3

Organizations and Organizational Environment

Types of property

- Property – any tangible or intangible entity, which is owned by a person, group of people, or a legal entity, such as corporation

2 generally accepted types of property: **tangible** and **intangible**

Tangible – anything you can touch, real (or immovable) property + personal (moveable property).

Factory and machinery in Korea, is a tangible property of GM

Intangible – property that is owned and can be transferred to other entities, but has no physical substance.

Engine and car design, patents – is an intangible property of GM

Companies – are property

- **Private business**
  - A company that is owned by one or more individuals who share liability
- **Public business**
  - A company, which is traded on the stock exchange
- **Governmentally owned business**
  - A company, where major stakeholder is government

Private business

- A business that is owned by non-government organization or by a relatively small number of shareholders

- Types of private businesses
  - Sole proprietorship
  - Partnership – managed by several partners
  - Corporation – managed by managers, appointed by the Board

- Most of the time it’s LLC (limited liability company, or TOB in Ukraine)
  - Owners bear a limited liability, meaning they will share losses and profits on the degree, they establish in the founding documents

Public business (public company)

- Limited liability company, that offers securities(shares, stocks) in the open market.

- Any person can buy “a piece of ownership” through a stock exchange

- Every person, that buys shares of the company bears no commercial liability, but has an opportunity to share profits via dividends, however not all companies pay dividends.

Government business

- An enterprise, where the majority of the ownership belongs to the government
- Usually a natural monopoly like oil&gas, any natural resources or a sector of strategic interest (Naftogaz, Oblenergos, Ukrspetsexport)
- Rarely consumer services business – in Ukraine – Ukrzaliznytsya, Oshchadbank; in US – Fannie Mae, Farmer Mac

Organizational Environment

- ***Organizational Environment:*** **those forces outside its boundaries that can impact it.**
  - Forces can change over time and are made up of Opportunities and Threats.
- ***Opportunities:*** **openings for managers to enhance revenues or open markets.**
  - New technologies, new markets and ideas.
- ***Threats:*** **issues that can harm an organization.**
  - economic recessions, oil shortages.
- **Managers must seek opportunities and avoid threats.**

Forces in the Organizational Environment

Figure 3.1

Task Environment

- ***Task Environment:*** forces from suppliers, distributors, 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

- ***Distributors:*** organizations that help others to sell goods.
  - Compaq Computer first used special computer stores to sell their computers but later sold through discount stores to reduce costs.
  - Some distributors like Wal-Mart have strong bargaining power.
    - They can threaten not to carry your product.
- ***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.

Industry Life Cycle

- **Reflects the changes that take place in an industry over time.**
- ***Birth stage:*** **firms seek to develop a winning technology.**
  - VHS vs. Betamax in video, or 8-track vs. cassette in audio.
- ***Growth stage:*** **Product gains customer acceptance and grows rapidly.**
  - New firms enter industry, production improves, distributors emerge.

- ***Shakeout stage:*** **at end of growth, there is a slowing customer demand.**
  - Competitor rivalry increases, prices fall.
  - Least efficient firms fail and leave industry.
- ***Maturity stage:*** **most customers have bought the product, growth is slow.**
  - Relationships between suppliers, distributors more stable.
  - Usually, industry dominated by a few, large firms.
- ***Decline stage:*** **falling demand for the product.**
  - Prices fall, weaker firms leave the industry.

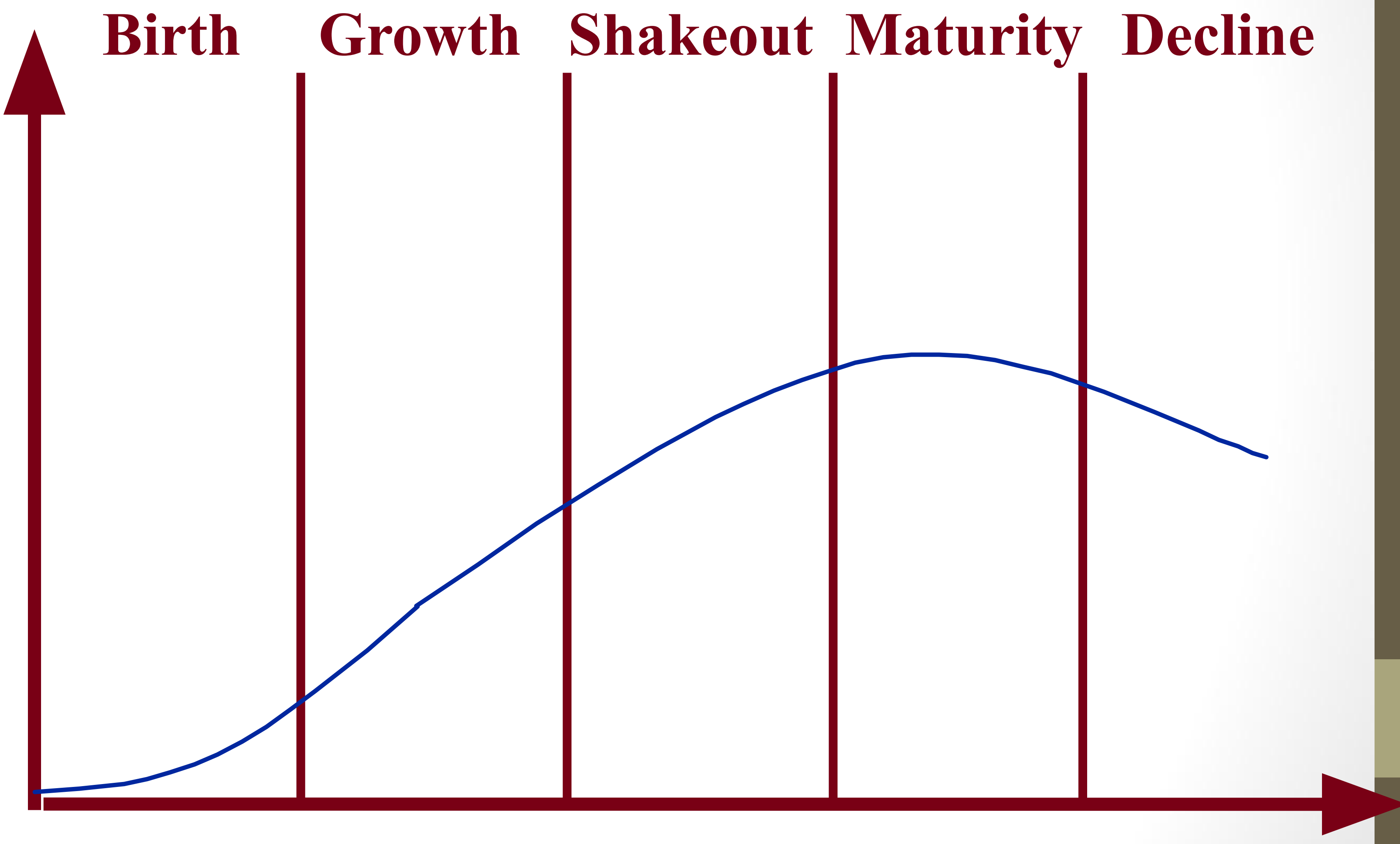
The General Environment

- **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.
- ***Socialcultural forces:*** **result from changes in the social or national culture of society.**
  - 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.

The Industry Life Cycle

Figure 3.3



- ***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.

Managing the Organization Environment

- **Managers must measure the complexity of the environment and rate of environmental change.**
- ***Environmental complexity:*** **deals with the number and possible impact of different forces in the environment.**
  - Managers must pay more attention to forces with larger impact.
  - Usually, the larger the organization, the greater the number of forces managers must oversee.
- **The more forces, the more complex the manger's job becomes.**

- ***Environmental change:*** **refers to the degree to which forms in the task and general environments change over time.**
  - Change rates are hard to predict.
  - The outcomes of changes are even harder to identify.
- **Managers thus cannot be sure that actions taken today will be appropriate in the future given new changes.**

Reducing Environmental Impact

- **Managers can counter environmental threats by reducing the number of forces.**
  - Many firms have sought to reduce the number of suppliers it deals with which reduces uncertainty.
- **All levels of managers should work to minimize the potential impact of environmental forces.**
  - Examples include reduction of waste by first line managers, determining competitor’s moves by middle managers, or the creation of a new strategy by top managers.

Organizational Structure

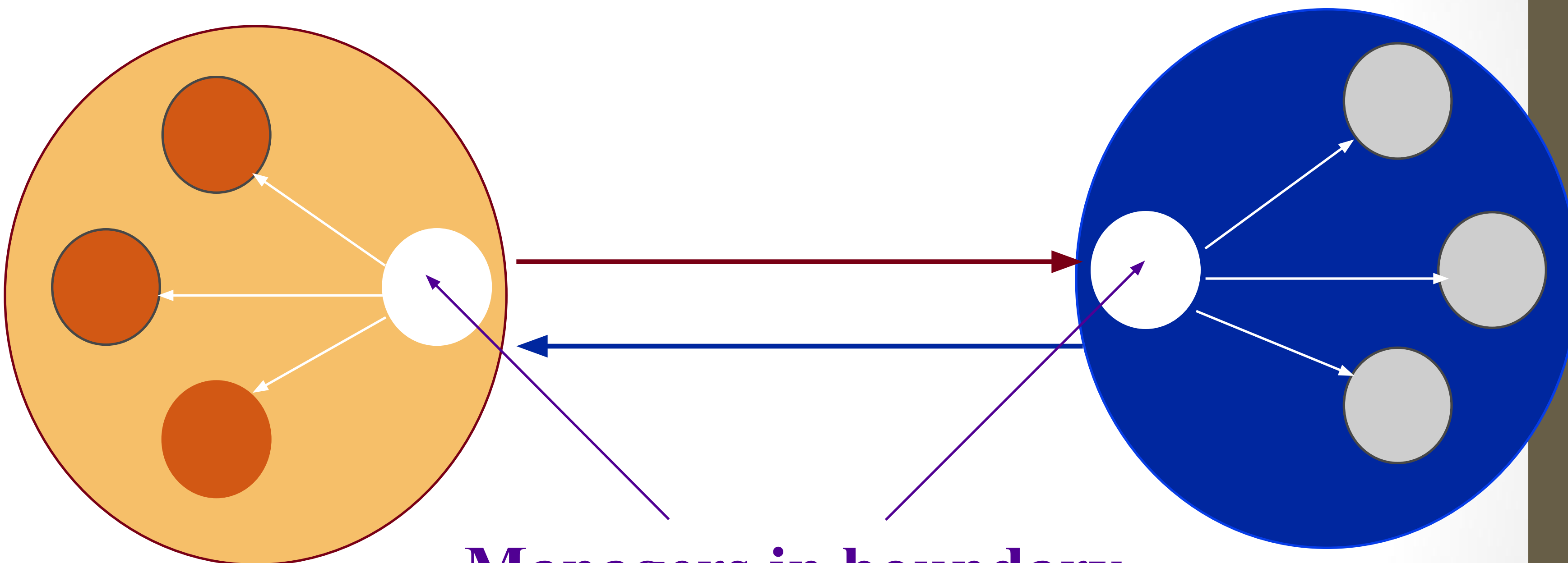
- **Managers can create new organizational structures to deal with change.**
  - Many firms use specific departments to respond to each force.
- **Managers also create mechanistic or organic structures.**
  - Mechanistic structures have centralized authority.
    - Roles are clearly specified.
    - Good for slowly changing environments.
  - Organic structures authority is decentralized.
    - Roles overlap, providing quick response to change.

Boundary Spanning

- **Managers must gain access to information needed to forecast future issues.**
  - Rod Canion's forecast of Compaq's future was wrong due to his incorrect view of the environment.
- **Boundary spanning** is the practice of relating to people outside the organization.
  - Seek ways to respond and influence stakeholder perception.
  - By gaining information outside, managers can make better decisions about change.
- More management levels involved in spanning, yields better overall decision making.

Boundary Spanning Roles

Figure 3.5



Managers in boundary spanning roles feedback information to other managers

Scanning and Monitoring

- **Environmental scanning is an important boundary spanning activity.**
  - Includes reading trade journals, attending trade shows, and the like.
- **Gatekeeping: the boundary spanner decides what information to allow into organization and what to keep out.**
  - Must be careful not to let bias decide what comes in.
- **Interorganizational Relations: firms need alliances globally to best utilize resources.**
  - Managers can become agents of change and impact the environment.

Change as a 2-way Process

Figure 3.6