

Chapter 3

Business environment of an organization

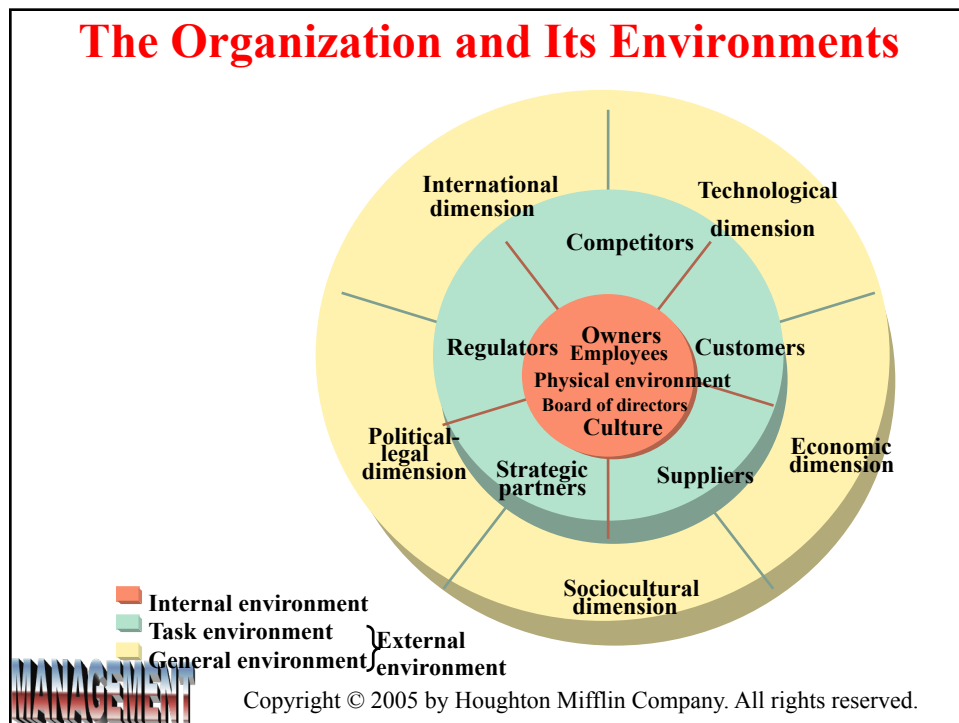
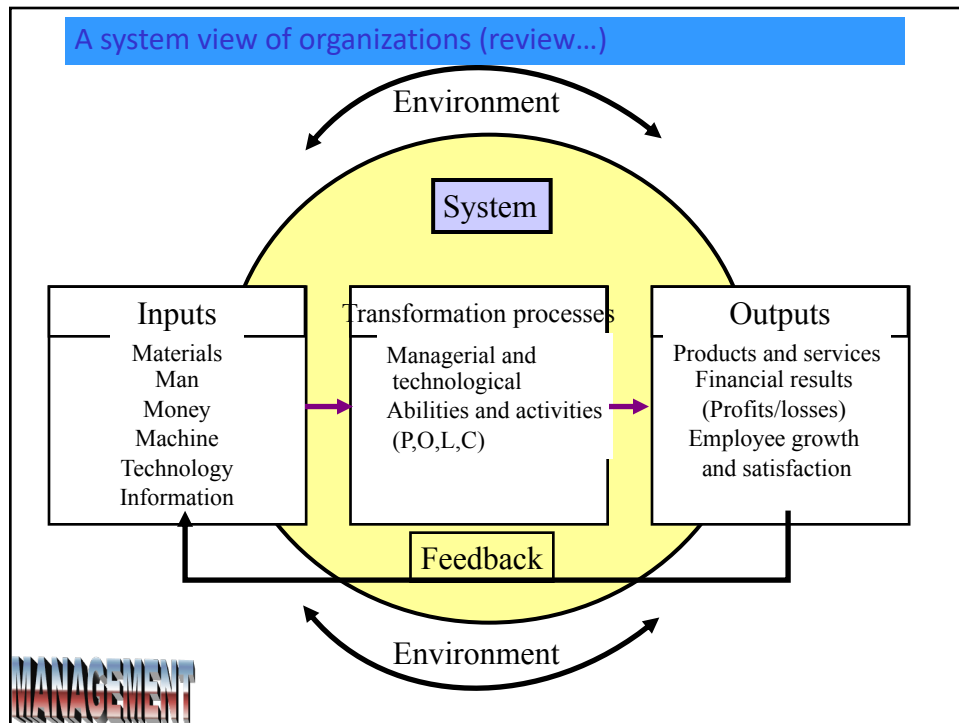


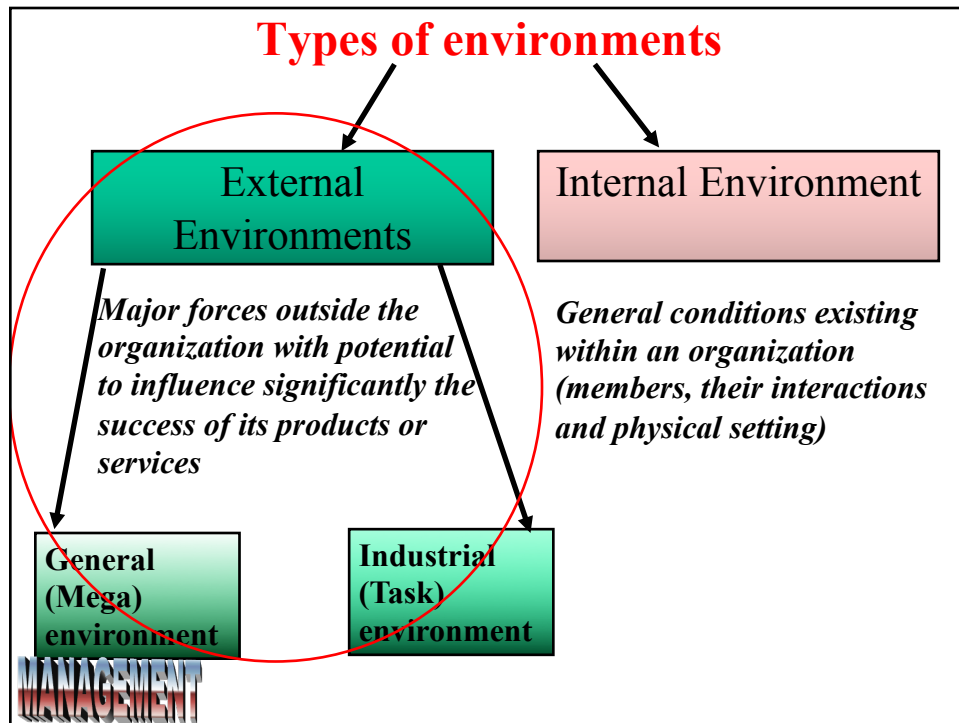
Objectives

After study this chapter, student should be able to:

- Describe the macro environment and task/industrial environment of an organization
- Explain how environmental uncertainty impact on organization
- Describe the major task environmental elements
- Describe the relationships between organization and its environment
- Describe the important environmental characteristics







Industrial /Task Environment

- is an external environment
- Made up of specific external elements an organization faces in operating
- Each organization has its own specific task environment depending on its products/services and the locations where it operates
 - For example: TIMEX vs. ROLEX
- Consists of customers, suppliers, competitors, distributors, government agencies, trade unions

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Task environment....

–Customers and clients

- individuals and organizations purchasing an organization's products and/or services.
 - Unilever: consumers (end users), agencies, supermarkets, etc.
- Customers create the potential uncertainty for the organization because:
 - Customers can change their interests, needs, tastes,...
 - Customers can dissatisfy with organization's products/ services
 - For example: [Club Med](#), HUST with its international training programs, AIT, v.v
- Many organizations try to stay close with customers, pay attention on quality of products/services, listen to the customers and try to serve them better



Task environment....

Suppliers

- individuals and organizations supplying resources (materials, equipments, labors,...) an organization needs to conduct its operations.
 - Banks, shareholders, saving funds, insurance companies
 - Universities, vocational training centers, individuals, work consultancy centers, etc..
- Suppliers create the potential uncertainty for an organization because:
 - the inputs can be shortage/scare, are unavailable
 - supplying these inputs can be occurred slowly, and unplanned
- There fore, it is required that managers have to ensure the providing inputs stably and at the minimum price



Task environment....

Competitors

- Other organizations offering or potentially offering rival products/services.
- Nike vs. Adidas vs. Reebok vs. Fila; Coca Cola vs. Pepsi Cola; VTV vs. HTV; v.v
- *Potential competitors/new entrants*:
 - Are other organizations currently do not compete with the organization but they can compete in near future if they want
 - EVN and VTV have a capability to provide internet service if they use their cable (potential competitors to Viettel, FPT, VNPT, etc)
- *Substituted products/services*: are products/services meet the same essential needs such as tea and coffee, or cinema and DVD, VD, etc; or postal and tel., email, fax, typewriter and computer



Task environment....

Competitors

- These factors influence on pricing, new product development, service providing, etc of an organization.
 - Competitors and substituted products/services lead to the price competition
 - To reduce the participation of new entrants, potential competitors, organization should pay attention on technology renovation to improve its products and service
 - the managers should ensure the availability of products/services to avoid the using of substituted products/services from customers.
- The managers have to monitor the changes from its environment and prepare well to deal with these changes.



Task environment....

Distributors: are individuals or organizations that help to distribute organization's products/services to the end users

– are intermediate individuals/organizations such as wholesalers, agents, retailers, exporters, etc

- Vitex is one of booking agencies of VNA

– distributors create the potential uncertainty for an organization because:

- distributing organization's outputs to clients slowly and unplanned

- getting information of customer's needs and demands, complaints slowly

- Therefore, it is required that managers have to take care their distributors to ensure the quality of products and customer's satisfaction.



Task environment....

Government agencies

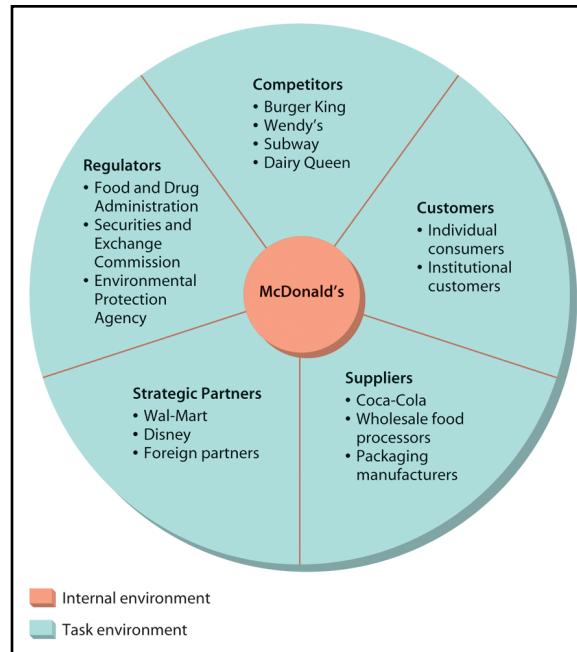
- Agencies providing services and monitoring compliance with laws and regulations at local, state or regional and national levels .

- Environment protection organization, WWF (protect animals), human right, health care, v.v.

- Changing in social and political attitudes leads the power of these organizations increasing.

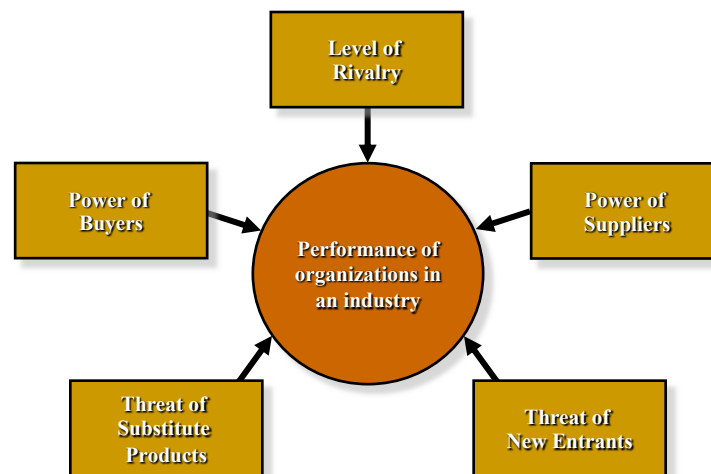
- » For example: No smoking, and drink alcohol for drivers

Figure 2.1
McDonald's
Task
Environment



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Five-Forces Analysis (Porter)



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General Environment

The broad conditions and trends in societies in which an organization operates.

- Consists of six major elements: **technological, economic, legal-political, sociocultural, environmental, and international factors.**
- These factors may have not strong impacts to the organizations like the task environments. However, managers still have to pay attention on these factors when implementing their management activities:
POLC



General Environment....

Economic conditions - include interest rates, inflation rates, changes in disposable income, stock market fluctuations, and the general business cycle, etc.

- Economic crisis, people have a tendency to save money rather than spend money. For example, VN government has to spend about USD1 billion to economics stimulus
- Increased income of people leads to increase in demand of car using, mobile phone, new entertainment services (tourist, entertainment, health care, ...)
- Reduced interest rate, people limit their saving in banks but the companies can reduce capital costs when borrowing money from banks to invest in their business.



General Environment.....

Political/legal conditions include the general political (legal & governmental systems) stability of countries in which an organization does business

- Governmental, provincial, local norms and regulations influence to organization's activities
 - Law on firing workers:
 - In the past, the worker can freely leave the job if he/she wants, and the employer can easily fire an worker if his/her performance did not satisfy with the employer
 - Court decisions and legal aspects limit the right of the employer. The employer must treat the employees honestly and fairly. The employees can sue the employer if they were treated badly. In the court, Juror will decide who is right? Who is wrong.
 - This trend makes difficulties for the manager when firing unqualified and incapable employees.



Table 3.1: Some regulations influenced on organization

Legal documents	Objectives
Law on health and security of job in 1970	Requires employers provide a good working environment (non-damage factors to the health of people) for the employees
Law on assurance of consumed products in 1972	Provides standards for some products, ask for warming brands v.v.
Law on fair employment in 1972	Forbids discrimination between employer and employees relationships
Law on sick leaves in 1993	The employee have a right to take leave of 12 weeks without pay for baby delivery or taking care of spouse, children or parents who are heavy ill.
GATT in 1994 (General Agreement on tariff and trade)	Request to reduce a global tariff rate to 40%, expand intellectual property protection over the world, and tighten the regulations on investment and trade in service field



General Environment.....

Political and legal conditions (cont.)

- Political conditions refer to the general stability of a country where organization operates in
 - Stable political environment will create less risks for economic activities.
 - In global business, organizations concern to political conditions and stability of other countries where organization has its branches or rep. office.
 - Vietnam has a stable politics and attracts many foreign investment.



General Environment.....

Sociocultural conditions -

- include attitudes, values, norms, beliefs, behaviours and customs of customers
- These factors can change and the manager must aware of these changes.
 - The employee has a trend to balance work - life. Organizations should apply leave regulations for taking care family, flexible working schedule, etc.
 - People more and more choose the life style that is more benefit to their health: eating regime, sport activities, tourist habits, etc.



General Environment.....

Sociocultural (cont.)

- if an organization operates in other countries, managers should get familiar with social and cultural values of that countries and select the appropriate management method.
 - Tet Holidays in Vietnam (lunar calendar), summer vacations and Christmas holidays in Western countries, Thanks Giving holiday in the USA
 - Spirit of collective vs. individual working
 - Relationships between employee and employer
 - working disciplines



General Environment.....

Demographic factor includes trends in population characteristics such as age, race, gender, education level, geographic location, income, and family composition.



General Environment.....

Technological conditions

- is a the most fast changed factor
 - Gen map of people has been decoded and this creates many applications in health and security
 - Telecommunication devices are more and more smaller and stronger (notebooks, i-phone)
 - Production processes are automation and involvement of robots.
 - Synthesis materials
 - E-meetings (chatting, V-conference)
 - E-business and E-commerce: hotels, e-tickets, etc.
- Changes in organizational structure
- Information is the most important base of competitive



General Environment.....

International (Global) conditions

- Managers of small or large organization have to be challenged by a big number of global competitors and increased consumption markets

Company	Revenues from outside USA
Exxon Mobil	71.8%
Colgate-Palmolive	71.6%
Texas Instrument	67.8%
McDonald' s	61.6%
Coca-Cola	61.2%
Gillette	60.1%

Nguồn: B. Zajac, “Global Giants”, Forbes, July 2004, 2000, pp. 335-38

Discussion question: How Does External Environment Affect Managers?



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Impacts of environment to Managers

Environment influences the manager through its uncertainty and external relationships with outsiders.

- **Environmental uncertainty** is degree of change and complexity in an organization's environment.
 - **Degree of change** (unpredictable)
 - *dynamism* – rate and predictability of change in the elements of an organization's environment



Impacts of environment to Managers

Environmental uncertainty:

- **complexity** – number of elements in an organization's environment and their degree of similarity
 - » Few competitors, suppliers, governmental agencies, etc...environment is more simple, uncertainty is reduced
 - » Hasbro Toy acquires production plants of its competitors
- Available information or required information of these elements
 - » Manager of Grocery needs only information about his/her suppliers.
 - » Nokia has to update customer data base and their needs from different markets such as technology changes, internet application, material suppliers, ...

Figure 3.4: Environmental uncertainty matrix

		Environmental complexity	
		Low uncertainty	Moderately low uncertainty
Environmental dynamics	Stable	Cell 1 1. Small number of dissimilar external elements 2. Elements stay the same or change slowly 3. Example: funeral homes	Cell 2 Large number of dissimilar external elements Elements stay the same or change slowly Example: insurance companies
	unstable	Cell 3 Moderately high uncertainty 1. Small number of dissimilar external elements 2. Elements change rapidly and unpredictably 3. Example: women's apparel (garment)	Cell 4 High uncertainty Large number of dissimilar external elements 1. Elements change rapidly and unpredictably Example: Software companies

Impacts of environment to Managers

Zippo Lighter

- Few competitors
- Few changes in tech
- Number of smokers is reduced but there is still high need on this products

Color Laser printers

- Few competitors (Cannon, HP)
- Rapid tech changes
- some essential customer groups: individuals, organizations, professional printing companies

Auto makers

- quite many competitors
- stable tech, few innovation for small elements
- need to understand and listen to customers, get information from competitors, suppliers....

Cell phone maker

- many competitors (Nokia, Samsung, Sony-Ericsson, Motorola, LG, Panasonic, NEC...)
- rapid change in tech and unpredictable: phone call, messages, email, camera, video clips,...



Managing the relationships with stakeholders

Who are stakeholders?

- Individuals/organizations are effected by organization' s decisions and actions
 - internal and external groups
 - have impacts on organization' s operation



Figure 3.5 Organizational Stakeholders



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Managing the relationships with stakeholders

Why to maintain good relationships with stakeholders?

– Brings results in:

- Forecasting changes in environment
- creative, better renovate and be successful
- Higher creditability of relevant partners
- More flexibly organize to reduce the impacts of environmental changes

– it's the "right" thing to do because:

- Organization's operation is depended on inputs from environment and the "exit" gate for outputs of organization.
- Manager needs to consider the relationships with stakeholders when making decisions

Managing the relationships with stakeholders

How to manage these relationships?

- 4 steps:
 - **Identify external stakeholders**
 - Individuals/organizations can be effected by the organization's decision and they can influence on the organization's decisions
 - **Determine the specific interests of each stakeholder group**
 - Product quality, financial concerns, working environment, environmental protection, v.v.

Managing the relationships with stakeholders

How to manage these relationships? (cont.)

- **Decide how critical these interests are to the organization**
 - For example: HUT, concerns of MOET is more important than the concerns of computers suppliers.
- **Determine what specific approach managers should use to manage each relationship**
 - This decision is depended on the importance of each stakeholders and the uncertainty of environment
 - If the stakeholders are more important and the organization operates in high uncertainty environment, the manager should build good relationships with these stakeholders

Figure 3.6: Managing relationships with stakeholders

		Level of importance of stakeholders	
		Important and decisive	Important and indecisive
Uncertainty of environment	High	Cell 1 Make relationships with stakeholders	Cell 2 Extend the relationships
	Low	Cell 3 Manage the stakeholders	Cell 4 Check and monitor the environment

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Managing the relationships with stakeholders....

How to manage these relationships? (cont.)

- Cell 4: organization needs to check and monitor the environments accordingly to the changes and changeable factors
 - No need to manage the relationships, need update information of what is going on, concerns and changes of stakeholders only.

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Managing the relationships with stakeholders....

How to manage these relationships? (cont.)

- Cell 2: Important stakeholders, high uncertain environment manager need actively manage the relationships with stakeholders through extending these relationships
 - Contact with stakeholders by different ways to gather and disseminate important information.
 - Example: salesman of pharmaceutical companies contact with doctors, nurse, etc, PR staff contact with mass media company



Managing the relationships with stakeholders....

How to manage these relationships? (cont.)

- Cell 3: the manager should apply the direct management methods.
 - Example: conducting research studies, encouraging the competition between suppliers, establishment the relationships with governmental authorities, lobby activities, etc



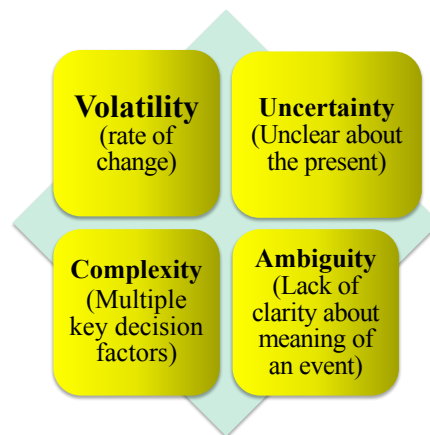
Managing the relationships with stakeholders....

How to manage these relationships? (cont.)

- Cell 1: the manager should build the strategic relationships with stakeholders to achieve the common goals.
 - Build the bridge linkage between organization and suppliers, organization and customers, organization and local authorities, organization and competitors, v.v.
 - Example: Sony-Ericsson (Organization and competitor)



VUCA world/environment (Volatility – Uncertainty – Complexity – Ambiguity)



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What is Organizational Culture?



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Organizational Culture

Shared values, principles, traditions,
and ways of doing things that influence the
way an organization's members act.

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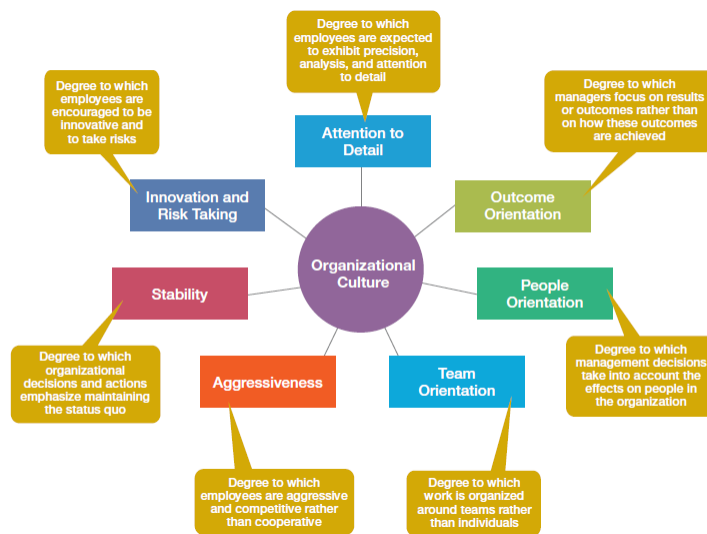
Culture is:

- Perceived
- Descriptive
- Shared

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Dimensions of Culture



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Describe how organizational culture affects managers?



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How Does Organizational Culture Affect Managers

- Effect on what employees do and how they behave
- Effect on what managers do



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In short

- Organization cannot exist independently. It has interactions with external environment and is influenced by its environment (*receiving inputs from environments and distributing outputs into the market*)
- Organization faces many pressures from its environment. Both general and task environment are changed and create uncertainties for the managers. The more uncertain environment is the more difficulties for the manager in doing management activities
- However, the manager study in different ways how to manage these external relationships better in order to reduce risks, challenges, pressures and take good opportunities from external environments



Review question

1. Define business environment of an organization.
2. Describe 6 elements of task environment of an organization
3. Describe 6 elements of general environment of an organization
4. Environmental uncertainty is characterized by which factors?
5. Who are stakeholders? Why the manager should concern to manage the relationships with stakeholders
6. Describe 4 ways of managing the relationships with stakeholders.

