

# Critic the pestel analysis as model commerce essay



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The topic of the project concerns research questions, which are based on previous observations over Bohemia Travel Agency. It is an interesting topic to follow, because of the arising opportunities for the company. With the long years of experience in the tourism sector, the company has already created image and during the whole years that positive image increased the profitability of the company. While becoming a leader on the market, the travel agency increased the potential of its' performance, so that is the main reason of choosing the certain company and the researched questions. The investigation of finding solution to these research questions are strictly related to pursuing an appropriate theories. These theories bind together with appropriate analysis will open the future paths for increasing the business performance of the company.

As mentioned in the problem formulation and the methodology the project will harshly follow the strategy of the travel agency and based on the strategic direction and choices, we will find a better ways for the company to develop and expand its' business.

The usage of the theory will start with examination of the macro-environment. The analysis is the first step of the planning process, as it helps to identify issues to be removed in the development and implementation of effectiveness in the business development. In this sense, it is crucial to examine the microenvironment and immediate impact on the organization. The most commonly used technique is the so-called PESTEL analysis divides the entire external environment of six segments, thus covering almost everything that can affect the organization. These six areas are: economic, political, social, technological, environmental and legal.

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The thing that should be considered when one PESTEL analysis is conducted is to identify the environmental factors that affect the organization in the long term, and arrange them in order of importance. When the organization develops the strategy, there is a variety of important factors they have to consider. We are going to take a look at all the factors that affect the economic environment and examine the relationship between business and the environment. This part will explain the key macro-economic variables that affect the business of the organization and will identify the trends in these variables. The PESTEL model will assess how changes might affect the company and will evaluate the strategies that the company might deploy in response. Thus, we are using that model in our research. The plan of action of the travel agency could be always ruined by the external economic changes, thus the PESTEL analysis will help us in finding out the appropriate solution for the further strategic choices.

According to Farnham (1999), the PESTEL and Porter's (1980) five forces model provide a useful start for analysis the external environment and providing a crucial set of inputs for strategic development and implementation. (P. Rudolpf, 2005)

It is important to critic the PESTEL analysis as model, because it clarifies the external factors of the company, but these factors (Lynch 2006) are viewed as almost uncontrollable. In addition (Sutton 1988) suggests that analysis of the external environment is undertaken to gain competitive advantage and improve long and short term planning. McMillan and Tampoe, (2000) state that the PESTEL framework represents a guide to the general environment but is based only historical data and the past, but it refers to forces of <https://assignbuster.com/critic-the-pestel-analysis-as-model-commerce-essay/>

changes in the environment and can be used to forecast the future. In other words, understanding changes taking place currently is an important guide to anticipating the future (Fahey, 1986).

(Aguilar 1967; Choo and Auster 1993) suggest that the external environment in relation to an organisation or business is where information that is of critical importance can be analysed. This in turn will help the strategic planning and future development of the organisations future. Organisations and businesses choose to analyse the external environment in order to understand forces out with the business or organisation that can change a proposed strategy instantly. Organisations and businesses do this in order to avoid any surprises and in turn identify threats and opportunities.

Such as the SWOT/TOWS analysis, the PESTEL analysis has been discussed and proposed as an excellent tool by many authors and researchers (Lynch, Sutton, Farnham. In addition (Sutton 1988) suggests that analysis of the external environment is undertaken to gain competitive advantage and improve long and short term planning. Moreover (Lynch 2006) asserts that external factors outside the business or organization are viewed as almost uncontrollable.

In addition we will say that conducting the PESTEL analysis will be much more reliable than any other models, because it strongly influences our further strategic choices.

The next step of in understanding the firm's competitiveness is to look at the competitive arena in an industry. Porter five forces model is created by Michael Porter in Harvard University (1979). The aim of the model is to <https://assignbuster.com/critic-the-pestel-analysis-as-model-commerce-essay/>

analyze the industry in order to identify the level of intensity regarding the competition and attractiveness of the industry.

A good technique for analysing the microenvironment is Porter's five forces model that helps to identify the level of competition in an industry (Stonehouse, 2001). However, it is essential, by using this model, to consider the characteristics of the industry in regard to technological and economical environmental aspects and the influence of the government in regulation competition (Porter, 1980).

According to variety of authors (Porter, Kotler, Lynch, Hollensen etc.) the external environment should be accompanied with competition analysis. That is why our next step will be based on the author's advices. In our case, that is the Porter's five forces analysis. As already described in the methodology part (see the previous chapter above), the Porter's five forces are going to clarify our picture of the competition in the tourism sector of the chosen travel agency.

One of the most useful frameworks for analyzing the competitive structure has been developed by Porter. Porter (1980) suggests that competition in an industry is rooted in its' underlying economic structure and goes beyond the behaviour of current competitors. (Hollensen, 2010)

As we can see, one of the authors following the Porter's model is Svend Hollensen, who as an Associate Professor can confirm the benefits of using the Porter's five forces as a constructive model of analyzing the competition in the industry. Moreover (Hollensen, 2010) asserts that the goal of

competition analysis is to find a position in industry where the company can best defend itself against the five forces, or can influence them in its' favour.

If we agree with Hollensen (2010), there will be two possible outlines for our travel agency - positive and negative. But no matter of the final results, in overall, the analysis will ensure and confirm our further strategic choices and will influences on our proposal of investment plan.

Michael Porter's five forces model was also harmed of other author's criticism, such as Lynch who says that the model assumes that there are no changes in the industrial environment but in fact the market is very flexible. This is shown for example on the enormous growth of the e-commerce sector. If you use this tool, you have to repeat this analysis continuously. (Lynch, 2009, p. 101-102) The main reasons why Porter's five forces has endured much criticism are that the world radical economic changes has occurred since the time the model has been developed; there is a very strong impact of internet on the industry. Of course, the recent years, there are authors, investigating the strategic planning in the business and one of them Larry Downes stated that Porter's five forces are no longer viable. Due to that reason, Downes has developed three new forces, which are: "Digitalization, Globalization, and Deregulation".

Downes insists that Porter's five forces model is obsolete. Downes' arguments are convincing. In fact, digitalization, globalization and deregulation have become powerful forces during the last years, but Porter's models rarely take them into consideration. Today's markets are highly influenced by technological progress, especially in information technology.

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Therefore, it is not advisable – if not to say impossible – to develop a strategy solely on the basis of Porters models. (Recklies, 2008)

Downes critique of Porter implies that Porters models focus too much on the economic conditions of their era of origin. Therefore, their viability is limited under changed conditions. We need to add here that Downes new forces are derived from the economic conditions of their particular era too. Within some years or decades, they will have lost some of their importance because other developments have taken over the driving role. (Downes, 1997)

“ Further criticism comes from those who say the model simply provides a snapshot of an industry, rather than a more dynamic picture which says something about the future, and can be more readily translated to strategy. Lawton argues, however, that the idea of assessing substitutes does bring dynamism, highlighting where the challenges will come from. Then there are those who criticise the model for having missed out a vital stage in the process of assessing the market. Lampel says: “ It doesn’t explain how to define the industry, and sometimes that is a tricky question. Porter picked industries that were easy to identify, but a lot of people get the industry wrong, so the analysis is worthless. Some people argue that defining the industry is the critical input of knowing where you stand.” (SPS, Nov. 2009)

However, some criticism has been made that the five forces are an analytical tool and rather static. Rumelt, (1991) suggested that companies have company-specific preferences of strategic development regarding profitability, which has larger influences than the competitive forces of environment. Furthermore, the five forces largely ignores the human

resources aspects of strategy (Farnham, 1999), which will be of increasing importance in the future.

But still we can stick to the proving of PESTEL analysis combined with Porter's five forces, because as Thomas Lawton, professor of strategic management at Cranfield says: In a sense transposing the PESTLE ideas onto the Five Forces is the best way." (SPS, Nov. 2009)

The very next theoretical model conducted in our project will be SWOT/TOWS analysis. The SWOT analysis is a rottenly used strategic tool in bigger or smaller organizations. It examines the internal and external environment of a company and gives a clearer picture for an organization of its' strengths, weaknesses, opportunities and threats. SWOT analysis is developed by Albert Humphrey, who named the strategic tool alternately SWOT Matrix. The matrix is also described by (Jobber and Fahey 2006) as the structured approach to evaluating the strategic position of a business or organisation by identifying its strengths weaknesses opportunities and threats. (Lynch 2006) furthers the view of (Jobber and Fahey 2006) by suggesting that the SWOT analysis is how a business or organisation can further their development from the PEST and Porters Analysis and make an amalgamation of the analysis of the internal and external environment by doing the SWOT analysis. On the other hand, the SWOT has endured a lot of criticism of variety of authors and researchers, working in the field. In relation to the external factors of the SWOT analysis (Johnson Et al 2009) suggest that the analysis of opportunities and threats is extremely valuable when the organisation or business is looking to formulate a proposed strategic plan for the future. Other criticism is provided by (Mintzberg 1994) who suggests that <https://assignbuster.com/critic-the-pestel-analysis-as-model-commerce-essay/>



SWOT is the main cause of what is considered there an excessive formalization of the strategy making process. Many authors (Baramuralikrishna and Dugger 1998; David 1997; Hill and Westbrook 1997; Johnson et al 1989; Thompson and Strickland 1998; Wheelan and Hunger 1998) suggests that this usage rarely amounts to much more than a poorly structured, very general, hastily conducted exercise that produces unverified, vague and inconsistent inventories of factors regarded by the proposing individuals as most important components of their organization's strategic situation. Most of the SWOT critics are arguing that the matrix is too superficial and basic. It does not provide detailed analysis of a company and many times it is used in a wrong way. Due to much criticism and conflicts between authors about the SWOT analysis, we decided to conduct the TOWS matrix represented and developed by Heinz Wehrich, Professor of Management, University of San Francisco. He writes a detailed article about TOWS analysis, also called ' The TOWS Matrix — A Tool for Situational Analysis'. (Heinz Wehrich, GODINA) has two main purposes - One is to review general considerations in strategic planning and the second to introduce the TOWS Matrix for matching the environmental threats and opportunities with the company's weaknesses and especially its strengths. These factors per se are not new; what is new is systematically identifying relationships between these factors and basing strategies on them. There is little doubt that strategic planning will gain greater prominence in the future.

In his article Heinz Wehrich is describing in details the ways of usage the matrix and the main benefits of using the matrix. In contrast of the SWOT analysis, the TOWS one is much more reliable and appropriate to conduct in

our project, because it is focused in analyzing the company in much more details and gives much flawless picture of how to turn the weaknesses into strengths and the threats into opportunities. The TOWS matrix is combining the whole four outlines of the matrix and creates the opportunity of better observation into the internal and external factors influencing the company. Even sometimes the threats could ruin the forecasting, the TOWS help the company to forecast easily and once understood the strengths and the weaknesses, the company could find better future opportunities to develop. The relation between providing TOWS and the other strategic tools - PESTEL analysis and Porter five forces is that all the models and theories are bind together in building the most appropriate path for the company to find the most accurate strategy for the better performance of the company.

The very next strategic tool of the project is the model of Igor Ansoff, who created the " product-mission matrix", in other word the so-called Ansoff matrix. The matrix allows companies to realize the risk component of various growth strategies, including product versus market development, and diversification. The Ansoff matrix presents the product and market choices available to an organization. Herein markets may be defined as customers, and products as items sold to customers (Lynch, 2003). When developing the Ansoff matrix, the inventor Igor Ansoff aimed to measure the growth of risk that the company might take when choosing different directions of strategy. According to the matrix, we can say that the more different the territory is, the higher risk is taken. Managers of organizations should be aware of how to manage the risk appropriately and to take into considerations the right decisions. The Ansoff matrix helps the company to increase its' profit by

entering in new business ' oceans'. The strategies taken by a company may have huge consequences and that is why the risk should be observed carefully. However, due to these reasons in our project we will conduct an analysis over Ansoff matrix and will see how the strategies will work for it and for its' future performance.

As also known, the Ansoff matrix was developed 1957, but a few years later the Igor Ansoff realized that his work was not unique, because a similar matrix was developed earlier. Moreover few years after Ansoff matrix was much criticized by Henry Mintzberg, who didn't like the idea of strategy being built from planning, which is supported by analytical techniques.