Internal Business Environment

4. lecture

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BUSINESS ENVIRONMENT

Introduction

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- Internal business environment refers to the environment within the organization.

- Internal business environment (internal environmental factors) is within the control of organization. The environment is related to the core competencies and competitive advantages of organization.

- The internal environment, associated with the employees of the organization, defines the relation between the organization as a social system and the organizational members with their individual attributes. The internal business environment is composed of strategic factors and organizational factors.

Resources and Capabilities

- Resources are an organization's assets and are thus the basic building blocks of the organization.

- They include **tangible assets**, such as its *plant, equipment, finances, and location, human assets, in terms of the number of employees, their skills, and motivation*, and **intangible assets**, such as its *technology (patents and copyrights), culture, and reputation*.

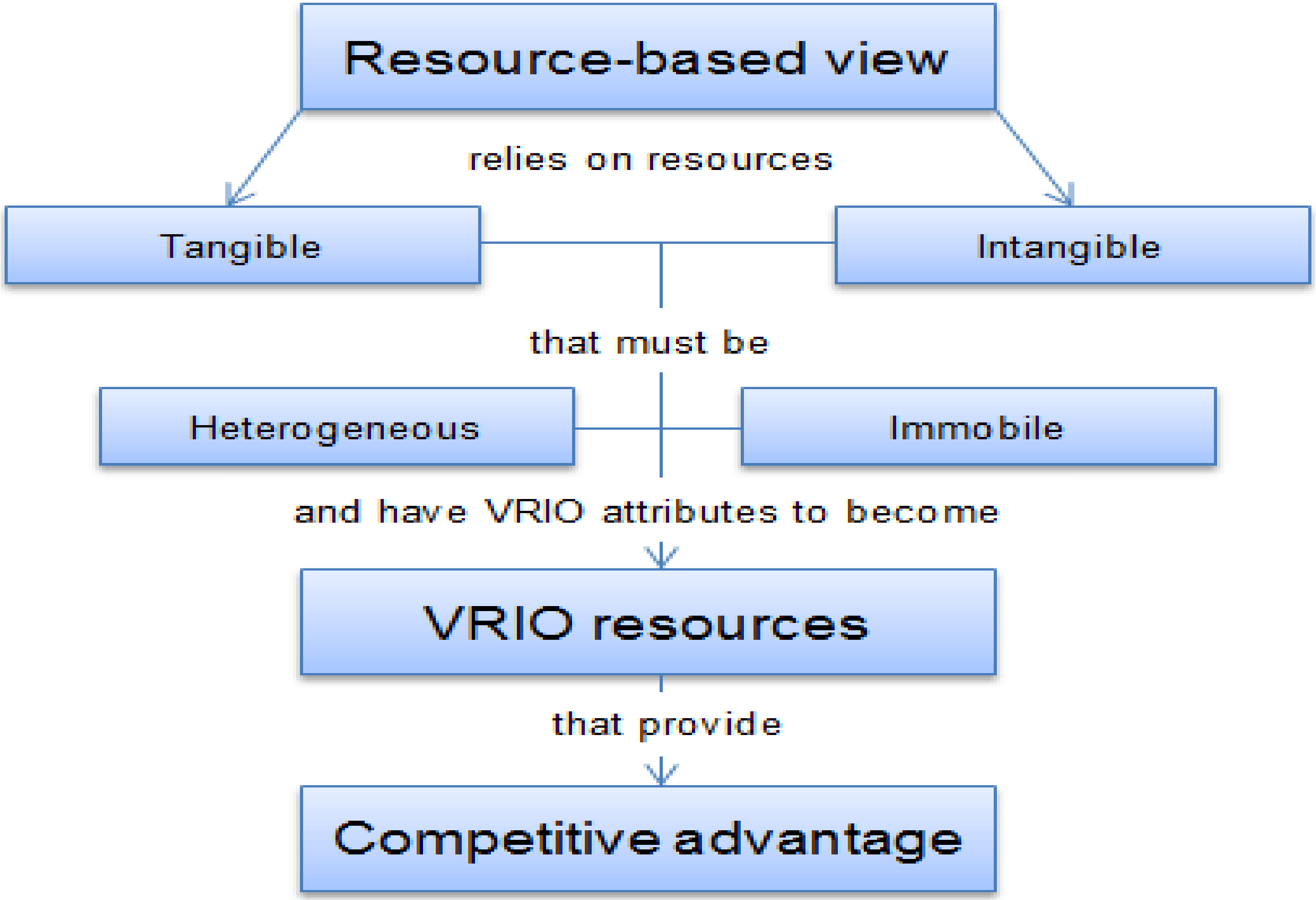
- **Capabilities** refer to a corporation's ability to exploit its resources.

- A capability is functionally based and is resident in a particular function. Thus, there are marketing capabilities, manufacturing capabilities, and human resource management capabilities. When these capabilities are constantly being changed and reconfigured to make them more adaptive to an uncertain environment, they are called **dynamic capabilities.**

Resources and Capabilities

- Four factors help a company to build and sustain **competitive advantage** - ***superior efficiency, quality, innovation, and customer responsiveness***.
- The durability of a company's competitive advantage depends upon the **height of barriers to imitation**, **the capability of competitors to imitate its innovation**, and the **general level of dynamism in the industry environment**.
- The **distinctive competencies** of an organization arise from its *resources* (its financial, physical, human, technological, and organizational assets) and *capabilities* (its skills at coordinating resources and putting them to productive use).
- If a company's managers are to perform a good internal analysis, they need to be able to analyze the financial performance of their company, identifying how the strategies of the company relate to its profitability, as measured by the return on invested capital.

Resources


Resource-based view
relies on resources
Tangible
Intangible
that must be
Heterogeneous
Immobile
and have VRIO attributes to become
VRIO resources
that provide
Competitive advantage

Core Competencies and Competitive Advantage

- **Core competencies** are those assets that are valuable for improving business, are difficult for competitors to imitate and can be extended as a value-creating capability for use in other product or geographic markets.

- Core competencies are usually classified into one of three basic groups:
  - Superior technological know-how;
  - Reliable innovative processes;
  - Close relationships with external parties.

- **Competitive advantage** is an advantage that a organization has over its competitors, allowing it to generate greater sales or margins and/or retain more customers than its competition.

- Competitive advantage is a sustainable advantage. The advantage is sustainable for long term.

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Examples of core competencies

Company	Core competencies	Application examples
Amazon.com	Superior IT capabilities	Online retailing: largest selection of items online
Apple	Superior marketing and retailing experience Superior industrial design in integration of hardware and software	Creation of innovative and category-defining mobile devices and software services
Coca-Cola	Superior marketing and distribution	Leveraging one of the world s most recognized brands Gloal availability of products
Honda	Superior engineering of small but powerful and highly reliable internal combustion enegines	Motorcycles, cars, sporting boats, snowmobiles, small aircraft

Competitive Advantage

- When a organization has permanent competitive advantage, its resources and capabilities are durable, hard to identify and hard to copy.

- A organization chooses to pursue one of two types of competitive advantage, either via lower costs than its competition or by differentiating itself along dimensions valued by customers to command a higher price.
- The sources of competitive advantage differ widely among industries and even within industry segments.

- Globalization competitors do not negate the role of the home nation in a competitive advantage but do change its character.

- The innovations that lead to the competitive advantage involve an accumulation of small steps and protective efforts as much as dramatic breakthroughs.

- Organization gains advantage initially through altering the basis of competition.

- Organizations sustain competitive advantage through improving fast enough to stay ahead.

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Types of competitive advantages

- ***Comparative advantage*** is a organization s ability to produce goods or services at a lower cost than its competitors, which gives the firm the ability to sell its goods or services at a lower price than its competition or to generate a larger margin on sales. Organization uses its resources to specialize in the production of those products that are most productive and profitable.

- ***Differential advantage*** is created when a organization s products or services differ from its competitors and are seen as better than a competitor's products by customers.

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Internal Environmental Factors

- Internal environmental factors are events that occur within an organization.

- We distinguish between two groups of internal environmental factors:

  - ***Strategic factors***
    - strategy;
    - organizational structure;
    - competitiveness.

  - ***Organizational factors***
    - managerial team;
    - organizational resources;
    - organizational culture.

Strategy

- **Strategy** is a process that can allow an organization to concentrate its resources on the optimal opportunities with the objectives of increasing sales and achieving a sustainable competitive advantage.

- Strategy is a specific group of decisions that managers take to maximize their companies performance. There are different levels of such decisions:
  - ***Mission*** – a guideline stating what the organization seeks to do and become/achieve over the long term. A mission is set by senior managers or organization s founder.
  - ***Strategic intent*** – consists of the goals that stretch the organization s performance credibly. Employees believe that the goals can be reached and will work toward their achievement.
  - ***Objectives*** – are specific performance targets. Mission and strategic intent in turn set objectives.

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Strategy: Levels of strategies

- ***Corporate strategy*** applies at the level of a organization engaged in different business segments. It essentially defines the portfolio of businesses in which the organization wants to be and the resource allocation patterns among those businesses. At this level businesses need to ask the question: „Which business should we be in?“

- ***Business strategy*** is then used as an umbrella term to denote the broad range of strategic options open to the organization, including both organizational and functional management strategy, product/market strategies, and diversification strategies. At this level the businesses need to ask the question: „How do we compete?“

- ***Functional strategy*** is an area of operational management based on a specific department or discipline within an organization, such as human resources, finance or marketing.

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Organizational structure

- Organizational structure refers to the way that an organization arranges people and jobs so that its work can be performed and its goals can be met.

- Organizational structure determines how the roles, power and responsibilities are assigned, controlled and coordinated, and how information flows between the different levels of management.

- In centralized structure, the top layer of management has most of the decision-making power and has tight control over departments and divisions.

- In a decentralized structure, the decision-making power is distributed and the departments and divisions may have different degrees of independence.

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Organizational structure: Factors influencing organizational structure

- The organizational structure of any organization depends on many factors including:
    - The work it does;
    - Its size in terms of employees;
    - Revenue;
    - The geographic dispersion of its facilities;
    - The range of its businesses;
    - Organization s objectives and strategy.

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Organizational structure: Types of organizational structures

- There are multiple structural variations that organizations can take on, but there are a few basic principles that apply and a small number of common patterns:
  - ***Traditional organizational structure***
    - Line organizational structure,
    - Line and staff organizational structure,
    - Functional organizational structure,
    - Geographic organizational structure,
    - Product organizational structure,
    - Customer/market organizational structure,
  - ***Project organizational structure;***
  - ***Matrix organizational structure;***
  - ***Committee organizational structure;***
  - ***Divisional organizational structure;***
  - ***Hybrid organizational structure.***

Competitiveness

- Competitiveness refers to the ability of organizations to compete in domestic and global markets.

- Competitiveness is an ability of a organization or a nation to offer products that meet the quality standards of the local and world markets at prices that are competitive and provide adequate returns on the resources employed or consumed in producing them.

- Competitiveness is a holistic concept which takes a whole set of issues and concerns from the ultimate output to the users to the processes that generate that output and in due course takes cognizance of the basic inputs.

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Competitiveness: Levels of competitiveness

- ***Country competitiveness*** – the goal of competitiveness is to maintain and increase the real income of its citizens, usually reflected in the standard of living of the country.
- ***Industry competitiveness*** – focuses on collective circumstances in particular industry and on the behaviors of companies in that particular industry.
- ***Company competitiveness*** – focuses on individual organizations and their strategies for operations, resource positions etc.

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Competitiveness: Pillars of competitiveness

- ***Assets*** – brand, reputation, culture, systems, human resources, technology, tangible resources.

- ***Processes*** – strategy, innovations, quality, flexibility, adaptability, persuasion power, IT applications, managing relationships, design and deploy talents, marketing, manufacturing.

- ***Performance*** – profitability, price, cost, variety, range, productivity, market share, customer satisfaction, value creation.

Managerial team

- Managerial team is generally a team of individuals at the highest level of organizational management who have the day-to-day responsibilities of managing a organization.
- Managerial team is chosen and appointed by the board of directors.
- The managerial team works in the business whilst the board works on the business.

Managerial team: Positions at the managerial team

- Chief Executive Officer CEO
- Chief Financial Officer CFO
- Chief Marketing Officer CMO
- Chief Security Officer CSO
- Chief Information Officer CIO
- General Counsel
- Chief Operations Officer COO
- Chief Procurement Officer CPO
- Chief Revenue Officer CRO
- Chief Technology Officer CTO
- Chief Visionary Officer CVO
- Chief Human Resources Officer CHRO
- Chief Learning Officer CLO

Managerial team: Management competence

- Management competence is without doubt a key factor in developing strategies to further an organization s mission, in achieving an organization s objectives and in improving its performance.

- Business organization success is considered in terms of both financial and non-financial measures and is shown to depend upon the organization achieving certain critical success factors, which, in turn, depends upon the organization s capacity to maintain and develop core competences.

- The effectiveness of teams depends upon both the competences and personalities of team members along with a wide range of organizational characteristics.

Organizational resources

- These are all the physical or human inputs used in the organization to create outputs in the organization of product or services through a transformation process.

- Organizational resources are all assets that are available to a business organization for use during the production process. Organizational resources are combined, used and transformed into finished products during the production process

- The cost and availability of these resources are important factors that determine the success of an organizations policy and strategy. Organizational behavior demonstrates as a result of influences and forces operating in the internal environment of determine the ability or constraints in the usage of resources.

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Organizational culture

- Organizational culture defines employee behavior in the internal environment and shows how well the organization will adapt to the external environment.

- Organizational culture can be defined as the set of key values, beliefs, understanding and norms shared by members of an organization.

- The concept of organizational culture helps managers understand hidden and complex aspects of organizational life.

- Organizational culture is a pattern of shared values and assumptions about how things are done within the organization. This pattern is learned by members as they cope with external and internal problems and is taught to new members as a suitable way to perceive, think and feel.

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Organizational culture: Elements, levels and dimension of organizational culure

- ***Organizational culture includes these elements:***
  - *Habits;*
  - Attitudes;
  - Deep-seated values of the business organization.

- ***Levels of organizational culture are:***
  - Artifacts;
  - Espoused values;
  - Basic underlying assumptions.

- ***Two dimensions of organizational culture:***
  - Climate-morale;
  - Involvement.

Organizational culture: Major resources of organizational culure

- Beliefs, values and assumptions of the founders of organizations.
- Learning experiences of group members as organizations change.
- New beliefs, values and assumptions introduced into the organization by new members or leaders.