



Methods of analysis of the external environment of business activities

Métodos de análisis de entorno externo de las actividades comerciales

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Contents

- [1. Introduction](#)
- [2. Materials and methods](#)
- [3. Results and discussion](#)
- [4. Conclusions](#)
- [Bibliographic references](#)

ABSTRACT:

The urgency of the business activity external environment analysis is due to the fact that the modern external environment of enterprises is characterized by an extremely high degree of dynamism, complexity, and uncertainty. Thus, the main condition in business, as well as in other areas of life, is the ability to adapt to changes taking place in the external environment. An important condition is that organizations must respond to new changes taking place in the external environment effectively and timely. Different methods of strategic analysis are considered in this article, namely: SWOT analysis, PEST analysis, STEP analysis, GRID matrix, SNW analysis, EFAS form and others that allow estimating the factors influencing the external environment of the market on the basis of which organizations can make effective decisions. The article highlights the advantages and disadvantages of methods.

Keywords: Organization, macro environment, the external environment factors, SWOT analysis, PEST - analysis.

RESUMEN:

La urgencia del análisis del entorno externo de la actividad empresarial se debe a que el entorno externo moderno de las empresas se caracteriza por un alto grado de dinamismo, complejidad e incertidumbre. Por lo tanto, la principal condición en los negocios, así como en otras áreas de la vida, es la capacidad de adaptarse a los cambios que tienen lugar en el entorno externo. Una condición importante es que las organizaciones deben responder a los nuevos cambios que tienen lugar en el entorno externo de manera efectiva y oportuna. En este artículo se consideran diferentes métodos de análisis estratégico, a saber: análisis FODA, análisis PEST, análisis STEP, matriz GRID, análisis SNW, formulario EFAS y otros que permiten estimar los factores que influyen en el entorno externo del mercado sobre la base de qué organizaciones puede tomar decisiones efectivas. El artículo destaca las ventajas y desventajas de los métodos.

Palabras clave: Organización, entorno macro, factores del entorno externo, análisis FODA, PEST - análisis.

1. Introduction

For today, the external environment analysis of business activities takes a very important place in the development of any organization. This is due to the fact that the modern external environment of enterprises is characterized by an extremely high degree of dynamism, complexity, and uncertainty. In addition, one of the main conditions in business, as well as in other areas of life, is the ability of the organization to adapt to external changes in the macro environment. You can add that any organization exists and functions in conjunction with many factors. These factors have a different impact on organization and have a very significant impact on the organization's capabilities, its perspectives and strategy. The combination of interaction factors is considered as an organization environment in management.

Today, in management and marketing, there are many thoughts about the role of various methods of analysis. The existing methods currently available for exploring the macro environment were analyzed in this article.

A large number of methods for assessing the factors of the external market functioning provides a wide opportunity to develop possible options for market entry strategies.

A large number of studies have been carried out on the methods of analysis of the external business environment, and many researchers have been involved in systemic research, including F. S. Akilyar, I. Ansoff, F. E. Cast, J. E. Rosenweig, A. Humphrey, T. Whellen, D. Hunger, Ye. Panchenko, A. Starostina, T. Tsygankova, Ya.O. Polyakova, O. Yevdochenko, I. Dyukov (Balabanova, 2005, p. 205-207; Polonets, 2006, p.47-50; Saray, 2010, p. 160-163; Golovko and Sagovaya, 2002, p. 44-49; Whellen and Hunger, 1992, p. 92; Danko and Skorobogatykh, 2005, p. 84; SWOT Analysis is a..., Follow a SWOT..., SWOT Analysis).

2. Materials and methods

A complex of general scientific methods and methods of research became the scientific-theoretical and methodological basis of this article. System analysis was used to identify the features of the external environment of business activities analysis methods. To compare the resulted methods, as well as to identify their advantages and disadvantages, comparative analysis, expert analysis, synthesis and generalization methods were used.

3. Results and discussion

Let us consider one of the most common methods of analysis - SWOT. There are many of its modifications in the literature. This method was developed by Albert Humphrey. Thanks to this matrix you can identify the weaknesses and strengths, as well as opportunities and threats. The advantage of the method is that it allows you to make strategically important decisions for the organization. By defining the company's capabilities with this method, one can say that: which new product can organization make; can an organization conquer new customers, introduce a new production technology, and also have resources to build and improve a chain of values. This method allows us to identify those factors that may cause damage to the enterprise, that is, threats (Thompson and Strickland, 2006, p. 61; Polonets, 2006, p. 14; Apple SWOT Analysis; Coca Cola SWOT Analysis). (Fig. 1).

The SWOT analysis matrix is filled in according to the following principle:

1. "S" field - defines the strengths of the enterprise, through which you can determine the strategic direction of the enterprise, as well as make strategically important decisions.
2. "W" field - determines which strengths an organization can use to reduce its threats.
3. "O" field - defines the possibilities of the enterprise in the presence of a large number of weaknesses.
4. "T" field - defines the vulnerable weaknesses of the enterprise in conditions of threats

Figure 1
SWOT analysis matrix

	Possibilities: 1. 2.	Threats: 1. 2.
Strengths: 1. 2.	"S" field	"W" field
Weaknesses: 1. 2.	O" field	"T" field

The advantage of this method is its ease of use, as well as a wide range of applications when using it, without having to spend a lot on marketing research. The disadvantage of this method is that it is impossible to trace the dynamics of time changes in the market, the inaccuracy of the analysis results.

International companies such as Apple, BMW, Coca Cola can be an example of using SWOT analysis (*PEST Analysis for Micro...*; *PESTLE Analysis of Starbucks*; *A PESTLE Analysis of Nike*).

PEST analysis is no less widespread and widely used method of analysis (Saray, 2010, p. 18; Danko and Skorobogatykh, 2005, p. 8; *SWOT Analysis is a...*; Balabanova, 2005, p. 118-119; Polonets, 2006, p. 48; *Difference between SWOT...*; *PESTLE Analysis of Uber*). There are four blocks of factors for this analysis. This method of analysis is a monitoring one and it analyzes the external environment events. (Fig. 2).

Figure 2
Quadrilateral matrix of PEST (STEP) analysis

Political and legal factors:	Social and cultural factors:
Economic factors:	Scientific and technological factors:

Political and legal factors: stability, taxes, state policy of foreign trade activity regulation, political stability, legislative system, level of judicial system.

Economic factors: GDP, GNP, investment climate, inflation rate, currency stability, market capacity.

Social and cultural factors: religion, education, communication means, language, customs, norms of behavior.

Scientific and technological factors: technological support of production, availability and application of new technologies in business, expenses on R&D.

In the process of expanding its foreign economic activity, the PEST analysis method was used by such well-known companies as: Starbucks, Nike, Adidas, Uber (*PESTLE Analysis of Starbucks*; *A PESTLE Analysis of Nike*; *Difference between SWOT...*; *PESTLE Analysis of Adidas*).

The method of STEP analysis is presented in (Table 1).

Table 1
STEP analysis method

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Groups of factors	Events/ factors	Threats/ Possibilities	Likelihood of an event or manifestation of a factor	The importance of a factor or event	Influence on the organization	Action program
Political						
Economic						
Social						
Technological						

Source: (Golovko and Sagovaya, 2002, p. 45)

The advantage of PEST analysis method is its ease of use. This method is often used to assess market trends in the industry.

With it you can make long-term strategic plans with annual data updates.

A more effective result of STEP analysis can be obtained with regular use with time fixing to track the dynamics of changes in indicators as well as their impact, which in turn will accurately assess the external environment of the enterprise (Saray, 2010, p. 160-163; forming the strategy of enterprise development. Economic analysis, 5, 160-163; Thompson and Strickland, 2006, p. 26; PESTLE Analysis of Uber).

Dyukov V.I. worked on the PEST analysis method, who added new factors such as: demographic, political and legal, physical, technological, economic, cultural and social.

K. Fleischer founded the STEP analysis method, (Golovko and Sagovaya, 2002, p. 14). This method of analysis also includes indicators such as scientific and technological, economic, political, legal, social and environmental. Depending on the specifics of the company's business, the forecasts obtained with this method are long-term, short-term and medium-term (Whellen and Hunger, 1992, p. 19; SWOT Analysis is a...; PESTLE Analysis of Uber).

The advantage of this method is a wide range of both qualitative and quantitative factors that interact with each other.

The disadvantages of this method can be attributed to the fact that when using this method of analysis, the company must systematically trace and also accumulate the reliability of data sources.

The GRID matrix is represented (Table 2), which is based on the PEST method. Its goal is to correctly focus attention on more weighty indicators, which ultimately helps to optimize information and reduce market research costs (PESTLE Analysis of Uber).

Table 2
GRID matrix

Marketing mix	PEST divisions			
	Political (P)	Economic (E)	Social (S)	Scientific and technological (T)
Product				
Price				

Distribution				
Confirmation				

Source: (PESTLE Analysis of Uber).

The SCAN analysis is based on a link between the analysis methods that were given above. This method is also formed on the basis of expert assessments. The method allows to form strategic goals for the enterprise, as well as helps to form possible new directions in the organization's activities. The disadvantages of this method include the possible unreliability of the estimated data, so the researcher should systematically check the sources of information on their reliability.

To systematize the data obtained as a result of the work on the analysis of strategic environmental factors, Whellen T. and Hunger D. suggest the use of the so-called EFAS form (External Strategic Factors Analysis Summary) (Table 3) (Follow a SWOT...).

Table 3

EFAS form

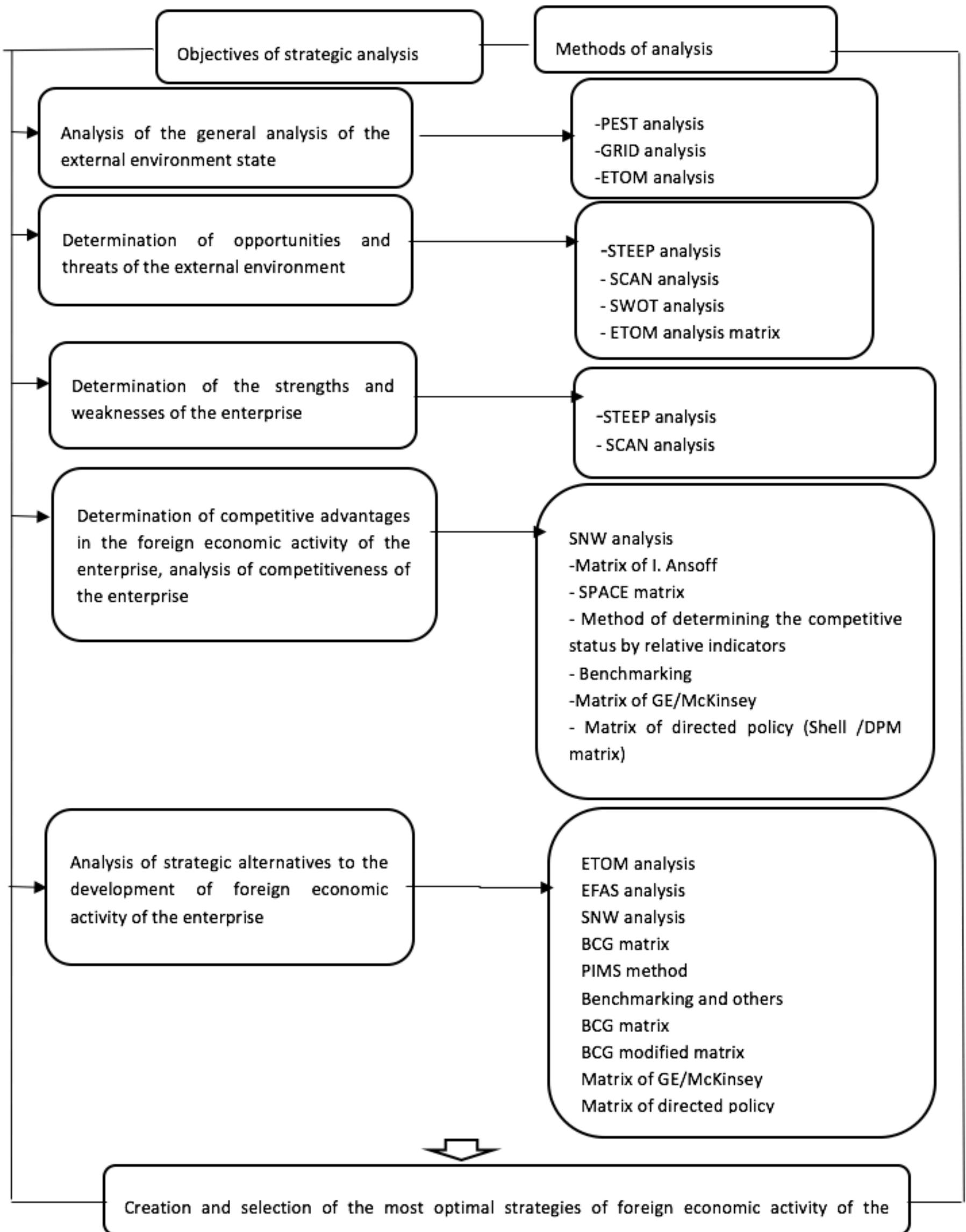
External strategic factors	Weight	Evaluation	Weighted evaluation	Comments
Possibilities				
Threats				
Total evaluation				

Source:(Thompson and Strickland, 2006, p. 25-28)

The results of the research carried out by these methods give us an assessment of each of the factors found, which in turn allows management to make the right decision in choosing the strategic direction of the organization's development.

Figure 3

Systematization of the strategic analysis methods use



To analyze the impact of external factors, you can also use the ETOM analysis method, which is

decrypted as a matrix of threats as well as macro capabilities. The advantages of this method can be attributed to the fact that the number of investigated factors and events brought by the researcher, is limited. Based on the results of the research carried out by this method, the company management can understand what strategic decisions need to be made.

The ETOM analysis matrix is presented in Table 4.

Table 4
ETOM analysis matrix

Factor	Events/ factors	Threats (-)	Possibilities (+)	Weight (1-5)	Importance (1-15)	Influence on company strategy
Economic						

Source: (Saray, 2010, p. 14).

The disadvantages of the ETOM analysis method can be attributed to the fact that the link between environmental factors is not taken into account, as well as estimates that depend on the subjective opinion of experts. R. A. Boloshin proposed an SNW analysis, which is also commonly used. This method is presented in Table 5 (SWOT Analysis).

Table 5
SNW analysis

Nº	Strategic positions	Qualitative assessment of positions		
		S strong	N neutral	W weak

Using this method of analysis, you can assess the level of competitive position of the company in the market, while assessing its strong, neutral and weak sides. This method is effective in assessing potential opportunities. The list of investigated factors is formed by the enterprise independently, depending on its specificity of activity, but also includes risk factors.

With this method, you can explore any managed system as an enterprise management system, as well as a state management system. That is, we can say that this method is universal. As a result of using the NSW method when evaluating the external environment, the organization can eliminate its weaknesses.

Figure 3 presents a systematic scheme for the application of methodological tools depending on the strategic objectives of the enterprise.

Consequently, one of the most important elements of strategic management and planning of the company's activity is the analysis of its external environment. In the process of doing business there, both threats and opportunities arise for the development of the organization. To detect them, the following methods of analysis are widely used: SWOT analysis, PEST analysis, GRID analysis, SCAN analysis, STEP analysis, ETOM analysis, EFAS analysis, SNW analysis. Their advantages were identified, and their disadvantages were listed.

Thus, the given methods allow identifying the strengths and weaknesses of the organization, to

investigate the threats and opportunities for its development, on the basis of which it is possible to carry out the planning and strategic direction of enterprise development.

As a result of the research, the main methods of analysis of the environment were analyzed, a systematic scheme of methodological tools of strategic analysis, depending on the goals of the organization, was presented. It was found out that the following analysis tools are used by international companies such as Apple, BMW, Coca Cola, Starbucks, Nike, Adidas, Uber.

4. Conclusions

In addition, the use of these methods will allow to: carry out efficiently foreign economic operations, assess the competitors and own advantages of the organization, control own resources of the organization, effectively evaluate the external environment factors for rapid reaction to them, implement innovative strategies for the development of the organization, as well as implement investment policy.

Thus, the application of the proposed methodological tool for the analysis of foreign economic activity of enterprises will allow to systematically analyze external factors, to form an optimal choice of strategies of the foreign economic activity of the enterprise for the achievement of the set goals of the organization, and to expand its foreign business activity.

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[Índice]

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