

The Organization's External Environment

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WHAT'S COVERED

In this lesson, you will learn about examples of contemporary external environmental trends and forces that challenge an organization's effectiveness. Types of external environmental forces will be introduced. Specifically, this lesson will cover:

1. Define the External Environment of Organizations
2. Types of General Macro Environments and the Forces That Affect Them
 - 2a. Economic Forces
 - 2b. Technological Forces
 - 2c. Government and Political Forces
 - 2d. Sociocultural Forces
 - 2e. Natural Disasters and Human-related Problems
3. Contemporary External Environmental Challenges
 - 3a. Examples of Current External Environmental Challenges



BEFORE YOU START

Basic theories, concepts, and principles are presented in this Challenge to help explain elements of external environments and how organizations and corporations can organize to survive and thrive in the 21st century.

1. Define the External Environment of Organizations

Organizations are groups of people deliberately formed together to serve a purpose through structured and coordinated goals and plans. Different types of organizations include not-for-profit, for-profit, public, private, government, voluntary, family owned and operated, and publicly traded on stock exchanges.



KEY CONCEPT

Organizations are commonly referred to as companies, firms, corporations, institutions, agencies, associations, groups, consortiums, and conglomerates.

An organization's **external environment**, also referred to as the *general environment*, includes all outside factors and influences that require the organization to respond or react in order to maintain its flow of business operations (Study.com, 2016). Organizations operate in different external environments and are organized and structured internally to meet both external and internal demands and opportunities. The type, size, scope, location, purpose, and mission of an organization all help determine the external environment in which it operates. Organizations must also adapt and exploit the forces in their external environments in order to succeed and thrive.

This Challenge is primarily concerned with how organizations fit within their external environments and the structures they utilize to successfully meet the challenges and opportunities of these environments. Major takeaways include the following:

1. Be able to identify elements in any organization's external—and internal—environment that may interest or affect you as an employee, shareholder, family member, or observer.
2. Gain insights into how to develop strategies and tactics that would help you (and your organization) navigate ways to cope with or try to dominate or appeal to elements (e.g., market segments, stakeholders, political/social/economic/technological issues) in the environment.



TERMS TO KNOW

Organizations

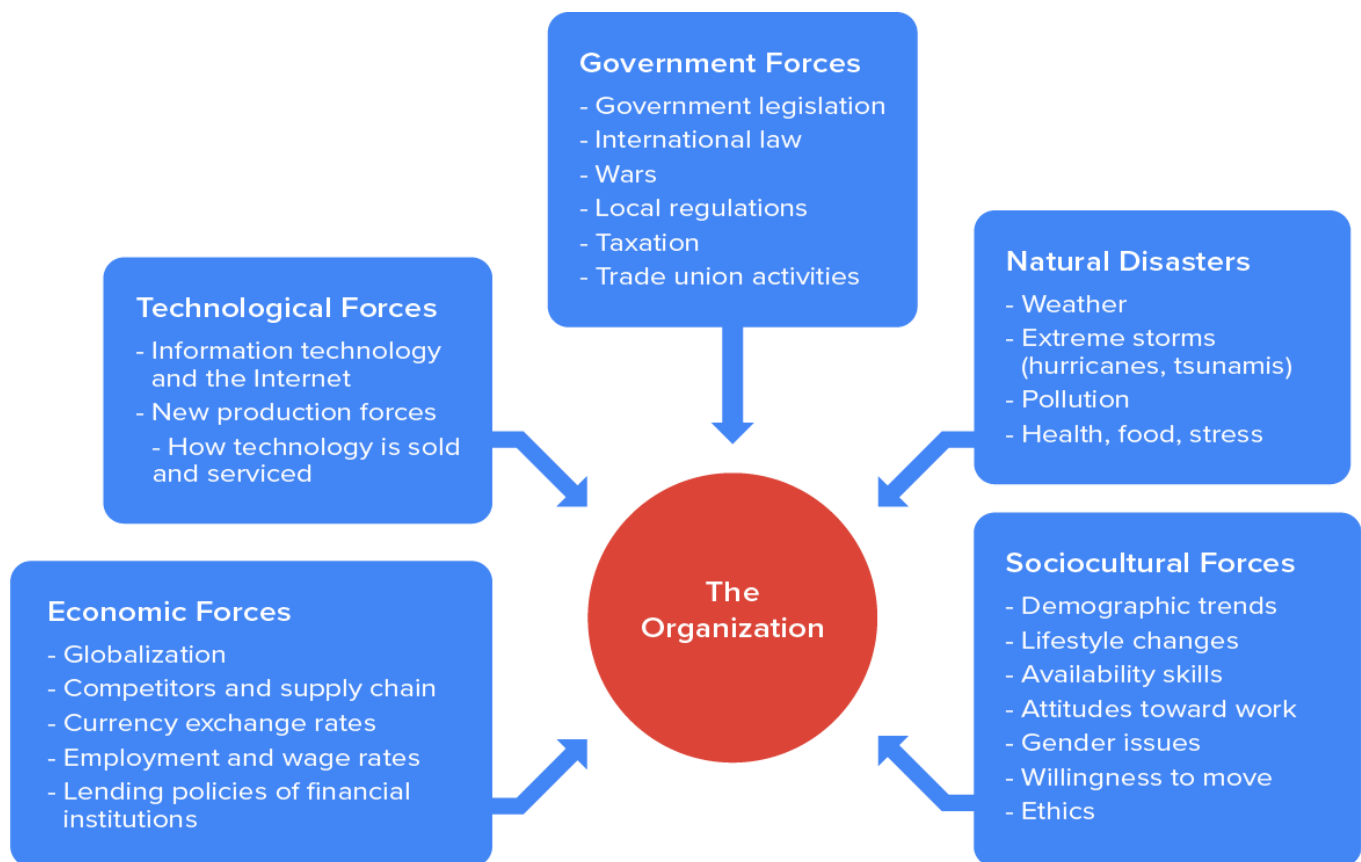
Groups of people deliberately formed together to serve a purpose through structured and coordinated goals and plans.

External Environment

Also referred to as the *general environment*, an inclusive concept that involves all outside factors and influences that impact the operation of a business that an organization must respond or react to in order to maintain its flow of operations.

2. Types of General Macro Environments and the Forces That Affect Them

The diagram below illustrates types of general macro environments and interrelated forces that affect organizations: sociocultural, technological, economic, government and political, natural disasters, and human-induced problems that affect industries and organizations.



2a. Economic Forces

Economic environmental forces generally include exchange rates and wages, employment statistics, and related factors such as inflation, recessions, and other shocks—negative and positive. Other factors discussed here that interact with economic forces include politics and governmental policies, international wars, natural disasters, technological inventions, and sociocultural forces. It is important to keep these dimensions in mind when studying organizations since many if not most or all changes that affect organizations originate from one or more of these sources—many of which are interrelated.

Defined as the development of an integrated global economy and characterized by free trade, capital flows, communications, and cheaper foreign labor markets, the processes of **globalization** underlie the forces in the general international economic environment. This dimension presents opportunities and pressures on companies operating locally as well as globally and affects them in ways that benefit some and not others. Hiring and unemployment, employee benefits, factors affecting organizational operating costs, revenues, and profits are affected by global, national, regional, and local economies.



DID YOU KNOW

Companies that are thriving globally include Amazon, Uber, and Airbnb. Amazon's low-end product brand AmazonBasics is doing particularly well. The company has individual retail websites for the United States, the United Kingdom and Ireland, France, Canada, Germany, Italy, Spain, the Netherlands, Australia, Brazil, Japan, China, India, and Mexico. Uber and Airbnb represent some of the larger sharing-economy companies that operate internationally and have to date prospered in the fragmenting global economy.

Examples of countries that have gained from globalization include Japan, South Korea, Taiwan, Malaysia, Singapore, Hong Kong, Thailand, and China. China's markets and growing economic prowess have particularly been noticed. China's GDP (gross domestic product) is estimated at \$13.2 trillion in 2018, outpacing the \$12.8 trillion combined total of the 19 countries that use the euro (Jamrisko, 2018). Corporations worldwide, large and small, online and land-based, strive to gain access to sell in China's vast markets. Moreover, China at the beginning of 2018 owns \$1.168 trillion of the United States' debt (The Investopedia Team, 2021). Japan, in second place, owes \$1.07 trillion of this debt. Any instability politically and economically with China could result in increasing inflation and interest rates in the U.S. economy that could, in turn, negatively affect U.S. businesses.

Overall, while economic data indicates that globalization has had a positive effect on the world economy, a dark side also shows that two-thirds of all households in 25 advanced-economy countries had incomes stagnate and/or decline between 2005 and 2014. Moreover, the U.K. and U.S. witnessed falling wages. Wealth distribution in these countries continues to decline. Income inequality globally is also rising. Other trends that also affect the global, regional, and local economies are discussed below.

Economically, "the strategic challenge of the next decade is navigating a world that is simultaneously integrating and fragmenting. Stock markets have set new records and economic volatility has fallen to historic lows, while political shocks on a scale unseen for generations have taken place. Seemingly contradictory realities do co-exist" (Rawlinson, 2018).



TERM TO KNOW

Globalization

The development of an integrated global economy characterized by free trade, capital flows, communications, and cheaper foreign labor markets; the processes of globalization underlie the forces in the general international economic environment.

2b. Technological Forces

Technological forces are another ubiquitous environmental influence on organizations. Speed, price, service, and quality of products and services are dimensions of organizations' competitive advantage in this era. Information technologies and social media powered by the Internet and used by sharing-economy companies such as Airbnb and Uber have democratized and increased, if not leveled, competition across several industries, such as taxis, real estate rentals, and hospitality services. Companies across industry sectors cannot survive without using the Internet, social media, and sophisticated software in R&D (research and development), operations, marketing, finance, and sales. To manage and use big data in all these functional areas, organizations rely on technology.



TERM TO KNOW

Technological Forces

Environmental influence on organizations where speed, price, service, and quality of products and services are dimensions of organizations' competitive advantage in this era.

2c. Government and Political Forces

Government and political forces also affect industries and organizations. Recent events that have jarred the global economy—and are too early to predict the long-term outcomes of—are the United Kingdom's exit from

the European Union, wars in the Middle East, policies that question and disrupt free trade, health-care reform, and immigration—all of which increase uncertainty for businesses while creating opportunities for some industries and instability in others.



TERM TO KNOW

Government and Political Forces

The global economy and changing political actions increase uncertainty for businesses, while creating opportunities for some industries and instability in others.

2d. Sociocultural Forces

Sociocultural environmental forces include different generations' values, beliefs, attitudes, customs and traditions, habits, and lifestyles. More specifically, other aspects of societal cultures are education, language, religion, law, politics, and social organizations.

⇒ **EXAMPLE** The millennial workforce generally seeks work that engages and interests them. Members of this generation are also health-conscious and eager to learn. Since this and the newer generation (Generation Z) are adept and accustomed to using technology—social media in particular—organizations must be ready and equipped to provide wellness and a variety of interesting learning and work experiences to attract and retain new talent.



DID YOU KNOW

Millennials are also estimated to be the United States' largest living adult generation in 2019. This generation numbered about 71 million compared with 74 million baby boomers in 2016. By 2019, an estimated 73 million millennials and 72 million boomers are projected. Because of immigration, millennials are estimated to increase until 2036 (Cilluffo & Cohen, 2017).

Other general sociocultural trends occurring in the United States and internationally that affect organizations include the following:

- Sexual harassment at work in the era of #MeToo has pressured organizations to be more transparent about relationships between owners, bosses, and employees. Related to this trend, some surveys show new difficulties for men in workplace interactions and little effect on women's career opportunities taking place in the short term (Graf, 2018).
- While fewer immigrants have been entering the United States in recent years, diversity in the U.S. workplace continues. Twenty million Asian Americans trace their roots to over 20 countries in East and Southeast Asia and the Indian subcontinent—"each with unique histories, cultures, languages and other characteristics. The 19 largest origin groups together account for 94% of the total Asian population in the U.S." (The Global Risks Report 2018 13th Edition, 2018).
- Young adults in the United States are living at home longer. "In 2016, 15% of 25- to 35-year-old Millennials were living in their parents' home. This is 5 percentage points higher than the share of Generation Xers who lived in their parents' home in 2000 when they were the same age (10%), and nearly double the share of the Silent Generation who lived at home in 1964 (8%)" (Fry, 2017).

- While women have made gains in the workplace, they still comprise a small share of top leadership jobs—across politics and government, academia, the nonprofit sector, and business. Women comprised only about 10% of CEOs (chief executive officers), CFOs (chief financial officers), and the next three highest-paid executives in U.S. companies in 2016–17 (DeSilver, 2018). A 2018 study by McKinsey & Company “reaffirms the global relevance of the link between diversity—defined as a greater proportion of women and a more mixed ethnic and cultural composition in the leadership of large companies—and company financial outperformance” (Hunt et al., 2018).

These and other related sociocultural trends impact organizational cultures and other dimensions involving human talent and diverse workforces.



TERM TO KNOW

Sociocultural Environmental Forces

Include different generations’ values, beliefs, attitudes, customs and traditions, habits, and lifestyles.

2e. Natural Disasters and Human-related Problems

Natural disasters and human-induced environmental problems are events such as high-impact hurricanes, extreme temperatures and the rise in CO₂ emissions as well as ‘man-made’ environmental disasters such as water and food crises, biodiversity loss and ecosystem collapse, and large-scale involuntary migration. These are all forces that affect organizations.

The 2018 Global Risks Report identified risks in the environmental category that affect industries and companies—as well as continents and countries. These risks were ranked higher than average for both likelihood and impact over a 10-year horizon. For instance, the report showed that 2017 had the first rise in carbon dioxide emissions in four years. Authors of this study also noted that “Biodiversity is being lost at mass-extinction rates, agricultural systems are under strain and pollution of the air and sea has become an increasingly pressing threat to human health” (The Global Economic Report, 13th Edition, 2018).

Rising water levels are another environmental risk factor affecting organizations.



DID YOU KNOW

Predictions indicate that rising sea levels could reach 3 feet worldwide by 2300 or sooner. One report stated that in your child’s lifetime, Miami, Florida, could be underwater (Rice, 2018).

Large sections of Louisiana’s marshes separating the ocean from the coastline are submerging. Oil producers and other related corporations are being sued by that state, claiming that fossil fuel emissions have contributed to natural disasters such as climate change. Most vulnerable to rising seas are low-lying islands in the Indian and Pacific Oceans. The Republic of the Marshall Islands has over 1,100 low-lying islands on 29 atolls that include island nations with hundreds of thousands of people. Many new companies in the United States are already constructing buildings to withstand increasing flooding and predicted rising water levels.

3. Contemporary External Environmental Challenges

Organizations and industries are again at a crossroads when confronting new and challenging external environmental demands. Many businesses with traditional business models have failed, or are struggling to succeed strategically, operationally, and organizationally by not realizing and/or adapting to changing external environments.



DID YOU KNOW

Firms that were once successful but did not anticipate and then adapt to such changes include Blockbuster, Toys R Us, Borders, Sun Microsystems, Motorola, Digital Equipment Corporation, Polaroid, and Kodak, to name only a few.

Exceptional companies such as Amazon, Apple, Netflix, and Google/Alphabet Inc. exemplify evolving business models that combine strategic innovation, technological prowess, and organizational cultural agility that not only meet external environmental demands, but also shape them.

IN CONTEXT

Jeff Bezos of Amazon

Amazon's market value was estimated at \$1 trillion U.S. dollars in 2018. The company was recognized as the most innovative company in Fast Company's 2017 list, accounting for 44 percent of all U.S. e-commerce that year—approximately 4 percent of the U.S.'s total retail sales. Amazon market value is greater than the sum of the market capitalizations of Walmart, Target, Best Buy, Nordstrom, Kohl's, JCPenney, Sears, and Macy's. Jeff Bezos, founder and leader, has creatively accomplished what most large companies fail at: meshing size, scale, and external opportunities with agility. Sales figures reached \$100 billion in 2015 while the stock price climbed over 300% in the past five years. The company plans on creating over 50,000 new jobs starting in 2018. Bezos has blended his strategy of virtually reaching unlimited numbers of online customers while maintaining land-based distribution centers using Prime's \$99-per-year—\$119 in 2018—membership. Stephenie Landry, an Amazon vice president, stated that Prime has reached 49 cities in seven countries. Over 100 million people in 2018 subscribed to the Prime service. She noted that the business has only to answer two questions from customers: "Do you have what I want, and can you get it to me when I need it?" The answer seems to be yes, especially with Bezos's strategy of having high-tech robots already working side by side with human employees—resembling a "factory of the future."

Bezos's digital commerce strategy has led the firm to become the leader of retail commerce. Amazon's digital strategy uses Prime memberships that are supplied and supported by land-based distribution centers. Prime accounts for about 60% of the total dollar value of all merchandise sold on the site, representing the 60 million customers in the United States who use Prime and who spend \$2,500 on Amazon annually. A study of 3,000 independent businesses, half of whom were retailers, listed competition from Amazon as their primary concern. Industry after industry is being disrupted—some replaced—by Bezos's strategy. He has said, "Everybody wants fast delivery. Low prices. I'm serious about this. Our job is to provide a great customer experience, and that is something that is universally desired all over the world."

Still, Amazon faces such challenges as high shipping costs (over \$11 billion annually), pressures on employees (especially those working in warehouses that have been criticized for poor working conditions), shipping contractors who go on strike demanding higher wages and reduced workloads, and the possibilities of more governmental regulation (especially with regard to adding drones as a delivery method), as well as pressures to pay more taxes. Bezos has countered these arguments by adding more full-time jobs in different cities, promising to improve working conditions, supporting public spaces for the public, and most importantly, contributing to the U.S. economy.

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3a. Examples of Current External Environmental Challenges

A sample of contemporary external environmental trends and forces that currently challenge organizations' survival and effectiveness includes:

- *Digital technologies and artificial intelligence (AI)*. Extensions of AI help automate a firm's value chain, thus speeding up and increasing efficient operations and service to customers—as Amazon exemplifies. A recent survey showed that 59% of organizations are collecting information to develop AI strategies, while others are moving forward in piloting and/or adopting AI solutions to compete faster and at less cost (Panetta, 2017). However, there are also risks that accompany firms that incorporate new digital and online technologies without adequate security measures.



DID YOU KNOW

Some newer online technologies can expose operational systems to cyberattacks and large-scale manipulation. Hacking is now both an illegal and ongoing “profession” for those who are able to paralyze organizations from accessing their data unless they pay a ransom. While hacking is not new, it is more widespread and lethal, to the point of even threatening national security. Still, the future of most businesses is using some type of digital and AI technologies.

- The advent of *blockchain* technologies that are interrupting new industry practices. Blockchain is not a single technology; it is “an architecture that allows disparate users to make transactions and then creates an unchangeable record of those transactions.” It is “a public electronic ledger—similar to a relational database—that can be openly shared among disparate users and that creates an unchangeable record of their transactions, each one time-stamped and linked to the previous one” (Mearian, 2018). These technological inventions will continue to affect almost every business process from procurement to legal management. The banking industry is already using it. It increases speed, security, and accuracy of transactions.
- *Sharing-economy cultural and economic value-added business models* that use information technologies to gain competitive advantage. Companies such as Airbnb and Uber have ushered in new business models that have already disrupted real estate, hotel, taxi, and other industries. Taking out the middle layer of management in transactions to increase efficiencies and customer satisfaction while cutting costs through the use of information and social media technologies will continue. This trend has already had both positive and disruptive effects on companies. Many customers are likely to benefit; businesses with outdated and ineffective business models have either failed or struggled to adapt.
- *Shifts in learning and learning credentials*. Identifying, recruiting, and retaining talent is crucial to organizations. An evolving crisis for the current generation—future talent—is the continued rise in higher educational institutions’ tuitions, student debt, and the changing nature of jobs. With the advent of online resources, prospective students’ inability to pay creates both a crisis and opportunity for traditional higher educational institutions. While bachelor’s degrees remain a requirement for many companies hiring needed higher-level talent, online resources such as Khan Academy, Udacity, and Coursera are gaining recognition and legitimacy toward providing financially challenged students opportunities for entry-level jobs. While many higher-skilled students and professionals may not presently be included in this trend, companies seeking to pay lower wages while offering flexible working conditions are attracting students (Young Entrepreneurship Council, 2018). Again, how higher educational private, not-for-profit, and even for-profit educational institutions adapt, innovate, and manage their external environments is yet to be seen.
- *Ethics, corporate social responsibility (CSR), and sustainability*. Corruption, lying, and fraud have been and continue to be part of the landscape of governments and public- and private-sector corporations. However, public awareness through social and online media has awakened consumers and corporations to the impending dangers and drawbacks of illegal and unethical activities of certain large corporations. And external environmental problems, created in part by humans, such as pollution and climate change, pressure companies to be responsible for their share of the costs associated with these problems.

This small sample of powerful external forces illustrates the continuing pressure companies encounter to innovate in their industries.



You will use the tools and frameworks you are learning about in this Challenge to analyze your chosen organization. It is especially important that you understand some of the inner workings of your chosen organization; hence, you may find it easier to select a current or former employer.



1. Define the components of the internal and the external business environments.
2. What factors within the economic environment affect businesses?
3. Why do demographic shifts and technological developments create both challenges and new opportunities for business?



SUMMARY

In this lesson, you learned how to **define the external environment of organizations**, also referred to as the general environment, a concept that involves all outside factors and influences that impact the operation of a business that an organization must respond or react to in order to maintain its flow of operations. You explored the different types of general macro environments and the forces that affect them: **economic forces, technological forces, government and political forces, sociocultural forces, and natural disasters and human-related problems**. You also learned about some of the **contemporary external environmental challenges** that impact organizations' survival and effectiveness, exploring **examples of current external environmental trends and forces** faced by organizations that compel them to adapt in order to survive, including: digital technologies and artificial intelligence (AI); the advent of blockchain technologies; sharing-economy cultural and economic value-added business models; shifts in learning and learning credentials; and ethics, corporate social responsibility (CSR), and sustainability.

Best of luck in your learning!

Source: Access for free at <https://openstax.org/books/principles-management/pages/1-introduction>

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TERMS TO KNOW

External Environment

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Globalization

The development of an integrated global economy characterized by free trade, capital flows, communications, and cheaper foreign labor markets; the processes of globalization underlie the forces in the general international economic environment.

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