“Implementation of strategic analysis methods to choose a development strategy for the enterprise’s foreign economic activity”

AUTHORS
Galyna Azarenkova https://orcid.org/0000-0003-0101-2989
Olena Golovko https://orcid.org/0000-0001-6502-4562
Kateryna Oryekhova https://orcid.org/0000-0003-0214-2750
Sergii Yavorsky https://orcid.org/0000-0003-3561-0143

ARTICLE INFO

DOI
https://doi.org/10.21511/gg.03(1).2020.01

RELEASED ON
Tuesday, 14 January 2020

RECEIVED ON
Saturday, 07 December 2019

ACCEPTED ON
Friday, 10 January 2020

LICENSE
This work is licensed under a Creative Commons Attribution 4.0 International License

JOURNAL
“Geopolitics under Globalization”

ISSN PRINT
2543-5493

ISSN ONLINE
2543-9820

PUBLISHER
LLC “Consulting Publishing Company “Business Perspectives”

FOUNDER
Sp. z o.o. Kozmenko Science Publishing

NUMBER OF REFERENCES
26

NUMBER OF FIGURES
2

NUMBER OF TABLES
7

© The author(s) 2022. This publication is an open access article.
IMPLEMENTATION OF STRATEGIC ANALYSIS METHODS TO CHOOSE A DEVELOPMENT STRATEGY FOR THE ENTERPRISE’S FOREIGN ECONOMIC ACTIVITY

Abstract

The article considers stages and methods of strategic management of the enterprise's foreign economic activity. PEST analysis, SWOT analysis and SPACE analysis of foreign economic activity are used on the basis of a particular enterprise. PEST analysis has highlighted political and legal, economic, social and technological factors influencing the foreign economic activity of the analyzed enterprise. SWOT analysis has allowed identifying strengths, weaknesses, opportunities and threats of the enterprise. SPACE analysis has revealed that in the absence of growth in the services market, the use of a strategy for the enterprise diversification is acceptable. This strategy involves the creation and development of new services. Therefore, it is necessary to constantly monitor the activity of the enterprise in the international economic environment.

Keywords

foreign economic activity, types of strategies, stages of strategy formation and implementation, strategic analysis methods, PEST analysis, SWOT analysis, SPACE analysis, diversification strategy

JEL Classification

F41, M20

INTRODUCTION

In the context of globalization, foreign economic activity (FEA) is a major component of the transformational growth of enterprises. The international market is extremely capacious. It doesn’t only put forward additional requirements for the FEA development, but also creates significant prospects for enterprises. The strategy of the enterprises’ FEA requires a specific approach to its systematic development. It describes economic and financial aspects of the enterprise performance, provides economic and technical rationale for specific measures to improve their operating results.

Business practice shows that when starting foreign economic activity, companies rarely use strategic management methods that would provide for effective business development. Many enterprises already operating in international markets are facing the challenge of expanding their FEA or, on the contrary, reducing it. The solution depends on the goals that the enterprises set for themselves at the stage of introducing products (goods, works, services) to international markets and what strategy they define as the dominant one.
1. LITERATURE REVIEW

Financial and economic literature reflected issues on managing foreign economic activity of enterprises.

Thus, Alkema and Kachur (2017) note that the foreign economic activity of the enterprise is an important area of its business activity. It is related to international production and scientific and technical activities, establishment of foreign economic relations, export and import of products (goods, works, and services).

According to Verbivska and Suduk (2017), the enterprise’s performance efficiency in the foreign market attests to the competitiveness of its products (goods, works, services). The aggravation of competitive conditions in the internal market and the intense struggle for the consumer are forcing companies to seek opportunities for international economic activity to win new markets.

Kolomitseva and Opalenko (2018) state that integration of countries, regions and individual enterprises into the world economy involves them to the process of globalization, which is becoming noticeable through various forms of international activity. Globalization opens up additional opportunities for businesses to enter new markets, contributing to expanded access to capital flows, technology, cheaper imports, and larger export markets.

However, today’s economic environment has various problems and obstacles in terms of foreign economic activity of enterprises (Dubas, 2018; Kvitka & Kornieva, 2018; Kolomitseva & Opalenko, 2018; Perehonchuk, 2017; Poliakova & Baskovych, 2017; Skrynkovskyi, Vizniak, Protseviat, & Koropetskyi, 2017; Uzhva & Chekina, 2018; Cherep & Mozhaiska, 2017). The main ones include:

- imperfect state regulation in the sphere of foreign economic activity;
- unprofessional actions of the executive authorities, corruption;
- low level of competitiveness of products (goods, works, services), which results in the fact that most of them are raw materials;
- unstable political environment, accompanied by negative socio-economic phenomena;
- volatile exchange rate of the national currency;
- most of the fixed assets are worn out, both morally and physically.

All these problems and obstacles to the development of international economic activity of enterprises must be addressed immediately. This should include innovative steps to activate it, which would open up opportunities for qualitatively new relations with foreign partners.

2. AIMS

This study is aimed at summarizing approaches to determining the stages and methods for strategic management of enterprises’ foreign economic activity and implementing them to choose the development strategy in the international environment.

3. METHODS

The paper used the following research methods: generalization and analysis, to determine the stages and methods of forming a strategy for the company’s FEA development; expert analysis, SPACE method, PEST method, and SWOT method, to work out a development strategy for foreign economic activity of Sigma Software development company.

Financial statements and the official web resource of Sigma Software made the information base of this research.

4. RESULTS

The FEA development strategy is a direction of economic strategy, which considers all alternative development options in the sphere of FEA and justifies them for making decisions, rules and methods of the enterprise behavior as an exporter and importer of products (goods, works, services) on
Geopolitics under Globalization, Volume 3, Issue 1, 2019–2020

The strategy of the enterprise FEA development involves the use of different types of strategies depending on the situation on the international market (Figure 1).

Given the considerable number of strategies for the enterprise foreign economic activity, one should note that their formation is one of the most difficult tasks, especially in the context of changeable external and internal environment.

Investigation of approaches of different authors (Berenda, Nikolaenko, & Tatsienko, 2018; Vakulchyk, Protasova, & Nechaieva, 2019; Druchek & Shvedun, 2017; Knyshek & Tarasenko, 2018; Piuro & Shirinian, 2018; Moreno-Benito, Frankl, Espuña, & Marquardt, 2016, November; and Zeps & Ribickis, 2015, December) to working out a strategy for the enterprise FEA development made it possible to distinguish its stages (see Figure 2).

The research has made it possible to determine that the effective activity of the enterprise in the international markets is not conceivable without strategic analysis of international economic activity. Nowadays, the FEA strategy should be formed on the basis of mutual harmonization of interests of the enterprise and the state, which also complicates optimal choice of development trends among alternative options.

The FEA strategy success is determined by the effectiveness of the enterprise’s interaction with other entities in the internal market, in particular, processing plants, competitors (that can be considered as partners in creating the cluster), insurance companies, and marketing agencies.

Based on Brytvenko (2018), Diachkov and Kotenko (2016), Kukhlenko and Prokopiv (2017),

---

**Figure 1.** Types of strategies for the enterprise FEA development

- **Internationalization strategy** – developing new international markets through not only the expansion of exports of products (goods, works, services), but also the export of capital.
- **Diversification strategy** – mastering the production of new products (goods, works, services), expanding its markets in the international environment, expanding business activities to new lines of business not related to the main ones.
- **Export pricing strategy** defines the pricing goals that should ensure the successful implementation of the export strategy. Pricing goals can be maximizing current profits; increasing export volumes of products (goods, works, services); gaining leadership in terms of their product quality; expanding the share of the foreign market.
- **Segmentation strategy** – deepening the saturation of the offered products (goods, works, services) of all consumer groups, choosing the maximum depth of market demand, and studying its small outflows.
- **Deep penetration strategy** is the most effective in the unsaturated international market. The company reduces the cost of production of export products (goods, works, services) and sells them at a price lower than competitors.
- **Product (goods, works, services) development strategy** is best suited for an enterprise that already has many successful brands. It means creating new modifications of products (goods, works, services) for current international markets.
- **Communication strategy** – forming demand and stimulating product (goods, works, services) sales in the international market, realization of other goals of international marketing.
- **Demand creation strategies** are applied at the stages of introduction and output of new products (goods, works, services).
- **Sales promotion strategy** is relevant at the stages of product (goods, works, services) maturity and decline.

---

https://doi.org/10.21511/gg.03(1).2020.01
Saukh (2017), Skrynkovskiyi (2017), Gumusluoglu and Acur (2016, June), Walczyk (2016), the study revealed various methods of strategic analysis of the enterprise FEA (see Table 1).

Since the choice of the FEA strategy is based on the external and internal factors of the enterprise, therefore, to obtain complete and reliable information about its position in the international mar-

**Figure 2. Stages of modeling and implementing the enterprise FEA development strategy**

<table>
<thead>
<tr>
<th>Methodological toolkit to define a FEA strategy</th>
<th>Key method parameters</th>
<th>The effect of using the method</th>
</tr>
</thead>
<tbody>
<tr>
<td>SWOT analysis</td>
<td>Identifying strengths, weaknesses and the market position of an enterprise</td>
<td>Identifying strengths and weaknesses of the enterprise to find possible development trends, including FEA</td>
</tr>
<tr>
<td>ABC analysis, XYZ analysis</td>
<td>Grouping objects by degree of their impact on the overall result</td>
<td>Optimization of the FEA brand portfolio</td>
</tr>
<tr>
<td>Business comprehensive analysis (PIMS—Profit Impact of Market Strategy)</td>
<td>Identifying the most significant factors affecting profit</td>
<td>Establishing quantitative influence patterns for production and market factors on FEA long-term profitability</td>
</tr>
<tr>
<td>BCG matrix</td>
<td>Grouping of products (goods, works, services) by the following criteria: the degree of impact on the overall result; industry features; development opportunities</td>
<td>Working out an individual development strategy for each type of products (goods, works, services) sold on the international market</td>
</tr>
<tr>
<td>Modified BCG matrix</td>
<td></td>
<td>Product portfolio optimization taking into account the relationship between the rate of return on investment and the enterprise’s market share</td>
</tr>
<tr>
<td>GE/McKinsey matrix</td>
<td>Grouping objects by market attractiveness and relative market advantages</td>
<td>Assessing the status of a specific international commodity market</td>
</tr>
<tr>
<td>Opportunity Evaluation Matrix</td>
<td>Consumer analysis to identify additional opportunities to meet new customer needs or current needs in a new way</td>
<td>Determining new ideas of the enterprise FEA development</td>
</tr>
<tr>
<td>Risk matrix</td>
<td>Analysis of the external environment in terms of possible threats</td>
<td>Predicting the occurrence of FEA risks and ways to neutralize them</td>
</tr>
<tr>
<td>Directional Policy Matrix (Shell/DPM matrix)</td>
<td>Analysis of enterprise competitiveness by determining strategically important factors for the industry</td>
<td>Orientation to the prospects of FEA development through the enterprise’s competitiveness level</td>
</tr>
<tr>
<td>The Ansoff Matrix</td>
<td>Analysis of competitive position through product and market characteristics</td>
<td>Identification of possible strategies for the development of MED in a growing market</td>
</tr>
<tr>
<td>SPACE matrix</td>
<td>Determining the strategic position of the enterprise in the industry</td>
<td>Finding out directions for enterprise development</td>
</tr>
<tr>
<td>The Arthur D. Little Matrix</td>
<td>Analysis of the enterprise capabilities by determining the stage of the industry life cycle and the company’s competitive position</td>
<td>Identifying possible strategic decisions from a set of strategic alternatives</td>
</tr>
<tr>
<td>Ph. Kotler’s competitive strategies</td>
<td>Determining the place of the enterprise based on its role in the target market</td>
<td>Determining the appropriate strategic alternative for the enterprise</td>
</tr>
</tbody>
</table>
ket and to make sound strategic decisions on the development of the company FEA, it is obvious to use a set of methods of strategic analysis.

The availability of a list of alternative methods within each line of analysis indicates that a specialist who works on developing a company’s FEA strategy faces the problem of choosing the most appropriate set of methods of analysis according to the situation and the user’s needs.

5. DISCUSSION

Let’s consider the activity of Sigma Software development company as a separate foreign economic entity.

Table 2 presents the Sigma Software development history from 1993 to 2019.

Today, Sigma Software is represented on four continents, in more than 25 countries, has more than 30,100 employees and provides an annual profit growth of more than 20%.

According to the Sigma Software official data (Sigma Software, n.d.), the company’s key services are: consulting, design, development, management and optimization.

The company’s consulting services (Sigma Software, n. d.) include general control, administration, financial management, personnel management, marketing, production, information technology, and special services.

Modern strategic management tools contain many methods based on expert estimate. The quality of such research directly depends on the recruitment of experts, their qualifications, and some degree of subjectivity. PEST analysis is a common method. The abbreviation stands for P – policy, E – economy, S – society, and T – technology. This method explores the political, economic, socio-cultural and technological aspects of the environment in

Table 1 (cont.). Methods of strategic analysis of the enterprise’s foreign economic activity

<table>
<thead>
<tr>
<th>Methodological toolkit to define a FEA strategy</th>
<th>Key method parameters</th>
<th>The effect of using the method</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Three Value Criteria Model</td>
<td>Analysis of the product and determining the ways to improve its characteristics through specifying consumer attitudes</td>
<td>Choosing the most attractive target foreign market segment for the enterprise</td>
</tr>
<tr>
<td>CVP analysis</td>
<td>Based on the categories used in direct costing</td>
<td>Determining margin income from FEA</td>
</tr>
<tr>
<td>Strategic Cost Analysis (SCA) methodology</td>
<td>Value chain creation</td>
<td>Determining the cost of goods in the foreign market and establishing a pricing strategy</td>
</tr>
<tr>
<td>The Three C’s Analysis</td>
<td>Analysis of the internal and external environment</td>
<td>Determining interaction with future markets, competitive advantages and the enterprise capacity</td>
</tr>
<tr>
<td>Value Net</td>
<td>Determining the strengths of the enterprise that are relevant to the market</td>
<td>Determining the market’s attractiveness degree for the enterprise</td>
</tr>
<tr>
<td>Evolutionary model of the product life cycle</td>
<td>Determining the stage of the product life cycle</td>
<td>Finding out how to adapt the product to market requirements</td>
</tr>
<tr>
<td>Strategic groups</td>
<td>Grouping companies with similar strategic characteristics</td>
<td>Determining the competitive position in the foreign market</td>
</tr>
<tr>
<td>The product life cycle concept</td>
<td>Product characteristics in terms of life cycle</td>
<td>Defining product development trends in the international market</td>
</tr>
<tr>
<td>Abell’s Framework for Strategic Planning</td>
<td>Logical structuring and visual representation of the enterprise strategic problems</td>
<td>Determining the potential volume of the commodity market considering new trends in market definition</td>
</tr>
<tr>
<td>SNW analysis</td>
<td>Analysis of strong, neutral and weak points of the organization</td>
<td>Identifying the strengths and weaknesses of the enterprise to specify possible development areas, including FEA</td>
</tr>
<tr>
<td>PESTLE analysis (update PEST analysis version)</td>
<td>Extended by two factors, namely legal and environmental</td>
<td>Determining the influence of factors on the enterprise’s FEA</td>
</tr>
<tr>
<td>TEEPLE analysis</td>
<td>It additionally takes into account geographical, economic, ethnic, political, legal, natural, socio-demographic, and technological factors</td>
<td>Determining the influence of factors on the enterprise’s FEA</td>
</tr>
<tr>
<td>Benchmarking</td>
<td>Comparative analysis of enterprise performance based on interrelated indicators</td>
<td>Assessing strengths and weaknesses of the enterprise compared to competitors and defining market niches on this basis</td>
</tr>
</tbody>
</table>
which the organization is located. The evaluation procedure using this method consists of several steps. First, a list of factors influencing the organization's activities is created for the four groups mentioned above.

An expert estimate has made it possible to define significant factors for Sigma Software (see Table 3).

**Table 3.** PEST analysis matrix for Sigma Software

<table>
<thead>
<tr>
<th>Political and legal factors</th>
<th>Economic factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political instability in the country</td>
<td>Ukraine’s GDP level</td>
</tr>
<tr>
<td>Partnerships with neighboring countries</td>
<td>National currency rate</td>
</tr>
<tr>
<td>Inconsistency of Ukrainian tax legislation</td>
<td>Problems in banking sector</td>
</tr>
<tr>
<td>Significant bureaucracy in product certification and permitting systems</td>
<td>Inflation and its dynamics</td>
</tr>
<tr>
<td>Lack of the effective corporate control market</td>
<td>Production costs</td>
</tr>
<tr>
<td>Poor development of professional technological training</td>
<td>Prices for imports</td>
</tr>
<tr>
<td>Reduced demand from foreign consumers</td>
<td>Demand in service industries</td>
</tr>
<tr>
<td>Traditions of the Asian region</td>
<td>Consumer GDP level</td>
</tr>
<tr>
<td></td>
<td>Setting a minimum wage</td>
</tr>
</tbody>
</table>

An enterprise constantly interacts with the external environment, and this is a reciprocal process. Being influenced by the environment, the company must constantly produce the appropriate response, thereby stabilizing its own position. Strong internal components can allow using the resources of the external environment, and weak ones indicate the possible danger from the external environment in the absence of action by management to detect and neutralize them.

In this case, situational analysis, which is called an SWOT analysis in management practice, is an effective tool for exploring the impact of the environment on the enterprise position in the international market. This type of analysis can be used to assess the enterprise and its certain activities. The name comes from S – strengths, W – weaknesses, O – opportunities, and T – threats.

This analysis is used to identify and eliminate existing weaknesses, to take advantage of the external environment and to prevent the possible manifestation or negative impact of threats of its environment. It should be understood that the state of the enterprise in the short term relative to the external environment is not static. The conditions
under which the enterprise operates are dynamic.

Given the expert evaluation, Table 4 presents the main Sigma Software opportunities in the international market.

Table 5 presents the threats arising in the course of Sigma Software operation on the international market.

Table 5. Sigma Software threat matrix

<table>
<thead>
<tr>
<th>Threats</th>
<th>Probability of threat materializing</th>
<th>Potential consequences</th>
</tr>
</thead>
<tbody>
<tr>
<td>Activity slowdown in the consulting services</td>
<td>High</td>
<td>Critical state</td>
</tr>
<tr>
<td>Aging of staff</td>
<td>High</td>
<td>Critical state</td>
</tr>
<tr>
<td>Currency risk</td>
<td>Mean</td>
<td>Serious condition</td>
</tr>
<tr>
<td>Lack of significant credit facilities</td>
<td>Mean</td>
<td>Destruction</td>
</tr>
<tr>
<td>Risk of bankruptcy</td>
<td>Mean</td>
<td>Destruction</td>
</tr>
</tbody>
</table>

A SWOT matrix was then built to determine how strengths can be used to realize the opportunities provided by the external environment and/or reduce threats; minimize weaknesses at the expense of opportunities, or identify and prevent those that may amplify Sigma Software threats. Table 6 presents the SWOT matrix.

In Table 6, pairs are written in numbers; the first means an opportunity (or threat) and the second – a strength (or weakness). Sigma Software’s strengths include:

- the ability to create turnkey objects (I);
- a wide range of consulting services (II);
- the ability to provide services at a lower cost and in less time (III);
- the uniqueness of the consulting services provided (IV);
- a sufficient number of representative offices in the major regions (V);
- highly qualified staff in research and design units (VI);
- powerful technological complex (VII).

Sigma Software weaknesses include:

- insufficient state-level lobby (I);
- significant dependence on market conditions (II);
- lack of corporate code (III);
- inability to respond quickly to changes in the environment (IV);
- significant deterioration of equipment (V).

Thus, considering the relationship of the matrix elements, one can say that it is necessary to pay attention to the study of the enterprise strengths and to maximally explore ways to overcome or reduce threat from the weaknesses. The SWOT
methodology demonstrates that Sigma Software has necessary opportunities for further effective operations.

SPACE method, a graphical method for evaluating strategic positions, is another common technique used to select strategies. According to scientists, this method makes it possible to determine which of the strategies is most appropriate for the organization under the current conditions.

The SPACE method is based on a rectangular coordinate system. Thus, the vertical axis determines the financial indicators (F) and the stability indicators for changes in the environment (S). The horizontal axis reflects the competitive advantage of the enterprise (C) and the industry attractiveness (I). According to authors, the use of such indicators allows considering the most important features of the company’s FEA development strategy. Given the type of an enterprise, these parameters can be represented by different factors and their different values. As a group of financial indicators, the following should be considered: income, authorized capital, working capital, profit, business risk, and the ability to change the market.

The following factors should be used to evaluate the environment where the enterprise is located and operates: inflation, technology changes, demand volatility, barriers to entry, and competition density. The competitive advantage sector includes the following criteria: product quality, product life cycle stage, consumer loyalty, and technological know-how.

The assessment of the industry attractiveness is based on the following criteria: profitability, growth potential, financial stability of the industry, and opportunities to enter the market.

Table 7 presents the results of SPACE analysis of Sigma Software activities in the international market.

By adding negative and positive values, the point of intersection with the coordinates (–0.455; –0.9) is obtained. The result shows that the vector enters the protective quadrant. In this case, the company will focus on current weaknesses, minimize them and control external threats.

Concerning the Sigma Software specific strategy, concentric diversification may be acceptable
in this case in the absence of market growth. This strategy will involve the creation and development of new products on the existing technological equipment. The latter, as an enterprise strength, will enhance the positive effect of such actions. However, one should not forget about the disadvantage of the method such as the lack of dynamics, since after a while, the vector can change its direction towards competitive offensive strategies.

For this purpose, it is necessary to constantly monitor the Sigma Software situation in the market.

CONCLUSION

The paper has addressed an important scientific and practical problem, namely, generalizing approaches to determining the stages and methods for strategic management of an enterprise’s foreign economic activity and uses them to choose a development strategy in the international environment. The main conclusions and recommendations are as follows:

1) The FEA development strategy is a direction of economic strategy that considers all alternative development options in foreign economic activity and justifies decision-making and rules of the enterprise’s behavior on the foreign market as both exporter and importer of products (goods, works, and services). Given the FEA regulatory assets, the principles of export-import operations are also determined.

2) PEST analysis of Sigma Software foreign economic activity has been performed. The analysis has emphasized political, economic, social and technological factors that influence the company operation.

3) According to SWOT analysis, Sigma Software’s strengths include: the ability to create turnkey objects, a wide range of services, the opportunity to provide services at a lower price and in shorter time, the uniqueness of services provided, a sufficient number of representative offices in major regions, and highly qualified staff. The weaknesses of Sigma Software are: lack of a corporate code, inability to quickly respond to changes in the environment.

4) The results of the SPACE analysis of Sigma Software activities in the international market revealed that in the absence of market growth, a diversification strategy is acceptable. This strategy will involve the creation and development of new services. For this purpose, it is necessary to constantly monitor the Sigma Software situation in the international economic environment.

ACKNOWLEDGMENT

This study is in line with key directions of scientific results, theoretical provisions and conclusions of research carried out, with the authors’ direct participation, at the Department of Finance, Banking and Insurance of Kharkiv Educational and Scientific Institute of the Banking University, on the following topics: Modeling of Financial Flows Stability of Country’s Economic Agents in the Context of Globalization (state registration number 0118U003772) and Theory and Methodology of Transformation Processes in the Country’s Financial Sector (state registration number 0117U002441).

The results’ practical importance is that key research findings and conclusions, which can be regarded as practical recommendations, can be effectively used by enterprises to solve the tasks related to creating a strategy for foreign economic activity.
REFERENCES


