

Organization cultures and contexts

- The environments of managing
- Cultures and their components
- Types of culture
- Competitive environment – Porter's five forces
- General environment – PESTEL analysis
- Degrees of complexity and change
- Stakeholders and their influence

Environmental influences

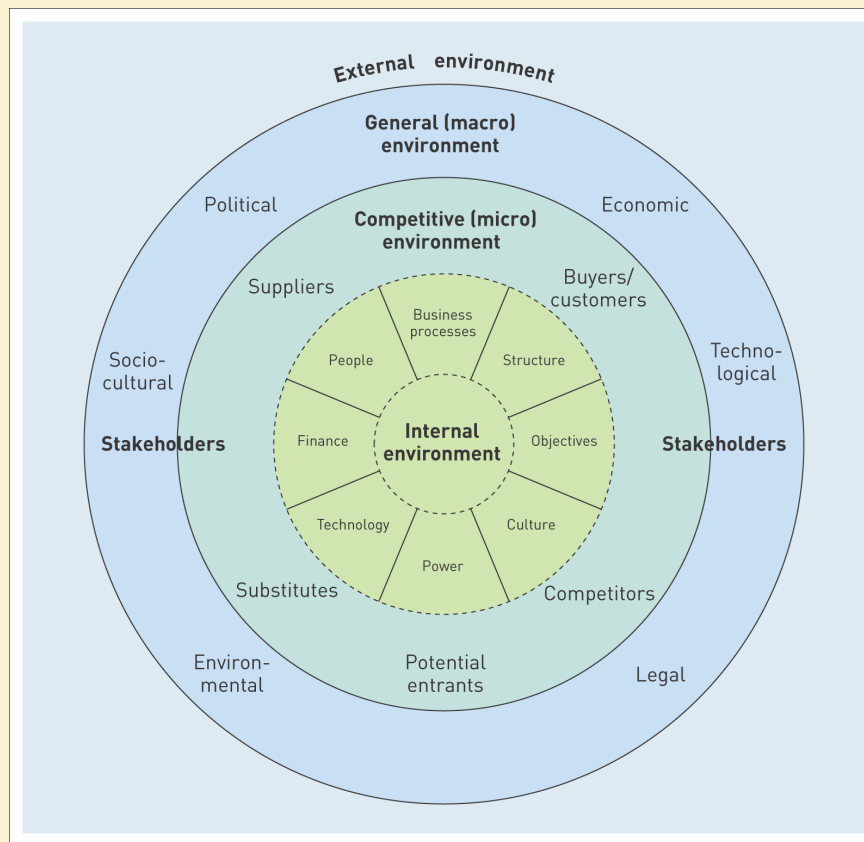


Figure 3.1 Environmental influences on organisations

The environment

- The inner circle represents the organization's internal environment or context. That includes its culture,...
- Beyond that is the immediate competitive environment, sometimes called the micro-environment. That includes its costumers,...
- The outer circle shows the general environment, sometimes called the macro-environment (ex. political, economic,...).

Organizational cultures

- The right culture explains the success of high-performing organizations.
- Culture is the way we do things around here (Deal e Kennedy, 1982)
- Schein (1985): Culture develops as people work together, and develop a set of beliefs about what works, which is transmitted to successive generations (Fig. 3.2).

How culture develops

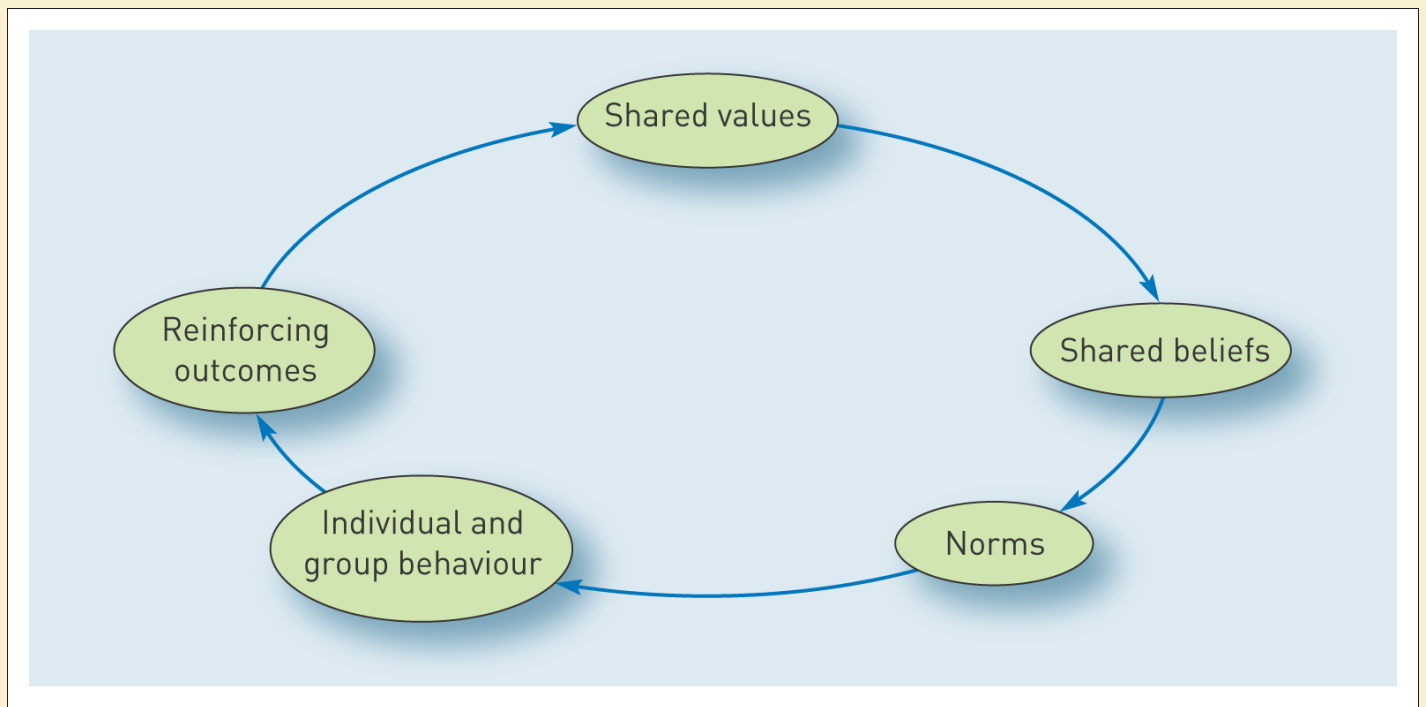


Figure 3.2 The stages of cultural formation

Components of culture

- Artifacts
 - Visible level: dress, language, architecture (open-plan offices, private offices),...
- Espoused beliefs and values
 - How people make decisions, how teams work together, how they solve problems.
- Basic underlying assumptions
 - Deeply held ideas about the way people work together, and the sources of their success

Competing values framework

- Quinn (1981) created a model to understand what makes organizations effective. The competing values framework has been studied and tested in organizations for more than 25 years.

Types of culture (Quinn *et al.*, 2003)

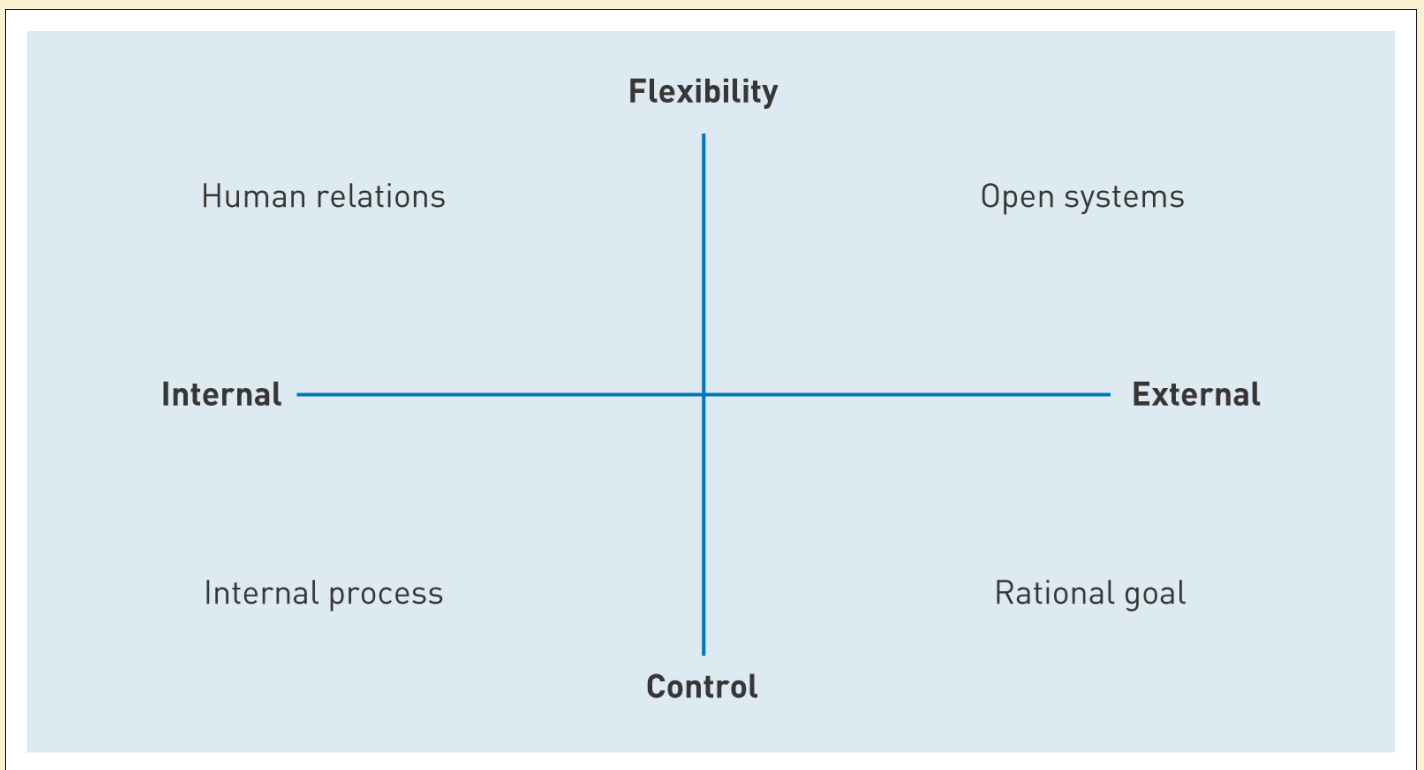


Figure 3.3 Types of organisational culture

Source: Based on Quinn *et al.* (200)

Competing values framework

- Some organizations were effective if they demonstrated flexibility and adaptability, but other organizations were effective if they demonstrated stability and control.
- Some organizations are viewed as effective if they are changing, adaptable and organic, ex. Microsoft, Nike.
- Other organizations are viewed as effective if they are stable, predictable, and mechanistic, ex. universities, government agencies.

Competing values framework

- Some organizations were effective if they maintained efficient internal processes whereas others were effective if they maintained competitive positioning relative to costumers and clients.
- Some organizations have a great value associated with their harmonious internal characteristics, ex. Dell has been recognized for being consistent.

Competing values framework

- Other organizations have created value primarily by focusing on challenging or competing with others outside their boundaries, Toyota and Honda, thinking globally but acting locally.

Types of culture (Quinn *et al.*, 2003)

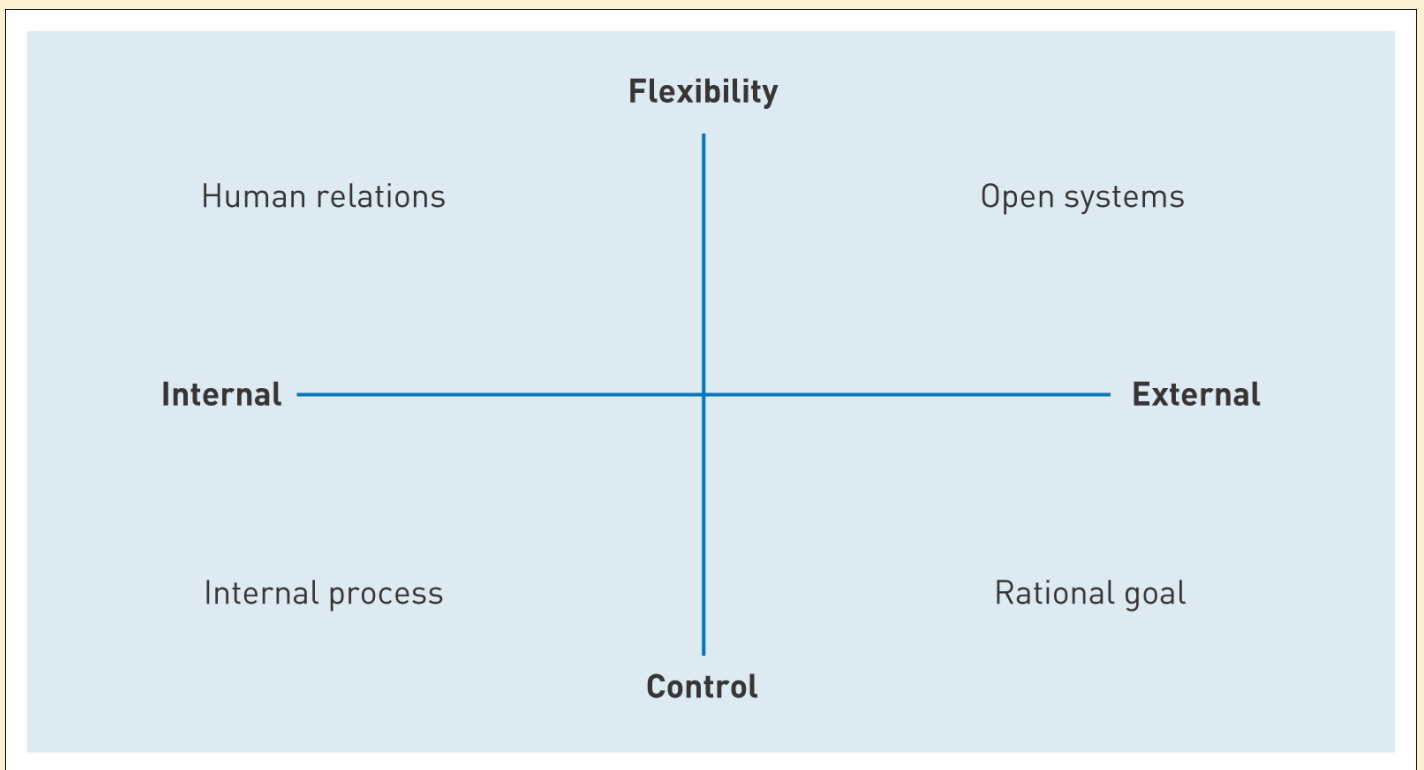


Figure 3.3 Types of organisational culture

Source: Based on Quinn *et al.* (200)

Competing values framework

- Open systems. People recognize that the external environment plays a significant role, and is vital source of ideas, energy and resources. People see the environment as complex and turbulent. Ex. start-up companies.
- Rational goal. People see the organization as a rational, efficiency-seeking unit. Managers create structures to deal with outside world. Ex. large, established business.

Competing values framework

- Internal process. Members focus on internal matters. Their goal is to make the unit efficient, stable and controlled. Tasks are repetitive and methods stress specialization, rules and procedures. Motivating factors include security, stability and order. Ex. Utilities and public authorities.

Competing values framework

- Human relations. Members emphasize the value of informal interpersonal relations rather than formal structures. People define effectiveness in terms of their well-being and commitment. Motivating includes attachment, cohesiveness and membership. Ex. Voluntary groups, professional service firms.

Why study the environment of managing?

- Organisations depend on their environment for inputs and to take outputs
- Managers act on assumptions about:
 - their organization
 - competitive environment
 - general environment
 - stakeholders
- These assumptions affect what they do

External forces

- Competitive environment
- General environment
- Stakeholders
- Managers
 - interpret these forces (not objective realities)
 - respond by changing internal environment

Porter's five forces micro environment

- **Porter's five forces** is a framework for the industry analysis and business strategy development. It uses concepts developing, Industrial Organization (IO) economics to derive five forces that determine the competitive intensity and therefore attractiveness of a market.

Porter's five forces

- The competitive structure of an industry can be analyzed using Porter's five forces.
- This model attempts to analyze the attractiveness of an industry by considering five forces within a market.
- According to Porter (1980) the likelihood of firms making profits in a given industry depends on five factors.



Intensity of Rivalry Amongst Competitors

This measures the degree of competition between existing firms. The higher the degree of rivalry the more difficult it is for existing firms to generate high profits.

Intensity of Rivalry Amongst Competitors

- Rivalry increases when
 - many firms, but none dominant
 - market growing slowly, so firms fight for share
 - high fixed costs encourage overproduction

Threat of new entrants

The likelihood of new entry i.e. the extent to which barriers to entry exist. The more difficult it is for other firms to enter a market the more likely it is that existing firms can make relatively high profits.

Threat of new entrants

- Affected by entry barriers such as
 - high costs of equipment and facilities
 - lack of distribution facilities
 - customers loyal to established brands
 - small companies lack economies of scale
 - e.g. Patent-protected drugs, presentation software

Bargaining power of buyers (customers)

The stronger the power of buyers in an industry the more likely it is that they will be able to force down prices and reduce the profits of firms that provide the product.

Bargaining power of buyers (customers)

- Power of buyer increases if:
 - Buyer takes high percentage of supplier's sales
 - Many alternative products

Bargaining power of suppliers

The stronger the power of supplier in a industry the more difficult it is for firms within that sector to make a profit because suppliers can determine the terms and conditions on which business is conducted.

Bargaining power of suppliers

- Power of supplier is high if:
 - Few alternative products or suppliers (distinctive product keeps buyers loyal) available
 - Cost of switching suppliers high

Substitutes

This measures the ease with which buyers can switch to another product that does the same thing e.g. aluminum cans rather than glass or plastic bottles.

- Substitution becomes easier if:
 - Buyers willing to change buying habits
 - Technological developments enable new products and services

Managing the five forces

- The implication of Porter's analysis for managers is that they should examine these five factors before choosing an industry to move into. They should also consider ways of changing the five factors to make them more favorable.

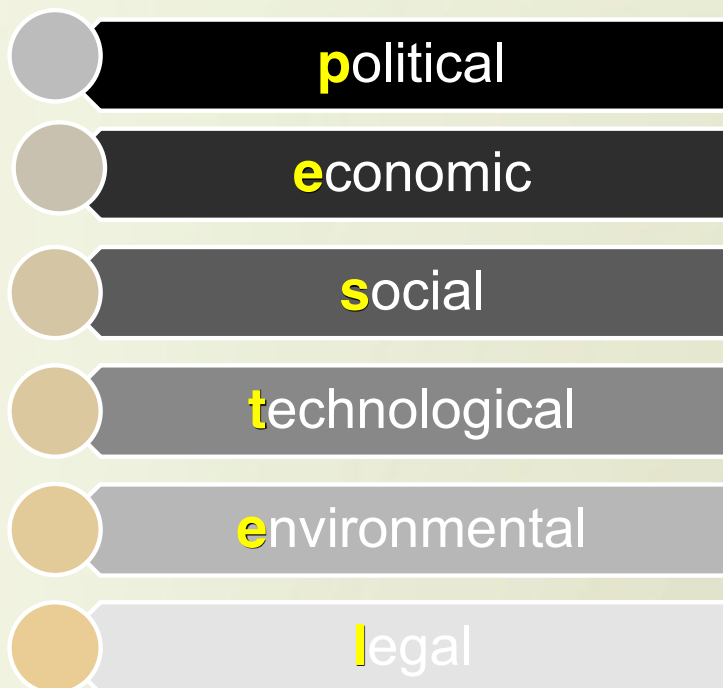
Managing the five forces

- As ever the business world is not static and the conditions in any industry will always be changing. As this happens the various elements of the five forces are always shifting requiring established firms and potential entrants to review their strategies.

PESTEL analysis macro-environment

- There are many factors in the macro-environment that will effect the decisions of the managers of any organization. Tax changes, new laws, trade barriers, demographic change and government policy changes are all examples of macro change. To help analyze these factors managers can categories them using the PESTEL model.

Is a technique for identifying and listing the:



factors in the general environment most relevant to an organisation

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General environment

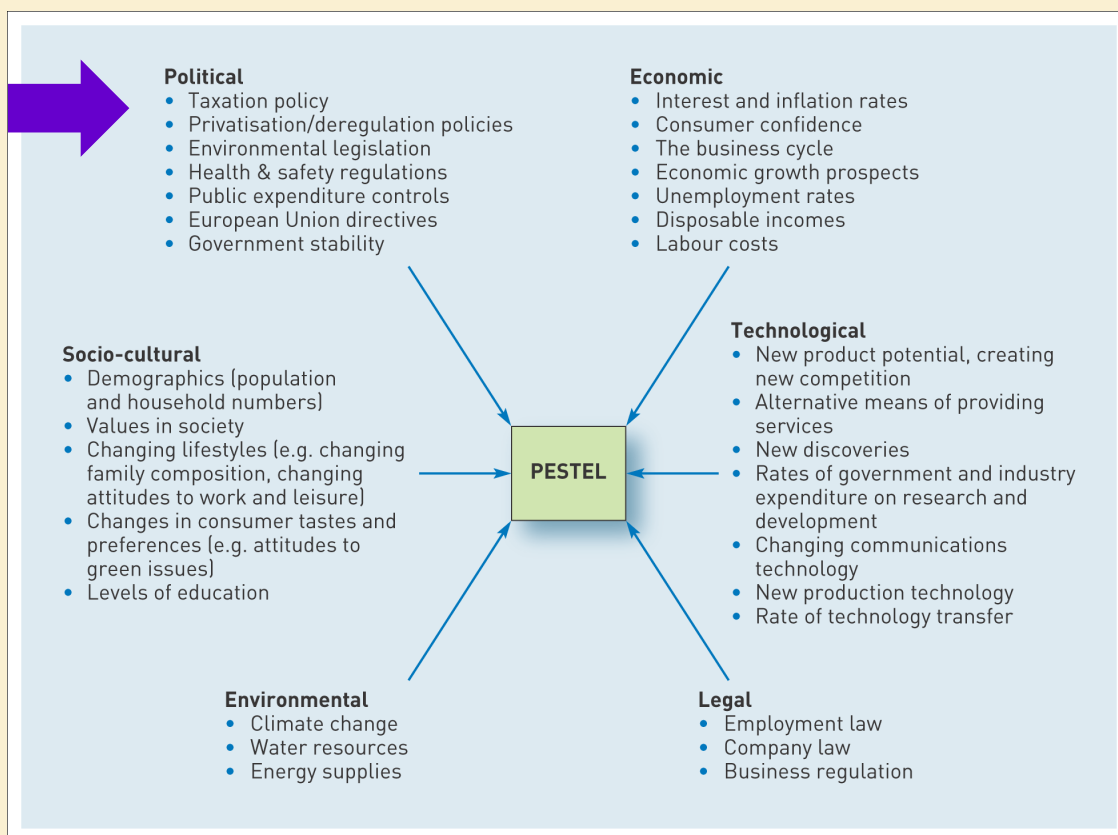


Figure 3.5 Identifying environmental influences – PESTEL analysis

Political

These refer to government policy such as the degree of intervention in the economy. What goods and services does a government want to provide? To what extent does it believe in subsidizing firms?

Political

What are its priorities in terms of business support? Political decisions can impact on many vital areas for business such as the education of the workforce, the health of the nation and the quality of the infrastructure of the economy such as the road and rail system.

General environment

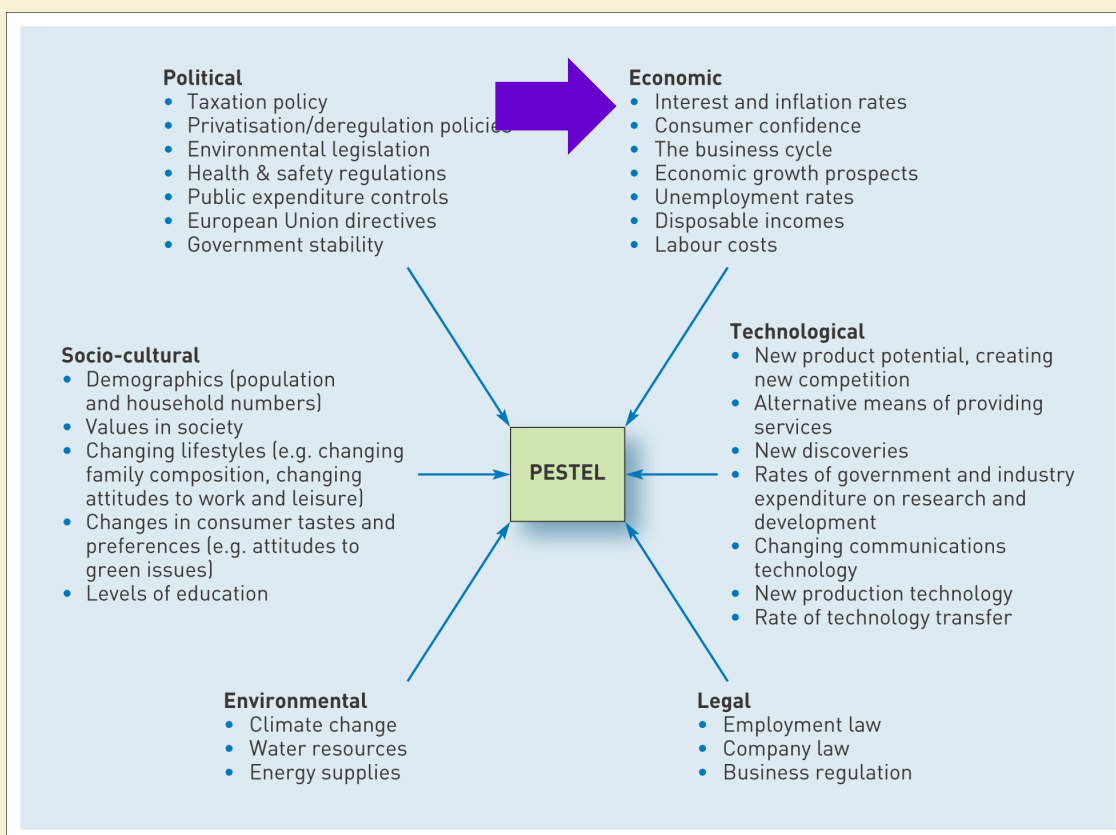


Figure 3.5 Identifying environmental influences – PESTEL analysis

Economic

These include interest rates, taxation changes, economic growth, inflation and exchange rates.

Economic

For example:

- a strong currency may make exporting more difficult because it may raise the price in terms of foreign currency
- inflation may provoke higher wage demands from employees and raise costs
- higher national income growth may boost demand for a firm's products

General environment

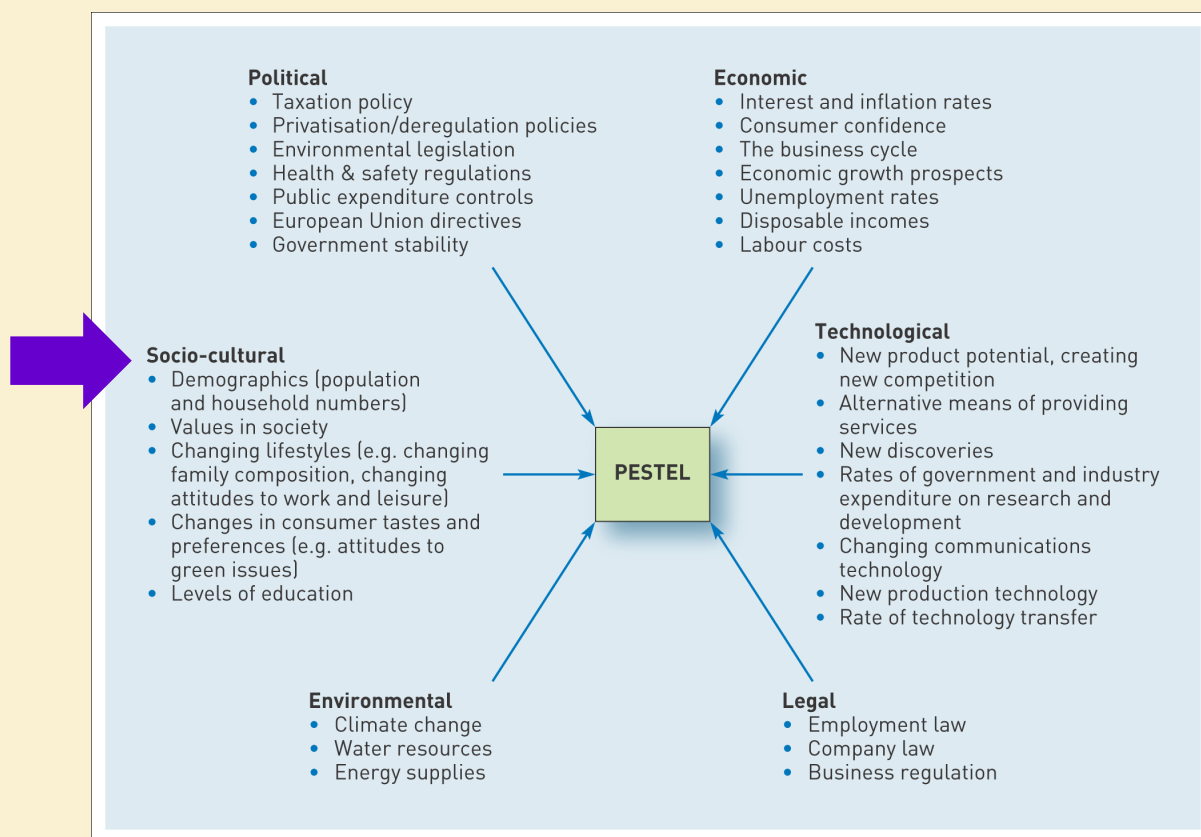


Figure 3.5 Identifying environmental influences – PESTEL analysis

Social

Changes in social trends can impact on the demand for a firm's products and the availability and willingness of individuals to work. In the UK, for example, the population has been ageing. This has increased the costs for firms who are committed to pension payments for their employees because their staff are living longer.

Social

The ageing population also has impact on demand: for example, demand for sheltered accommodation and medicines has increased whereas demand for toys is falling.

General environment

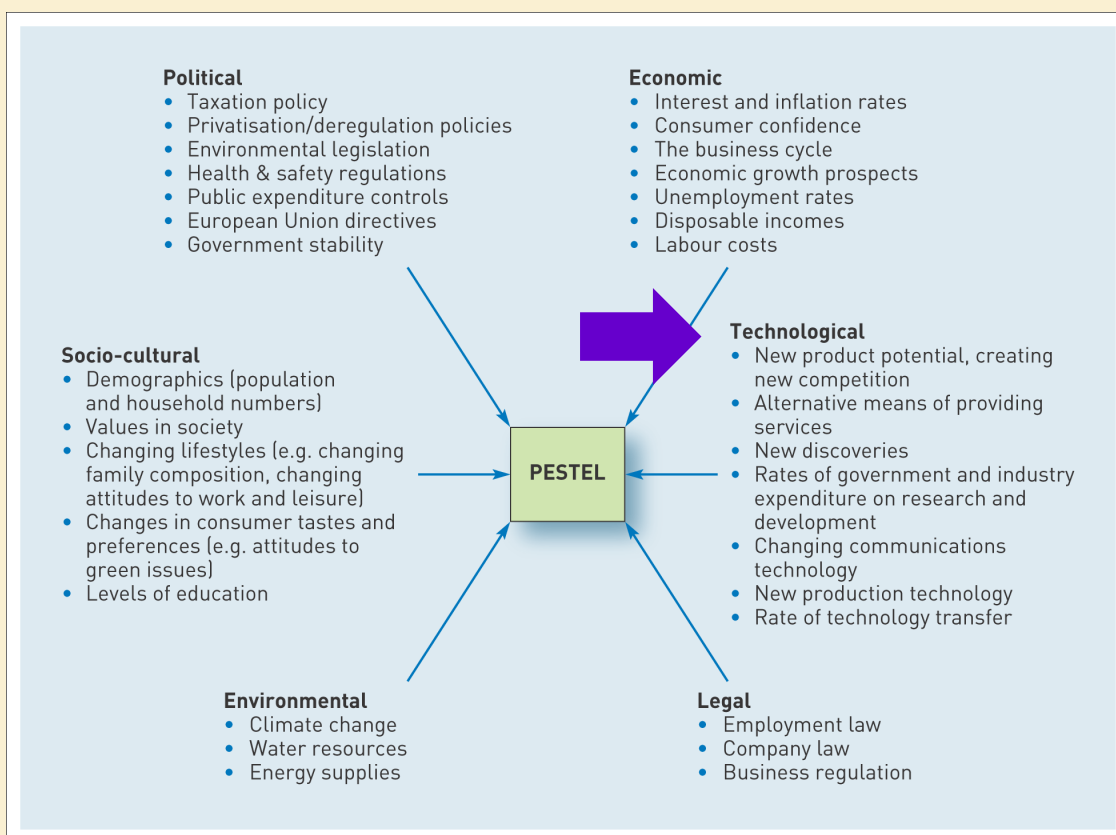


Figure 3.5 Identifying environmental influences – PESTEL analysis

Technological

New technologies create new products and new processes. MP3 players, computer games, online gambling and high definition TVs are all new markets created by technological advances.

Technological

Online shopping, bar coding and computer aided design are all improvements to the way we do business as a result of better technology.

Technology can reduce costs, improve quality and lead to innovation. These developments can benefit consumers as well as the organizations providing the products.

General environment

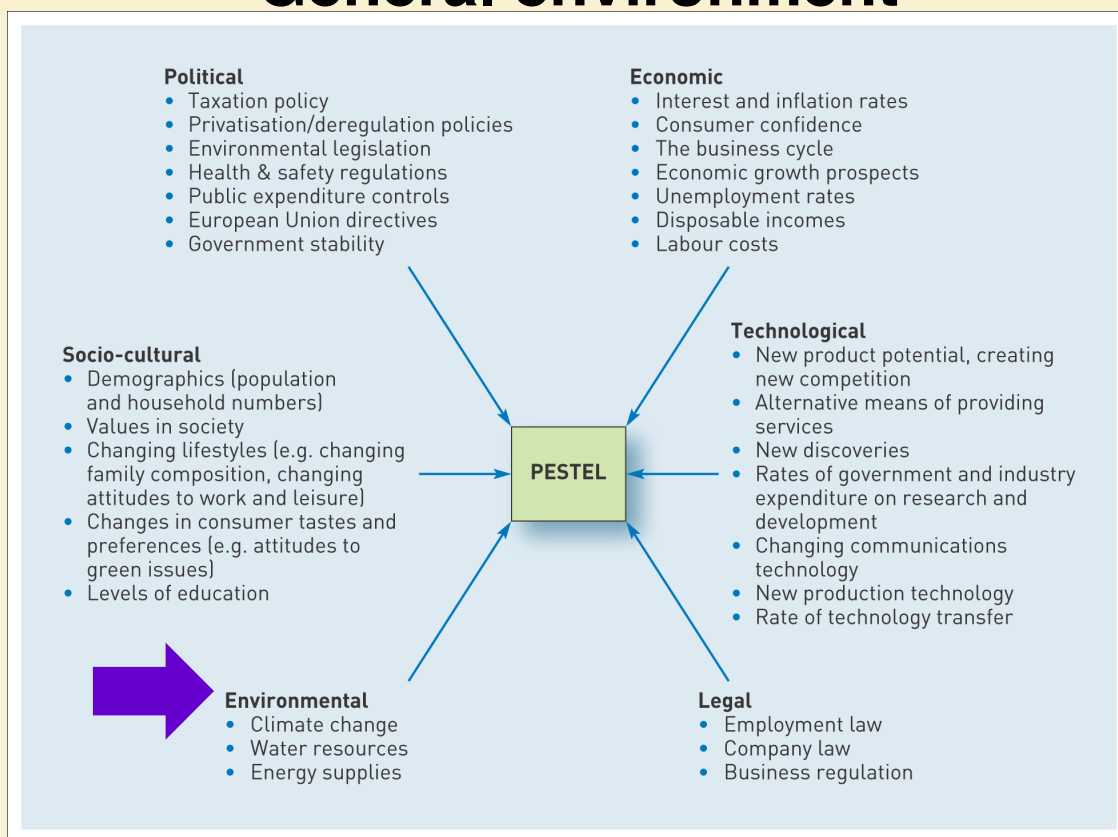


Figure 3.5 Identifying environmental influences – PESTEL analysis

Environmental

Environmental factors include the weather and climate change. Changes in temperature can impact on many industries including farming, tourism and insurance. With major climate changes occurring due to global warming and with greater environmental awareness this external factor is becoming a significant issue for firms to consider.

General environment

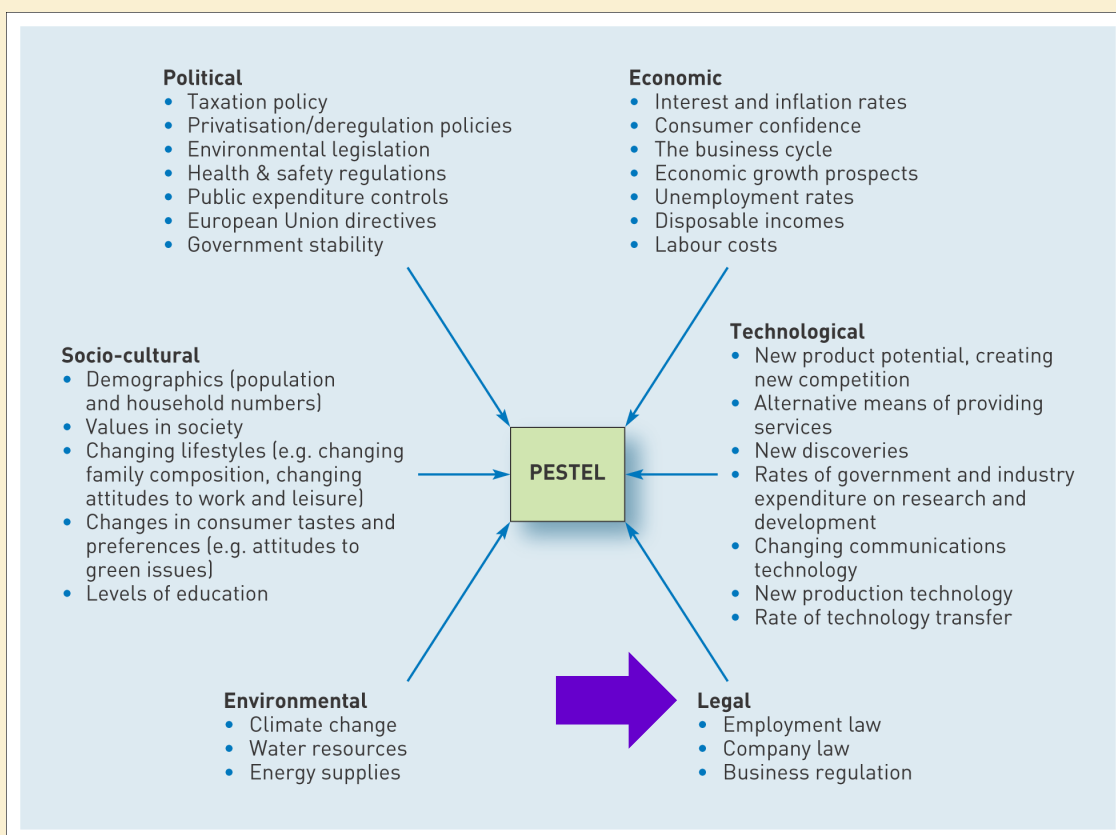


Figure 3.5 Identifying environmental influences – PESTEL analysis

Legal

These are related to the legal environment in which firms operate. In recent years in the UK there have been many significant legal changes that have affected firms' behavior. The introduction of age discrimination and disability discrimination legislation, an increase in the minimum wage and greater requirements for firms to recycle are examples of relatively recent laws that affect an organization's actions.

Using PESTEL

What managers need to do is to think about which factors are most likely to change and which ones will have the greatest impact on them i.e. each firm must identify the key factors in their own environment. For some such as pharmaceutical companies government regulation may be critical; for others, perhaps firms that have borrowed heavily, interest rate changes may be a huge issue.

Using PESTEL

Complexity refers to the number of factors that people take into consideration when making a decision (PESTEL factors and knowledge required).

Dynamism refers to the degree to which these factors remain the same or change (frequency of change in PESTEL factors)

Change and complexity

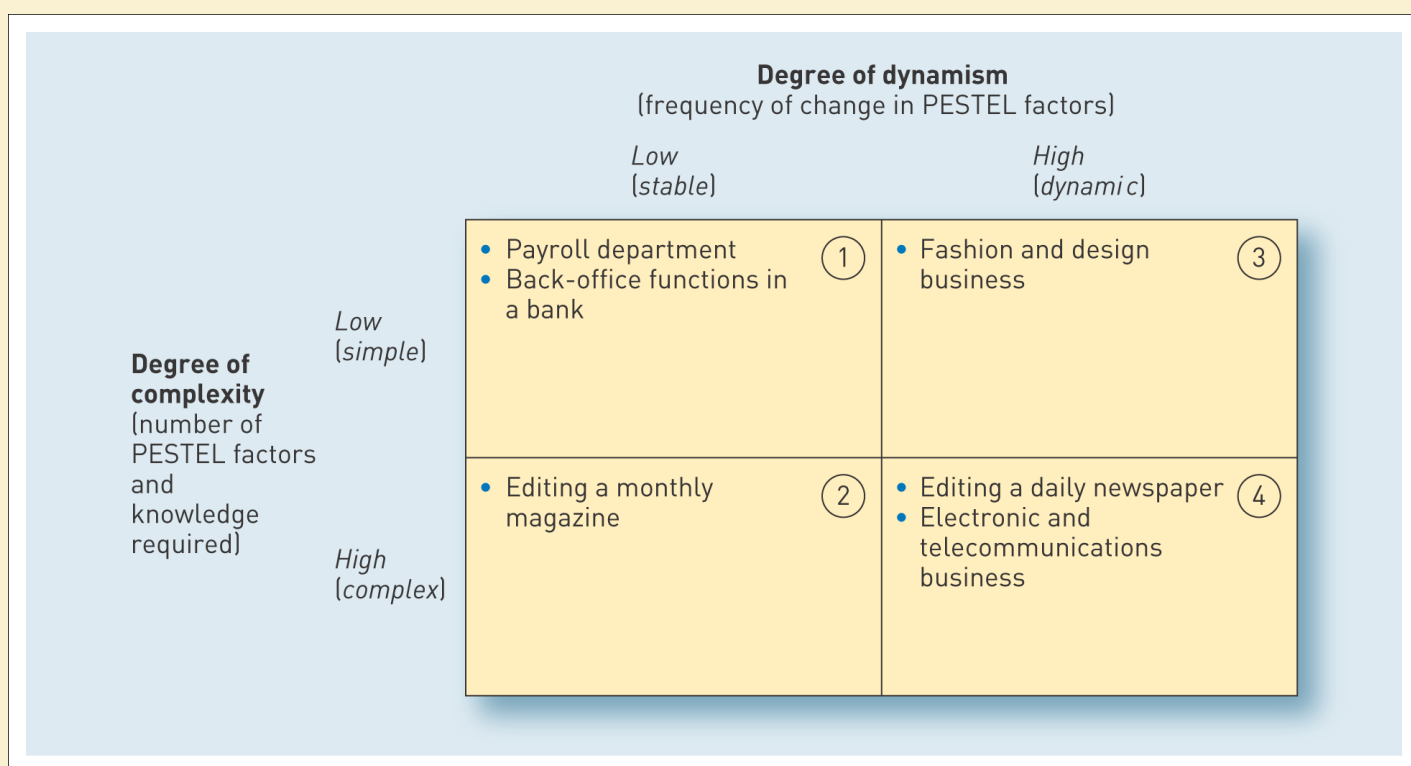
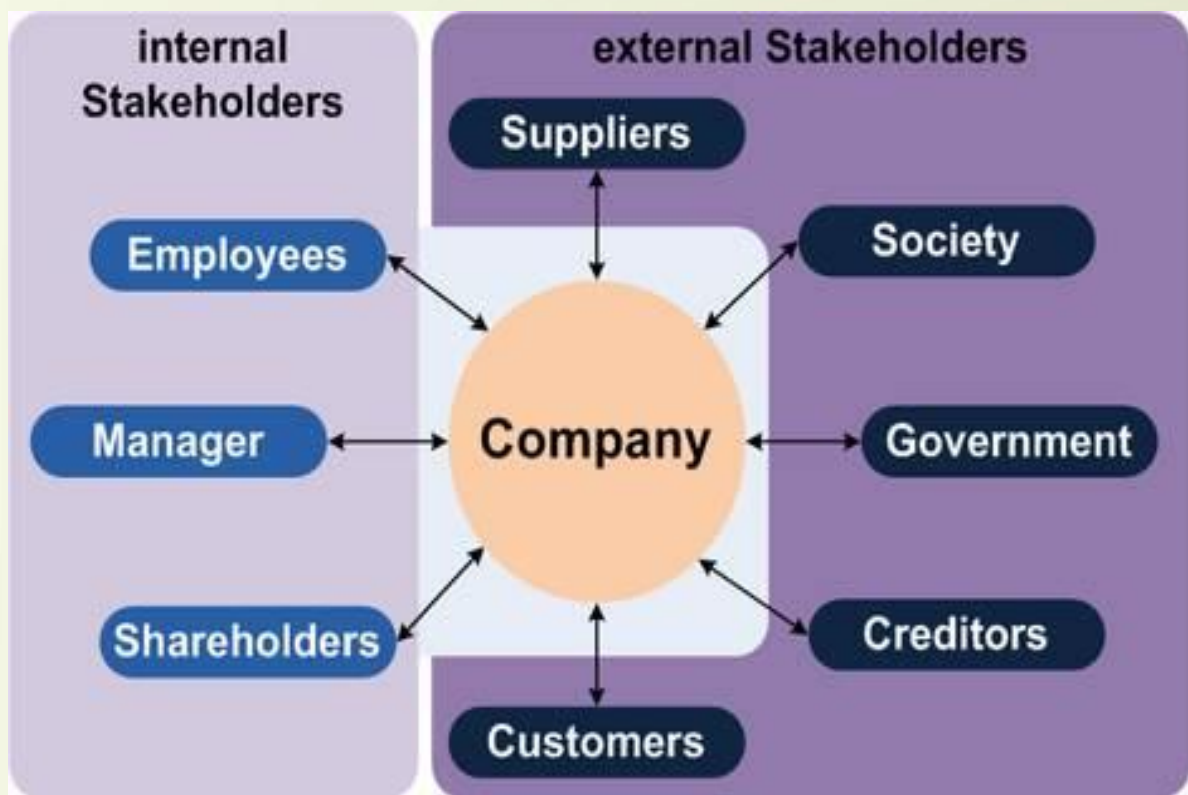


Figure 3.6 Types of environment

Stakeholders

- Who are the stakeholders?

Key stakeholders in a business organization include creditors, customers, directors, employees, government (and its agencies), owners (shareholders), suppliers, unions, and the community from which the business draws its resources.



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Stakeholders

- How to manage these conflicting interests?
 - Campbell – balance all stakeholders
 - Argenti – satisfy shareholders
 - A pragmatist – satisfy powerful stakeholders
- Evaluate their relative power (Fig. 3.8)

Stakeholders

- Interest in the issue or activity
- Power to influence the outcomes of the issue or activity.

Stakeholder mapping

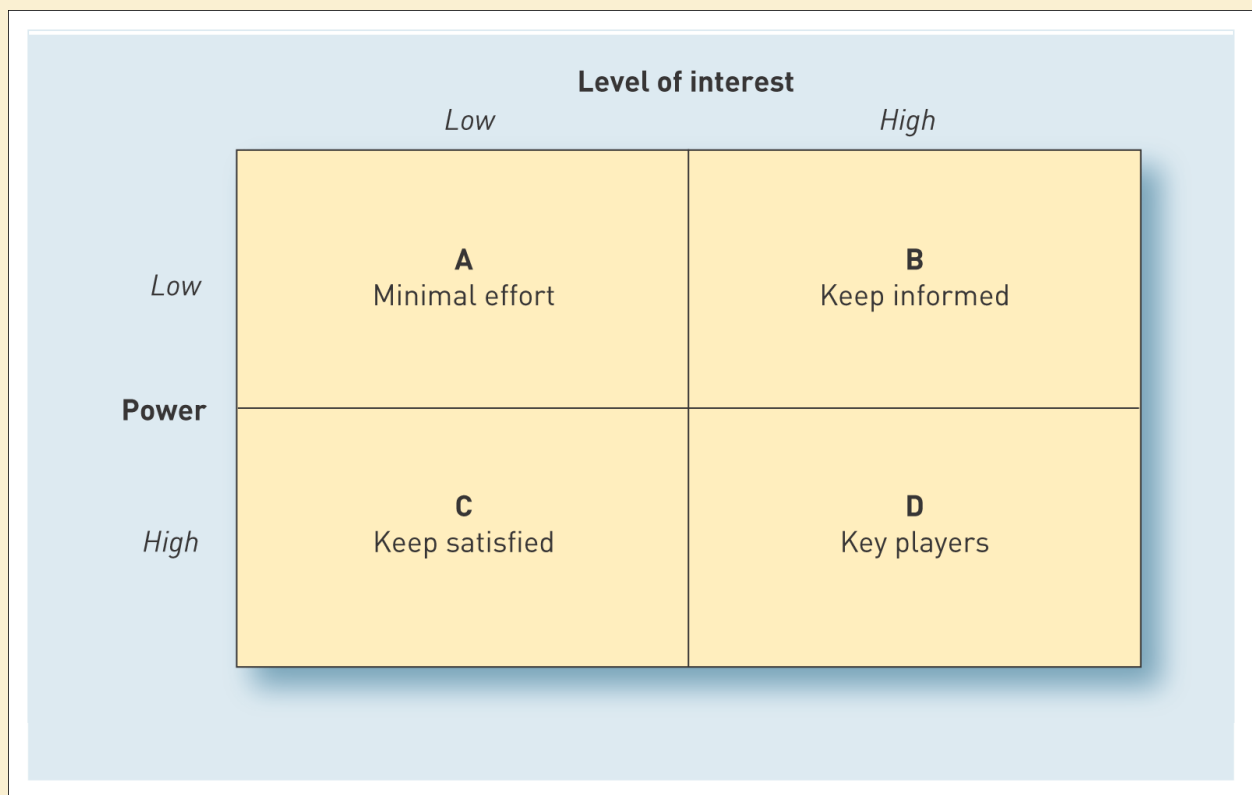


Figure 3.8 Stakeholder mapping – the power – interest matrix

Stakeholders

- Those with both a high level of interest in the issue and high power to influence the outcome are the key players whom the organization must seek to satisfy.

Stakeholders

- Completing that grid helps to determine which stakeholders are the most important to keep on board when taking major decisions.