Linda Bennett

Managing the Business Environment

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Managing the Business Environment

Introduction

Managing the Business Environment combines an exploration of the four major facets – Political, Economic, Social and Technological. These underpin the business environment and interlink to form the complex set of circmstances within which all organizations perform, with an attempt to generate an awareness in the reader of how these elements can be managed so that suitable strategies to accommodate them are developed. It is therefore essential reading for any student or business practitioner who is embarking on a study of business strategy. While not a short book, it is not intended to be exhaustive in its approach; it attempts to furnish readers with a sound and stimulating framework, from which they can go on to pursue the concepts further on their own. It therefore supports and encourages the methodology of 'Student-Centred Learning'. It is specifically intended to act as a preparatory text before the student progresses to a specialized book on strategic management.

The text is aimed at students and readers from a wide range of cultural backgrounds, and examples are taken from businesses and not-for-profit organizations operating in all parts of the world. The main thread of the text is enhanced throughout with 'key concepts', which enlarge upon, reinforce or summarize important ideas as they are introduced, 'boxes' which provide further elucidation or explanation, and 'mini-case studies' which offer practical examples to illustrate conditions, problems or opportunities as they are being discussed. Some of these mini-cases will be expanded into full-length case studies in the Lecturer's Resource Manual that accompanies this book.

The book therefore has a very broad subject-matter, but there is one linking theme throughout the text: the idea that organizations (of whatever type) continue to exist, to justify themselves, and to develop with the ever-changing world only if they succeed in adding value for the customer at a price which he or she is willing to pay. **Adding value** is the continuous sub-text of this book. Within each chapter, the notion of adding value is discussed as it relates to the particular area of the environment that is being studied. The author believes that this is the key business management theme of the 1990s, a period in which managers, 'specialists' and entrepreneurs in all types of organization have been obliged to consolidate their resources, to shave away costs, and

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generally become more creative and ingenious at making more out of less.

The book therefore provides an invaluable text for lecturers and students seeking a truly relevant approach to the current business environment. It can act as a key linking text for today's modular courses, and although it is primarily intended for business studies degree students and non-specialist business students – for instance, those 'majoring' in accountancy, computing, hospitality management, etc. – who are required or have chosen to take one or more business modules as part of their degree, it is also a suitable foundation text for MBA and DMS students, particularly those with no previous management or business education background.

THE ARRANGEMENT AND USE OF THE TEXT

Chapter One explains in detail what is meant by the 'adding value' theme, what the main elements of the business environment are, with examples of the relevance of each, and how addressing them involves knowledge of the various strategic options available. Some modern approaches to strategy are also briefly explained and illustrated. It is essential that all students therefore read this chapter, so that they are thoroughly conversant with the concepts of **adding value** and **strategy**.

The five chapters which follow can be taken as separate entities, and used to provide information and generate debate for business environment modules. Alternatively, they can be read consecutively or out of sequence to form an entire business environment course in their own right (the original intention when the book was conceived), with a continuing emphasis on adding value. Some MBA and DMS courses have now developed a 'link' module on 'adding value', and the text is clearly particularly apposite for these. There is some occasional overlap in the information contained within the chapters, as the author strongly believes that this is preferable to a complicated system of cross-referencing, which would not lend itself to reading out of sequence.

Chapters Two and Three. It was necessary to divide what began life as one chapter on **politics** into two, not only because the original chapter grew increasingly long and unwieldy, but also because it became evident that there were two major themes to address. These are the broader aspects of political theory and ideology, which lead to government policies that shape the ways that organizations behave, and a more practical consideration of the major political organizations and alliances that exist in the world today, and how they influence the economic environment. (Because it is important for the student to understand why the modern world economic environment exists as it does, reference has been made to some now obsolete organizations – notably, COMECON – since their influence is still being felt in the geographical areas where they were powerful, and, indirectly, in the world as a whole.) Clearly, the power balances within the organizations discussed in Chapter Three shift and change all the time; however, it is more important for the student's understanding of world economic issues to be furnished with enough examples illustrating **how** national and international political groups gather and wield power, rather than to have a snapshot picture of the particular power balance which prevails at the time of study (if, indeed, this is possible). It is therefore the chief aim of these two chapters to give the student a competent insight into the theory and practice of national and world politics as they affect the organization seeking to add value. He or she can then make informed inferences about new situations as they occur.

Chapter Four arises naturally out of Chapters Two and Three, since the economic measures which governments take are directly related to their ideological beliefs, and the particular power structure that they are trying to create. This chapter on the **economic** aspects of the business environment does not pretend to be a substitute for the study of economic theory, which all mainstream business students (whatever their level of study) will address in greater depth elsewhere. The chapter does, however, offer a basic grounding in economics within the context of adding value, not only to demonstrate the relevance of economic theory in the wider business environment (a point that students sometimes lose sight of when they become enmeshed in the graphs and calculations of some of the more nitty-gritty economics exercises), but also to introduce the subject of economic theory in as straightforward a way as possible to non-specialist students and the business practitioner. The emphasis throughout is therefore on economic theory as it contributes to or hinders the notion of adding value.

Chapter Five looks at the changing **social** context within which organizations operate. Continuing with the 'making more out of less' theme that forms one of the main strands of the philosophy of adding value in the 1990s, it looks at 'flat' organizational structures, new ways of arranging and managing the workforce, new relevances to modern working life (in particular, the management of the 'knowledge worker', or highly-educated specialist) and at the motivational and economic issues that need to be addressed if the changing organization is to be able to reinvent itself successfully in the twenty-first century. 'People issues', having enjoyed a renaissance in the 1960s, have too often since been dismissed as 'soft', 'woolly' or 'irrelevant' in the tougher economic climate of the 1970s and 1980s. This chapter argues that the business managers and leaders of tomorrow need to take them seriously (not sentimentally) if they are to build successful organizations capable of adding value to meet the sophisticated demands of the next century. In some ways, this is the most important chapter in the whole book, and should be read carefully in conjunction with any of the other chapters used.

Chapter Six provides an introduction to the vast range of **technological** issues that confront the manager of today. It makes the point that technology as the route to adding value takes many guises, from the simple to the complex, but that the use of information technology (IT) holds the most wide-reaching implications for the manager of the future. The chapter looks at IT not simply as the provider of tools to be used to add value more efficiently, but also as an agent to radically reshape the way in which the organization thinks about and builds itself. Thus, drawing both on the 'social' chapter which precedes it, and looking forward to the chapter 'Strategies for adding value' that follows it, the concept of 'business re-engineering' is discussed. This chapter introduces mainstream management students to a radically creative and integral approach to the use of IT. It also provides an invaluable insight into the broader environment for information technology and computing students, who may eventually be involved in designing some of the computer systems and software for the styles of organization described.

Chapter Seven. The final chapter, 'Strategies for adding value', begins by examining in closer detail the traditional functions of the organization itself. The marketing, finance, operations, IT and personnel functions, and the role of the strategic leader, are discussed, each within the context of adding value and the wider context of issues arising in the previous chapters. The relevance of strategy to structure is then explored, and the work of some of the key strategic thinkers of the past 20 years introduced. The chapter attempts to draw together the threads of all the preceding chapters, not by alluding to their subject-matter in any detail, but by emphasizing the need for a strategic approach, underpinned by a suitable structure and organizational philosophy. This is in order to create a resolution of (or strategic 'fit' for) the issues raised by an all-round awareness of the external environment. It therefore picks up on some of the strategic approaches raised in Chapter One: there is more cross-referencing between Chapters One and Seven than between other areas of the text, and they can profitably be used as preliminary reading to a more specialized text on strategy (e.g., John L. Thompson's *Strategic Management: Awareness and Change*). This is a logical progression for the student to make when he or she has reached the end of this book.

EXERCISES AND REVISION TOOLS

There are some suggestions for exercises and further topics for research scattered throughout the text, but the main vehicle for applied learning is intended to rest with the mini-cases. These are meant to be used as starting-points for class discussion or individual study. Careful reading of them will illustrate the relevance of the models, theories and approaches to management described in the main text to the 'real-life' situations described in the cases. They update the student with regard to the particular organizations or industries to which they refer, which in turn obliges the student to become familiar with the financial press, on-line business information services, and other contemporary sources of information.

Contents

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What is adding value? 1

LEARNING OBJECTIVES

- To define the concept of adding value, and explain what it implies for for-profit and not-for-profit, servicing and manufacturing organizations.
- To grasp the idea of the value chain and the value system, and demonstrate a clear understanding of the associated issues of objectives and stakeholders, and the concepts of core competencies, culture, systems and synergy. This will follow on from an understanding of Michael Porter's exposition of the value chain as it is applied to specific examples of individual industries.
- To give a brief account of what is meant by 'performance measurement'.
- To gain an insight into the key concepts of competitive advantage and competition within industries, referring to the work of Michael Porter, John Kay and others.
- To decipher the acronym PEST, and understand the elements which make it up, and how they may together be used to analyze turbulent and changing external environments.
- To understand the significance of the structure and values of the internal organization in the successful carrying out of the added-value process.

This chapter gives you a rudimentary knowledge of a range of strategies for adding value.

INTRODUCTION

Why do organizations **exist**? What are humans busy **doing** when they go to work? If you were the hypothetical Martian, looking down from your alien planet, how would you explain the flurry of human activity which humans call 'work', and which involves the expenditure of resources, both tangible (e.g., raw materials, energy, buildings) and intangible (e.g., skill, know-how, commitment)? What is it all **about**?

If you took one perspective, you might conclude that work is about making money. Fine; but what about the vast number of 'not-for-profit' organizations in the world? All right, then, you might refine your original idea of profit by stating that organizations in which people work provide something, and in return receive a reward – financial or non-financial – depending on their nature. This, too, is true as far as it goes, but it doesn't succeed in capturing the economic realities of the situation. Can a reward of any size be demanded? How small a reward is acceptable? By what criteria is it, or should it be, determined that the reward will be paid?

By pondering on this, you are likely to reach a very important conclusion: that all resources, natural, man-made or human, are in limited supply. Those that are not finite will replenish themselves only if they are utilized in a sustainable way. For reasons we examine in detail later, organizations are likely to continue to have access to those resources only if their outputs are **effective** and **efficient**, as well as **economical**. Therefore, it is necessary for organizations to **target** and to **measure** as precisely as possible what they do. How can they do this? In order to arrive at an answer, let us return to the original question: **what** do they do?

Now the answer may be clearer. Organizations have to **add value** for the customer. As we shall see later in this chapter, in order to achieve long-term success, they have to add value for a range of stakeholders. Satisfying the needs of the customer is the lynch-pin of all of their activities, because it is the customer who pays and therefore generates the wealth which keeps the organization going. They add value by offering the customer what he or she wants at a price that he or she is willing to pay; but this cannot be any price. The price must be set at a level that will ensure that the organization can flourish in the present and develop for the future.

Thus, adding value is a complex process: complex, because determining what activities will prove valuable enough to the customer is both an art (in the sense that a creative approach is needed) and a science (because some careful measuring of inputs and outputs is called for); complex also because the value-adding activities take place within a series of intra- and inter-organizational configurations. What is meant by this will emerge as the book progresses, but a starting point is the understanding and acceptance of the idea that no organization can exist or operate within a vacuum: it affects and is affected by its wider environment. Let us take the case of this book. Figure 1.1 shows in diagrammatic form the main value-adding activities which enabled you to gain access to your copy. Let us examine them in detail.

ADDING VALUE: AN EXAMPLE

In the first place, the book was conceived of and written by the author. This particular book is intended for management education. The

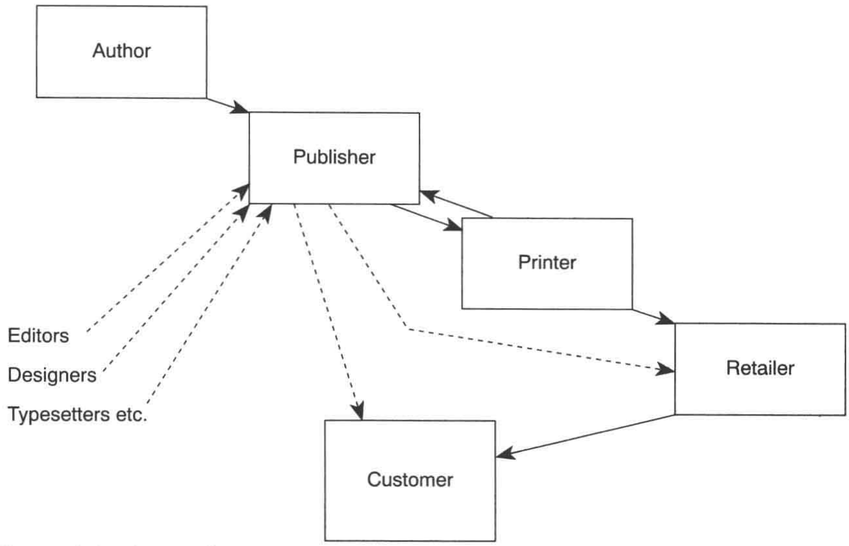

Figure 1.1 The notion of added value: the book.

author added value by presenting management ideas with up-to-date examples in a way which the customer – the student – would (hopefully!) find understandable, relevant and enjoyable.

The text was then submitted to the publisher, who added value again by deploying a range of skilled staff to make the text as clear and pleasant to use as possible. This staff will typically have included editors to rearrange the text, perhaps to give it a 'house style'; designers to make it look attractive on the page, and typesetters, who have the technological skills to carry out their instructions.

When the publisher was satisfied that they had added the maximum possible value to the author's original script, it was submitted to the printer, who brought a new range of value-adding skills to make the manuscript into a commercial product. The printer may or may not have employed a separate agent to bind the resulting volumes. He or she will certainly have submitted an example of the finished product to the publisher for comment and approval before embarking on the complete print run.

The next and perhaps most significant question of all in the value-adding process will have been how to reach the customer. This necessitated two sets of value-adding activities: the first set, traditionally conducted by the marketing department, will have been intended to make both the retailer and the ultimate customer aware of the book. This awareness-raising may have been carried out by advertising, by making sure the book was included on bibliographical databases, and by employing a sales force to promote it. Usually, all these methods will have been employed. The second series of activities, which may have been undertaken by the publisher or a subcontracted agent, will have consisted of storing and distributing the book so that it reached the retailers (scattered throughout the country, perhaps through many countries) at the right time.

The final value-adding activity before the book reached you, the customer, will have been its classification, display and promotion by either a bookseller or a librarian. The value that they will have added, as well as making you aware of the book, will have been associated with their professional expertise, and your confidence in the body of acquired knowledge on which they will have drawn to select this book, as opposed to another. In the case of the textbook, this knowledge will probably have been gained through contact with the academic staff likely to refer you to the book.

This is not the end of the process, for in order that the author can continue to produce books that are relevant to your needs, and perhaps enable the later updating of this book, your reaction as a customer is needed. This, in fact, is where the publishing industry experiences more problems than some other industries. Good feedback mechanisms from the customer are difficult to put in place, but publishers do gain some information – from sales figures, obviously; from, in this case, feedback from lecturers and librarians; and (sometimes, but not as frequently as in other industries) from market surveys.

KEY CONCEPT 1.1: THE VALUE CHAIN

> 'In competitive terms, value is the amount buyers are willing to pay for what a firm provides them.'
> 'The value chain disaggregates a firm into its strategically relevant activities in order to understand the behaviour of costs and the existing and potential sources of differentiation'.
> (Porter, Michael, 1985)

Companies gain competitive advantage by performing all the activities described by the value chain either at a lower cost or better than their competitors (the two variables are not necessarily mutually exclusive).

Figure 1.3 provides an illustration of the activities embraced by the value chain and their relationships to each other.

The following text offers brief descriptions of the nature of these nine value chain activities as identified by Porter (1985).

Primary activities

- **Inbound logistics**
  Connected with receiving, storing and redistributing raw materials, 'inbound logistics' therefore includes warehousing, inventory control and arrangements with suppliers.

- **Operations**
  What many people would identify as the 'main activity' of the company – the transformation of inputs into the final product form. This includes production, assembly, packaging, testing, etc.
- **Outbound logistics**
  Concerned with storing the product and distributing it to buyers. Therefore involves all distribution activities, order processing and scheduling.
- **Marketing and sales**
  Porter defines this area of activity as 'associated with providing a means by which buyers can purchase the product and inducing them to do so'; later writers might add that this is a two-way process, and that working closely with the buyer determines the form that all other activities take. There may in many industries be a seamless continuation between marketing and sales and service.
- **Service**
  See above. In Porter's terms, this includes providing service to enhance or maintain the value of the product (or, it might be added, the customer's perception of this), for example, with regard to installation, repair, training, etc.

Clearly, the relative importance of each of these activities depends on the type of organization being analyzed and the nature of the industry within which it functions; almost all organizations will, however, carry out each of these kinds of activity to some degree.

Support activities

- **Procurement**
  Porter emphasizes that this refers to the purchasing *function*, not to the purchased inputs *per se*. Therefore, what is being described is the procurement 'technology' – whom should be dealt with and how, channels of communication, etc. Procurement in its true sense is spread throughout the firm, and includes the acquisition of intangibles such as expertise. Although the cost of the actual procurement activities may be relatively insignificant, **what** is purchased and **how** has a profound effect, not only on the organization's costs, but also on **how it adds value and pursues excellence** (in the form of differentiation or low cost – i.e., what the customer wants).
- **Technology development**
  This is not synonymous with Research & Development, Information Technology Development, or the application of

scientific subtechnologies. Rather, it includes all of these things. It is concerned with any of the practical (scientific or artistic) skills related to producing the organization's output. This may include activities relevant to individual primary or support activities. In some industries, it may hold the key to competitive advantage.

- **Human resource management**
  This is a crucial and sentitive part of the value chain. It includes all the activities involved in the recruitment, training and deployment of personnel. It also includes tasks related to individual primary and support activities (e.g., the recruitment of technicians, secretaries and so on), and the development of policies and decisions that affect the value chain (union negotiations, company codes of practice). Inconsistencies, which may cause frictions, are almost inevitable, and it is likely that variables – such as costs of training vs. employee turnover – are imperfectly understood. Clearly, effective human resource management is the linch-pin of all value-adding activities.
- **Firm infrastructure**
  According to Porter, writing in 1985, firm infrastructure consists of:

  > 'A number of activities, including general management, planning, finance, accounting, legal government affairs and quality management'.

  Therefore, it is driven by a blend of structural and cultural imperatives. Porter also says that in some organizations it is merely viewed as 'overhead', but that it can be a powerful source of competitive advantage. Up-to-date thinking might take these points further, and claim that the infrastructure of the organization is what determines its ability to build intra- and inter-organizational linkages successfully. It is both the philosophy and the enabling mechanism that powers the adding-value strategy.

Activity types

Porter adds that within each category of primary and support activities, three activity types can be separated out:

1 *Direct* – e.g., assembly, parts machining.
2 *Indirect* – e.g., maintenance, scheduling.
2 *Quality assurance* – e.g., monitoring, reworking.

Finally, Porter stresses the interdependence and interconnectedness of the value chain:

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