

External factors that
affect an
organisation's
performance



What are the External Factors that strongly affect an organization's present and future performance? Critically evaluate the role of Technology as an element of an organization's strategy formulation and implementation.

The external factors which can influence an organisation's present and future performance are found in the macro and micro external environments in which the organisation operates. As will be expanded on below, technology is not only one of the factors in the external environment which can affect an organisation's present and future performance, but also an important element of an organisation's strategy formulation and implementation which assists an organisation to limit any negative fall out from changes in the external environment and to capitalise on any opportunities the external environment presents.

The microenvironment refers to competitive influences from the industry and markets in which an organisation operates. The strategic models which assist managers to anticipate potential risks from microeconomic factors include Michael Porter's five forces model, the opportunities and threats sections of a SWOT analysis and the resource/core competence model. ^[1] Porter's five forces model refers to five forces which he believes shape the strategies that organisations implement and which drive competition in an industry. These forces are; " potential entrants with their threat of entry; buyers with their bargaining power; suppliers with their bargaining power; substitutes with their threat of substitute products or services; and industry competitors with their rivalry among existing firms." ^[2] However, while microenvironmental factors are important, they are much easier for managers to plan and prepare for.

When asked to reflect on the environmental forces which *strongly* affect an organisation's present and future performance, one has to look at macroenvironmental factors. The factors which make up the macroenvironment in which an organisation operates are much more difficult for an organisation to anticipate and plan for and thus much more likely to have a strong effect on an organisation's performance when they do occur. These factors effect all the organisations in a sector and include, " socio-demographic, political, economic, natural and technological influences" (or " SPENT" [3]). [4]

Socio-demographic factors relate, as the name suggests, to changes in the demographic nature of society. This can include such things as an aging population, more single person households, children remaining at home longer, people putting their careers before having children, etc. While socio-demographic factors can have a strong influence on an organisation's performance, these factors are generally slow moving and easier than some of the other factors to anticipate and plan for. For instance, it has been known for sometime that Western societies are faced with an aging population [5] . As such an organisation's future strategy would need to reflect this change in order for that organisation to remain competitive.

The political environment includes such things as changes in legislation, legal decisions, wars, etc. One of the most recent examples of the effect that the political environment can have on organisation's present and future performance was the passing of new legislation in the US which curtailed the ability for credit card companies to process payments relating to online

gambling. The legislation passed in the US late last year, saw an immediate halving of the share prices of many online casino operators on the basis that up to 70% of online gambling revenue had to that point come from US customers. ^[6] This was a change in the political environment that was extremely difficult to anticipate and, more importantly, almost impossible to guard against.

The economic environment relates to the state of both domestic and international economies. As the world becomes increasingly inter-reliant, the effect of a downturn in a foreign economy can have a domino effect on economies around the world and effect an organisation's present and future performance (even when that organisation has no dealings in that foreign economy). A recent example of this effect was the recent fall on the Chinese stock market which led to the US stock market losing \$900 million in value (or almost 5% of its value) over a five day period. ^[7]

The natural environment relates to changes in nature including factors such as global warming, flooding, hurricanes, etc. While the natural environment can have devastating effects on an organisation's performance, in economic terms, natural disasters are more likely to be an opportunity for an organisation as the risks can be limited through insurance, force majeure clauses in contracts and duplicating vital business data in secondary locations while the damage that a natural disaster creates opportunities for rebuilding. A recent example of this was the devastation of New Orleans. While this represented a tragic human disaster, it no doubt also increased the profits of those organisations involved in the reconstruction of the city.

Finally, the technological environment is perhaps the external environment which changes the most quickly in the information age and is most likely to produce disruptive technologies. While some cynics may argue that to date the majority of technological advances have simply replaced what already existed in analogue form with a digital version, such comments do not reflect what a fundamental shift this change has been. For organisation's competing in the information age, in which sustainable competitive advantages are ever more difficult to come by and retain, the one core competency which must be pursued without fail if present and future performance is to be enhanced is the need to utilise technology to its full potential in the pursuance of relentless innovation.

Strategy has been defined as, “ the match an organisation makes between its internal resources and skills... and the opportunities and risks created by its external environment.” [8]

In an information society, the strategic use that an organisation makes of technology is often the key differentiating factor in whether or not it prospers. An example of an organisation that has led the implementation of relevant technology in its market and reaped the benefits has been Tesco. Innovative uses of technology, and in particular customer information management systems, have allowed Tesco to become the largest retailer in the UK [9]. Tesco intends to remain at the forefront of technological innovation as evidenced by the planned introduction of radio barcodes:

“ At the most basic level Radio Barcodes have the potential to give us accurate and near real-time visibility of all the products we sell, right down

<https://assignbuster.com/external-factors-that-affect-an-organisations-performance/>

to the individual item. That visibility will be throughout our supply chain from the factory to the store. Much of this can be achieved without human intervention – imagine, no more stock counting, no more checking deliveries at the back door.” [10]

While the introduction of radio barcodes may not be particularly interesting to the average consumer, the competitive advantage that it will give Tesco over any of its supermarket rivals who do not use similar technology, while measured in pennies, will be enormous overall.

On the other hand, Tesco will need to ensure that its introduction of new technology, while providing it with a competitive advantage over its competitors does not create a consumer backlash which would have repercussions well beyond any potential savings it will make implementing the technology. This is the fine line that organisation’s in the information age are forced to tread. On the one hand, the performance of every organisation would benefit from precise and detailed data relating to their customers and their preferences. This would potentially then allow those organisations to place customers into different bands and price goods accordingly (also known as “ price discrimination”).

Perhaps the most public example of price discrimination to date involved the website retailer Amazon. com which was accused of price discrimination on the basis of customer profiling in late 2000. [11] The fact that consumers still remember this having occurred shows the risk of damage to a brand that can be caused by an organisation’s strategic use of technology without consideration of the social environment in which that organisation operates.

<https://assignbuster.com/external-factors-that-affect-an-organisations-performance/>

While the technology exists to chip people and track all their spending habits and then price goods accordingly, this does not necessarily mean that organisations should blindly rush to adopt these technologies. Unfortunately, it seems that many managers fail to understand the technology they are being presented with and rely rather on the potential benefits without due consideration of the risks. The reason for this may be the complexity of evolving technology, but a more likely reason is that the speed at which companies compete today leaves managers feeling that they have little time for reflection and due diligence and that the failure to reach a quick decision could leave their organisation trailing a competitor. The problem with such an approach is that mistakes in a fast moving environment are likely to be exponentially more costly to recover from.

Both the micro and macro external environments have an influence on the present and future performance of organisations. Due to macroenvironmental factors being more difficult to plan and prepare for, it is suggested that these are more likely to *strongly* affect an organisation's performance. While technology is an external factor, it can also be used by an organisation as an element of an organisation's strategy formulation and implementation. By utilising technology in this way, an organisation is best placed to compete in the information age, take advantage of any opportunities that the external environment may throw up and limit any threats. It should always be noted however that the implementation of technology should never become a goal in itself.

Technology can be a useful tool for the formulation and implementation of organisational strategies. Where however, the implementation of new
<https://assignbuster.com/external-factors-that-affect-an-organisations-performance/>

technology becomes the master and not the servant of an organisation's strategic planning, the potential repercussions could damage the organisation's reputation to such an extent that years are necessary for it to fully recover. To avoid this occurring, managers should take a greater interest in the technologies that they intend to implement and realise that in the information age, where relentless innovation and speed are competitive advantages, reflection and due diligence are still a necessity (perhaps more so than ever) and the relevance of a certain technology to an organisation's strategic objectives still needs to be carefully considered.

BIBLIOGRAPHY

1. Campbell, D. J., Stonehouse, G. & Houston, B. (2004), *Business Strategy: An Introduction*, Elsevier Butterworth-Heinemann, Oxford
2. Clark, J. (1995), *Managing Innovation and Change: People, Technology and Strategy*, Sage Publications, London
3. Clawson, J. G. & Conner, M. L. (2004), *Creating a Learning Culture: Strategy, Technology and Practice*, Cambridge University Press, Cambridge
4. *A Costly Case of Market Jitters*, taken from <http://www.washingtonpost.com/wp-dyn/content/article/2007/03/06/AR2007030601599.html>, last accessed 7th March 2007
5. *Gaming firms plan for US upheaval*, taken from <http://news.bbc.co.uk/2/hi/business/6044702.stm>, last accessed 7th March 2007

6. Grant, R. M. (2005), *Contemporary Strategy Analysis: Concepts, Techniques, Applications*, Blackwell Publishing, Malden MA
7. Grigsby, D. W. & Stahl, M. J. (1997), *Strategic Management: Total Quality and Global Competition*, Blackwell Publishers Ltd, Oxford
8. Paul, J. (2005), *International Business*, 2nd ed., Prentice-Hall, New Dehli
9. *Radio barcodes*, taken from <http://www.tesco.com/radiobarcodes/>, last accessed 7th March 2007
10. Rainey, D. L. (2006), *Sustainable Business Development: Inventing the Future through Strategy, Innovation and Leadership*, Cambridge University Press, Cambridge
11. *Tesco enjoys further sales rises*, taken from <http://news.bbc.co.uk/1/hi/business/6208804.stm>, last accessed 8th March 2007
12. Turow, J. (19th June 2005), *Have they got a deal for you*, taken from http://www.washingtonpost.com/wp-dyn/content/article/2005/06/18/AR2005061800070_pf.html, last accessed 7th March 2007
13. Vaghefi, M. R., Paulson, S. K. & Tomlinson, W. H. (1991), *International Business: Theory and Practice*, Taylor & Francis, NY
14. Zack, M. H. ed. (1999), *Knowledge and Strategy*, Butterworth-Heinemann, Woburn, MA

Footnotes

[1] Campbell, D. J., Stonehouse, G. & Houston, B. (2004), p. 113

[2] Grigsby, D. W. & Stahl, M. J. (1997), p. 145

[3] Other mnemonics (such as PEST, STEP and PESTLE) exist which generally cover the same external environmental factors.

[4] Campbell, D. J., Stonehouse, G. & Houston, B. (2004), p. 113

[5] Grigsby, D. W. & Stahl, M. J. (1997), p. 33

[6] <http://news.bbc.co.uk/2/hi/business/6044702.stm>

[7] <http://www.washingtonpost.com/wp-dyn/content/article/2007/03/06/AR2007030601599.html>

[8] Zack, M. H. ed. (1999), p. 3

[9] <http://news.bbc.co.uk/1/hi/business/6208804.stm>

[10] <http://www.tesco.com/radiobarcode/>

[11] Turow, J. (19th June 2005)