

Topic 1

Study Unit 3

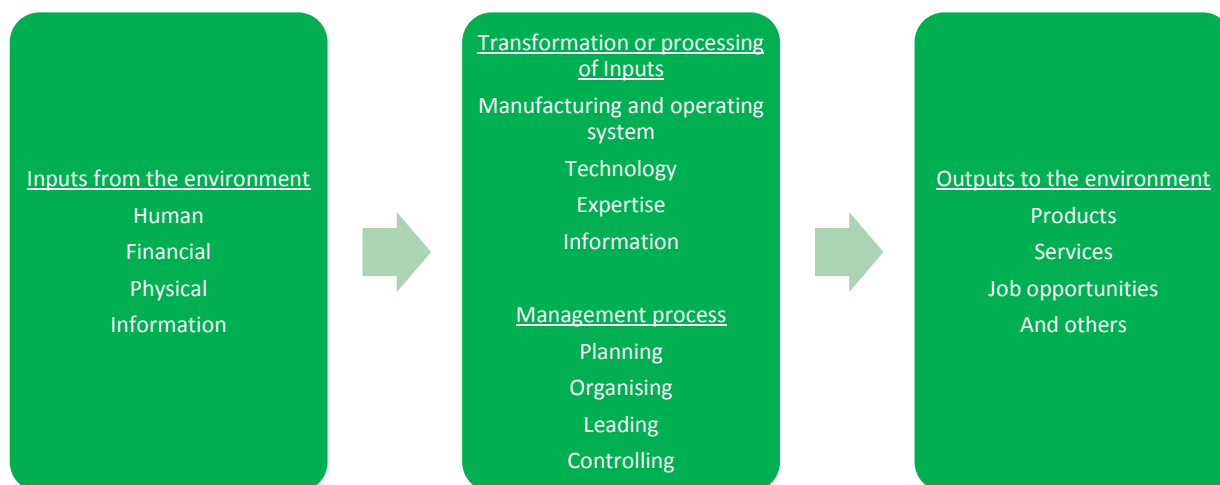
Managers cannot manager their organizations effectively if they do not:

- Understand the relationship between the organization and its environment
- The threats and opportunities that exist in the environment
- The trends that appear and disappear
- How all of these form part of a broad environmental system

Concepts of Systems Theory

The Organization as a sub-system of its environment

- A system can be defined as a set of interrelated elements (sub-systems) functioning as a whole
- A business organization is a system that operates in a specific environment
- Business organizations are not self-sufficient, nor are they self-contained
- They exchange resources with and are dependent on the external environment in which they operate
- The organization and its environment depend on each other for survival.



The transformation process: the activity of processing inputs from the environment into products and services for the environment – constitutes the field of study of management. The transformation process is carried out by the organization as a sub-system of its environment.

The systems approach in Management

There are 4 basic concepts that must be understood when explaining systems theory and presenting the business organization as an independent system:

- An Open System (as opposed to a closed system)
 - A system is closed when it is self supporting and can exist independently of a particular environment.
 - A system is open if:
 - It is dependent on the environment in which it operates
 - The environment is dependent on the system
 - There is specific interaction between system and environment
- Sub-Systems
 - A system within a system
 - Examples:
 - Marketing
 - Operations
 - Human Resources
 - Finance Functions
- Entropy
 - The process of systems disintegration
 - Synergy – The opposite of Entropy
 - The whole is greater than the sum of its parts
 - The individual sub-systems are simultaneously applied in such a way that the result of their simultaneous application is greater than the sum of their individual efforts

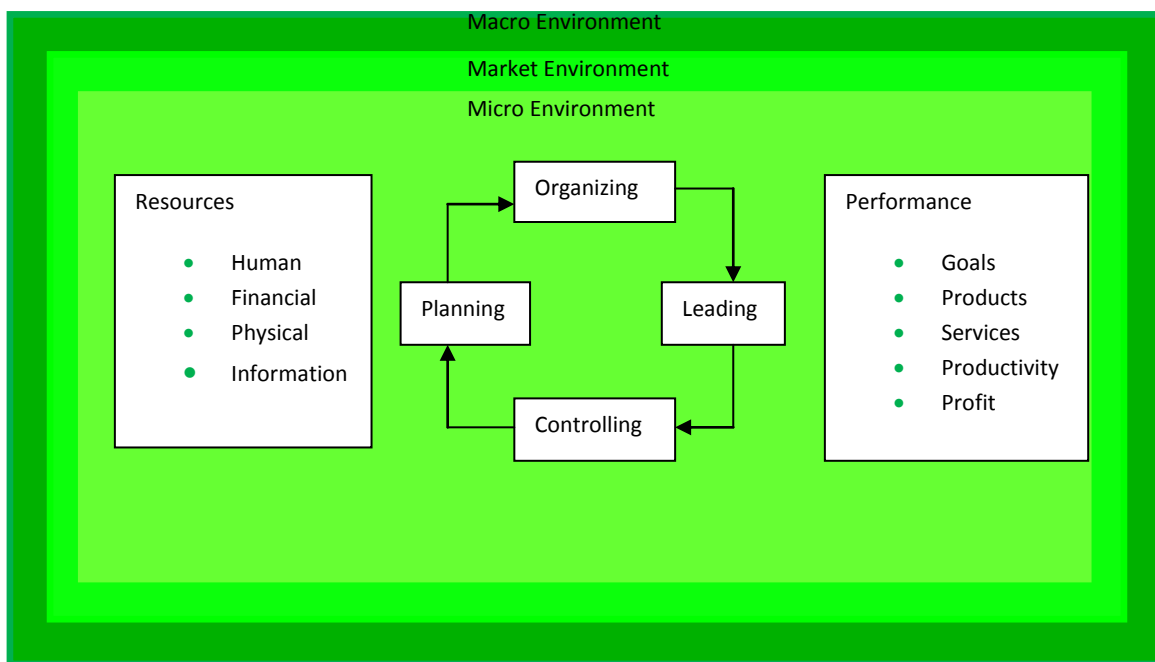
The effect of the **interrelationship between the environment variables** is that a **change in one variable may cause a change in other variables.**

The Composition of the Management Environment

The management environment is defined as all those factors or variables, both inside and outside of the organization that may influence the continued and successful existence of the organization.

The Business environment comprises of the:

- Macro Environment (external environment)
- Market Environment (external environment)
- Micro Environment (internal environment)



The main characteristics of the management/business environment are:

- The **interrelatedness of environmental factors** or variables
- **Increasing instability**
- **Environmental Uncertainty** – this is a function of the amount of information available as well as the confidence that management has in that information
- The **Complexity of the environment** – relates to the number of external variables to which the organization must react as well as fluctuations in the variables themselves
- The environment is becoming **unpredictable**

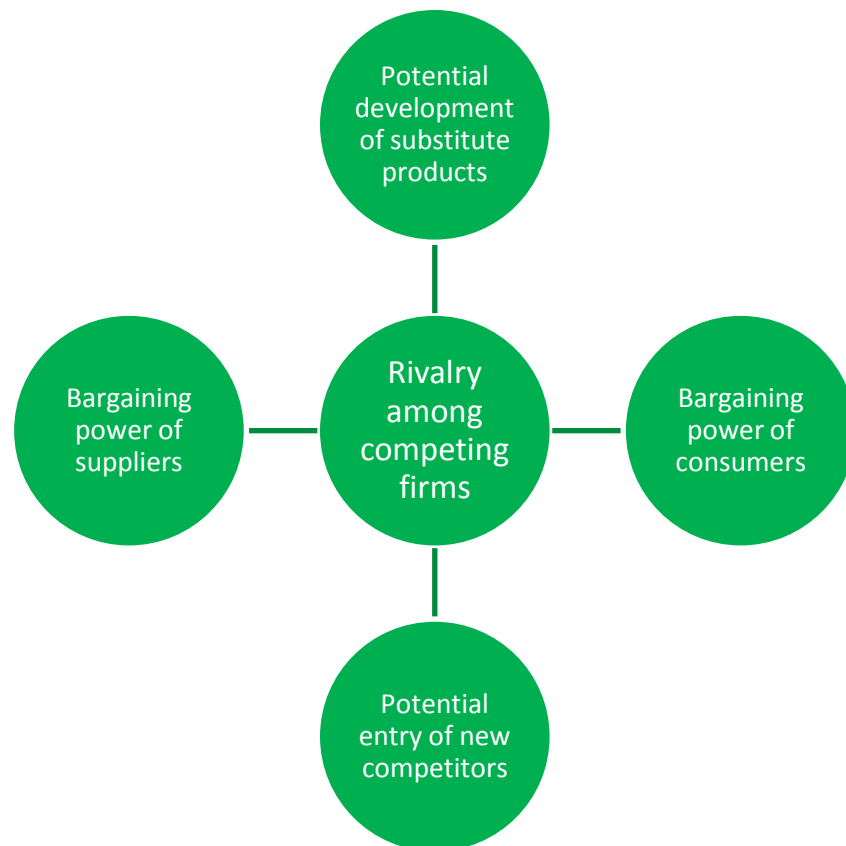
The Internal or Micro Environment

- Consists of four variables:
 - The mission, goals, objectives and strategies of the organization
 - The organization and its management
 - The resources of the organization
 - The organizational culture
- It is the main environment in which management operates
- The internal environment can be described in terms of the organization's:
 - Functional departments (finance, operations etc)
 - Resources (human, financial, physical, information)
 - Value-chain (primary and secondary activities)
- There are 2 different ways of looking at the internal environment
 - A structure that comprises functional departments
 - An environment that comprises the resources
- The value-chain approach – a chain of activities that must be performed to create a product or service, according to this approach an organization comprises:
 - Primary activities
 - Secondary activities

The Market or Task Environment

This is the environment that immediately surrounds the organization, it comprises the:

- Consumers – their needs, purchasing powers and behavior
- Suppliers of materials of capital and labor
- Intermediaries
 - Creates the utilities of place, time and ownership
 - wholesalers and retailers, commercial agents and brokers,
 - financial intermediaries such as banks
- Competitors
 - new entrants
 - existing competitors
 - availability of substitute products or services
 - bargaining power of clients, consumers and suppliers



- Labor unions
- Changes in the market are influenced directly by the variables in the macro-environment
 - Demographic trends – affect the number of consumers
 - Economic trends – determine the purchasing power
 - Cultural values – exert particular influence on the purchasing behavior of consumers
- Competition can be defined as a situation in the market environment in which different organizations with more or less the same product or service compete for the business patronage of the same consumers
 - Competition ensures:
 - Excessive profits are kept in check
 - Incentives are provided for higher productivity
 - Technological innovation is encouraged

Management must be sensitive to trends in the market environment to enable it to make the most of opportunities and to avoid possible threats timeously – the tools that management should use for this purpose are:

- Environmental scanning
- Information management

The Macro Environment

- Represents the uncontrollable environmental force, or “megatrends”
- There are 6 variables (PESTIE)
 - Political
 - Economic
 - Social
 - Technological (includes infrastructure)
 - International
 - Ecological

Political

- Consists of government and its influence on the organization as a consequence of political risk, laws and government expenditure
- It influences the organization primarily as a regulating force
- Other influences include:
 - Annual budget
 - Taxation
 - Import control (or lack thereof)
 - Promotion of exports
 - Import tariffs to protect certain industries against excessive foreign intervention
 - Price control in respect of certain goods and services
 - The marketing of agricultural products
 - Health regulations and incentives

Economic

- Influenced by all the other factors in the Macro environment
- These cross influences constantly cause changes in:
 - Economic growth rate
 - Levels of employment
 - Consumer income
 - Rate of inflation
 - Exchange rate
 - The general state of the economy

Social

- Comprises people such as employees and consumers who are influenced by economic and technological variables and culture
- The environmental variable that is most sensitive to cross-influences by other variables, especially technology and economy
- Culture is the way of life of a group of people – it influences an individual's lifestyle
- Culture is not homogeneous, there are a number of sub-cultures based on:
 - Nationality
 - Religion
 - Population group
 - Geographical area
- An organization is at the centre of social change

Technological

- Responsible for accelerating change and innovation and creating opportunities and threats in the environment
- Refers to the knowledge of how to do something
- The most basic effect of technological innovation is productivity which results in keener competition
 - Superior management of knowledge of technology and innovation can be an important source of competitive advantage
- The technological environment should be assessed continuously, this includes:
 - Identification of important technologies and technological trends both inside and outside the industry
 - Analysis of potential change in important current and future technologies
 - Analysis of the competitive impact of important technologies
 - Analysis of the organization's technological strengths and weaknesses
 - A list of priorities which should be included in a technology strategy for the organization

International

- Comprises the unique environmental factors of the countries with which the organization has business relations

Ecological

- Involves the natural resources from which the organization obtains its raw materials and the environment into which the organization discharges its waste
- Threats include:
 - A shortage of resources
 - The rising cost of energy
 - The cost of pollution
 - Damage to a country's natural resources

Interfaces between the Organization and the Environment

Because the organization is an open system, the environment influences the organization and the organization reacts to these influences.

The environment influences the organization as follows:

- Environmental Change
 - Influences the organization because its strategies, structure and systems are in equilibrium with the environment, hence the organization yields a good rate of return.
 - Change disrupts the equilibrium and management must make changes in the organization's structure, systems or strategy to adjust to the change
- Uncertainty in the environment
 - Determined by the following:
 - The extent of change – degree of stability/instability in the environment
 - The level of complexity – the number of variables in the environment

Environmental Change and Uncertainty

Level of complexity	Simple	Low Uncertainty	Moderate Uncertainty
	Complex	Moderate Uncertainty	High Uncertainty
		Stable	Unstable
		Extent of Change	

- Crisis in the environment
 - Can occur at any time and influence the organization
 - Examples are:
 - Political upheavals
 - The weakening of a country's currency
 - Environmental disaster

How Management can Prepare for Environmental Change

The main responses to environmental change revolve around environmental scanning and information management.

An organizations information management system should make provision for environmental scanning, which is the measurement, projection and evaluation of change in the environment.

After gathering information about the environment, strategic responses follow. These include changes to strategy.

Another response to environmental change is structural change whereby the organizational structure is redesigned or adapted.