

STRATEGIC ENTREPRENEURIAL RESPONSES TO ECONOMIC, SOCIAL, POLITICAL AND TECHNOLOGICAL ENVIRONMENT – A LITERATURE REVIEW

PhD cand. Erjona Deshati Prof. Dr. Klodiana Gorica***

* Canadian Institute of Technology, Faculty of Economy, Department of Business Administration & IT, Tirana, Albania. Corresponding author email address: erjona.deshati@cit.edu.al

** University of Tirana, Faculty of Economy, Marketing Department, Tirana, Albania

ABSTRACT

The purpose of the paper is to critically evaluate and synthesize the existing body of completed and recorded work produced by researchers, scholars and practitioners in the field of business strategy, with a particular emphasis on investigating the strategic responses, including changes in the strategies, structures and cultures, to name a few, applied by companies in response to changes in the global business environment. The business environment in the 21st century has become very dynamic and keeps on changing over time. The market has been characterized by a high level of uncertainties that managers need to respond quickly if their companies are to survive in the market. The Literature Review was obtained by analysing relevant journal papers that discuss the main developments and current debates in the field, from 2016 and on. In this regard, Business Source Complete (EBSCO), ABI/Inform Collection (ProQuest), ScienceDirect, and Google Scholar databases were queried. As a contribution to the literature, the paper will highlight the strategic responses that companies can develop to survive and outperform competitors in an uncertain and turbulent environment.

Keywords: Strategy, entrepreneurship, external influences, dynamic business environment, innovation

1. INTRODUCTION

All businesses worldwide are subjected to a dynamic business environment; what differentiates them is how each implement and adopts strategies to cope with change. The business environment entails all the factors existing beyond the organization's control and can affect part or whole operations of the organization. It is a consistently dynamic circumstance that creates challenges for corporate management (Sushil, 2016). Organizations rely on the external environment for inputs that they internally convert into outputs. They are dependent on the external environment for growth and realization of objectives. Akhtar (2018) noted that companies must implement an effective strategic performance measurement (SPM) system in a volatile and complex business environment to ensure flexibility and achieve whatever objectives they seek.

The global business environment is always

showing signs of change, and organizations have no power over it. The external business environment is characterized by volatility associated with globalization, government policies, deregulation of the business sector, and changing consumer and speculator demands. Various scholars have focused on external factors since they have a massive impact on a firm goal setting. As a result, organizations are increasingly required to move past addressing existing issues to persistently responding to evolving conditions. Organizations need to adopt a strategic approach to manage such factors to ensure survival and competitiveness.

Companies are facing dynamic challenges in the 21st century. In the globalized business environment, organizations require strategic thinking, and only by adopting sustainable business strategies can they achieve strategic competitive advantage. Companies use strategy to generate

and implement plans to compete successfully. Nudurati et al. (2021) stressed that strategic management and measurement of strategic management performance are imperative for molding, directing, and aligning an organization effectively with its environment. Binti and Ismail (2018) stress that strategic decision-making is at the heart of the business and its environment alignment process. This can only be achieved through the formulation of business policies and organization theory.

Literature Review was obtained by analysing relevant journal papers that discuss the main developments and current debates in the field, from 2016 and on. In this regard, Business Source Complete (EBSCO), ABI/Inform Collection (ProQuest), ScienceDirect, and Google Scholar databases were queried. As a contribution to the literature, the paper will highlight the strategic responses that companies can develop to survive and outperform competitors in an uncertain and turbulent environment.

DYNAMIC BUSINESS ENVIRONMENT

The external environment is the most crucial factor since organizations cannot change or control its components. Instead, an organization must change its plans, goals, and policies to align with changes in the general environment (Bruijl, 2018). It is emphasized that, since the business environment is frequently changing, organizations must continuously adjust to achieve their goals and objectives. Companies must constantly update their strategies to remain competitive and constantly learn and re-orient themselves to the dynamic environment (Fainshmidt et al., 2019). The process of adapting to the changing environment should be deliberate and coordinated to achieve gradual realignment with the external environment and result in performance improvement and effectiveness. Failure to effectively adapt to changes in the environment can result in strategic problems that might lead to business failure (Fainshmidt et al. 2019). In the supposedly highly competitive and complex environment, the success of an organization lies in its effectiveness in combining its internal re-

sources to conform to environmental conditions, thus enhancing its performance. The global business environment consists of several factors influencing how companies operate and implement their strategies to remain competitive.

2.1 ECONOMIC ENVIRONMENT

The economic environment is an important contributor to the dynamicity of the business environment since it has a significant impact on the performance of a company (Hrechyshkina & Samkhavets 2019). The economic climate entails all the economic factors that influence consumers' purchasing behaviors and how businesses operate, impacting organizational performance. It consists of various factors beyond the control of the company, and therefore it is imperative to align internal operations with these factors to ensure effectiveness in performance and competition (Kapitsinis 2019). While companies cannot control the economic environment, they can assess the economic conditions before entering a particular market or industry. Critical economic factors, which affect global companies, are employment rate, gross domestic product, inflation, and government monetary and fiscal policies.

The economic, environmental factors have an immediate impact on business operation, and therefore, companies must evaluate the economic environment and implement strategic responses to deal with these factors. For example, demand and supply is an important economic factor that directly impacts the company's success. The customers' income is an essential factor to consider since it affects the demand for its product. The income level also indicates the ability of consumers to purchase products and services offered by the company. An organization must evaluate the purchasing power of customers and understand the products that consumers are willing to buy. The economic environment may constrain or provide opportunities for business growth. For example, Martin et al. (2021) noted that the covid-19 pandemic increased unemployment rates and poverty, affecting many businesses worldwide. Factors such as unemployment can directly influence the demand and

supply of products, thus affecting company performance.

Another important economic factor that affects companies is government and banking monetary and fiscal policies. The banking sector regulates budgetary policies that impact the business and also consumers' purchasing behavior. For example, money in circulation has a direct influence on consumer demand and purchasing power. In addition, banking regulates loans and the borrowing capacity of consumers and companies, affecting how they operate. Government and banking policies influence interest rates and have an overall effect on the prices of goods and services and investment opportunities (Li, Sun & Chen, 2020). Monetary policies of a particular country influence the economic activities and inflation rate together with the GDP and recession. Collectively, this dynamic situation is referred to as the "monetary policy transmission mechanism" (Can, Bocuoglu & Can, 2020)

2.2 SOCIAL ENVIRONMENT

The social environment consists of attitudes, values, customs, traditions, and lifestyles of the people within the society the company operates. Such factors influence customers' purchasing behavior and are hard to predict or measure since they can be very intuitive (Tur-Porcar, Roig-Tierno & Mestre, 2018). In strategic planning, companies cannot ignore the components of the social environment since, although they may not have an immediate impact, they have a significant long-term impact on the business and its operations. Evaluating social factors in a particular business environment is important because it allows companies to forge a cordial relationship with their customers (Dewnarain, Ramkissoon & Mavondo, 2019). It is evident that society is continually changing; lifestyle changes in fashion and preferences are great examples of this change (Ben, Udo & Abner, 2019). One of the most significant social changes affecting businesses is the increasing popularity of social media. Social media sites such as Facebook and Instagram have become very popular among young consumers as a source of information and

recommendation about products (Corrada, Flecha & Lopez, 2020).

Businesses must understand the social needs and preferences of their consumers to stay competitive. For example, young consumers prefer digital technology to shop online, while older consumers are more likely to stick to conventional methods (Corrada, Flecha & Lopez, 2020). Companies must focus on social changes extensively to achieve their goals. To evaluate social changes, they use various analyses such as PESTLE, STEEP, and STEEPLE analysis to get a comprehensive understanding of social and cultural changes and how such factors might impact the business operations (Paurova & Gregova 2020). To ensure a sustainable competitive advantage, companies should provide products and services that satisfy or accommodate the social needs of their customers. The products should complement the behavior of the customer. Failure to effectively respond to societal changes can have several consequences, such as reduced market share and a fall in demand for products and services (Lüdeke-Freund et al. 2017).

2.3 POLITICAL ENVIRONMENT

The political environment is another fundamental element for managers to consider in daily business operations. It involves government regulation and consists of three important components: government activity, policies, and government stability. The government regulates the production and economic aspects, and government policies and guidelines significantly impact business operations (Aithal 2017). In all countries, governments and other authorities implement business policies and regulations to facilitate smooth trade activities. They determine what activities an organization can engage in and how much money they can borrow, thus significantly impacting businesses (Kim et al. 2021). The political stability of a country has a significant impact on business planning. Often, managers evaluate the political climate of a country before setting business. For example, companies must consider the stability of the government, government regulations on foreign

companies, import tariffs, and other restrictions (Aithal 2017). Political factors are highly volatile and can experience drastic changes, especially during elections years and other phenomena. For example, the recent global pandemic forced governments to impose lockdowns and travel restrictions, significantly impacting the global business environment (Ratten 2020). Changes in response to the pandemic have revolutionized businesses as more are using internet technology and work-from-home culture.

A stable political environment facilitates business growth and attracts local and foreign investors. Businesses are always wary of the political and legal factors since they are important determinants of the business environment. For companies to be legally fit to operate, they dedicate entire departments to legal issues, while small companies hire legal experts for directions.

2.5 TECHNOLOGICAL ENVIRONMENT

The technological environment is a crucial component of the global business environment and refers to the methods used to convert raw materials into finished products and services. It involves using new machines and technology to improve production, minimize wastage, and increase the value of the final product (Tallman, Luo & Beckley, 2018). Such technology comes from the external environment, and businesses must closely monitor technological changes in a particular industry. Companies must implement technical changes to remain competitive in the market. For example, digital technologies have been adopted in recent years as more business transactions are conducted through the internet.

Emerging technologies such as artificial intelligence, warehouse automation, and social media marketing are imperative for businesses' survival in the current era (Chan 2020). Companies that adopt new technologies can improve customer experience, which relates to long-term sustainability. New technologies promote large-scale production and boost efficiency by reducing waste and the cost of production. Some aspects of the technological environment are scientific

improvements, development of information technology, and import and export technologies. Such technologies improve global trade and attract foreign investors since they ease the ways of doing business.

3. HOW COMPANIES BEHAVE UNDER DIFFERENT TYPES OF EXTERNAL INFLUENCES?

Strategic responses are decisions and actions that formalize and execute the designed plan to achieve business objectives and goals. Strategic responses enhance long-term business survival while also ensuring that firms remain relevant and competitive in the environment they operate. Strategic responses are usually long-term as they determine the future direction of the firm in addition to being dependent on the business environment (Ansoff et al. 2018). Therefore, firms tend to adopt response strategies that fit the business environment and which the internal resources can support. The ever-changing global business environment requires firms to develop new strategies aligned to the factors within the environment. Strategic responses, therefore, have a direct impact on business performance both in the short term and long term. Strategic responses also enable firms to adapt and adjust to environmental factors, which significantly contributes to attaining the set business goals and objectives. Strategic responses act as standard measures that firms use to remain competitive. Business entities constantly seek to formulate strategic responses to counter dynamic forces within the environment to gain a competitive advantage.

Companies operating in large global markets are faced with various external factors that trigger strategic responses to ensure sustainable competitive advantage. In such situations, business managers and decision-makers need to implement strategies aligned to the respective factors or challenges within the external environment. Various studies have identified strategies such as outsourcing, downsizing, reengineering and self-management as some of the traditional approaches adopted by firms to respond to

changes in the external environment (Carrie et al. 2017, P.138). As asserted by various scholars on this topic, the management approach used by a company is a key determinant factor in how the management sees the business environment, diagnoses its impact on the business, identifies the suitable strategy, and implements the strategy. When faced with changes in the external environment, the main response has to involve cost minimization. The overall strategy should contribute to minimum cost or loss while maximizing profitability to succeed in a turbulent and volatile environment. The highly competitive and uncertain business environments that global companies operate in mean that strategic thinking and effective change management are key sources of competitive advantage in a sustainable business environment (Lin et al. 2018). There is a need for the firm to ensure a real-time response to strategic issues, which enhances preparedness to mitigate impending risks that may affect business performance and growth. Strategic response means that the firm is capable of adapting to the needs in the business environment.

According to Lin et al (2018), the ability of a firm to conform to current and diverse factors is known as flexibility. A flexible company can maintain business operations in changing conditions irrespective of their uncertainty or difference from the pre-existing environment. A strategic response is critical in highly competitive business environments because the existing sustainability strategies for competitive advantage are limited to certain conditions (Chen 2019). After a strategic analysis of the business environment, the firm can identify the appropriate competitive approaches to maximize available market opportunities. Some strategies that can enable firms to achieve cost leadership include overhaul reduction, cost minimization, and efficiencies.

After analyzing the market environment, a firm must identify the appropriate direction to grow and whether it is strategic to expand internally or externally. The internal expansion entails increasing a firm's internal capabilities, such

as production, distribution, and marketing resources. External growth is a strategic response that has been widely applied by companies operating in the highly volatile global environment (Ansoff et al. 2018). It entails expanding business operations through mergers, acquisitions and takeovers. Restructuring and rationalizing is another way firms can strategically respond to changes in the global business environment. Restructuring is concerned with actions and decisions that are meant to achieve business purposes and objectives. Decision making is part of a firm's overall strategy, as it plays a critical role in identifying challenges in a business environment (Koentjoro and Gunawan 2020, P. 90). The three main components of a company's strategy include the objective, vision and mission, and competitive strategy. The objective strategy entails short term and long term goals. The mission strategy defines the strategic direction in terms of the business activities that the company focuses on.

The competitive strategy relates to considering the company's competitive strengths and weaknesses depending on customer needs and competition, which helps establish a sustainable competitive advantage. As a response to changes in the global environment, firms can opt to review the above three core company strategies. Global companies tend to find it difficult to understand the external environment because of various factors. First, the external environment is characterized by diverse factors that affect the business. Although it might be easier to identify various external factors within the business environment, it isn't easy to select one factor that has the greatest impact. Secondly, external factors such as technology are subject to rapid change, thus becoming more difficult to understand. Business leaders and managers struggle to keep up with the speed of technological advancement.

Thirdly, external environment factors are difficult to identify because of complexity. The external environment is difficult to simplify as business leaders try to understand the history of factors and how they are applicable in future. A

strategic response is directly linked to uncertainty in the global environment (Koentjoro and Gunawan 2020, P. 90). As the external environment grows more volatile and uncertain, firms need to become more flexible to respond to emerging issues strategically. Flexibility comprises various aspects, including agility, adaptability, elasticity, corrigibility, versatility, hedging, robustness, liquidity, resilience, plasticity and malleability. Each of these firm flexibilities responds to some kinds of external pressures and uncertainties in the external environment. The type of response can be defensive or offensive, depending on the external environment. Although flexibility is usually considered the main adaptive response to uncertainty in the external environment, firms need to use their strategic responses to review market uncertainties to regain sustainable competitive advantage

CONCLUSIONS

The global business environment is complex and volatile and is characterized by many changes that influence how organizations operate. To cope with the rapidly changing environmental factors, firms must adopt and implement strategies to gain and maintain a competitive advantage. In this theoretical review, various aspects of the global business environment have been explored. Firstly, the study analyzed the multiple components of the worldwide business environment, including social, political, economic, and technological, and how various factors contribute to the dynamicity of the worldwide business environment. In essence, the review has endeavored to answer how various aspects of the global business environment influence dynamicity and how firms respond to such factors to achieve and maintain a competitive advantage. Secondly, the review explored multiple strategies adopted by companies worldwide to react to changes in the volatile and competitive business environment. Since companies have no control over the external business environment, they can adopt various strategies such as market-based strategies, product-based strategies, and operational-based strategies to cope with changes in the

external business environment. In essence, the overall objective of adopting these strategies in a volatile business environment is to achieve and maintain a sustainable competitive advantage.

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AUTHOR BIOGRAPHIES

PhD cand. Erjona Deshati is a lecturer in the Department of Business Administration and Information Technology at Canadian Institute of Technology (CIT), where she has been since 2016. She teaches business management courses including Strategic Management, Project Management, Principles of Management, and Marketing, to name a few. From 2018 she also serves as CIT Review Journal (ISSN: 2788-645X) Coordinator. She is also part of scientific editorial board and reviewer team member for many international academic journals in the field of management and marketing. She has received a Bachelor Degree and a Master of Science Degree in Business Administration and she is currently pursuing a PhD Program in Business Administration at UACS, accredited from Accreditation Council for Business Schools and Programs (ACBSP). Her current research looks at of the global business environment and how prompt strategic responses enable companies to achieve sustainable competitive advantage.

Prof. Dr. Klodiana Gorica is a Full Professor in University of Tirana. She is also the National Contact Point for Albania in European Institute of Innovation and Technology EIT <https://eit.europa.eu/>; Coordinator of BLUEWBC project for University of Tirana (Sustainable Development of BLUE Economies through higher education and innovation in Western Balkan Countries (<https://www.bluewbc.eu/>); Expert in tourism (marketing, strategies and politics for a sustainable tourism) and entrepreneurial marketing working with UNWTO, UNDP, World Bank, PA-PRAC, WTO, WTTC, GSTC, GRSME, etc;. Her main fields of interest: Marketing, Entrepreneurial Marketing, Sustainable Tourism Management, Tourism Marketing, Higher Education. For more than 20 years has been involved in international initiatives, forums and projects, not only as expert but serving as guest speaker, national contact point, members for Balkan and/or Albania, creating networks for Balkan and European Sustainable Tourism, creating and managing round tables and forums; member in editorial board/research committee/keynote speaker in international journals and conferences, and international experiences in training and teaching in universities abroad.