

## 1

## The organisation in context

*Business environment* is about exploring the nature of the organisation you are working in. This first theme considers a number of fundamental questions about the organisation: What's the organisation for? What major factors influence organisations? Why are there different types of organisation? What is your organisation's vision for the future? And how is the vision translated into a strategy for every level?

Think of this big picture as a fly-past in an aeroplane at altitude before the detailed plotting of the landmarks and features of your business.

Within this theme you will:

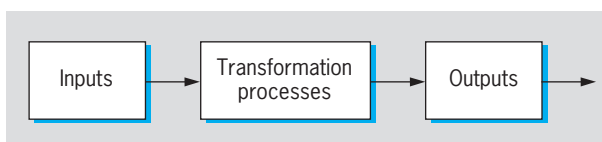
- ◆ Review the core components of your organisation and what makes it different from others
- ◆ Identify ways to communicate the goals of an organisation
- ◆ Identify your organisation's vision, mission and values and how these translate into strategic objectives
- ◆ Develop a strategic understanding of your business.

**'Perception is strong and sight weak. In strategy it is important to see distant things as if they were close and to take a distanced view of close things.'**

**Miyamoto Musashi  
(1584–1645)**

## The nature of organisations

A simple way of looking at what an organisation is and what it is for is to picture the core of the organisation as a system that transforms inputs into outputs that are provided to customers. See Figure 1.1.



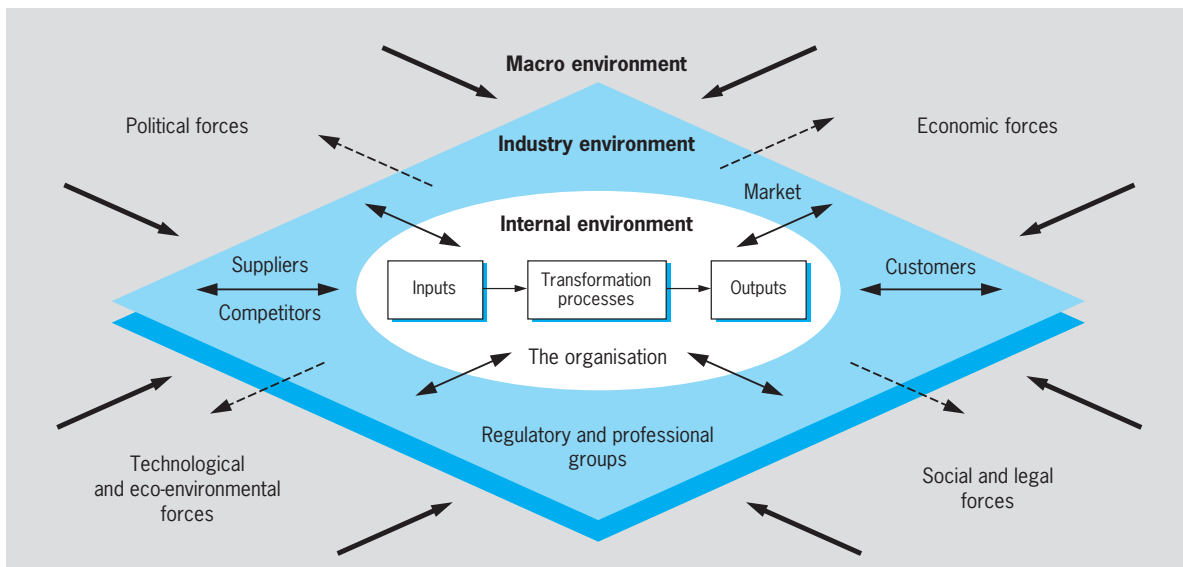
**Figure 1.1** *A basic transformation process*

- ◆ Inputs include labour, raw materials, expertise, capital, data and information
- ◆ Transformation processes include business operations and production processes
- ◆ Outputs include goods, services, profits and wages, and information and waste products.

Transformation processes may involve converting inputs, transporting, combining or adding value to them in some other way in order to produce outputs that customers want.

This system for transforming inputs into outputs does not exist in a vacuum. It is not isolated from the environment in which it operates. On the contrary, the system exists in a unique context and it interacts with factors in this context in a dynamic way – constantly influencing and being influenced by them. For a start, the system provides its outputs to customers outside the system, and if there are no customers then the system is unlikely to continue to operate for long.

This suggests that the organisation can be seen as an ‘open’ system – the effectiveness and efficiency of the basic system are affected by major factors in the context in which the organisation operates.



**Figure 1.2** *The context in which the organisation works*

### **The internal environment**

This includes the system (inputs, transformation processes and outputs) and all of the resources, knowledge and the actions of decision makers and employees that make up the organisation. All these factors may be controlled and deployed to enable the system to operate effectively and efficiently. The organisation as a whole has most control over its internal environment; it can shape its strategy and organise and direct its resources to achieve what it wants to achieve.

### **The industry environment**

This is the external environment closest to the organisation. It is the organisation’s marketplace, where it buys its materials, resources and other inputs and provides goods and services to customers. It also includes competitors, those organisations that compete for the same

customers. The industry environment affects the organisation's scope for action, but the organisation can also take action to influence the industry environment. For example, it may develop partnerships with suppliers or enter into a price war with competitors. In some industries it is also vital to influence standards and regulations and the more aggressive organisations also set out to change the structure of their industry and the way in which the competitive game is played.

### **The macro environment**

This is the 'playing field' for all businesses in the global and national economy. It is the external environment that provides a general background in which all organisations operate. It is made up of political, economic, social, technological, legal and eco-environmental forces. These act on organisations and their industry environments. For example, legislation affects an organisation's ability to hire and fire, merge with other organisations and dispose of its waste products. The organisation cannot control these forces, and it may not be able to influence them. However, much of the lobbying of political parties and governments by organisations is aimed at influencing these macro forces.

The following brief example shows how the system of inputs, transformation processes and outputs interacts with its internal and external environments.

Marks & Spencer plc, the UK-based retailer, uses its shops, staff, supplies and capital (inputs) to deliver (transformation processes) food, clothing, homeware and financial services (outputs) to its customers (industry environment). Poor performance in its market sector (industry environment) has led to changes in product design, business relations and corporate strategy (internal environment). A decision to close 18 shops in France in March 2001 brought the threat of legal action from the French Prime Minister, Lionel Jospin, over lack of consultation with store staff (macro environment).

### **Different strokes for...**

It soon becomes apparent why there are so many different types of organisation. Each has different inputs, transformation processes and outputs, and operates in different industry environments.

Consider the examples in Table 1.1.

Organisation	Inputs	Transformation processes	Outputs	Internal environment	Industry environment
UK farming	Seeds, animals, farms, farmhands, machines	Milking, tending, harvesting	Milk, meat, cereals, eggs	Family owned, tight finance, subsidised	Disease, supermarket control, organic and genetic food
Microsoft plc	Code, data, IT skills, reinvesting, high-tech facilities	Programming, Web development	Software, MSN (Web portal)	Democratic culture, fast changing, high spending	Legal threats, tech market decline, intense competition
The Roman Catholic Church	Clergy, churches, parishioners, scripture	The Mass, fasting, praying, loving neighbour	Salvation, grace, goodness, collections	Bureaucratic, slow changing, same product, funded by members	Shortage of employees, materialism
The UK Government	Budget, ministers, Parliament	Consultation, law making, spending	Law, policy, information, taxes	Democratic, traditional, public funding	Lobbyists, the people, markets, disasters

**Table 1.1** *The influence of operating context on organisations*

## Why analyse the organisation’s environment?

**Environmental influences have implications for the organisation’s direction and strategy.**

You analyse your organisation’s environment in order to make decisions and take action. If you can analyse the organisation you are part of and the major factors that are likely to impact on performance, then you can begin to understand and make plans, albeit for an uncertain future. Everyone, whatever their level in the organisation, should be involved because strategy cascades to all parts of an organisation. You will make better decisions at your level if you understand how your organisation works in its environment and how your area fits into this, and you will contribute to more informed decision making. This book will enable you to make decisions based on your business awareness. Business awareness is not an end in itself.

A good example of the sort of environmental impacts that businesses have to contend with is that of the recent ‘mad cow’ disease in the UK. Farmers were working within the regulations and competing with other farmers in producing beef, milk and dairy products. But one unexpected microbe and they all had to abide by regulations that required herds to be decimated. Farmers engaged in plenty of lobbying to have the regulations softened, but all of these failed. The major threat, from the farmers’ view, was from the government and the external environment. Other organisations, such as the McDonald’s hamburger chain,

supermarkets and restaurants, all had their own way of dealing with this national event but the impact was felt nevertheless. This issue demonstrates that the impacts rippled across from the external environment to the operation of individual internal company processes.

## How to analyse the business environment

So, how do you go about analysing your environment? The answer is to use a variety of environmental analysis tools to help you. The tools you will use as you work through this book are as follows:

- ◆ The balanced scorecard
- ◆ Portfolio analysis
- ◆ Stakeholder analysis
- ◆ Market research
- ◆ Ansoff's matrix
- ◆ Porter's Five Force model
- ◆ Benchmarking
- ◆ PESTLE analysis
- ◆ SWOT analysis.

## Change and the organisation

Increasing competition in the banking sector has led UK banks to operate a merger and acquisition strategy to stay ahead. Royal Bank of Scotland took over NatWest in 2000 despite initial opposition, but the City liked the look of its first full-year results (March 2001): revenue growth of 12%, cost growth of just 1% and over 30% growth in profits.

Change is the catalyst for environmental analysis. It is why we must analyse and analyse again. Because of the rapid, ever-changing nature of the environment, the impacts you face are changing. If you are complacent, you and your organisation can be caught out.

It is when organisations are moving along smoothly – in a state of equilibrium – that they should start to worry, according to complexity or chaos theory. How many of the 43 quality companies mentioned in Tom Peters' *In Search of Excellence* (1982) are still doing well? Five at the last count.

## Activity 1

### Focus on your organisation

#### Objective

Use this activity to identify the key components of your organisation.

The system that transforms inputs into outputs in your organisation operates in a unique context and interacts with the factors in this context in a dynamic way. This suggests that the organisation can be seen as an 'open' system – the effectiveness and efficiency of the basic system are affected by major factors in the context in which the organisation operates.

#### Task

The key components of the organisation as an open system are listed in the chart below. Give examples of these components for your organisation.

*Inputs*

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*Transformation processes*

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*Outputs*

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*Internal environment*

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*Industry environment*

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## Feedback

This activity should help you to get to grips with the nature of your organisation. Check back to Table 1.1 to make sure your examples of components are appropriate. You may want to compare your responses with colleagues. You could also identify the components that make up your unit or department. How do these compare with the components you have identified for your organisation?

## The strategy process

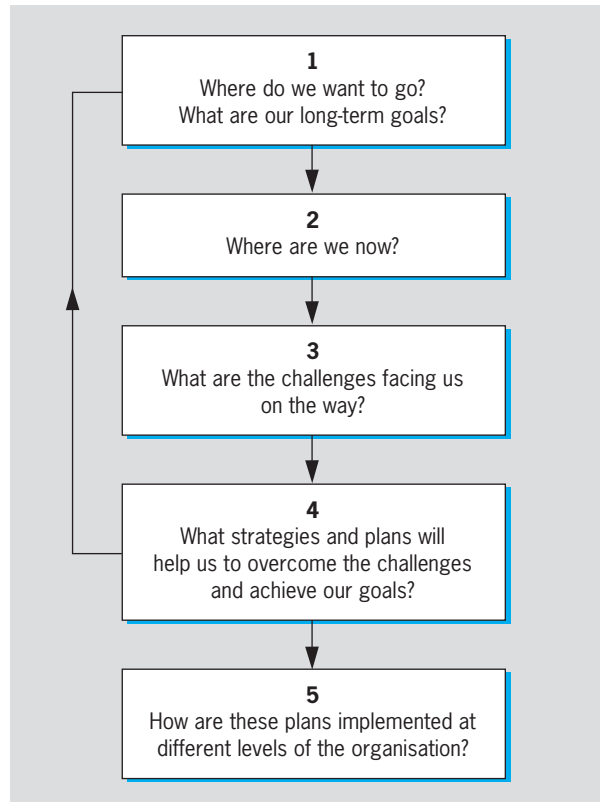
Strategy is concerned with the long-term direction of the organisation. It determines the scope and focus of the organisation's activities. Strategies can make organisations great or bring them down.

Eastman Kodak dominated the photographic market until the late 1970s/early 1980s. Then, due to competition from Fuji, failure of its own product launches and the arrival of the Japanese 35mm camera, it had to have a strategic rethink. The company decided to focus its initiatives in two main areas: imaging and life sciences. Digital imaging in particular has enabled Kodak to strike back at the competition. There have been difficulties along the way, and more tactical and strategic rethinks have been necessary, but Kodak is still a strong brand and seems to keep coming back every time it is written off.

Source: *Grant and Neupert (1999)*

As the example of Eastman Kodak shows, forming strategy is not just a one-off exercise. In a changing environment, it's a continual process. The strategy process involves asking the key questions shown in Figure 1.3.

**Strategy is about how to get from where you are now to where you want to be.**



**Figure 1.3** *The strategy process*

To answer these questions you can go through a number of stages:

- 1 Define the purpose of the organisation, what we want to achieve, and the values that will guide our actions and our long-term goals.
- 2 Analyse the environments that the organisation is operating in. These include the organisation's internal environment and the factors in the external environment that affect the organisation.
- 3 Identify opportunities and threats in the external environment, and strengths and weaknesses in the organisation.
- 4 Devise plans for achieving your goals that make the most of opportunities, counter threats, improve on internal strengths and overcome weaknesses.
- 5 Cascade plans throughout the organisation so that every level of the organisation contributes to achieving the long-term goals.

## Purpose

A starting point for strategy is to have a vision for the future. This is a wish statement or a dream designed to inspire. Then there needs to be a clear purpose and goals. This hardens up the dream. These may be stated in a mission statement. Mission statements define the core business of the organisation – what it is and what it isn't. They should also communicate the priorities of the organisation and set out the direction in which the organisation is heading.

Here are some examples of mission statements:

**BP Group's mission statement:**

The world's need for energy is growing steadily day by day. Energy and materials, used safely and efficiently, are essential to the prosperity and growth of every country and every region in the world. Sustaining and enhancing our quality of life depends on them. Our goal is to play a leading role in meeting these needs from oil, gas, solar power and petrochemicals without damaging the environment.

Ours is a positive and progressive involvement. Innovation will be the hallmark of the way we work with people, technology, assets and relationships. We will always be constructive, using our know-how to produce constructive and creative solutions to every challenge.

Our success depends on our making, and being seen to make, a distinctive contribution to every activity in which we are involved.

Source: *BP* (www)

**Harley-Davidson's mission statement:**

We fulfill dreams through the experiences of motorcycling – by providing to motorcyclists and to the general public an expanding line of motorcycles, branded products and services in selected market segments.

Source: *Harley-Davidson* (www)

**Pfizer**, a leading pharmaceutical company, reported on its website in 2001:

Our mission: We will become the world's most valued company to patients, customers, colleagues, investors, business partners and the community where we work and live.

Our purpose: We dedicate ourselves to humanity's quest for longer, healthier, happier lives through innovation in pharmaceutical, consumer, and animal health products.

Source: *Pfizer* (www)

Some organisations do not set out a mission in a clear statement. This may be because the organisation is large and diverse and it is difficult to make a short summary of the organisation's purpose that is meaningful to everyone. Capturing the distinguishing features of the organisation, those that set it apart from its competitors, is key to producing a memorable mission statement.

However, even if an organisation does not identify its mission in a clear statement, it is often possible to gain a sense of an organisation's purpose and main goals by looking at its annual reports or at the corporate information section of its website.

Here are some examples:

**Tesco**, the leading UK supermarket retailer, says its aim is: Growing the business to create value for customers to earn their lifetime loyalty.

Source: *Tesco* (www)

**Vodafone**, a leading mobile telecommunications network provider, says:

Vodafone aims to be the world's leading wireless telecommunications and information provider, generating more customers, more services and more value than any of its competitors.

Source: *Vodafone* (www)

On **Exxon Mobil's** website in 2004, CEO Lee R Raymond wrote: Exxon Mobile is committed to being the world's premier petroleum and petrochemical company.

Source: *Exxon Mobil* (www)

## Values

While a mission is about the purpose and overall goals, a set of values can give the organisation its guiding principles that govern the way it will act. Many organisations communicate their values. For example:

**Royal Dutch/Shell** explores its general business principles under nine main headings: objectives, responsibilities, economic principles, business integrity, political activity, health, safety and the environment, community, competition and communication.

Source: *Shell* (www)

**Pfizer:** To achieve our Purpose and Mission we affirm our values of Integrity, Leadership, Innovation, Performance, Teamwork, Customer Focus, Respect for People and Community.

Source: *Pfizer* (www)

**Tesco:** Our two values drive the whole way we do business. No one tries harder for customers:

- ◆ Understand customers better than anyone
- ◆ Be energetic, be innovative and be first for customers
- ◆ Use our strengths to deliver unbeatable values to our customers
- ◆ Look after our people so they can look after our customers – ‘Treat people how we like to be treated’
- ◆ There’s one team... The Tesco Team
- ◆ Trust and respect each other
- ◆ Strive to do our very best
- ◆ Give support to each other and praise more than criticise
- ◆ Ask more than tell and share knowledge so that it can be used
- ◆ Enjoy work, celebrate success and learn from experience.

Source: *Tesco* (www)

## Analysing the environment

Analysing the environment involves examining the current capabilities of the organisation and the trends in the external environment that will impact on the organisation. Analysis is a key feature of developing a strategy. Strategy without analysis is like going trekking without a map; analysis without strategy is just thought without action.

Analysis of the current situation may show that the organisation needs to revisit its mission and goals, or it may lead directly to the development of strategic goals and plans.

Here is what the process of environmental analysis and making strategic plans became at General Electric, a company renowned for strategic planning.

### **Strategic planning at General Electric in the Jack Welch era**

Jack Welch’s tenure (1981–1998) at the head of General Electric is considered one of the finest examples of corporate leadership in history. His mission when he took over was to create a company that was the most profitable, highly diversified company on earth with world-quality leadership in all of its product lines. His core value was quality. His goals were reinvestment in productivity and quality in core businesses, staying on the leading edge for high technology businesses, and growing in the service businesses by adding outstanding people to create new ventures and by making acquisitions.

His strategic analysis and planning were somewhat offbeat. Each business had to produce a 'playbook' every year with one-page answers to five business environment questions, such as 'What are your market dynamics globally today, and where are they going over the next several years?' These playbooks would then be discussed and agreed at a yearly half-day review. This simple analytical approach facilitated corporate understanding and corporate speed of movement. Business targets and financial planning were based on objectives, but were reasonably flexible as Welch believed set budgets could inhibit rather than stretch managers.

Source: *Adapted from Grant and Neupert (1999)*

## Strategic goals and plans

Strategic goals show how to get to where you want to be, and plans specify where the organisation is going in a more definite or precise way. All good plans, of course, start with goals or objectives.

**Oregon State University's** mission is as follows:

Oregon State University aspires to stimulate a lasting attitude of inquiry, openness and social responsibility. To meet these aspirations, we are committed to providing excellent academic programs, educational experiences and creative scholarship.

### **Three strategic goals guide Oregon State University in meeting its mission**

#### *Statewide Campus*

Oregon State University has a historic and unique role in Oregon. As a land-grant university, our heritage is articulated in the statement 'the State of Oregon is the campus of Oregon State University.' We emphasise the importance of extending the University into every community in Oregon. OSU will provide learning opportunities for Oregonians, and will create and apply knowledge that contributes to the prosperity of the State and its quality of life.

#### *Compelling Learning Experience*

Oregon State University is committed to creating an atmosphere of intellectual curiosity, academic freedom, diversity, and personal empowerment. This will enable everyone to learn with and from others. This compelling learning experience celebrates knowledge; encourages personal growth and awareness; acknowledges the benefits of diverse experiences, world views, learning styles, and values; and engenders personal and societal values that benefit the individual and society. OSU will develop curricula based on sound disciplinary knowledge and input from

practitioners. Students will acquire skills and knowledge for a lifetime of learning, and will be involved in scholarly and creative pursuits.

#### *Top-Tier University*

Oregon State University aspires to be a top-tier university. It is a Carnegie Research I University, a sea-grant institution and space-grant program, in addition to being a land-grant institution. We will measure our success by: the caliber of entering students, the accomplishments of students and alumni, the quality of the faculty, the quality of instructional and research facilities, the effectiveness and productivity of engagement with businesses and constituents, and the support for research and scholarship.

Source: *Oregon State University* (www)

Note the mention of measurement in Oregon State University's goals. Good goals or objectives should be measurable.

## Cascading the strategy

In order to implement the strategy, it has to be translated into goals and plans at every level of the organisation. We can see this as a hierarchy of goals in Figure 1.4.

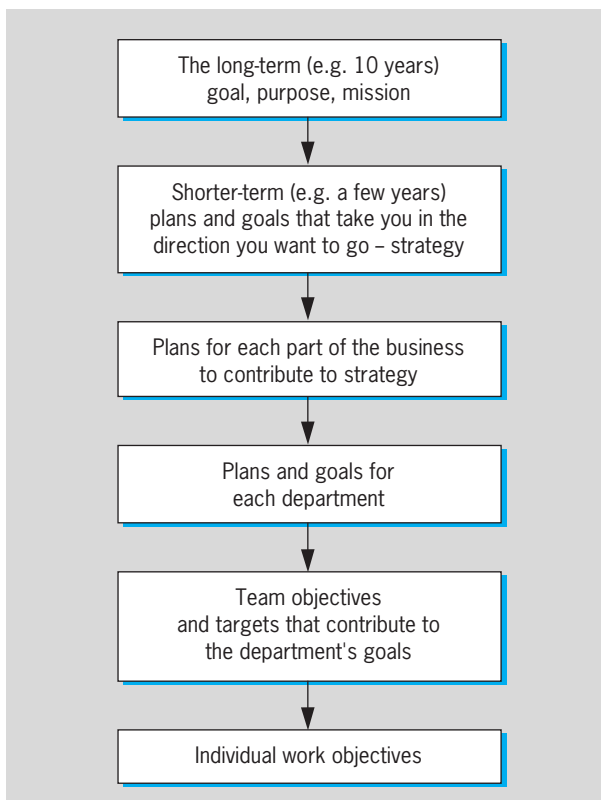


Figure 1.4 A hierarchy of goals

In this way every member of the organisation working at any level should be working to achieve objectives that contribute to the organisation reaching its overall goals. In other words, you have responsibility for implementing strategy as it is translated and made applicable to your area of control and influence. If you are not doing your bit, this could affect the organisation's overall performance. Business awareness in this case is knowing what your organisation's strategy is and what this means for your area of control and influence.

Business awareness is knowing what your organisation's strategy is and what it means you have to do. For example, if the corporate strategy is based on greater responsiveness to customer needs, have you done a customer profile of your department? If it is a commitment to quality, do you regularly update your health and safety risk assessments?

## Activity 2

### Strategy

#### Objectives

In this activity you will focus on your organisation's mission, values and strategic objectives. Use this activity to:

- ◆ identify your organisation's current vision, mission and values
- ◆ identify strategic objectives for your business, your work area and yourself.

While a mission is about the purpose and overall goals, a set of values can give the organisation the guiding principles that govern the way it will act.

Remember that:

- ◆ a vision is essentially a loose statement of intent or aim
- ◆ a mission is what has to be put in place to achieve the vision
- ◆ values are essentially idealistic policy guidelines for the organisation
- ◆ goals and objectives attempt to define where the organisation is going in a more definite or precise way.

#### Task

- 1 Examine your organisation's current vision/mission statement document. If you don't have one, then you can draw one up. Use organisational literature, sales information, annual report, etc. to find out what your organisation wants to achieve and how it proposes to get there.

To what extent does the mission statement define what the organisation is and what it is not? To what extent does it capture the distinguishing features of your organisation? Consider changing it to make it more accurate and up to date.

*Current mission statement:*

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*Does it capture your organisation?*

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- 2 Your organisation may produce a statement of its core values. Find out what these are. If there is no statement, think about what they should be to reflect the organisation's current culture and the messages senior management send out to others, both inside and outside the organisation.

*Core values:*

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- 3 From the mission statement, the organisation can develop its strategic goals. These then cascade throughout the organisation and should be translated at each level if they are to be achieved.
- Identify strategic goals and objectives for each of the headings below which cascade downwards from the mission.

*For your organisation (these may be stated as part of your organisation's strategy):*

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*For your department/work area:*

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*For yourself:*

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## Feedback

Here is an example:

The **vision** of the organisation is 'to be a world leader in PC and Internet software'.

The **mission statement** is 'to provide customers with the widest choice of quality PC and Internet software on the market at reasonable prices, delivered on time and supported by excellent customer service'.

The **values** come under the following headings: growth, innovation, customer service, quality, teamwork, productivity, security.

Key strategic goals and objectives are as follows:

**For the organisation:**

- ◆ to develop agreements, contracts and alliances with all the main software players to maximise product choice
- ◆ to develop a quality systems approach in the supply, processing and distribution of retail software.

**For the department/work area (marketing):**

- ◆ to develop a marketing plan to include online and offline marketing
- ◆ to work with IT to develop an attractive and focused e-commerce website.

**For the manager:**

- ◆ to devise a market e-survey to collect customer comments
- ◆ to develop a catalogue for online and offline purchasing.

A time-related element could be included in these objectives.

Note that these objectives are all related. The manager, by achieving his or her objectives, contributes to the organisation's strategic goals.

Check your responses with your colleagues. How far do you all agree on your answers?

To deepen your understanding of organisations' use of vision, mission statement and values, you could visit the websites of other organisations, such as:

**Johnson & Johnson:**

[www.johnsonandjohnson.com](http://www.johnsonandjohnson.com) – look particularly at this company's 'credo'

**Nike:**

[www.nikebiz.com](http://www.nikebiz.com) – look at responsibility

**Honda:**

[www.world.honda.com/profile](http://www.world.honda.com/profile)

What do your organisation's competitors say?

Why do you think some organisations may not state their missions?

## ◆ Recap

In this theme you have reviewed the nature of organisations and the process for strategic decision making.

**Review the core components of your organisation and what makes it different from others**

- ◆ Analysis of the nature and components of your organisation will help you to make decisions and take action.

- ◆ Internal and external environmental influences have implications for the organisation's direction and strategy.

#### **Identify ways to communicate the goals of an organisation**

- ◆ Every member of the organisation, working at any level, should be working to achieve objectives that contribute to the organisation reaching its overall goals.
- ◆ Capturing the distinguishing features of the organisation those that set it apart from its competitors, is key to producing a memorable goals.

#### **Identify your organisation's vision, mission and values and how these translate into strategic objectives**

- ◆ A starting point for strategy is to have a vision for the future.
- ◆ In order to implement the strategy, it has to be translated into goals and plans at every level of the organisation.

#### **Develop a strategic understanding of your business**

- ◆ Business awareness is knowing what your organisation's strategy is and what it means you have to do.

## **More @**

**Campbell, D., Stonehouse, G. and Houston, B. (2002) 2nd edition, *Business Strategy: an Introduction*, Elsevier Butterworth-Heinemann**

This is an accessible textbook that provides a straightforward and comprehensive guide to complex issues and concepts. Of particular relevance to this theme is Part 1 'An introduction to the strategic process'.

**Dixon, R. (2003) 3rd edition, *The Management Task*, Elsevier Butterworth-Heinemann**

This book considers the nature of management and the environment in which management operates. The requirements for effective, successful management techniques are explored, covering many areas from the need for planning and forecasting, leadership, motivation and communication to control and decision-making. See Part 2 'The Management Process' and Part 4 'The Managerial Environment' in particular.

**Handy, C. (1993) 4th edition, *Understanding Organizations*, Penguin Books**

This is a classic text that looks at organisational structures and cultures. It offers an illuminating discussion of key concepts of

concern to all managers: culture, motivation, leadership, power, role-playing and working in groups.

**Johnson, G. and Scholes, K. (1999) 5th edition, *Exploring Corporate Strategy*, Prentice Hall Europe**

This is a classic work on corporate strategy. You may find it useful for future reference. Throughout the text, strategy is seen through three complementary 'lenses': 'design' (an analytical approach); 'experience' (builds on cultural, institutional and cognitive schools of thought); 'ideas' (builds on evolutionary and complexity theories).

**Pascale, R., and Millemann, M. and Gioja, L. (2000)  
*Surfing the Edge of Chaos*, Texere Publishing Ltd  
or go to [www.surfingchaos.com](http://www.surfingchaos.com)**

*Surfing the Edge of Chaos* is an unusually good book on applying the lessons of complexity science to business progress. The material is aimed at continuous renewal of the large existing organisation, but will be valuable to organisations of all ages and sizes.

Full references are provided at the end of the book.