

# The Organizational Environment

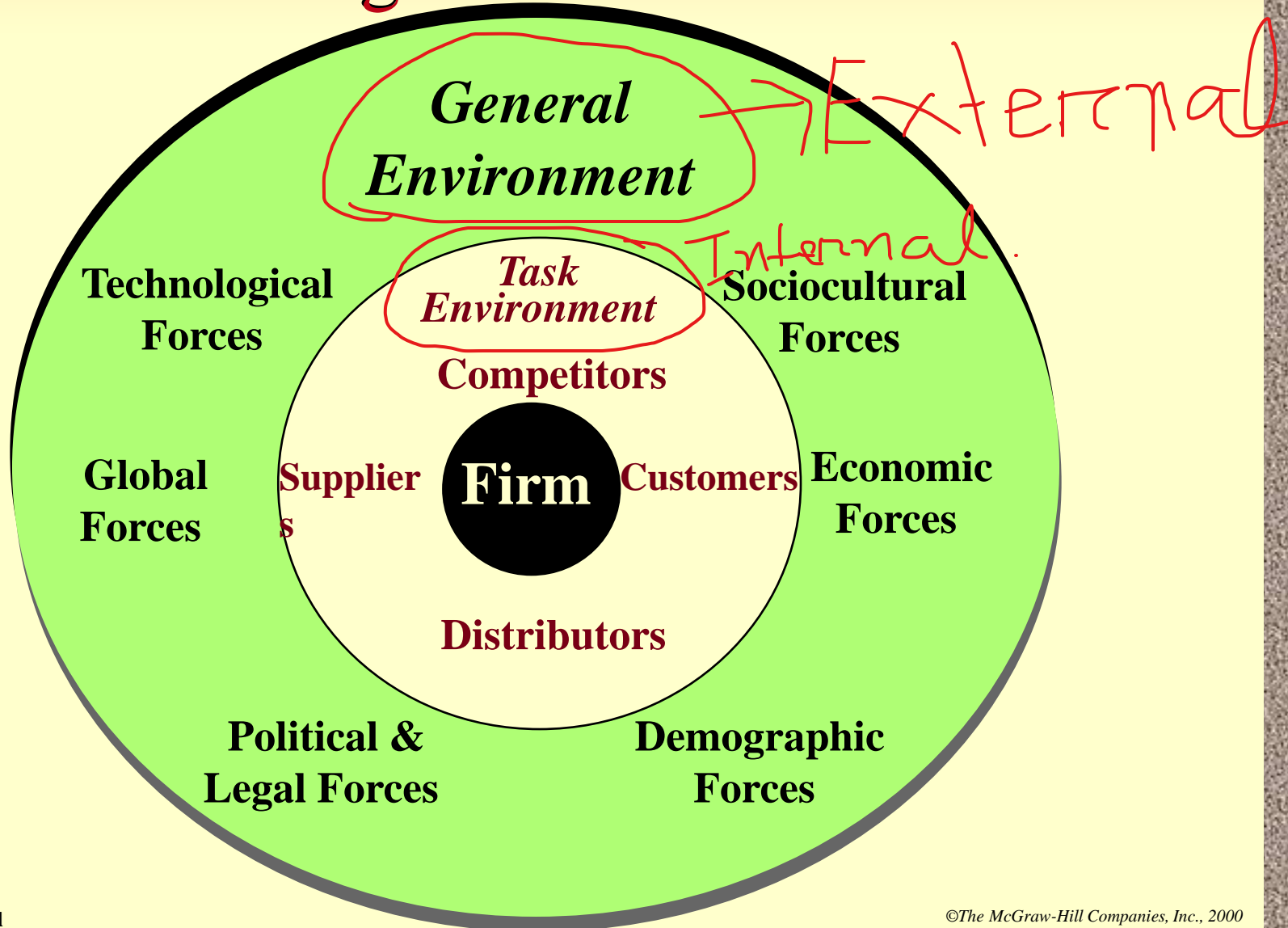


# Organizational Environment

- ***Organizational Environment:*** those forces outside boundaries & inside boundaries elements that can impact on it.
  - Forces can change over time and are made up of Opportunities and Threats & strength & weakness..

# Forces in the Organizational Environment

Figure 3.1



# Task Environment

- ***Task Environment:*** forces from suppliers, interest group, regulators, customers, and competitors.
- ***Suppliers:*** provide organization with inputs
  - Managers need to secure ***reliable input sources***.
  - Suppliers provide raw materials, components, and even labor.
    - ◆ Working with suppliers can be hard due to shortages, unions, and lack of substitutes.
    - ◆ Suppliers with scarce items can raise the price and are in a good bargaining position.
  - Managers often prefer to have many, similar suppliers of each item.

# Task Environment

- **Regulators:** An agency created by the government to regulate business activities
- **Interest Group:** A group formed by its own individual group members to attempt to influence business
- **Customers:** people who buy the goods.
  - Usually, there are several groups of customers.
    - ◆ For Compaq, there are business, home, & government buyers.

# Task Environment

- *Competitors*: other organizations that produce similar goods.
  - *Rivalry between competitors* is usually the most serious force facing managers.
  - High levels of rivalry often means lower prices.
    - ◆ Profits become hard to find.
  - Barriers to entry keep new competitors out and result from:
    - ◆ Economies of scale: cost advantages due to large scale production.
    - ◆ Brand loyalty: customers prefer a given product.

# The General Environment

- **Consists of the wide economic, technological, demographic and similar issues.**
  - Managers usually cannot impact or control these.
  - Forces have profound impact on the firm.
- ***Economic forces:* affect the national economy and the organization.**
  - Includes interest rate changes, unemployment rates, economic growth.
  - When there is a strong economy, people have more money to spend on goods and services.



- ***Technological forces:*** skills & equipment used in design, production and distribution.
  - Result in new opportunities or threats to managers.
  - Often make products obsolete very quickly.
  - Can change how we manage.
- ***Sociocultural forces:*** *The customs, morels, values & demographic characteristics of the society in which organization functions*
  - Social structure refers to the relationships between people and groups.
    - ◆ Different societies have vastly different social structures.
  - National culture includes the values that characterize a society.
    - ◆ Values and norms differ widely throughout the world.
  - These forces differ between cultures and over time.



● ***Demographic forces:*** result from changes in the nature, composition and diversity of a population.

- These include gender, age, ethnic origin, etc.
  - ◆ For example, during the past 20 years, women have entered the workforce in increasing numbers.
- Currently, most industrial countries are aging.
  - ◆ This will change the opportunities for firms competing in these areas.
  - ◆ New demand for health care, assisting living can be forecast.

- ***Political-legal forces:*** result from changes in the political arena.

- These are often seen in the laws of a society.
- Today, there is increasing deregulation of many state-run firms.

- ***Global forces:*** result from changes in international relationships between countries.

- Perhaps the most important is the increase in economic integration of countries.
- Free-trade agreements (GATT, NAFTA, EU) decreases former barriers to trade.
- Provide new opportunities and threats to managers.

# Internal environment

- Owner
- Board of directors
- Employees

# Five Competitive Forces

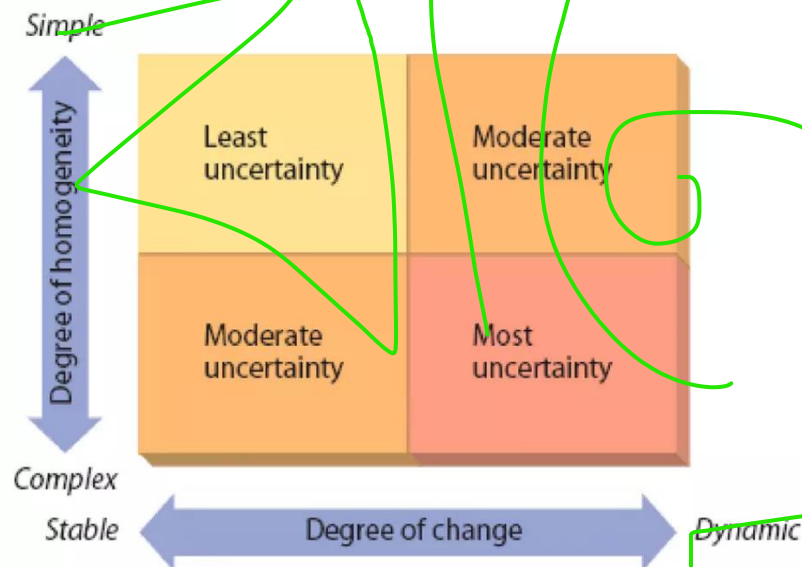
Michel E. porter provides this theory for assessing environment.

1. Threat of new entrance
2. Competitive rivalry
3. Threat of substitute products
4. Power of buyers
5. Power of suppliers

# How Environments Affect Organizations

- Change and Complexity
  - Environmental change occurs in two ways:
    - Degree to which change in environment is occurring
    - Degree of homogeneity or complexity of the environment
  - Uncertainty
    - A driving force that influences organizational decisions.

# Figure 3.4: Environmental Change, Complexity, and Uncertainty



**Figure 3.4**

## ENVIRONMENTAL CHANGE, COMPLEXITY, AND UNCERTAINTY

*The degree of homogeneity and the degree of change combine to create uncertainty for organizations. For example, a simple and stable environment creates the least uncertainty, and a complex and dynamic environment creates the most uncertainty.*

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