

Karpych A.Yu.

Graduate Student;

Sitnitskiy M.V.

*PhD in Economics, Associate Professor,
Taras Shevchenko National University of Kyiv*

FUNDAMENTAL ANALYSIS VERSUS LONG PESTLE ANALYSIS: THE COMMON AND THE DIFFERENT

Recent developments in global economy have thrown down a challenge to everyone who deals with management and does business. To manage effectively and intelligently, it is vital to assess the factors impacting a modern organization. The instruments which help consider factors from external environment may be the fundamental and the LONG PESTLE analyses.

The purpose of this paper is to show the common and different features of the fundamental and the LONG PESTLE analyses by comparing the involved external factors, and, on this basis, propose the ways of the modernization of fundamental analysis.

Fundamental analysis is a research method for securities markets. It is quite popular among investors and financial analysts.

The term of the fundamental analysis is defined as «the analysis of securities value, which takes into account those factors of macroeconomic, industry and corporate levels that have an influence on the amount of income and the possibility to earn the income in the future» [1, p. 895]. In fact, it can be either a bottom-up or top-down forecasting depending what comes under review first – the level of a company and its securities or the level of the global economy.

This analysis is a powerful tool which helps analysts do the thorough research of business and draw the conclusions about whether or not the chosen securities are attractive for investment. Conducting the fundamental analysis, an analyst seeks for underestimated securities which are likely to growth in the future taking into consideration many different factors.

As a rule, the fundamental analysis takes into account the following external factors:

- growth domestic product rate;
- the levels of employment and unemployment;
- inflation rate;
- interest rates;
- the index of business expectations;
- the level of consumer confidence;
- fiscal and monetary policies;
- political stability, etc.

It may be concluded that this analysis focuses on the political and economic external factors only. It is worth to mention that since the fundamental analysis is a kind of profound investigation, it considers factors of international, national and regional levels.

Considering LONG PESTLE analysis, it may be stated that this is the most extended version of PEST analysis (PEST is an acronym for Political, Economic, Social and Technological external factors).

In its turn, the PESTLE Analysis also includes legal and environmental factors.

The PESTLE Analysis is used to examine the current and future state of the industry an organization belongs to. This helps in the strategic planning and gaining the competitive edge over the other firms in that industry [2].

In case of LONG PESTLE analysis, the mentioned above factors are local, national and global.

The ultimate goal of LONG PESTLE analysis is to develop an appropriate strategy for an organization in order to maximize profits and withstand various stressful situations in the future.

Therefore, this analysis includes:

a) political factors: political stability, government interventions, international trade regulations, tariffs, tax policy, employment law, environmental regulations, monopolies rules, trade restrictions, M&A rules, etc.;

b) economic factors: general economic climate, growth domestic product rate, fiscal and monetary policies, exchange rates, interest and inflation rates, the levels of employment and unemployment, etc.;

c) socio-cultural factors: population rates, health consciousness, the living conditions and lifestyle, the age distribution, the distribution of wealth the level of education, etc;

d) technological factors: the rate of new inventions, the mobile phone and Internet usage rates, government spending on R&D and so on;

e) legal factors: laws and policies; and

f) environmental factors: weather and climate change, limited natural resources, soil erosion, waste disposal, land use, recycling procedures, etc.

As it may be noticed, both fundamental and LONG PESTLE analyses focus on crucial factors which have an impact on the operation of a company or an organization, and their first common feature is the investigation of political and economic factors. But, in contrast to the LONG PESTLE analysis, the fundamental analysis takes into account these two factors only (Fig. 1).

The second similarity is that they are a kind of a comprehensive approach: the analyses examine micro-, meso-, macro- levels and the level of international economy.

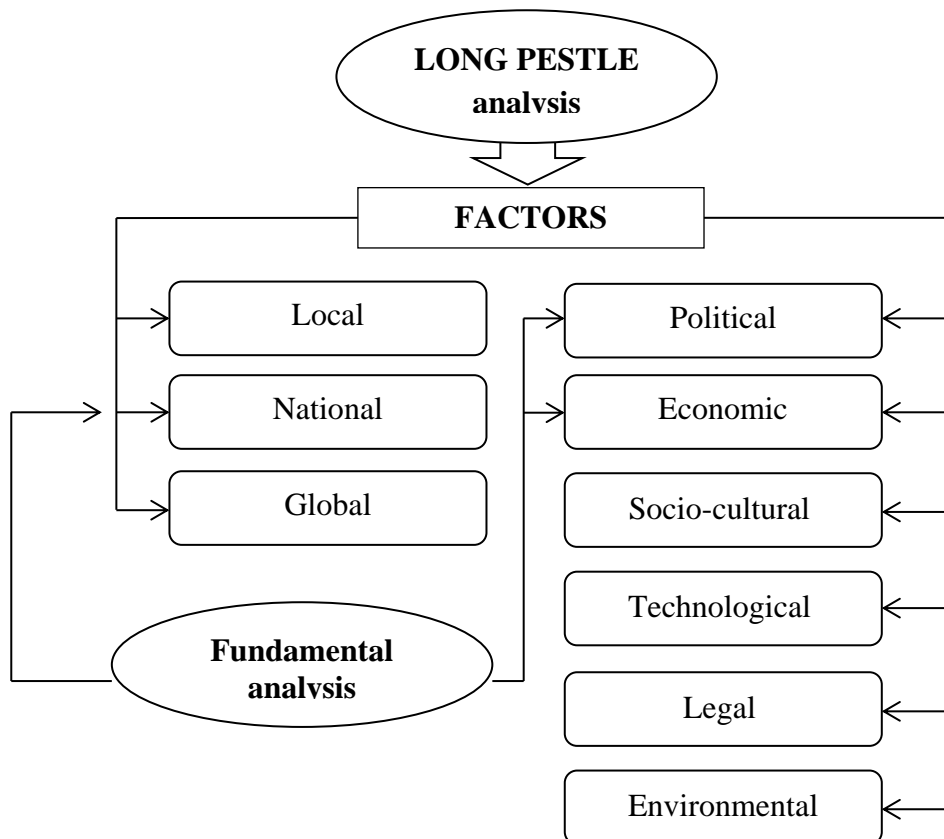


Fig. 1. Factors considering in the fundamental and LONG PESTLE analyses

Source: developed independently by the authors

Also, it is an important fact that the fundamental analysis shows us the state of affairs but we cannot improve anything, we just consider factors and then if they are

unsatisfactory or threatening, we end investigation of a certain country/region/industry/company and move on to another, whose factors are more appropriate. And after the LONG PESTLE analysis, we create the strategy for an organization (Table 1).

Table 1

The similarities and differences of the fundamental and LONG PESTLE analyses

Similarities	Differences	
	Fundamental analysis	LONG PESTLE analysis
<ul style="list-style-type: none"> – Orientation on crucial external factors; – The approach is comprehensive and covers several levels of investigation: from micro level to global. 	<ul style="list-style-type: none"> – It considers political and economic factors only; – Factors is a guide to the right choice of the securities to invest in; – There is no possibility to change the current state of affairs after the analysis. 	<ul style="list-style-type: none"> – It takes into account political, economic, socio-cultural, technological, le-gal and environ-mental factors; – Factors define the strategy of an organization; – After the analysis, the strategy is developed or improved.

Source: developed independently by the authors

In general, therefore, it seems that LONG PESTLE analysis is a much wider research instrument, but each analyst who applies the fundamental analysis is able to develop his own toolkit and then use it during his business investigation.

The choice of factors depends on the specialization of an organization, i.e. when it is an agriculture company, we should pay attention to environmental factors, and in case a company specializes in IT-technologies, we should consider technological factors. But the factors have to be really worth to be involved in the toolkit of fundamental analysis; the analysts should not overload his research with unnecessary information.

Taken together, even despite the fact that the fundamental analysis is used by financial analysts and potential investors to determine the investment attraction of securities and the LONG PESTLE analysis is applied by strategy planners and managers, both of the analyses are aimed at considering external factors influencing an organization. At the same time, the instrument of strategy management is wider than the one for the fundamental analysis, so there is a proposition to include factors of the LONG PESTLE analysis in the fundamental when it is needed.

References:

1. Tsinni papery: pidruchnyk [in Ukrainian] [Securities: textbook] / [V. D. Bazylevych, V. M. Shelud'ko, N. V. Kovtun et al]; edited by V. D. Bazylevych; Taras Shevchenko National University of Kyiv. – Kyiv: Znannia, 2011. – 1094 p.

2. What is PESTLE Analysis? [Electronic resource] // BPMgeek [website]. – Access mode: <http://bpmgeek.com/blog/what-pestle-analysis>. – Name from the screen.