

Review

ANALYSING THE GLOBAL BUSINESS ENVIRONMENT



Critically evaluate and apply a range of tools for analysing the internal and external environment

Distinguish between the positioning and resource based perspectives

Understand the significance and the influence of the external (macro and micro) global business environment for the international organization

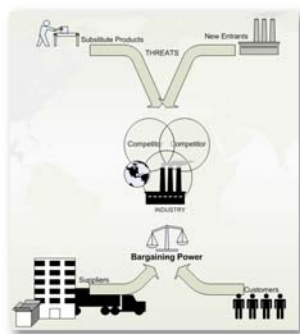
Explain the concepts of strategic fit and alignment

Understand the significance and the influence of the internal business environment for the international organization



This chapter focused on analysing the environmental factors affecting international organizational performance. We began by recognising that the international organization does not function in a vacuum but in the global business environment. The environment provides the context (situation and circumstances) for organizational action and activity. International organizations seek to attain goals which normally include profit maximization. They firstly identify sources of opportunity (determined by the industry forces, threats and customer needs) and match them with organizational capabilities (the internal environment). Thus, understanding the global business environment and its economic, social and political influences is crucial to success in today's international business world.

The external environment is complex and its future uncertain yet managers attempt to make sense of it if they are to identify opportunities and threats and respond appropriately. Similarly, through comparisons within the multinational organization and with competitors in the micro environment, the organization can identify its strengths and weaknesses. Through an understanding of such factors the organization can compete and fulfil customer needs more effectively and efficiently. Various models exist to help managers make sense of their environment and were reviewed throughout this chapter.



The PESTLE diagnostic framework was used to make sense of the general factors in the macro environment; Porter's five forces framework was presented to help in identifying the sources and forces of competition in an industry (the micro environment). The framework provides an approach for determining the financial performance of an industry, and thus its attractiveness for investors, at a specific point in time. However, recognising the dynamic nature of environments we introduced the industry life cycle, used to describe change within an industry. Furthermore, we then focussed upon the importance of intra-industry strategic groupings in understanding differences across firms within an industry.

The internal environment is made up of organizational resources, capabilities and competencies and reflects what the organization can do. There are several favoured ways to analyse the internal environment such as the resource or skills audit, value chain analysis and comparative methods such as competitor intelligence, benchmarking and internal comparisons. We considered the relationship, between the external (macro and micro) and internal business environment by drawing on contingency theory. We argued, through contingency and systems theory, a need for aspects of all environments to fit together; that organizations will be most effective when their major components are congruent with each other. Organizations may analyse the external environment, and adapt to fit within it, or develop hard to imitate capabilities and exploit them, seeking out and making opportunities that utilise them. Thus, there are two views (perspectives) on how to compete in global markets. One looks outward (the positioning perspective) and the other inwards (the resource-based perspective).

Key Terms

ENVIRONMENT

" issues, trends, events and other factors outside the boundaries of an organization but which can influence internal decisions and behaviours."

PESTEL ANALYSIS

"A technique for analysing the general external environment of an organisation in terms of the political, economic, socio-cultural, technological, environmental and legal aspects."

ENVIRONMENTAL DETERMINISM

" a perspective which claims that internal organizational responses are wholly or mainly shaped, influenced or determined by external environmental factors."

ENVIRONMENTAL ANALYSIS

the process of assessing and interpreting the information gathered through environmental scanning

COMPETITIVE ADVANTAGE

used interchangeably with "distinctive competence" to mean relative superiority in skills and resources

COMPETITIVE ADVANTAGE

"The achievement of superior performance vis-à-vis rivals, through differentiation to create distinctive product appeal or brand identity; through providing customer value and achieving the lowest delivered cost; or by focusing on narrowly scoped product categories or market niches so as to be viewed as a leading specialist "

SWOT ANALYSIS

summarises the key issues from the business environment and the strategic capability of an organisation both of which are most likely to impact upon strategy development