

PESTEL Analysis When Entering a Foreign Market

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Strategic management is useful in all enterprises since it enables them to assess their current performance and implement measures to achieve their desired goals. One of the most popular strategic management tools is PESTEL analysis. A PESTEL analysis refers to a strategic management tool used in identifying the macro forces in a market. The word 'PESTEL analysis' simply mean political, economic, social, technological, environmental, and legal analysis (Andersen, Ahmad, & Chan, 2014). Before entering into a foreign market, an enterprise should undertake a PESTEL analysis in order to evaluate the suitability of the country as an investment destination. Accordingly, organizations that constantly analyze the changes in their macro environment and respond to them are able to have a competitive advantage over their competitors.

A foreign market environment is a country beyond where a business was originally founded. Accordingly, every new business must learn the culture, regulations, and nature of the foreign market before it enters. A PESTEL analysis enables enterprises to learn the unique economic, socio-cultural, and political environment of foreign countries before entering. Such an analysis enables them to evaluate the suitability of the country as an investment destination. In addition, the analysis informs enterprises on the most suitable strategies for each market (Rothaermel, 2016). In practice, not all factors affect businesses equally; however, they are important for enabling them to have an overall view of the market. For example, engineering businesses are significantly affected by technological factors whereas enterprises that rely on traditional sales methods are greatly influenced by the social trends in a country.

Political factors refer to the extent that a government intervenes in the economy. They include government policies, foreign trade policies, political stability, labor laws, trade

restrictions, and tax policies (Rothaermel, 2016). In addition, organizations should anticipate the future legislations depending on the political climate of a country. Clearly, these policies can make a foreign market either suitable or not for an enterprise. For example, a country that is politically stable has a good business environment and presents suitable investment opportunities. On the contrary, a country with restrictive labor laws is unsuitable for trade since businesses cannot easily recruit or terminate workers.

Economic factors determine how organizations operate and their profitability. These factors include interest rates, exchange rates, the disposable income of consumers and businesses, inflation rates, and economic growth. Further, these factors are broken down into microeconomic factors and macroeconomic factors in order to evaluate how each sector of the economy affects enterprises. Macroeconomic factors are those that affect the overall economy of a country and are mostly determined by the government. They include interest rates, tax policies, and government expenses (David & David, 2016). Microeconomic factors refer to the spending habits of people. For example, a foreign market where people have high disposable income presents a suitable investment destination since consumers can afford to buy expensive products.

Social factors refer to the beliefs and attitudes of the population. They include age distribution, health consciousness, career attitudes, education level, culture, religion, and traditions (Rothaermel, 2016). Since these factors are specific to each society, they determine the likelihood of success or failure of each business in the foreign market. In a conservative and highly religious society, certain businesses may be shunned by the community and there may be a small market for their products. For example, Islam requires women to wear long dresses that cover their whole body. Accordingly, businesses that sell short skirts may not succeed in a predominantly Muslim country. Similarly, enterprises that require highly-skilled labor may not

excel in a society where the overall education level is low. As such, social factors can indicate the suitability of a foreign market for each enterprise.

Technological factors affect the landscape in which businesses operate. Accordingly, the level of adoption of technology in a country affects the demand for various products that enterprises sell. In addition, it also affects the marketing and management of enterprises. Technology leads to new ways of producing goods and services, research, automation, and developments (David & David, 2016). Also, it leads to redundancy of certain sectors of the economy (Rothaermel, 2016). In light of this, an enterprise must evaluate if the prevailing technology in a foreign market is suitable for its business.

Environmental factors relate to the impact of a business on the environmental and ecological aspects of a country. With the increased interest in corporate social responsibility, enterprises are being compelled to carry out their activities in an environmentally friendly way. Environmental factors include climate, carbon footprint, recycling procedures, waste disposal, and sustainability. Depending on how a country has implemented these policies, it may restrict businesses that pollute the environment (David & David, 2016). Therefore, an enterprise should evaluate whether its activities conform to the environmental regulations of the foreign market.

Finally, enterprises must understand what is legally allowed in each foreign market. In addition, they must understand the impact of various legislations on their business operations. These laws include health and safety requirements, consumer laws, trade regulations, and labor laws (Hitt, Ireland, & Hoskisson, 2014). Due to the uniqueness of each country's legal requirements, an organization should analyze if its services and products are allowed in the foreign market. In addition, it must ensure that its business model adheres to the legal requirements of the foreign market.

In conclusion, a PESTEL analysis enables a business to evaluate how external factors affect its market and their direct effects on the organization. Accordingly, it enables an enterprise to implement appropriate corrective actions that are in line with changes in its business environment. When entering a foreign market, the PESTEL analysis enables an enterprise to evaluate the suitability of the market and to develop appropriate market entry tactics. Therefore, PESTEL analysis is an essential tool that enterprises should undertake before entering a foreign market.

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