IMPORTANCE OF EXTERNAL ANALYSIS IN DEVELOPMENT STRATEGY OF ORGANIZATIONS

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Abstract: *Strategic management is a series of activities undertaken by the organization in order to survive and develop in the increasingly demanding local and global markets. Organizations of all types and sizes are constantly faced with changes in the external environment, which causes the need for scanning and evaluating the proper opportunities and threats that organization faces in external environment. Top managers need to recognize the importance and necessity of external analysis in order to reach, through its application, the necessary information as the most important tool in market 'warfare.' Suitable external analysis is possible only if we include all relevant environmental factors (technological, economic, socio - psychological, demographic and political- institutional). Multidisciplinary strategic management is, at the same time, challenge and possibility for applying different methods and techniques in the process of analyzing the external environment of the organization. External analysis provides meaningful information and selection of appropriate strategies, resulting in improved business performance of the organization.*

Keywords: *strategy, development, external analysis, organizations.*

1. INTRODUCTION

External analysis is the process of scanning factors in the external environment of the organization and consequently assessing opportunities and challenges facing the organization. Chances (opportunities) are positive external trends and changes that can help organizations in terms of improving business performance. Threats are negative external trends and changes that could downgrade business performance of organizations. Strategic managers must be flexible and prepared to exploit any situation in which an organization finds itself in the way that is appropriate for interests and goals of the organization. After dealing with the current situation, they define the following steps in the way that turns an unfavorable situation in their favor. This becomes possible only if you actively plan and adapt to the new situation. Maxwell offers a vivid description: 'The pessimist complains about the wind. The optimist expects it to change. The leader adjusts the sails.'[1] All aspects of planning must be aligned with global conditions. In a global environment there is a large number of internal and external factors that dictate the circumstances of business.[2]

1 Maksvel K. Džon, *How to Become a True Leader*, (Belgrade: Algoritam, 2005), 135.

2 Angeleski Metodija, Gaberova Nikolina, 'Crisis management - a new paradigm for the modern business.' *International journal of economics and law*, Vol. 2, No. 6 (2012): 8

2. THEORETICAL CONSIDERATIONS

Managers must perform an analysis of the current situation in the region and on the basis of the obtained information they must define adequate strategy. Based on the information about chances and risks, managers define a new strategic decision or modify the existing one. External analysis involves scanning various sectors of the organization, which can be classified as sectors that belong to *specific* environment and sectors belonging to *general* environment.

Specific environment includes: customers, competitors, suppliers, and other competitive variables within the branch. Organizations need to assess and recognize who their real competitors are, where they have to take into account only those organizations that operate in the same area, with similar strategies, resources and consumers.

2.1. Specific environment

Bargaining power of buyers – Buyers that have bargaining power can significantly affect the price reductions, increased quality, better service. Bargaining power of buyers can take advantage of in the direction of forcing the competitive struggle in order to obtain the most favorable offer. What are the sellers more dependent on a particular customer (if the customer has significant buying capacity), it is their struggle to win the customer's stronger. There are a number of factors that characterize the bargaining power of buyers:

- The amount of products they buy
- Products they purchase represent a substantial portion of buyer's costs or performed purchase
- Products purchased are standard or undifferentiated
- Low cost replacement
- Buyer has small profit or a low level of personal income
- Possibility that buyer produces those products that they purchase from others in the given economic sector
- If a particular industrial product is not essential to the quality of the final product or service
- Buyer disposes of complete information on customer demand for a particular product, current market prices and costs of suppliers.[3]

Bargaining power of suppliers - If suppliers in a particular industry have bargaining power, they can influence the price to raise, reducing the number of services they offer or reduce the quality of the products and services they offer. There are several factors that define the bargaining power of suppliers:

- The dominance of a few companies among suppliers
- Whether it is hard or expensive for the members of the industry to switch their purchases from one supplier to another, or move to attractive a substitute inputs[4]

[3] Coulter Mary, *Strategic Management at Work*, (Belgrade: DataStatus, 2010), 95-96.

[4] Thompson A. Arthur Jr., Strickland III J. A., Gamble E. John, *Strategic Management* (Zagreb: Mate, 2008), 61.

- If the organizations as buyers are not from the industry primary for the supplier
- Whether supplier's product is an important input for the buying organization
- Whether supplier's products are differentiated or there are certain replacement costs for consumers
- The ability of the supplier to supply products that can currently be purchased in your economic sector.[5]

Products substitutes - Managers of organizations need to assess the risk in terms of product substitutes, i.e. whether there are items from other industries that can meet the needs of consumers to the same extent as the industry in which the organization operates. For example, the organization that produces umbrellas, substitute products are pieces of clothes with hoods and clothes made of waterproof materials.

Potential entry of new competitors - With the increasing number of potential candidates, competitive pressure also goes up. Risk of potential candidates (newcomers) depends on the 'entry barriers' and the reactions of existing competitors towards newcomers. Porter lists seven potential entry barriers for new coming competitors:

- Economies of scale
- Cost disadvantages independent of scale
- Product differentiation
- Capital requirements
- Cost of replacement
- Access to distribution channels
- Government policy[6]

2.2. General environment

General environment includes: economic, demographic, social and cultural (social and psychological), political and legal (political and institutional) and the technology sector.

Economic factors - General economic situation in a given country affects to a lesser or greater extent all organizations in that country. Favorable general economic situation has a positive effect on the organization in terms of their strategic analysis and decisions, as well as opportunities for further development. Organization in modern industry pay special attention to the movement of the general trend of price inflation on the direct market, as well as changes in monetary policy (interest rates, foreign exchange rates, equity fund, the budget deficit / surplus, trade surplus / deficit). Organizations within a given industry all face the same economic trends and changes. It is particularly important that managers recognize the character of certain changes in the environment, in terms of duration (short-term, long-term, seasonal, structural changes).

Demographic factors - The business organization can be under significant influence of both short- and long-term demographic changes. There are a number of demographic

[5] Coulter Mary, *Strategic Management at Work*, 96-97.
[6] Coulter Mary, *Strategic Management at Work,* 92-94.

indicators that should be covered by the analysis. The most important and also the most widely used data are related to population growth (fertility and mortality rates). In addition to these data, a high-quality analysis must include data on the age structure of the population, the character of the income distribution, education level, geographic distribution, ethnicity, education, family structure, gender structure, etc. Top managers of successful global organizations with special attention monitor the analysis of demographic factors in the markets that are still unutilized. Based on data stemming from the analysis, managers make strategic decisions in terms of performance and methods of presenting their products in these markets. The literature often lists terms that mark whole generations with specific characteristics. The generation born in the period 1946-1964 in one of the post-World War II countries that had experienced unusual natural increase is known as the 'baby-boom' generation. There is also the X generation (the 'Zoomers' born between1965-1977), the Y generation ('echo – boomers' born in the period 1978-1994).[7]

Socio-cultural factors - Proper assessment of potential consumers is only possible if we analyze their social and cultural habits in daily life. Organizations perform detailed analyses by setting guidelines in the form of questions: What is the culture of a particular country or nation like, whether it is subject to change and in what direction? What are the customs and traditions of the population of a town, area, region, country, continent? What kind of lifestyle they have, what are their values, attitudes, beliefs, tastes? Organizations that wish to be competitive must take into account all the above parameters in order to – based on the obtained data and created images (profile of consumers) - apply specific strategies and gain their interest and confidence.

An example of successful socio-cultural analysis refers to Napoleon, who showed his versatility in the expedition to Egypt. It was during the long journey to Egypt that he was studying the history and culture of Egypt, the Koran, and all the customs of the people who live in these areas. He even used to wear Egyptian national costumes on certain occasions. Having learned that he had the time and desire to explore their faith and customs, as well as plans and improvements that they can make, the Egyptians accepted him as one of them. Napoleon introduced both his army and his followers with the customs prevailing in Egypt and ordered them to strictly adhere to the guidelines. This way Napoleon proved once again that flexibility is one of the most powerful weapons that can completely disarm opponents and turn the situation to your advantage.[8]

Political and legal factors - Political and legal climate that prevails in a country strongly affects the government's attitude toward business, as well as the number of regulations that particular industries face. The state may directly affect the faster or slower development of certain segments of the organization, by implementing certain measures of economic stimulus policies. An example of significant implications of federal legislation is the Americans Disabilities Act of 1990 (ADA), which was enacted in order to make employment and facilities available to people who are disabled, regardless of whether they are customers or employees. The most important and the strongest impact of the state upon all business entities in a given country refers to defining the institutional basis of the economic system, as well as defining and implementing policies.

[7] Coulter Mary, *Strategijski menadžment na delu,*103.

[8] Manas Džon, *Napoleon on project management*, (Belgrade: Leo Commerce, 2007), 65-66.

Technological factors - Rapid technology development, characteristic of the XXI century, significantly influenced the development of different branches of economy, different economies, and even different regions. Managers of competing organizations constantly monitor technological developments and possibilities of application of these technological advances.

Managers perform a selection of segments of the technological development that will in the long run be the center of their attention, and then they determine the level of strategic analysis which will be subject to (width coverage and depth of analysis). The choice of mode and intensity of monitoring of technological changes depends on the assessment of the dynamics of technological development in the area where the organization belongs, as well as on the evaluation of the impact of technological development on the development of the organization. Managers always endeavor to establish what innovations in the technology sector in the field of either science or technology create chances and risks. The areas where technology development is most affected are: research and development sector and work processes of the organization.

3. ADVANTAGES AND WEAKNESSES OF EXTERNAL ANALYSIS

One of the advantages of external analysis is reflected in the experiential development of proactive managers who acquire skills of change forecasting and preventive planning in terms of measures that can be taken in potential situations. Managers who conduct external analysis come up with very important information enabling them to carry out an adequate analysis and initiate appropriate action. Coulter mentions a number of factors which require external analysis: a turbulent market, fragmented markets, less prominent brand loyalty, significantly more demanding customers, technological changes and intense global competition. The importance of external analysis depends on the degree of influence of the external environment on the operations of the company. If the organization has a stable and secure market position, stable socio-economic status, etc., and is therefore to a relatively lesser degree dependent on the environment, then the company management does not need to appropriate much importance to the external environment analysis. By contrast, in a situation where the success of the organization depends on the external environment, environment that is at the same time very unstable, then managers need to pay attention to environmental analysis.[9]

In many industries, especially in the technology area, the speed of change and development is so pronounced that many organizations fail to follow the tempo. Organizations where managers have too many activities and jurisdictions do not have enough time to analyze the external environment, so by looking from this angle, the time required for the process of analyzing the external environment can be considered as one of the drawbacks. This deficiency can be treated with some caution due to the fact that the division of labor and the scope of activities of the manager are the reason why it is impossible to perform external analysis. In organizations in which the activities and responsibilities are properly delegated, there is enough time for the analysis of the external environment of the organization. Predictions and analysis of trends represent a significant segment of the external analysis but cannot be identified with the facts regarding accuracy. Forecasting and trend

[9] Coulter Mary, *Strategic Management at Work,* 115.

analysis rely on the assessment and the degree of probability that some of the planned events listed in the analysis shall occur in the future.
Managers must use all available sources of information about the environment and its competitors in the region. In collecting of information they may rely on different sources. They should take into account the data from the official statistics, analysis, trends, predictions, forecast, experts' opinions. Only if they use to the maximum all the available sources of important information will they be able to perform quality external analysis and make proper conclusions accordingly. To collect information managers can use both formal and systematic methods, and informal and unscientific methods of observation. The best results can be achieved by a combination of these methods, whereby managers (using information collected by scientific methods) can also incorporate information obtained through informal methods into their analysis. This process provides for a clearer view, and, accordingly, adequate conclusions.
The process of external review is not exclusively reserved for managers. In small and medium-sized organizations, apart from managers, all employees should monitor and take into account the changes that occur in the environment. All the information they collect and obtain using both formal and informal methods, should be distributed to managers to assist them to carry out an adequate analysis. In larger organizations, the situation is different. Due to the large number of sectors (departments), managers of these sectors must monitor all changes in circumstances in the environment. They take responsibility for the data obtained through formal and informal methods of communication with the environment, as well as for the proper channeling of information towards the manager responsible for defining the strategy of the organization.
The frequency of the procedure of collecting information for the external analysis depends on the complexity and dynamism of the environment to which the organization belongs. In environments where changes are frequent and significant, organizations must perform external analysis process often as opposed to organizations whose environment is stable and without drastic changes.

4. CONCLUSION

Strategic management is a complex field that allows managers to, through meaningful analysis, acquire information necessary for the development and progress of the organization in which they work. External analysis is a significant segment of strategic management because it allows a clear insight into the opportunities and threats facing the organization. The effects of the global economic crisis are felt in almost all industries. Managers of organizations belonging to different functional areas experience constant pressure to regularly perform external analysis, and, according to changes at the micro and macro levels define or edit strategy of the organization in which they work. Due to turbulent markets in today's economy, human resource management faces difficult task of finding adequate staff. They need to identify and attract the best staff in terms of expertise and in terms of skills and ability to adapt and to react quickly to a changing environment. Enormously rapid growth of technological achievements and penetration of new markets caused the exhaustion of certain raw materials. It is yet another among problems and changes faced by managers of large international corporations as well as players in global economy. As both motivators and players in economic development at the global level, the largest global companies are faced with the problem of adequate redefinition of the strategy according to changes in the terms of the availability of raw materials, climatic factors, population growth, political turmoil in certain market areas, etc. The future depends on managers who are being trained right now. Their training and education is invaluable due to the fact that their decisions will affect the future sustainability of the economic and, consequently, political, cultural and social survival of the society.

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