

## Use of the PESTEL Model in the Management of the Tourism Branch of the Republic of Moldova

Platon Nicolae

*Tourism Information and Promotion Centre in the Republic of Moldova*

[platonanat@yahoo.com](mailto:platonanat@yahoo.com)

### Abstract

*Before an investor decides to expand his business to another country and on an unknown market, it is necessary to study in advance the specificity of this country, the peculiarities of the market, the political, economic, social, technological, legal and environmental framework, to mitigate the risks and gain competitive advantage over the competitive environment.*

*The PESTEL model is one of the best-known strategic management tools that can be used by the investor to provide a profound analysis of the overall economic environment of a country in which expansion is desired, while minimizing investment risks and increasing competitiveness.*

*In this article, the author makes an analysis on how to use the PESTEL model in the tourism branch.*

**Key words:** PESTEL model, tourism branch, general economic environment, international tourism market, sustainable development

**J.E.L. classification:** M 1, M2

### 1. Introduction

The goal of achieving a sustainable tourism must be subordinated to national and regional economic and social development plans. Actions can cover economic purposes (revenue growth, diversification and integration of activities, control, zoning of development), social areas (poverty alleviation and inequality in income distribution, protection of socio-cultural heritage, participation and involvement of local communities) or ecosystems (protecting ecosystem functions, preserving and sustainable use of biodiversity) (Stănciulescu, 2009, p. 41).

Therefore, the expansion strategy for selecting a country to expand its activity begins with the examination of the situation regarding the safety and security of the tourists by the host country; afterwards, the national regulatory and legal framework regarding the protection of foreign investments and consequently the expected economic objectives, if they fall within the set parameters, are analyzed (Băcanu, 2009, p. 262).

The strategic management process associated with the internationalization of tourism business follows the same benchmarks as a strategy with a focus on the national tourism space. But for internationalization, the necessary resources are much higher, and the stakes and risks are higher than those specific to the internal market.

Thus, in order to reduce investment risks, the first step in the development of a detailed analysis strategy of the internal environment specific to the country in which expansion of operations is expected, consists in the application of PESTEL instruments in the research process. Detailed study means the use of the PESTEL model in analyzing the political, economic, social, technological, ecological and legal factors governing the tourism industry, adapted to the competitive environment.

For the tourism branch, the analysis should focus on elements for which there are certain risks related to the tourism business environment.

## 2. Actuality of the subject

The phenomenon of business internationalization is on the agenda of most entrepreneurs. They want expansion and development across multiple markets in order to increase profitability. This is not easy at all. The expansion process requires a high level of financial, human, material and informational resources. Once these resources are allocated, they are constantly subject to various market-specific risks.

Under these circumstances, entrepreneurs, in order to expand their tourism business to another country, must be confident of the made decision and find an edge between the available opportunities on the tourism market and their own abilities and means, while allocating time, resources and managerial capabilities to meet the challenges of the overall economic environment of the countries where the investment will be made.

Thus, the PESTEL model as a tool of strategic management comes to the entrepreneur's help and can guide him / her in choosing an option that corresponds to a rational framework of activity, taking into account the competitive environment and thus receiving a competitive advantage.

All of the above mentioned argue the actuality of the research topic.

**Relevance of the article.** Investigating this topic gave the author the opportunity to generalize certain conclusions on the subject and, as a result, to propose to decision-makers in the Republic of Moldova solutions for attracting tourism investments using the PESTEL model.

## 3. Research methodology

**The aim of research** is represented by the way how the PESTEL model can influence the attraction of potential investors for the tourism market of the Republic of Moldova, as well as the study of the PESTEL instrumentation for the country's tourism branch. The investigation area is comprised of all the dimensions of the tourism industry, which require a scientific research approach.

The theoretical and methodological support of the investigated theme is ensured by the work of the scientists who have made research in this field and have demonstrated the effectiveness of using the PESTEL model in the process of expanding the business in other countries and other markets.

When writing this article, the author has used 3 research methods as follows:

**Fundamental research** has allowed the study of current tourism trends in the general economic environment of the country, reflecting the possible changes that can be achieved as a result of the research, due to the correct and balanced use of the PESTEL model. Fundamental research included investigations in the form of theoretical studies that led to the formulation of some practically substantiated scientific conclusions.

**Research for development** aimed at identifying those solutions that can be used in the context of the sustainable development of the tourism industry. In order to find answers to the spectrum of issues of tourism activity, specialized and general interest literature, as well as a diverse instrument of scientific research, comparative analysis have been used in research, which highlight the complexity of tourism as a generator of economic benefits and social issues at national level.

**Applied research** was tasked with selecting the information needed to direct practical work, in order to increase the methodical work. The selected information provides practical support in knowing the mechanisms of tourism functioning as a complex socio-economic activity.

## 4. Results and discussions

The international strategy is the first form of internationalization when the company keeps control of its main activities carried out on foreign markets, but transfers outside the borders its products, know-how, technologies, human and financial resources accumulated on the domestic market and marketing or production capacities, which are not present on the markets where they intend to enter (Vagu, 2014, p.760).

In order to analyze the general economic environment of a country, we will use the **PESTEL** model. The PESTEL acronym comes from the *six elements* that are analyzed: **Political, Economic,**

**Social, Technological, Ecological and Legal.** Sometimes the PESTEL model can be expanded by adding other factors, such as Industrial, Demographic, Ethical, thus reaching such models like PESTELI, STEEP, PESTLE or STEEPLD (which includes them all).

But because, in recent years, we pay more attention to the legal framework and ecological issues, in our opinion, the PESTEL model can be a good model for strategic analysis of the internationalization of tourism services. The model includes an extensive area of research and allows a more in-depth study of the investment climate in the country where enlargement is desired.

Generalizing the elements of this model, in the author's opinion, they can be presented as follows: (*Annex I*).

PESTEL analysis can precede the SWOT analysis, as the PESTEL model supports very well SWOT, helping to identify the opportunities and threats specific to a country where activity is intended to be expanded.

The PESTEL model takes into account, when comparing the markets, where the following factors are to be expanded:

❖ **Political factor.** This factor is determined by governmental interventions in the economic sphere, through fiscal policy, monetary policy, and compliance with international standards imposed by international bodies: United Nations (UN), World Tourism Organization (UNWTO), European Union (EU) . It includes the analysis of the following *elements*: governance functionality, fiscal policy, budget policy, currency policy, competition policy, protectionist policies, anti-monopolistic policies, corruption eradication policy, lobby, political risk, military conflicts, level of terrorism, ethnic tensions.

Political stability is also a very important variable to be taken into account. The political component is based, in particular, on the cooperation mode between the political world, represented by the political parties in the government and the business environment. Between the two components there is a direct relationship of mutual influence. Under these circumstances, governors can create significant opportunities for investors, or create obstacles.

The relationship between politics and tourism is structured on a simple idea. It is demonstrated the fact that a democratic regime is more favourable for the development of tourism than one of another nature. All statistics show that the states considered democratic have a larger number of foreign tourists. Consequently, the revenue associated with these activities is higher. In the opposite direction, any tendency to worsen the democratic principles associated with a state rapidly reduces performance indicators of tourism activities. The alteration of democratic principles may refer to a military conflict, such as the one on the Dniester River in 1992, the establishment of a dictatorial regime, but also terrorism acts, such as those in Europe in 2017. Even an ambiguous perception of the political stability of a region can discourage tourists. From this we can deduce that the political environment usually varies from one country to another and evolves very quickly. However, political risk should be considered before deciding to invest in that country.

Thus, the political environment rapidly shapes, by many means, the behaviour of the tourist and, indirectly, the activity of the whole sector and of the industries related to tourism.

❖ **Economic factor.** This factor is made up of the indicators that result from the economic relations of the macro-environment of a country. This is about the analysis of the following *elements*: dynamics of macroeconomic indicators, share of GDP per capital, bank interest rate, inflation level, import level, export level, structure and level of investments, administered prices, cost of utilities, population consumption capacity, competitiveness of the national economy, investment climate, general infrastructure level.

The given factor has an influence on enterprises by the nature of economic relations, but also by its general situation, reflected at some point by a number of status or process indicators. In the case of tourism, the general situation of the economy is important, as there is a relative synchronization between its indicators.

Entry into a cycle of economic crisis in a particular region or country may lead to a decrease in revenues in the tourism industry, and in countries where economies are on the rise, on the contrary, the tourism branch creates investment opportunities.

When comparing different countries regarding the attractiveness, companies intending to internationalize must take into account the stability of the national currency (foreign exchange

risk), the variations of which may have a considerable impact on the performance of the subsidiaries and the level of state guarantees, on the protection of foreign investments.

Besides such events that it is useful to discuss about in 2018, there are other economic phenomena whose dynamics differ from country to country, but have remarkable influences on the tourism. More specifically, inflation dynamics, unemployment or the cost of some products such as fuel or food influence tourism behaviour in a country. If the dynamics of the economic indicators of the two countries, between which important tourism exchanges are made, change significantly, then the exchange rate of the national currency is likely to change, and consequently, the reduction of the tourism flow. For example, the devaluation of the national currency increases the country's competitiveness on the international tourism market and can thus contribute to the growth of exports of tourism services, but the negative side is to reduce the consumption possibilities of the local population.

❖ **Social factor.** This factor is made up of all the elements associated with individual and group behaviour patterns that reflect attitudes, values, habits, civility. It **contains information about:** demographic indicators: natural growth, age structure, population mobility, quality of the workforce, level of unemployment, migration level, lifestyle, educational level, foreign languages circulation, society values, tolerance to religions, attitude towards quality and saving.

Even though the analyzed factors have an advanced local specificity, there are also general trends observed in a large number of countries with significant contributions to tourism development. An important category of elements is of a demographic nature, their manifestation having a cultural basis. For example, the elderly segment of economically developed countries is travelling much more than in developing countries, because their life and life expectancy is rising.

Based on the examined factors, we can deduce that the interdependence between people and the state is very high, which translates into accepting social differences and doing common actions to preserve the stability necessary for general development, including the development of tourism. Even emphasize of the importance of preserving the natural environment can also be interpreted as a social issue.

❖ **Technological factor.** Fundamental changes in IT technology, their frequency, and the need to align and interconnect with other systems, both in terms of hardware and software components, lead to a great deal of pressure on the tourism industry, and as a consequence, at the level of its ability to assimilate the new technologies in the respective field. **The elements** to be examined are: technological innovation rate, government spending on innovation, technological attraction of the sector, amount of expenditure for implementing technologies, quality of technology, quality of technical education, automating processes and working relationships, level of research and development.

The financial pressure is caused by the costs involved in maintaining a high standard of IT equipment performance as a result of the very rapid technological evolution in this area, as IT infrastructure has become indispensable for the good development of the tourism activity.

Nowadays, the tourism industry, as well as the entire economy, is in the process of transformation due to the diffusion and implementation of new IT technologies.

❖ **Legal factor.** The legal framework consists of all laws and regulations, as well as of all the institutions responsible for their promulgation and compliance. It includes the analysis of the following **elements:** respect of the principles and values of the rule of law, legislation linked to European standards, functionality of law institutions, respect for private property rights, respect for intellectual property rights, legal limitations.

Legislation may vary considerably from one country to another, in particular as regards the ability to determine compliance with the contracts, intellectual property, or protection against corruption.

The adjustment of the national legal framework to European standards has a direct influence on possible investments as it can provide the legal protection in the field of investment protection.

❖ **Ecologic factor.** This factor is constituted by the totality of elements that define the behaviour of organizations or individuals oriented towards preserving the natural environment and ensuring a sustainable development. It includes the analysis of the following **elements:** quality of the environment, actions to protect and conserve biodiversity, availability of natural resources,

developing renewable energies, recycling of used products, ecological education of the population, existence of protected areas and zones.

Analysis of the elements of this factor emphasizes the importance or negligence given to the environment by the state. It is particularly appropriate in tourism, where the preservation of the natural environment is an important premise in ensuring the development of the tourism branch. This factor materializes at the level of each of the other factors by reconsidering elements based on the perspective of sustainable development. For tourism, the ecological aspect is a crucial one, as tourists interact with nature all the time.

In order to see how the PESTEL model works at the level of the tourism branch of the Republic of Moldova, the author made the customization of the PESTEL instrumentation in adjusting the state policy in the field of tourism (Platon, 2014, p.52, p.59)

## 5. Conclusions

Tourism activities are conditioned by the existence of a state of peace, reflected in the absence of open, internal or external conflicts, as well as in the absence of potential for violent manifestations specifically aimed at tourists.

A brief look at the map shows that there are large areas marked by armed conflicts or terrorist attacks that may affect tourism or that have vulnerability in the selection of the tourism destination.

If for other industries (processing, textile, agrarian, extraction, etc.) the security solution is a possible one, then in tourism is enough only a rumour or an accidental banal event to modify the flow of tourists or their behaviour in the sense of reorienting towards other tourism destinations.

Any strategy with the ambitions to internationalize a tourism enterprise must be based on an objective knowledge of its strengths and weaknesses, proven on the domestic market, but projected in a different national environment.

A strong national position does not necessarily mean organizational features for the international level. In most cases, a strong national basis and successful testing of internal qualities are required as a condition for international success.

Research regarding the expansion should be done with utmost responsibility, as the financial, material and human resources are at stake.

To reduce the investment risks and become competitive on a new market, it is necessary to use the PESTEL model. By using PESTEL tools in selecting a new target market, we can examine the political, economic, social, technological, environmental, and legal factors that will answer many of your enlargement questions. On the basis of the information contained in the PESTEL report, preliminary plans of expansion in the areas of tourism of investment interest can be made.

However, how sophisticated a predictive system is, the results provided have an important shortcoming to be taken into account, especially in periods of uncertainty following historic significant "accidents" with a significant impact: military conflicts, terrorist attacks, separatist actions, etc.

## 6. References

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### Appendix 1

*Elements of the PESTEL model with significance in selecting a new target market*

<b>Political factors of influence</b>	<b>Economic factors of influence</b>	<b>Social factors of influence</b>	<b>Technological factors of influence</b>	<b>Legal factors of influence</b>	<b>Ecological factors of influence</b>
<ul style="list-style-type: none"> <li>• political stability</li> <li>• Governance functionality</li> <li>• fiscal policy</li> <li>• budget policy</li> <li>• currency policy</li> <li>• competition policy</li> <li>• protectionist policies</li> <li>• anti-monopolistic policies</li> <li>• corruption eradication policy</li> <li>• lobby</li> <li>• political risk</li> <li>• military conflicts</li> <li>• level of terrorism</li> <li>• ethnic tensions</li> </ul>	<ul style="list-style-type: none"> <li>• dynamics of macroeconomic indicators</li> <li>• share of GDP per capita</li> <li>• bank interest rate</li> <li>• inflation level</li> <li>• import level</li> <li>• export level</li> <li>• structure and level of investments</li> <li>• administered prices</li> <li>• cost of utilities</li> <li>• population consumption capacity</li> <li>• competitiveness of the national economy</li> <li>• investment climate</li> <li>• general infrastructure level</li> </ul>	<ul style="list-style-type: none"> <li>• demographic indicators: natural growth, age structure</li> <li>• population mobility</li> <li>• quality of the workforce</li> <li>• level of unemployment</li> <li>• migration level</li> <li>• lifestyle</li> <li>• educational level</li> <li>• foreign languages circulation</li> <li>• society values</li> <li>• tolerance to religions</li> <li>• attitude towards quality and saving</li> </ul>	<ul style="list-style-type: none"> <li>• technological innovation rate</li> <li>• Government spending on innovation</li> <li>• technological attraction of the sector</li> <li>• amount of expenditure for implementing technologies</li> <li>• quality of technology</li> <li>• quality of technical education</li> <li>• automating processes and working relationships</li> <li>• level of research and development</li> </ul>	<ul style="list-style-type: none"> <li>• respect of the principles and values of the rule of law</li> <li>• legislation linked to European standards</li> <li>• functionality of law institutions</li> <li>• respect for private property rights</li> <li>• respect for intellectual property rights</li> <li>• legal limitations</li> </ul>	<ul style="list-style-type: none"> <li>• quality of the environment</li> <li>• actions to protect and conserve biodiversity</li> <li>• availability of natural resources</li> <li>• developing renewable energies</li> <li>• recycling of used products</li> <li>• ecological education of the population</li> <li>• existence of protected areas and zones</li> </ul>

Source: Developed by author