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## STRATEGIC ANALYSIS OF EXTERNAL ENVIRONMENT AS A BASIS FOR RISKS ASSESSMENT

*The article reveals the necessity for a comprehensive analysis of the external components of risk along with the methodology for decreasing risks. The etymology of the "external environment" notion is analyzed. The risk and uncertainty assessment within the framework of strategic analysis of the external environment is grounded. A new concept of increasing the quality of information and analytical support for investment decisions that would enhance the efficiency of organization are offered.*

*Keywords: strategic analysis; external environment; risk assessment; uncertainty; investment decision.*

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## СТРАТЕГІЧНИЙ АНАЛІЗ ЗОВНІШНЬОГО СЕРЕДОВИЩА ЯК ОСНОВА ОЦІНЮВАННЯ РИЗИКІВ

*У статті продемонстровано необхідність всебічного аналізу зовнішніх ризикових компонентів та методику їх нівелювання. Проаналізовано етимологію поняття «зовнішнє середовище». Обґрунтовано оцінювання ризику та невизначеності у рамках стратегічного аналізу зовнішнього середовища. Запропоновано концепцію підвищення якості інформаційно-аналітичної підтримки інвестиційних рішень і на цій основі – підвищення ефективності організації.*

*Ключові слова: стратегічний аналіз; зовнішнє середовище; оцінювання ризиків; невизначеність; інвестиційне рішення.*

*Літ. 11.*

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## СТРАТЕГИЧЕСКИЙ АНАЛИЗ ВНЕШНЕЙ СРЕДЫ КАК ОСНОВА ОЦЕНКИ РИСКОВ\*

*В статье раскрывается необходимость всестороннего анализа внешних компонентов риска и методика их нивелирования. Проанализирована этимология понятия «внешняя среда». Обоснована оценка риска и неопределенности в рамках стратегического анализа внешней среды. Предложена концепция повышения качества информационно-аналитической поддержки инвестиционных решений и на этой основе повышения эффективности организации.*

*Ключевые слова: стратегический анализ; внешняя среда; оценивание рисков; неопределённость; инвестиционное решение.*

**Problem statement.** This paper develops the theoretical and practical framework for the strategic analysis of investment activity of commercial organizations to form a system of information and analytical support for optimal managerial decisions by various subjects under dynamically developing market conditions.

**Recent research and publications analysis.** The topic under study has been previously considered by such researchers as M. Bakanov et al. (2008), L. Berdnikova

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\* Исследование выполнено при финансовой поддержке РГНФ в рамках проекта проведения научных исследований («Методология и инструментарий управленческого учета, анализа и аудита инвестиционной деятельности коммерческой организации»), проект № 13-02-00235.

(2010), A. Zub (2007), L. Igonina (2002), E. Ioda et al., Y. Markaryan et al. (2010), A. Petrova (2006), F. Khorin and V. Kerimov (2006), A. Sheremet (2005). However, there is still a range of issues within this general framework that require further study.

**The objective of this study** is to determine the impact of risk factors and how to neutralize this negative influence on the project as a whole.

**Key research findings.** Under market conditions risk is inherent to all types of activities and organizations. First of all, it can be revealed through lower profits, higher expenditures, decreased demand for produced goods (services), malfunctions in the supply of raw materials, lost opportunities etc.

At the current stage of economic development external environments of organizations are complex and very dynamic. The presence of uncertainties and challenges complicates the processes of decision-making. It is extremely important for all economic entities to discover on time or better to forecast the probability of change in the environment and thus to reveal the ability of timely adaptation to such changes.

For the most comprehensive strategic analysis of external environment and financial analysis of activities and related risks first of all we need to explore in detail the notion "external environment", as it is presented in literature.

A. Zub states that in the most general sense external environment covers all those factors that are out of organization's bounds and on which organization cannot influence (Zub, 2007: 18).

A. Khorin and V. Kerimov note that "under external environment we understand the combination of factors, influencing enterprise and having impact on the efficiency of its functioning" (Khorin & Kerimov, 2006: 89).

Thus, we can conclude that under external environment we usually mean a certain combination of subjects and factors, outside organization's bounds and influencing the efficiency of its activities. External environment is exposed to changes, and thus is in constant movement. Some processes within it can show new prospects and opportunities for an enterprise, and this way shape comfortable conditions for its functioning. Other processes, on the contrary, cause certain difficulties and limitations. The ability of an economic entity to forecast such difficulties, to reveal new opportunities within the environment, to react timely to both of them and therefore to adapt to constantly new conditions of external environment enable long-term development of an economic unit (Berdnikova, 2010).

Not paying attention at all to external environment means an economic entity intentionally puts itself in jeopardy, not using fully the opportunities suggested and thus hindering own development. While analyzing the external environment, one needs to take into consideration sectoral peculiarities, own competitive advantages and those belonging to competitors, geographical location etc. At this, studying all these factors separately does not have much sense, the variety of their interconnection and interdependencies is much more important.

The initial stage in any strategic analysis is the assessment of the external environment which form the background for determining the mission, objectives and tasks of an organization. For this, the decision-maker needs to be well aware of the environment around, its dynamics and development trends, and the place of own organization within this environment. Both external and internal environments are studied in the course of strategic analysis to reveal threats and opportunities that need

to be considered while developing an organizational strategy and, in particular, for increasing the efficiency of the existing potential usage (Berdnikova, 2010).

In the process of the external environment analysis a decision-maker has to have quite a clear vision on what should be the behavior of the enterprise for its successful development in the long term so as to increase its competitiveness, strengthen its financial stability and consequently obtain a leading position at the market. At this it should be taken in consideration that within the dynamic external environment there can arise both risk situations and also new opportunities.

In the process of risk assessment it is necessary to bear in mind that external environment contains a variety of factors which cannot be easily forecasted in advance due to information lack and also uncertainty which makes forecasts hardly reliable, thus increasing risks. All this causes the need for systemic analysis of external environment which would enable operational evaluation and prompt reaction to changing conditions by means of efficient managerial decisions.

A special role within the strategic analysis of external environment is played by the assessment of risk and uncertainties. It is worth mentioning here that to some extent the inability to forecast timely certain events in the medium and long term might be also regarded as a risk.

In cases when information is insufficient and there are doubts about its credibility, external environment gets even more uncertain. And the more uncertain is the external environment – the more complicated it becomes to make efficient managerial decisions.

E.V. Ioda et al. (2002) note that risk presents the danger of losing resources or sources of income, therefore, it can be measured quantitatively, in both absolute and relative terms.

Thus, in its absolute measurement risk can be defined as the volume of potential loses, calculated physically or financially. And relatively, risk is the volume of potential loses in its relation to a certain basis which can be treated as the financial state of an enterprise or as the total cost of resources for a particular type of entrepreneurial activity, or as the expected volume of income (profit) from this activity.

A peculiar feature of risk is that it can be treated equally to potential material loses, caused by an implemented managerial decision, by force majeure in the external environment or simply by unfavourable market conditions.

Consequently, the tasks of strategic analysis of the external environment should include: studying the trends at the market, revealing opportunities and threats, which would directly or indirectly influence the organization. External environment analysis is a complicated and labour-consuming process due to rapid changes, uncertain influence of many factors etc. Under such conditions the efficient and timely analytical research somehow helps structuring the external environment.

It is worth noting here that the borders of external environment for a particular organization are rather conditional and may depend upon the types of its activities, interaction with foreign partners, availability and quantity of branches and representative offices abroad, other factors.

Economic literature on the issue presents various viewpoints on the structure of external environment. The most widely spread approach divides external environment on two levels – macrosurroundings and microsurrroundings.

Macroenvironment forms the general conditions for organization's functioning and, as a rule, do not have any peculiar features in relation to a particular enterprise. At the same the level of its influence on different enterprises will be different too. In most cases it can be explained by specific features of their own activities and their internal opportunities. To the factors of macroenvironment we can refer political, legal, economic, scientific and technical, social and other factors.

Political component is the leading one in the macroenvironment, and it needs to be studied thoroughly for further planning of enterprise development.

Forecasts of legislation changes must be concentrated, first of all, on: potential changes in legal regulation of business; new laws and norms regulating economic processes at the national level.

Studying the general economic situation presupposes the analysis of such indicators as: inflation rate, the general level of economic development, changes in the national economy's development stage, emergence of new markets etc. This component of macroenvironment requires thorough and detailed investigation, because each of its constituents, a notion or a process, affect the cost of all consumed resources, the desire and the ability of consumers to purchase certain products or services. At the final stage of the economic situation analysis an enterprise can determine its opportunities and potential entrepreneurial risks, and therefore, can be more exact in its forecasts on further activities.

Analysis of the latest research and technological achievements enables timely determination and usage of new opportunities which are open for enterprises due to the development of sciences (this includes the production of innovative products, improvement of the already existing productions, improved and brand new technologies etc.). At the same time scientific and technological progress, along with promising prospects, brings in new threats and risks for economic entities, especially for those, that have failed to detect timely and use these new opportunities and by this have decreased their own competitiveness level. Being slow in applying new technologies or not applying them at all such enterprise face the risk to lose their market share.

Technological development directly determine the speed of a product getting outdated, and this is why all organizations need to study consumer demands regularly, orienting their products and services on consumer expectations. This is especially important for knowledge-intensive productions in which innovations are the key to development. These need to react to external developments in the most flexible and most mobile way by suggesting their own innovations instead. This directions of the external environment analysis has the most of new prospects and opportunities, however, very few enterprises are actually able to use them. These very few are the enterprises oriented on long-term development, and despite the time- and resource-intensiveness of this process, are constantly developing further their technologies and techniques, thus creating competitive products and services and reaching success at the market (Berdnikova, 2010).

Studying the social component of the external environment must include the analysis of social events and processes and their influence on business. This include: population growth, general education level, demographic structure of population etc. This component influences significantly other components of external environ-

ment and therefore, the internal processes of any organization within it, and that is why it is so important in the analysis of external environment and risks estimation. Social changes, including the potential ones, should be regularly and carefully studied by organization's management.

All components of external environment are interrelated, and changes in one of them lead to changes in all other components and subcomponents. Real practice shows that their analyses should be interrelated as well, and not carried out separately. The scope of each component's influence upon the enterprises of various sectors, scales of activities and geographical location will significantly vary.

The results of the macroenvironment analysis will lead us to developing measures decreasing entrepreneurial risks, increasing the efficiency of organizations' functioning and entering new levels of development.

Studying the microenvironment of an enterprise is aimed at assessing those components of the external environment which are in the most direct interaction with organization. It is worth noting here that organization is able to influence and determine this interaction, thus it participates in the creation of new opportunities and its own further development in general.

Microenvironment analysis is based on studying business surroundings, including suppliers, buyers, subcontractors, clients, investors, creditors, competitors and other participants at a market.

Studying suppliers starts with determining those business entities which directly supply the enterprise with raw materials, semi-finished products, energy and other resources needed for performing activities. Proper choice of suppliers determines many further positions: product quality, its prime cost, stable dynamics of the enterprise's work etc. This is why when analyzing suppliers it is necessary to evaluate all sides of their activities along with potential opportunities from cooperation with them. Special attention should be paid to the scale of supplier's activities, the depth of their specialization, stability of work, pricing policy, quality of sold raw materials, responsibility for the work performed, quantity of already constant clients etc.

Successful functioning of an organization depends of the availability of potential customers of one's products (services) and the capacity of the later to satisfy the demands of these customers. Customer differ dramatically in their demands. First of all, they can be different by their legal nature, both economic entities and private individuals, and in case of the first one they can also be of various ownership forms. Further, customers can be local and foreign etc. Therefore, in the process of strategic analysis of microenvironment it is first of all necessary to determine all these potential customers. The next step is to determine their tastes, priorities and the volumes of potential sales accordingly. Further, this will give an opportunity to calculate more exactly how to use own resource potential. In the process of microenvironment analysis it is also necessary to study the geographical location of customers, the potential average volume of their buying capacities, the seasonality of demand on particular products, the presence of comparable product at the same market, but cheaper or, *vica versa*, more expensive and prestigious; the sensitivity of customers to the price issue; the awareness of potential customers about a product the company is planning to offer them. By means of analyzing full information on customers an enterprise can determine its own position at the market and increase its functional

efficiency by finding the customers with the matching combination of price and quality attitudes (Berdnikova, 2010).

Special role within enterprise microenvironment is played by investors and creditors, therefore they need to be analyzed too. This type of stakeholders determine potential and actual volumes of enterprise financing. Credibility and stability of investors and creditors determine further development and sometimes even the very existence of an enterprise.

The analysis of competitors takes a special place in the activities of any organization. It should be aimed at determining weak and strong features of competitors, and based on this information organization's own strategy is developed.

Competitive environment is being formed first of all by the sectoral market itself, all organizations producing similar products and selling them at a particular market. The representatives of competitive environment are also those enterprises that have and sell substituting product(s), which is(are) not exactly similar. As a rule, when such a product appears at a market, the market of the older product is significantly deteriorated and very often cannot be later restored to the same level and volumes of sales. This is why it is extremely important for an organization to have enough potential for creating a new product. Besides that, to hinder the widening development of substituting competitive products an organization also needs a proper pricing competitive policy, qualitative growth of product sales and post-sale service, development of new products and strengthening advertisement. Besides all of the above, potential subjects of the competitive environment are also those firms that later on might enter the market.

Every competitive organization while developing its market strategy has to make sure this strategy would guarantee the dominance over competitors. The success of this strategy is based on the forecast of competitors' actions and must be one step ahead of them. Success formula is the presence of own competitive advantages which not only strengthen the current market position but also enable further expansion at the market or to other markets. Such competitive advantage is the resource potential in itself (Berdnikova, 2010).

On the next component of the microenvironment first of all we should mention that labour market analysis should target the opportunities to find and organize highly qualified human resources. In the process of studying this microenvironment component an economic subject should estimate the availability of such human resource along with its specialization and qualificational levels, the level of general education, age, gender and other corresponding factors (Berdnikova, 2010).

It is needed to emphasize here that information incoming from microenvironment can be described as regular information flows and can be used in everyday activities of the organization. While information incoming from macroenvironment is rather irregular by its nature and can be seldom used, however, it contains vital information needed for strategic decisions. Timely incoming and analysis of this information determines all further development of an organization.

Strategic analysis helps to reveal strong and weak features of organization's activities, therefore, it needs to be applied to all directions of activities in order to estimate all possible risks present in the micro- and macroenvironments.

In the process of risks analysis all interrelations and interdependencies between external and internal factors must be established. Only in this case it will be possible to take actions on further development of an enterprise and its strategic goals achievement.

For maintaining and strengthening its positions and further successful functioning any organizations should adjust itself to the environment by means of adapting its internal structure and business behaviour to external environment. At the same time an organization should also actively participate in shaping external conditions, thus regulating own risks and opportunities. Under uncertainty this is one of the most important conditions for further development.

Strategic analysis of the external environment should be a constant process. While performing it top management not only studies various factors but also gets a chance to control these factors and minimize the risks related to its economic activities. At the same time strategic analysis of the external environment also provides valuable information for further forecasting and developing further strategies.

Conclusions. Materials of this research can have wider usage, including commercial one, in the field of accounting and analytical support and investment processes management. The developed concept and methodology would increase the quality of information and analytical support of investment decisions, thus increasing the efficiency of organization as a whole.

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Стаття надійшла до редакції 16.04.2014.