Module: Change and Stability Management

Handout Three: Changing Environment Affects Organisation

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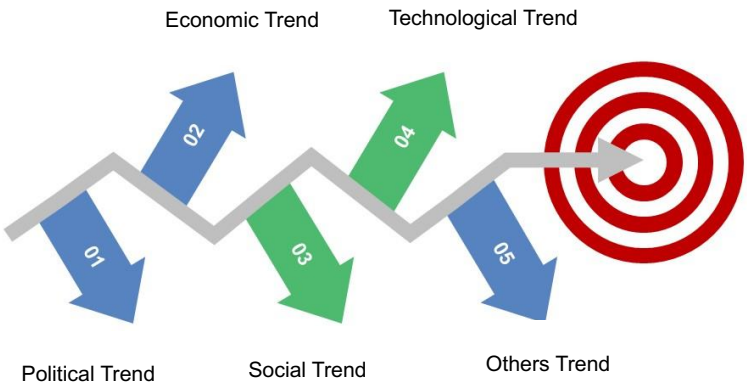
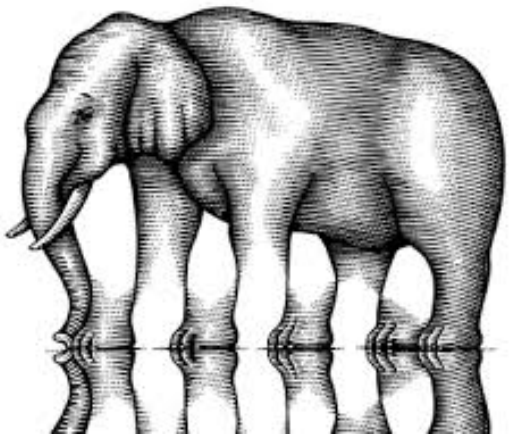
- Dr. Joe Leung has offered training and consulting services in corporate growth strategy, corporate changes, and ESG for projects in China and Hong Kong.
- As a Certified ESG Strategist, Dr. Leung won the "Director of the Year Awards" from the "Hong Kong Institute of Directors" in 2019, 2020, and 2022, respectively, demonstrating that his clients had achieved "corporate governance" in high-level performance. Dr. Leung also helps businesses create "Environmental, Social, and Governance (ESG)" sustainable development plans. In 2022, he helped his clients win the "Special Environment, Social, and Corporate Governance Awards" from the Institute of ESG and Benchmark, and in 2023, he helped his client win the "Grand Award of HKIE BSD Excellent Building Award 2023" to confirm the attainment of sustainability.
- Over the past 19 years, more than 9,800 managers, executives, and business owners have participated in Dr. Leung's executive/director training and UK MBA programs to enhance their strategic thinking and insight and seize opportunities in the highly competitive market environment.

1. Global Mega Trends : New Business Models/ Market Emerging



Question and Answer



Why it Matters

- As a manager/business owner, you should know that identifying business trends is one thing that you *absolutely* need to do in order to make sure your company is able to stay relevant.
- Since trends can seemingly change on a whim, especially within certain industries, keeping up with them can seem like a very involved task. Yet, it has to be done.
- That's why this post will be dedicated to trend-spotting and noticing just what kinds of developments are shaping your industry.
- So keep reading to learn all about identifying business trends, why it matters, and how your company can benefit from doing it.

Why Trend Spotting is Important

- Business trends change because the wants, needs, and tastes of the consumer change. There could be a number of reasons for this, but the fact that it happens at all is the only reason you need to begin understanding why it happens.
- Since the customer is what drives your company's success, you want to make sure that your products and services are always in line with what they want and need.
- There's no way that a business would be able to stay relevant or, in some cases, even exist, without knowing about how the customer is spending his or her money. With that in mind, one of your business processes should be staying current with developing trends and making sure that you devote some of your marketing efforts to taking advantage of those trends.

2. Environmental Factors that Influences Organizational Change Decision Making

Organizational environment denotes internal and external environmental factors influencing organizational activates and decision making. Every organization, whether business or non-business, has its environment. The organizational environment is always dynamic and ever-changing.

Organizational changes today are so frequent and every change brings so many challenges that managers and leaders of the organization need to be vigilant about the environmental factors. The environment of an organization consists of its surroundings – anything that affects its operations, favorably or unfavorably.

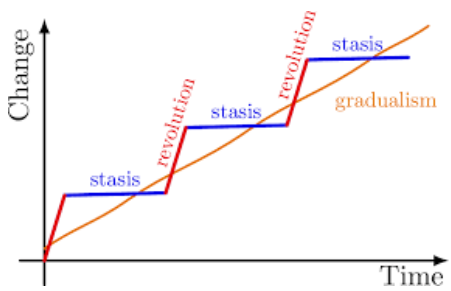
Environment embraces such abstract things as an organization's image and such remote visible issues as economic conditions of the country and geo-political situations. The environmental forces abstracts and visible need careful analysis. The systematic and adequate analysis produces the information necessary for making judgments about what opportunity and risk to capture. Managers cannot make appropriate change strategy simply based on their guesses and instincts. They must use relevant information that directly flows from the analysis of their organization's environment.

Environmental Change

The rate at which a company's general and specific environments change.

- Stable (Stasis)
  - slow rate of change
- Dynamic (Revoluation)
  - fast rate of change

Punctuated equilibrium model



Environmental Complexity

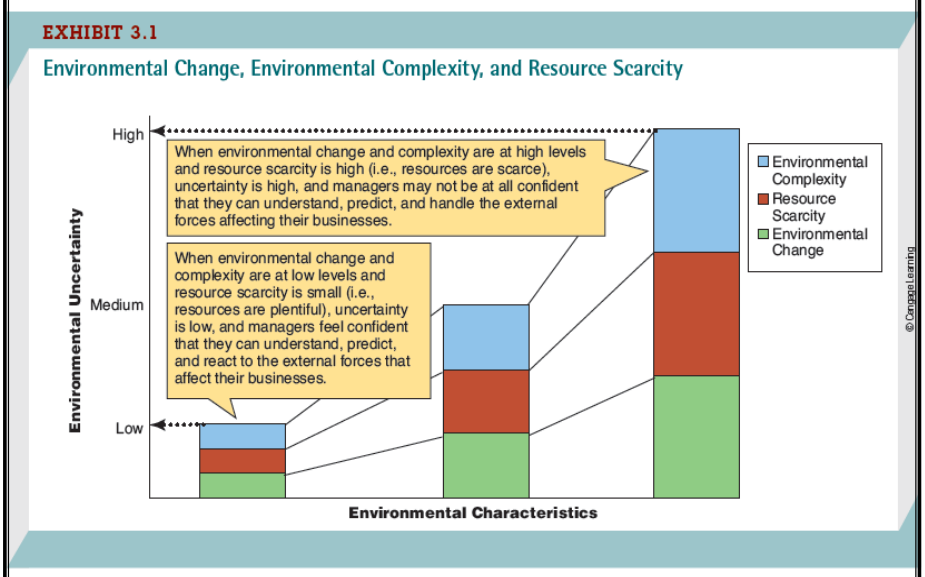
- Simple
  - few environmental factors that affect organizations
- Complex
  - many environmental factors that affect organizations

Resource Scarcity

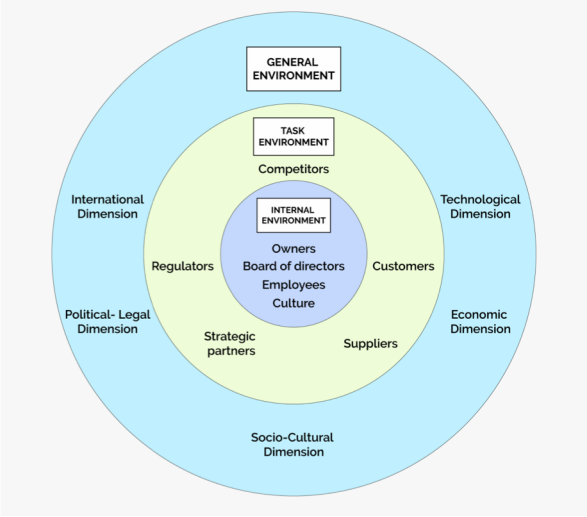
The abundance or shortage of critical resources in an organization's external environment.

Uncertainty

The extent to which managers can understand or predict the external changes and trends affecting their business.



Three Types of organizational environment



Elements of General, Task and Internal Environment

3. General Environment of Organization

The general environment usually includes political, economic, social, technological, environmental (natural), legal and ethical factors in a particular country or region. The general environment consists of factors that may have an immediate direct effect on operations but influences the activities of the firm.

The factors of the general environment are broad and non-specific whereas the dimensions of the task environment are composed of the specific organization.

The external environment consists of an organization's external factors that affect its businesses indirectly. The organization has no or little control over these factors; that means, the external environment is generally non-controllable.

Elements of general external environment

The general environment includes the; distant factors in-the external environment that is general or common in nature. Its impact on the operations of the firm, its competitors and customers make its analysis imperative.

We can use the PESTELE Model for the identification and analysis of the factors in the general environment. PESTELE Model covers Political, Economic, Social, Technological, Environmental, Legal and Ethical.

- Political factors
- Economic factors
- Social factors
- Technological factors
- Environmental factors
- Legal factors
- Ethical factors

PESTELE Analysis

PESTELE explains how even specific external factors can influence a product, brand, business, location, people and organization. It's an acronym with each letter representing a different environmental influence:

Political factors: The power of forced regulations and policies
Government policies and regulations are one of the most strict factors of PESTELE analysis. Businesses are at the mercy of political parties in power. These parties can pass new regulations quietly, with little to no influence from outside parties. For instance, tax prices would rise overnight, or products could be banned from entering or leaving a country. All any company can do is abide by regulations set by the government. Fighting against it will lead nowhere, other than the shutdown of the company forever.

China and US Trade war:
At the root of the US-China dispute is a deep disagreement over technology. The US administration believes that the state-led subsidies China offers its tech sector provide its firms with an unfair advantage over US tech companies. Overlaying the issue of "fairness" is a concern that Chinese technology could also threaten US national security. China denies the security threat and is reluctant to abandon the support it provides to its flourishing tech sector. There seems to be no common ground. Even if a deal can be struck in the coming months, it is likely to be partial and highly conditional. The below shows the extent to which the tariffs are reversing a multi-decade period of globalisation.

Economic factors: One of the most crucial factors of PESTELE analysis
One of the most impactful macro-environmental factors of PESTELE analysis is the economy. Economic factors are all concerned with the so called 'levers' of the economy. These include:

- Economic growth
- Interest rates
- Unemployment
- Inflation
- Exchange rates

It affects small and large corporations. For example, the growing unemployment rate, inflation, taxes, and lack of economic growth can undo even the most successful companies.

Right now, with the forced quarantine of many countries due to the COVID-19 outbreak, the economy all around the world is in a questionable state. Many countries are struggling to stay open their economy. The future is uncertain, yet some businesses will survive and even thrive post quarantine.

Social factors: Lifestyle, values, and cultural ideations.
Society — specifically the location of customers, cultural ideals, and values — can impact business success. If a business isn't aware of these societal factors, it may succumb to the lack of knowledge.

For instance, health is a big concern for many people these days. We're seeing an uptick in grass-fed meat products, meat alternatives, and low-calorie meals. Businesses that offer the opposite — foods rich in sodium, sugar, and fat — may struggle to entice customers to buy or investors to invest in the company. With so many leaning towards healthier foods, investors don't want to be associated with a brand that may be linked to diabetes, heart attacks, or other health complications. The above example explains how a specific lifestyle can impact businesses, but there's also the growth, age, and attitudes of a population to consider too. Societal factors are typically determined on location, so business owners need to keep up-to-date whenever possible.

Ageing: Based on the 2016-based population projections published by the Hong Kong Census and Statistics Department, the pace of population ageing in Hong Kong will be ramping up in the coming 20 years or so. Between 2018 and 2038, the size and share of the elderly population will almost double from 1.27 million and 17.9% to 2.44 million and 31.9% respectively (Chart 2). In other words, nearly one in every three persons will be elders in 2038. Meanwhile, those aged 75 or above will increase even more noticeably from 0.57 million to 1.40 million (or from 7.9% to 18.3% of the total population). In contrast, the number and shares of persons aged 18-64 and children are expected to decrease. The ageing patterns will continue throughout the projection period (up to 2066), but its pace will decelerate somewhat after 2038.

Technological factors: Differentiating advantages based on location
This comprises the next letter in PESTELE analysis, and it's relatively self-explanatory. The current, previous, and future state of technology impacts businesses. Not every person has the same access to technology as others. For instance, China owns the fastest bullet train in the world. It travels 350 km per hour. However, Japan is currently developing a bullet train that will reach these same speeds. But you won't find such fast trains in the western part of the world — at least not yet.

This means that China and Japan may have different technological opportunities compared to other parts of the world. These countries have access to faster public transportation, which may lead to various sponsorship deals from selective brands.

But technology comes in many forms. It's the manufacturing and production of devices. Or the packaging of another. It's the WiFi, cybersecurity, and the internet of things. It's also more physical, like the machinery found in factories. By understanding what technology is available now and in the future, brands can take advantage of current and future technological-based opportunities.

Environmental factors: What impact does a business have on the planet?
Many people are concerned about the current state of the planet. In regards to businesses, customers worry about what impact companies are having on the environment and natural resources. To alleviate concerns, it's common practice for businesses to outlay an environmental plan to increase renewable resource usage — solar panels, wind turbines, and more — to decrease the use of harmful resources. Companies that fail to outline a plan, or that are actively harming the planet (like by dumping waste into water) are quickly criticized.

Geographical and ecological factors, such as natural resources endowments, weather and climatic conditions, topographical factors, location aspects in the global context, port facilities etc., are all relevant to business. Differences in geographical conditions between markets may sometimes call for changes in the marketing mix. Geographical and ecological factors also influence the location of certain industries.

The climate crisis is changing the way we live and the way we work. In 2019, the UN's International Labour Organization reported that 80 million jobs would be at risk if rising temperature predictions materialize, with productivity impacted by unlivable working environments. Almost all industries are threatened by the effects of climate change, either directly or indirectly. One 2019 study has shown that the U.S. alone could lose USD 520 billion across 22 sectors due to global temperature rise. For companies thinking about the ways the changing climate might affect their business, the risks fall broadly into three types: physical, transitional, and liability risks.

Legal factors: Regulations must be followed by all corporations
Corporations are bound by legal regulations. As a business owner, you must pay employees the minimum rate set by governmental parties. You must also keep workers safe and healthy while working.

Business owners often have insurance, like liability insurance, to protect themselves if a customer were to be injured on business property. Keep in mind, new regulations are popping up, so it's important for any business to stay updated with the newest policies related to the business, state/country, or industry.

Legal Aspect of Electric Vehicles
The HKSAR Government today (March 17, 2019) announced the Hong Kong Roadmap on Popularisation of Electric Vehicles, setting out the long-term policy objectives and plans to promote the adoption of electric vehicles (EVs) and their associated supporting facilities in Hong Kong. Hong Kong's future direction to attain zero vehicular emissions before 2050. No new registration of fuel-propelled private cars including hybrid vehicles in 2035 or earlier.

Ethical factors: The one factor you can influence
Ethics is one of the macro-environmental factors businesses can influence. The ethical guidelines are determined by a company, and it's up to the owner and employees to uphold these ethics. However, ethics don't need to be set by or influenced by society, but this is often the case.

Corporate social responsibility (CSR)
CSR is a company's commitment to manage the social, environmental and economic effects of its operations responsibly and in line with public expectations. It is part of a company's approach to corporate governance and often touches every part of the business—operations, human resources, manufacturing, supply chain, health and safety, and more. CSR activities may include:

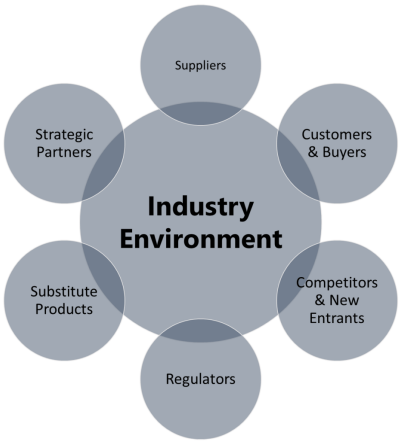
- Company policies that insist on working with partners who follow ethical business practices
- Reinvesting profits in health and safety or environmental programs
- Supporting charitable organizations in the communities where a company operates
- Promoting equal opportunities for men and women at the executive level

STEEPLED analysis comprises the same eight macro-environmental factors in PESTLE analysis, but with ethical and demographic added at the end. Business owners can use this analysis to determine how these factors may impact, impede, or improve business. More specifically, with this knowledge, business owners can make strategic and smarter business decisions.

Question and Answer

4. Elements of Task (Industry) Environment

As a manager or entrepreneur, you should be able to identify the various elements of the industry environment so that you can take appropriate steps to respond to them effectively in order to survive in the industry.



Suppliers

Suppliers are the providers of production or service materials. Dealing with suppliers is an important task of management. A good relationship between the organization and the suppliers is important for an organization to keep a steady following of quality input materials.

Suppliers are sources of resources such as raw materials, components, equipment, financial support, services, and office Supplies.

To ensure the long-term survival and growth of a company, it is essential to develop a dependable relationship between a business-firm and its suppliers. Concerning its competitive position with suppliers, a company should address the following questions:

- Are the suppliers' prices competitive?
- Do suppliers offer attractive quantity discounts?
- How costly are their shipping charges?
- Are vendors competitive in terms of production standards? Are suppliers' abilities, reputation, and services competitive?
- Are suppliers reciprocally dependent on the firm?

Customers & Buyers

"Satisfaction of customer"- the primary goal of every organization. The customer is who pays money for the organization's product or services. They are the peoples who hand them the profit that the companies are targeting.

Managers should pay close attention to the customers' dimension of the task environment because its customers purchase that keeps a company alive and sound.
Strategy managers must understand the composition of the company's customers.
With this end in view, they need to develop an exhaustive customer profile of both the present and potential customers. Managers will be in a better position to pragmatically plan the firm's strategic operations, anticipate changes in the size of the markets and anticipate demand patterns.

While constructing a customer profile, managers need to use information regarding geographic -location of customers,' demographic characteristics of buyers, psychographic issues and buyer behavior.

Competitors & New Entrants.

Policies of the organization are often influenced by the competitors. Competitive marketplace companies are always trying to stay and go further ahead of their competitors. In the current world economy, competition and competitors in all respects have increased tremendously.

A firm needs to analyze the competitive intensity in the industry. It needs to understand the competitive position in the industry to improve its chance of designing winning strategies. Many companies develop a 'competitor profile' to more accurately forecast their short-and-long-term growth and profit? potentials.

A competitor profile may include such variables as market share, product line, the effectiveness of sales distribution, price competitiveness, advertising and promotion effectiveness, location, and age of the facility, production capacity, raw material costs, financial position, etc.

The positive effect of this is that the customers always have options and the overall quality of products goes high.

The new entrants are the upcoming competitors of the firm. They are potential competitors because when they enter the industry with similar types of products, the competitive intensity increases.

Regulators
Regulators are units in the task environment that have the authority to control, regulate or influence an organization's policies and practices.

Government agencies are the main player in the environment and interest groups are created by its members to attempt to influence organizations as well as the government. Trade unions and the chamber of commerce are common examples of an interest group.

Substitute Products
The producers of substitute products are indirect competitors. Substitute products serve the same categories of customers. They can meet the similar needs of customers, and therefore, emerge, as threats.

For example, when the detergent powder is capable of meeting customer needs in a much better way or even in the same way as the laundry soap does, the detergent powder becomes a strong indirect competitor of laundry soap.

Strategic Partners
They are the organization and individuals with whom the organization is to an agreement or understanding for the benefit of the organization. These strategic partners in some way influence the organization's activities in various ways.

The industry environment is the competitive environment of a business organization. Industry environment substantially affects a firm's business operations, because it is the 'immediate' external environment of the firm, which is also known as 'immediate operating environment.'

Every firm operates its business in an industry and therefore its activities are directly affected by any change in the industry and therefore its activities are directly affected by any changes in the industry environment.

Changes in the genera! the environment can have a direct impact on any of the factors in the industry environment. An organization has greater control over the industry's environmental factors than the general environmental factors.

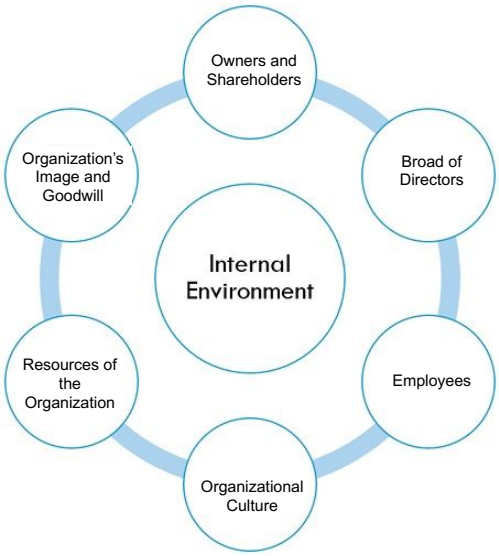
One point is to be noted that although the industry environment affects all the firms in the industry, in reality, all firms are not affected equally.

Question and Answer

5. Internal Environment of Organization

- Forces or conditions or surroundings within the boundary of the organization are the elements of the internal environment of the organization.
- Internal environment is a component of the business environment, which is composed of various elements present inside the organization, that can affect or can be affected with, the choices, activities and decisions of the organization. It encompasses the climate, culture, machines/equipment, work and work processes, members, management and management practices.
- In other words, the internal environment refers to the culture, members, events and factors within an organization that has the ability to influence the decisions of the organization, especially the behaviour of its human resource. Here, members refer to all those people which are directly or indirectly related to the organization such as owner, shareholders, managing director, board of directors, employees, and so forth.

Elements of internal environment



Elements of internal environment

Owners and Shareholders.

Owners are people who invested in the company and have property rights and claims on the organization. Owners can be an individual or group of persons who started the company; or who bought a share of the company in the share market. They have the right to change the company's policy at any time.

Owners of an organization may be an individual in the case of sole proprietorship business, partners in a partnership firm, shareholders or stockholders in a limited company or members in a cooperative society. In public enterprises, the government of the country is the owner.

Whoever the owners, they are an integral part of the organization's internal environment. Owners play an important role in influencing the affairs of the business. This is the reason why managers should take more care of the owners of their organizations.

Board of Directors

The board of directors is the governing body of the company who is elected by stockholders, and they are given the responsibility for overseeing a firm's top managers such as the general manager.

Employees

Employees or the workforce, the most important element of an organization's internal environment, which performs the tasks of the administration. Individual employees and also the labor unions they join are important parts of the internal environment.

If managed properly they can positively change the organization's policy. But ill-management of the workforce could lead to a catastrophic situation for the company.

Organizational Culture

Organizational culture is the collective behavior of members of an organization and the values, visions, beliefs, habits that they attach to their actions.

An organization's culture plays a major role in shaping its success because the culture is an important determinant of how well their organization will perform.
As the foundation of the organization's internal environment, it plays a major role in shaping managerial behavior.

An organization's culture is viewed as the foundation of its internal environment. Organizational culture (or corporate culture) significantly influences employee behavior.

Culture is important to every employee including managers who work in the organization. A strong culture helps a firm achieve its goals better than a firm having a weak culture. Culture in an organization develops and 'blossoms' over many years, starting from the practices of the founder(s).

Since culture is an important internal environmental concern for an organization, managers need to understand its influence on organizational activities.

Resources of the Organization
An organization s resources can be discussed under five broad heads: physical resources, human resources; financial resources, informational resources, and technological resources. Physical resources include land and buildings, warehouses, all kinds of materials, equipment and machinery.

Examples are office buildings, computers, furniture, fans, and air conditioners.
Human resources include all employees of the organization from the top level to the lowest level of the organization. Examples are teachers in a university, marketing executives in a manufacturing company, and manual workers in a factory.

Financial resources include capital used for financing the operations of the organization including working capital. Examples are investment by owners, profits, reserve funds, and revenues received out of a sale. Informational resources encompass 'usable data needed to make effective decisions.

Examples are sales forecasts, price lists from suppliers, market-related data, employee profile, and production reports.

Organization's image/goodwill
The reputation of an organization is a very valuable intangible asset. High reputation or goodwill develops a favorable image of the organization in the minds of the public (so to say, in the minds of the customers).

'No- reputation' cannot create any positive image. A negative image destroys the organization's efforts to attract customers in a competitive world.
The internal environment of an organization consists of the conditions and forces that exist within the organization.

Internal environment {sometimes called micro-environment) portrays an organization's 'in-house' situations.

An organization has full control over these situations. Unlike the external environment, firms can directly control the internal environment.

Internal environment includes various internal factors of the organization such as resources, owners/shareholders, a board of directors, employees and trade union, goodwill, and corporate culture.

Question and Answer