

# Strategic management in a global context essay sample

[Business](#), [Strategy](#)



## INTRODUCTION

This essay is to assess the view, that an uncertain and dynamic external environment requires more effective application of analytical tools and frameworks for environmental analysis. To evaluate this statement this essay will go into details concerning the topics of present and future external environment, review of analytical tools, role of analytical toolkit in a dynamic environment and also the benefits and problems arising from dynamic change, showing that coping with the dynamic of the business environment is a challenge but also a chance for business success in the present and the future.

**MAIN BODY** First of all it is essential to analyse the meaning behind the term “ external environment”. “ Environments are conceptualized as extended social field(s)...with a causal texture” (Selsky, Goes and Babüroglu, 2007). The external environment of a company consists of market and competitors as well as industry and finally the macro-environment. These factors are considered to be the main drivers for a company’s business. Furthermore, in order to achieve sustainable success by understanding and eventually influencing the environment of their company, managers have to analyse and evaluate the external factors very accurately. Therefore it can be truly followed, that according to Johnson, Scholes and Whittington (2008, p. 54), “ environment is what gives organisations their means of survival”.

Now, as it is clear what the definition of external environment implicates, it has to be asked why it is essential to understand the future environment. To answer this question, one has to look at the definition of strategy after

Glueck. According to this, “ a strategy is a unified, comprehensive, and integrated plan that relates the strategic advantages of the firm to the challenges of the environment” (Analoui, Karami, Strategic Management in small and medium enterprises, 2003, p. 46). As a consequence, it is absolutely essential to understand the environment, especially the future environment in order to be able to develop a proper strategy which is based on the effective application of analytical tools. Another important point to be made is the fact that the world, especially the global economy is changing, even faster than in the past. So it can be stated, that in order to deal with technological, political or economic change in providing valid forecasts, the understanding of the future environment is a key-factor of surviving in a globalized world (M. Trehan, R. Trehan, Jain, -1-

2009). Furthermore, surviving means being successful in business competition. Success in competition is based on the customisation of a business as a consequence of observing, analysing and again understanding the changing environment (Gitman, McDaniel, 2008).

Another interesting question is, which opportunity costs are involved in the process of understanding the environment. At first, it has to be asked what opportunity costs are. Referring to Gregory Mankiw (Principles of Economics, 2008, p. 54), these are “ whatever must be given up to obtain some item”. Because of the fact, that the process of understanding the external environment also implicates the analysis of it, it shall be concluded therefore, that human resources, for example staff planners, line managers or other planning specialists are needed. However this analysis comes along

with a big expenditure of documentation like written reports and the use of standardized analytical methods. (R. M. Grant, 2003) So, the set-in resources spend much time on the analysis of the environment.

According to the definition of opportunity costs, it can now be concluded, that the time is what must be given up and the understanding of the external environment is what is obtained. Due to the fact, that time costs money, for example the salaries of the employees, opportunity costs can be discovered. In contrast to the costs, there are also some benefits arising from the appliance of the analytical toolkit, for example, anticipation and influence on environmental change (JSW, 2008). For instance important information concerning the external environment such as competitors activities can be obtained, forecasts can be developed and risks and gains of alternative strategy approaches can be evaluated (Courtney, 1997).

After considering the meaning of external environment and the importance of understanding it, it is necessary to examine the question: what evidence is available, that the environment is dynamic or uncertain? A dynamic environment is an environment that is changing very fast. The dynamic of the environment can be defined scientifically by the “ speed at which the competitive configurations of a firm change over time” (Bala Chakravarthy, A New Strategy Framework for Coping with Turbulence, 1997). A dynamic or turbulent environment is represented by shorter innovation and production cycles, a variety of products and less time for planning. Another key driver for a high dynamic is the industrial derangement which is caused by the global main issues like terrorism, wars, rising oil prices -2-

and the insecurity about mankind's present and future existence on earth. A good example for a highly dynamic environment can be provided by the fast changing airline industry, challenged by cheap providers like Ryanair or Easyjet (Harrington, Lawton, Raijwani, 2005). A dynamic environment both implicates threats and opportunities. For instance, a strategic gap is an opportunity in a dynamic and competitive environment for a firm to serve a market, due to the fact that it is not fully exploited by competitors yet. In contrast to that, companies focusing on tough and energy-sapping competition with rivals tend to describe the dynamic environment as a threat. Furthermore, there are various opportunities to benefit from a dynamic environment by focusing on other strategic groups, addressing the target audience, finding and exploiting new market segments or detecting improvements for products and services. (JSW\*, 2008) Furthermore a dynamic economy demands faster movements and decisions as well as a higher commitment to creativity.

Therefore it can be truly concluded, that these environmental conditions are a big opportunity to make progress and prospectively set market impulses. In addition to that it can also be a chance for companies to reconsider the accuracy of their mission statements in order to position themselves in a new way, especially when turbulence causes fatal problems, which could be a threat for the existence of a firm. Furthermore there is a chance for large organisations, and at the same time a threat for smaller or less profitable ones, to gain profit out of the turbulence through bargain of imperilled companies, proven by the case of Aer Lingus (Harrington, Lawton, Raijwani,

2005) Before presenting the different tools, it has to be pointed to the fact, that environmental analysis has a demand for information.

But of what kind and what volume of information is required? Firstly, some sources of information that affect the business of a company are: newspapers, magazines and journals, government publications, institutional publications and international publications (Jain, M. Trehan, R. Trehan, 2009). To go into further detail, strategically relevant information is required, such as market demographics, performance attributes, elasticity of demand and competitors' plans to expand capacity as well as information about similar markets (analogies) and early market indicators. As a result, highly available and detailed information is able to make a company be more competitive (Courtney, Kirkland, Viguerie, 1997).

In the next step, to give a brief overview upon the range of tools which are useful to analyse the environment, one should regard the views of authors in relation to each of the main tools, consisting of "PESTEL", "Five Forces" and the "Strategic Group Analysis". For a start Bala Chakravarthy (1997) generally states, that the current types of analysis have no positive impact on a company's ability to compete in dynamic environments. Critics also say that some models are too simple, static, not efficiently adapting to a fast-moving world and failing to address the whole range of challenges a company has to deal with but could nevertheless be utilized as useful checklists (Haynes Daniell, 2004). Regarding the "PESTEL" framework, a common method to analyse the external environment (Barth and Wolff, 2009), which includes the analysis of the political, economic, social,

technological, environmental and legal aspects, Johnson, Scholes and Whittington (2008) are of the opinion, that “PESTEL” provides managers with useful information and data concerning the alteration of environmental factors and the key drivers of change, as well as implicit information about trends in order to make them better prepared for the company’s future.

Another famous framework to cope with the external environment is Michael Porter’s “Five-Forces”, which deals with analysing the competitiveness of an industry by examining the following aspects: threat of substitute products, threat of new entrants, industry rivalry and bargaining power of suppliers and buyers. (JSW\*, 2008) Due to the example of the rapid changing Infocom industry, Porter’s framework is considered to be useful only if the competitive forces are relatively stable and independent, because the traditional sources of competitive advantage have all lost their importance as barriers to competition in a fast changing and innovative environment, for example the Infocom industry in this context (B. Chakravarthy, 1997).

The third model to analyse the environment; the Strategic Group Analysis, is said to support the understanding of positioning and competition on the one hand, but to be very static and not useful for periods of turbulence and to be a less exact forecaster of company gains on the other hand (C. Hill, G. Jones 2008). After having treated the view of some authors, it is necessary to look in detail again at the tools, for investigating the value that each tool adds to our understanding of the environment. PESTEL “provides a comprehensive list of influences concerning the external environment on the possible success or failure of particular strategies” (JSW\*, 2008, p. 55). Another

important point to make is that essential key drivers for change can be pointed out by using PESTEL. So, in retrospect the view a business has got on its environment will get



sharper and more detailed.

Whereas PESTEL covers the whole environment, Michael Porter's "Five Forces Framework" focuses on reviewing the attractiveness of a certain line of business. Finally, coming to the tool Strategic Groups, which are industrial organisations with similar strategic characteristics, similar strategies or similar bases of competition (JSW\*, 2008). Firstly, it can be differed between the scope of an organisations activities and secondly the resource commitment, which is quite useful in order to understand the historical industry background. Another important aim of a SGA is to map those groups to "provide insights into the competitive structures of industries or sectors and the opportunities and constraints of development" (JSW\*, 2008, p. 74). The three main outcomes for a business are understanding competition, analysis of strategic opportunities and analysis of mobility barriers. (JSW\*, 2008)

Except the analytical models of "Five Forces", "Strategic Group Analysis" and "PESTEL", there are alternative approaches that could be used in order to evaluate the environment. Especially in dynamic and uncertain environments, the use of "scenarios" is an appropriate method, because they offer a variety of views on how the external environment of a company could change in the future (JSW\*, 2008). Regarding competitors and markets it is also useful to focus on customers by using the method of "market segmentation", which aims to find similar customer needs in order to classify customers in groups which differ from the customer needs of other markets. (JSW\*, 2008)

CONCLUSION Considering the view that a dynamic and uncertain environment has a need for more effective application of analytical tools, this essay indicates, that there is a very high demand for an effective application of analytical tools. In order to be able to compete in a fastchanging environment, some models are just too simple, static, not efficiently adapting to a fast-moving world and fail to address the whole range of challenges a company has to deal with (Haynes Daniell, 2004). As a solution, to analyse the external environment more efficiently, alternative approaches such as scenarios can be applied in order to be more flexible and better adapted to a dynamic environment (JSW\*, 2008).

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