

The Internal Organization and External Environments

by Sophia



WHAT'S COVERED

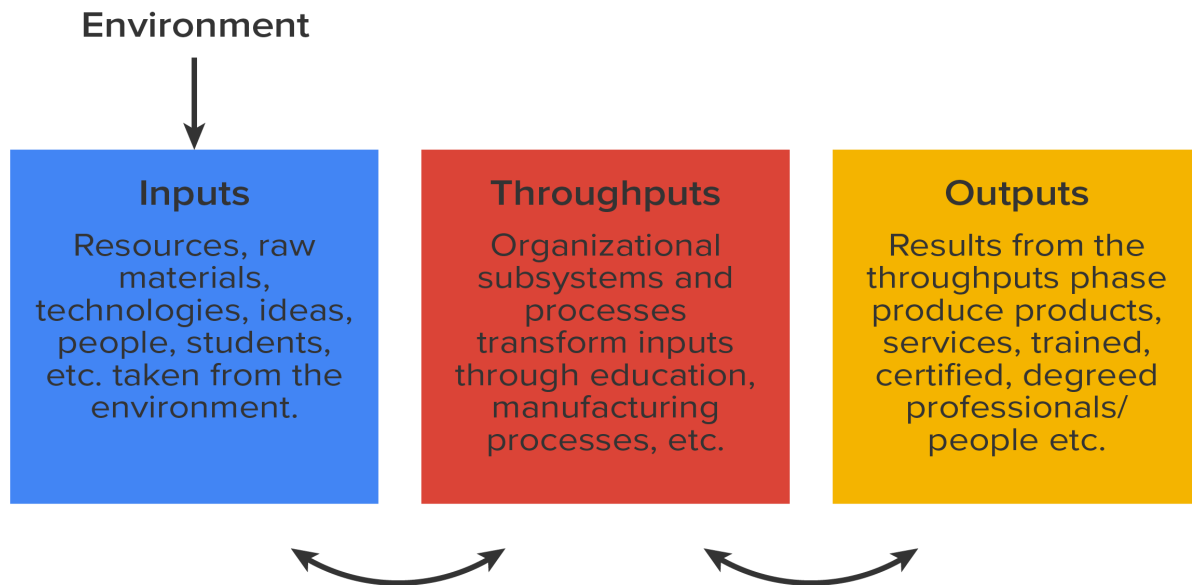
In this lesson, you will learn how organizations organize to meet external market threats and opportunities. Specifically, this lesson will cover:

1. [The Theory of Open Systems](#)
2. [The McKinsey 7-S Model](#)
3. [Organizational Alignment in Practice](#)

1. The Theory of Open Systems

At a basic level of understanding how internal organizations respond to environments, consider the theory of open systems, which the organizational theorists Katz and Kahn (Katz & Kahn, 1966) and Bertalanffy introduced (Bertalanffy, 1968).

The diagram below illustrates this theory's view of organizations as open systems that take in resources and raw materials at the “input” phase from the environment in a number of forms, depending on the nature of the organization, industry, and its business. Whatever the input resources are—information, raw materials, students entering a university—they are transformed by the internal processes of the organization. The internal organizational systems process and transform the input material, which is called a “throughput” phase, and move the changed material (resources) to the “outputs” and back into the environment as products, services, graduates, etc.



The open systems model serves as a feedback loop continually taking in resources from the environment, processing and transforming them into outputs that are returned to the environment. This model explains organizational survival that emphasizes long-term goals.

KEY CONCEPT

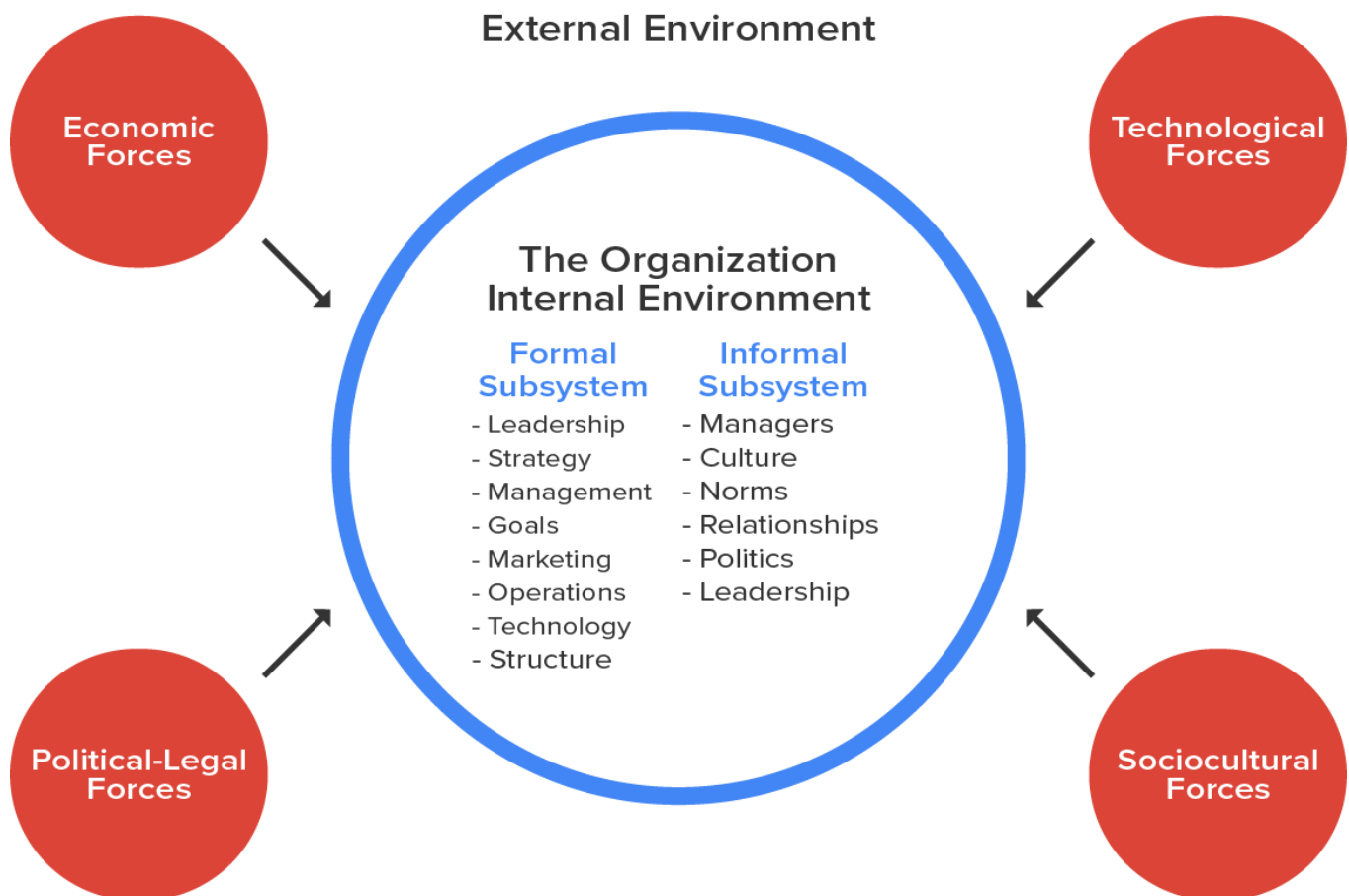
According to this theory, organizations are considered as either open or closed systems, (or relatively opened or closed) depending on the organization's sensitivity to the environment. Closed systems are less sensitive to environmental resources and possibilities, and open systems are more responsive and adaptive to environmental changes.

Organizations respond to external environments not only through their structures, but also by the domains they choose and the internal dimensions and capabilities they select. An organization defines itself and its niche in an environment by the choice of its **domain**—i.e., what sector or field of the environment it will use its technology, products, and services to compete in and serve. Some of the major sectors of a task environment include marketing, technology, government, financial resources, and human resources.

Presently, several environmental domains that once were considered stable have become more complex and unstable—e.g., toys, public utilities, the U.S. Postal Service, and higher education.

⇒ **EXAMPLE** Sharing-economy companies such as Uber and Airbnb have redefined the transportation domain in which taxis operate and the hospitality domain in which hotels and bed and breakfasts serve. New business models that use mobile phones, ICTs (information communication technologies), and apps remove middle management layers in traditional organizations and structures.

With a chosen domain in which to operate, owners and leaders must organize internal dimensions to compete in and serve their markets. For example, hierarchies of authority and chain of command are used by owners and top-level leaders to develop and implement strategic and enterprise decisions; managers are required to provide technologies, training, accounting, legal, and other infrastructure resources; and cultures still count to establish and maintain norms, relationships, legal and ethical practices, and the reputation of organizations.



The diagram above shows internal organizational dimensions. These dimensions and systems include leadership, strategy, culture, management, goals, marketing, operations, and structure. Relationships, norms, and politics are also included in the informal organization. There are other internal functions not listed here, such as research and development, accounting and finance, production, and human resources.



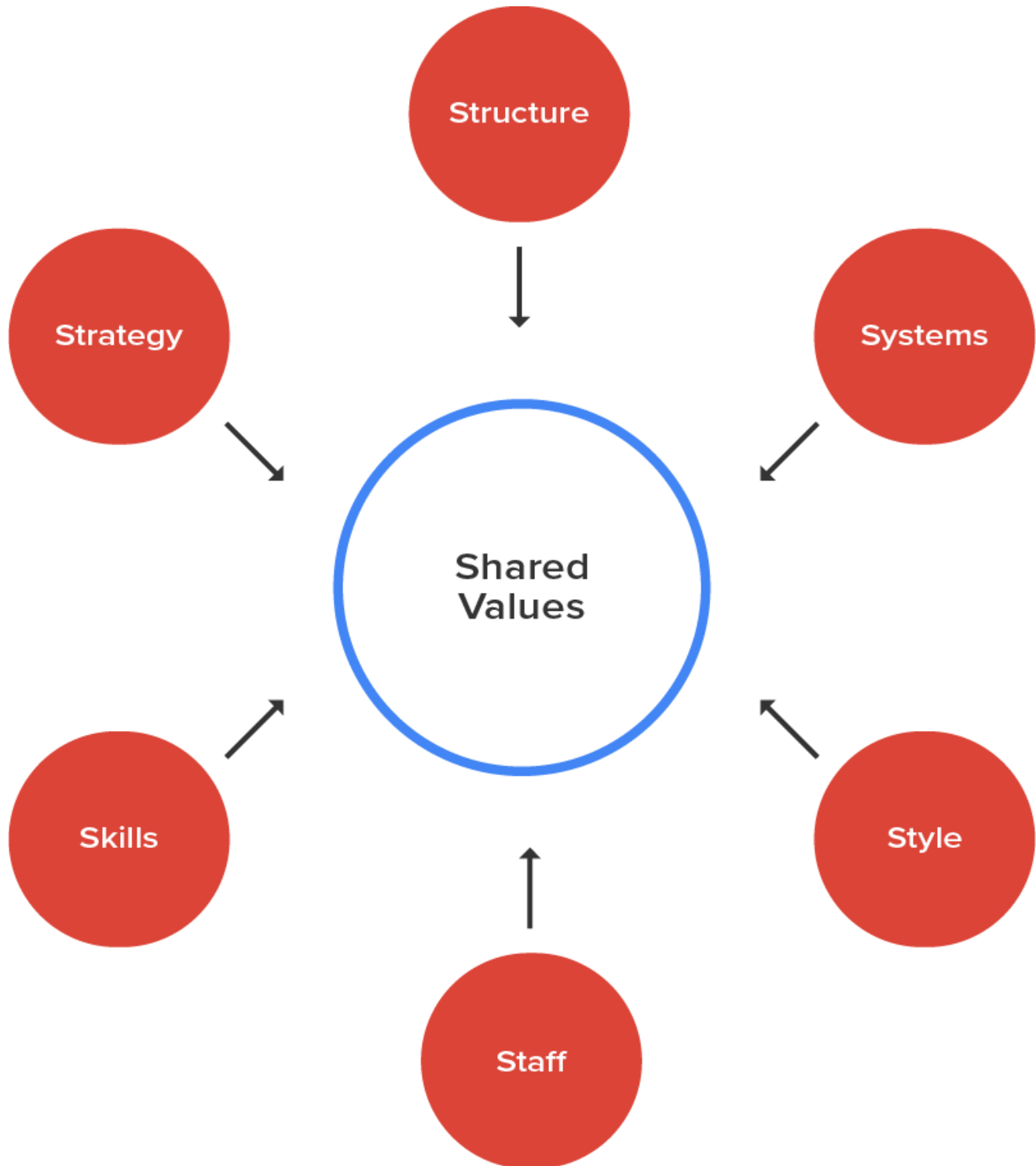
TERM TO KNOW

Domain

The purpose of the organization from which its strategies, organizational capabilities, resources, and management systems are mobilized to support the enterprise's purpose.

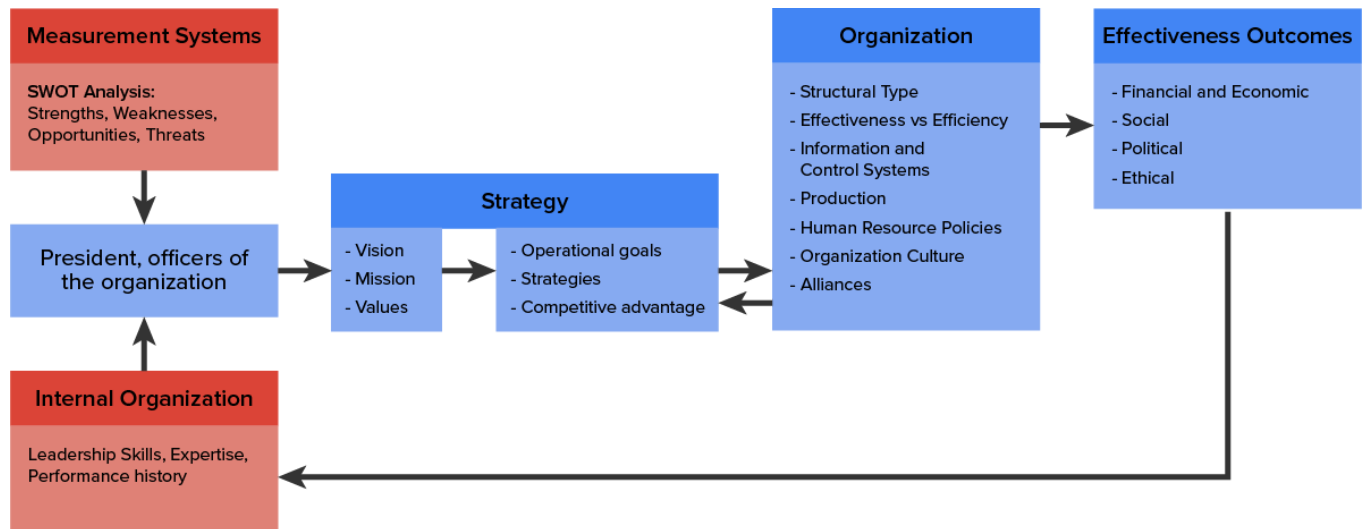
2. The McKinsey 7-S Model

Another popular depiction of internal organizational dimensions is the **McKinsey 7-S Model**, shown in the diagram below. Similarly, *strategy, structure, systems, skills, staff, and style* all revolve around and are interconnected with shared values (or culture) in an organization.



A unifying framework shown in The McKinsey 7-S Model diagram, developed by Arie Lewin and Carroll Stephens (Lewin & Stephens, 1994), illustrates the integration of internal organizational dimensions and how these work in practice to align with the external environment.

The CEO and other top-level leaders scan the external environment to identify uncertainties and resources before using a SWOT analysis (identifying strengths, weaknesses, opportunities, and threats) to confirm and update the domain of an organization and then to define the vision, mission, goals, and strategies. Once the enterprise goals and strategies are developed, the organizational culture, structure, and other systems and policies can be established (human resources, technologies, accounting and finance, and so on).



As the Internal Organization and External Environment diagram shows, after a CEO and the top-level team identify opportunities and threats in the environment, they then determine the domain and purpose of the organization from which strategies, organizational capabilities, resources, and management systems must be mobilized to support the enterprise's purpose (Trevor & Varcoe, 2017).

⇒ **EXAMPLE** The company McDonald's has, for example, successfully aligned its enterprise with the global environments it serves, which is "1% of the world's population—more than 70 million customers—every day and in virtually every country across the world." The major operating goal of the firm driving its internal alignment is a "fanatical attention to the design and management of scalable processes, routines, and a working culture by which simple, stand-alone, and standardized products are sold globally at a predictable, and therefore manageable, volume, quality, and cost" (Dalavagas, 2015).



TERM TO KNOW

The McKinsey 7-S Model

A popular depiction of internal organizational dimensions.

3. Organizational Alignment in Practice

In practice, no internal organizational alignment with its external environment is perfect or permanent. Quite the opposite. Companies and organizations change leadership and strategies and make structural and systems changes to meet changing competition, market forces, and customers and end users' needs and demands. Even Amazon continues to develop, expand, and change. With a mission statement as bold and broad as Amazon's, change is a constant: "Our vision is to be earth's most customer-centric company; to build a place where people can come to find and discover anything they might want to buy online" (Amazon, 2021).



SUMMARY

In this lesson, you learned how organizations organize to meet external market threats and opportunities. At a basic level of understanding how internal organizations respond to environments, you learned about **the theory of open systems**, in which organizations are viewed as open systems that take in resources and raw materials at the "input" phase from the environment, which are then processed and transformed by the internal processes of the organization at the "throughput" phase, and finally moved to the "outputs" and back into the environment as products, services, etc. You also learned about another depiction of internal organizational dimensions called **the McKinsey 7-S Model**, in which strategy, structure, systems, skills, staff, and style all revolve around and are interconnected with shared values (or culture) in an organization. Lastly, you learned that **in practice**, internal **organizational alignment** with its external environment is not perfect or permanent; rather, companies and organizations change leadership and strategies and make structural and systems changes to meet changing competition, market forces, and customers and end users' needs and demands.

Best of luck in your learning!

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TERMS TO KNOW

Domain

The purpose of the organization from which its strategies, organizational capabilities, resources, and management systems are mobilized to support the enterprise's purpose.

McKinsey 7-S model

A popular depiction of internal organizational dimensions.