. Political,

economic, socio-cultural, technological, and ecological elements were employed to measure the external aspects of the environment. The result was that a study of the opportunities and dangers that the organization faces, as well as an evaluation of strengths and weaknesses, influences the extent to which objectives are accomplished.

Political factors affect a firm's ability to compete in the marketplace. In some cases, regulation may create barriers to entry for new [competitors](#). When this happens, it limits competition and keeps prices high. The nature of legal and regulatory factors varies widely from country to country. Although most nations have similar laws, there are significant differences among them. These differences cause competitive advantages and disadvantages for domestic firms.

It is worth noting that the study of the internal and external environment of the enterprise allows you to determine its competitive position the position that the company occupies in your industry, to a particular market segment, according to your performance and your own advantages and disadvantages compared to other enterprises Strategic management of innovation processes cannot be implemented without due consideration for external and internal factors with impact on company operation. A review of literary sources enables us to determine the structural interactions of the impact of external and internal factors on the organization of operation at the company level are determined and construct a classification of the factors of external and internal environment in the context of strategic management at the company level. This can be useful for company managers in analyzing resource efficiency, improving labor system, and proposing innovative goods/ services and technologies.

The economic factor is another very important factor influencing the strategic management of enterprises is the economic factor. It is preferable to stimulate company management to improve strategic management to take advantage of new opportunities and combat the risks arising from this factor because instability contributes to the longevity of the enterprise.

The sociological factor is one of the many factors that have an impact on the strategic management of enterprises, one of them is the socio-cultural factor. Various researchers have looked at its impact on the strategic management of the enterprise and one voice argues that the enterprise should pay attention to this external factor. Socio-cultural environmental factors influencing strategic planning in the industry are demographic, class structure and cultural factors.

Environmental factors, every company that engages in commercial activity has its own strategy for conducting everyday operations. Strategic planning is a critical component of any company's strategic management. In order to accomplish strategic planning, a variety of strategies and procedures can be used. A key point that needs to be analyzed is the work environment which also affects the strategic management of the enterprise. Given the external and internal factors that influence our decisions. then we come to the conclusion that a factor is very important in strategic management. Management, employees and the owners themselves must take this factor into account.

Conflict of Interest Statement

This scientific work is a work prepared by the author with secondary data and declares that it is his original work paper. And there can be no conflict of interest with other scientific works.

About the Author

Kosovar Sadiku Mustafa is PhD.c at the Public University of Tetovo, Republic of Macedonia, in Marketing. There are more than three scientific papers in the field.

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