

# Volatile environments: meaning to the organization



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The organization exists in order to achieve a goal. To reach this purpose, it has to evolve in an environment with which it interacts. This environment implies all external elements that have the potential to affect the organization. Some elements have direct impact on the organization while others do not. Today the environment is changing so fast that it becomes increasingly volatile. In fact, it creates uncertainty. Thus, some opinions state that this changing environment represents great threats for the organization. However, other opinions see the volatile environment as an opportunity for the organization to innovate. Based on these considerations, this paper analyzes the different sectors of the external environment, highlights the way they influence the processes of the organization and demonstrates how they make up threats or opportunities for the organization.

## **Part 1. – The environment**

The external environment of the organization is made up of several sectors. Scholars state that: “ for each organization, ten sectors can be analyzed”. These sectors can be all the outside institutions or forces that have impact to organization’s ability to reach its goal. Organization has to interact with the market sector, the industry, the government and the financial institutions. It also has to cope with the economic conditions. Organizations need to get human resources, and adequate technology. All of these components imply the external environment.

This external environment is not static. The elements with which organization works are quite dynamic. They change all the time. Most of the time, it is very hard for organization to even predict the change rates. Now, what are the characteristics of these elements? How volatile are they today?

## The Market

Nowadays, customers are becoming increasingly advised. From day to day, they are arming with extensive information and they are being more resistant to stimuli. The clients want goods and services customized to their needs and their interest for a particular product can be abruptly shifted. Moreover in the context of the globalization, markets and technologies are more and more interconnected. Then, it is not easy to handle all the variables that motivate the choice of the customers.

## The industry

It describes a particular business activity (for example, the software industry). This sector has a life cycle. This cycle shows an image of the changes observed in the industry over time. The life cycle is not static. It has several stages: birth stage, growth stage, shakeout stage, maturity stage and decline stage.

Birth Growth Shakeout Maturity Decline

(Exhibit 1)

During the first stage, organizations seek to develop new services or goods. Then the services or the good gain customer acceptance and begin to grow rapidly. It is the second stage. The third stage is the most fragile. When the growth becomes visible, many organizations will enter the industry. Thus, the environment can be more agitated. During the fourth stages, the sector becomes more stable. Finally, during the last stage, the activities are quite slow.

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Most of the time, the life cycle changes very fast. When competitors, through advertising and new services or products, react with aggressiveness; instability occurs.

### The government

In the government sector, several aspects can be analyzed. The political aspect makes up an important force. In many countries, changes in political arena may cause high uncertainty in the environment. In reality, these changes are not the main problems; in themselves. The issue is the way in which they occur and the outcomes they produce. In most countries, there are changes in political arena but the environment still stays more or less stable. The other aspects in the government sector are taxes, laws and regulations. In many government designs, they are all intertwined.

Change is inherent to the government sector. The issue is when it occurs abruptly. For example, when a rupture suddenly happens in the political arena, it may create chaining effects on the whole environment and make it very unstable.

### The Financial and Economic conditions

Every single manager knows that the world economy is intertwined. An economic crisis of a country may affect the economy of other countries. A recent example may be the recession in the United States. Many countries in the world have been hit by the effects of this crisis. Another example is the European crisis. A financial disequilibrium in few European countries cause

great turbulences in the zone. Then it is clear that the influence of the intertwined economy cannot be neglected.

During this decade, the world has known several financial and economic crises. The stakeholders have made a lot of efforts to boost the global economy. But, much remain to be done. According to the “ Global Financial Stability Report (IMF - October 2010), despite the ongoing economic recovery, the global financial system remains in a period of significant uncertainty”. The banking system still faces up complex situations. In mature credit markets worldwide, the total losses are very important. To keep themselves alive, the banks have to get additional capital. Thus, the environment is still risky.

Many other variables such: Stock market, unemployment rate and inflation have to be taken in considerations. These variables broadly depend on the financial and economic conditions.

The human resources

In the global economy, highly qualified human resources make up a potential source of comparative advantage. They play a great role in the economy.

The human resources represent valuable assets in the business environment. Today, scholars even talk about “ human capital”. The idea is not to consider the human being as a machine which only provides services to organization. The approach is to have a better understanding on how the human skills can be an important booster for the economy of the 21st century.

This sector broadly depends on universities outcomes. Nowadays, the world is changing so rapidly that the universities should do more efforts to produce high developed human resources. That is to say, these competencies have to fit to the reality of the changing world. Most of the times, the shifts are very fast. In this case, the universities usually take more times to respond. It does not mean that they are ineffective. The problem is that the universities, themselves, have to cope with many complex variables.

There are a lot of challenges in the human resources sector. While these resources become scarce, the law of demand, in the labor market, will be applicable.

The technology

The technology is becoming essential for the well-being of the global economy. The technology affects the way information is treated, the way enterprises produce and the way people communicate. Since the world has become a small village, the information technology makes up a mainstay in business sector. The evolution of the internet makes the exchanges easier among people. Nowadays, it is possible to buy anything from anywhere. People do not need to travel for some meetings anymore. Web-conference allows us to communicate with high definition video and high quality sound. Finally, every single person knows that the technology plays a great role in the world.

However, the evolution of the technology is so fast that it is becoming difficult to handle it. The changes are often done abruptly. Mostly, we do not even have time to react. The technology we use today will be rapidly

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obsolete tomorrow. Moreover, the technology creates a virtual world that sometimes contains a lot of security issues. We can conclude that technology is useful but this sector makes up a high speed rail which often stuns managers.

Nowadays, there is evidence that the external environment is not stable at all. The markets become more agitated; the industry's stages run faster; taxes, laws and regulations cannot be handled by the organization, the financial and economic conditions make up uncertainty, the human resources are scarce; and the technology is advancing at an incredible pace.

These considerations are far from being alarmist analyses. They only describe the atmosphere in which today's organizations evolve. Now, how does such a volatile environment influence the process of the organization?

## **Part 2. – The influence of volatile environment on the Organization (threats)**

Considering that the organization is not an isolated entity, it is important to understand how it interacts with the environment into which it evolves. To have a better understanding of this interaction or the way the external elements influence the process of the organization, it is essential to know about the field of activity and the model of management adopted by the organization.

Generally, an organization may adopt traditional management or modern management. Nowadays, people even talk about post-modern management.

In the traditional management theory, the organization elaborates proprietary knowledge. It uses this knowledge to extract advantages. Since this information is essential for its growth, the organization protects this knowledge and tries to make sure that it is not accessible by any other entities. To communicate with the external environment organization has to use official channels. In a few words, we can say that the organization puts more emphasis on its internal activities.

Despite this strategy, it is clear that the influence of the volatile environment still affects the processes of the organization. Let us analyze more deeply some of the external elements (threats); considering the traditional model of management.

As we have mentioned it above, the customers gain more power than ever in the market. This compels the organization to share information and to respond in a short time. But the way which the traditional management shapes the organization does not allow this latter to be as flexible as possible. Then, it becomes harder for the organization to catch the expectations of the customers. When we pay more attention to internal activities than to the customers, they go elsewhere.

In an industry where the competition is aggressive, it is very painful for a traditional management to hold on. This model shapes the organization as an autonomous entity. The traditional management does not allow information and resources sharing. Thus, it becomes very difficult for an organization which adopts this model to compete in a context of globalization. Today, a new approach of competition is born. To be



competitive in an environment where the resources are scarce, the organization has to develop relationships with other organizations. That is to say, the organization has to have a dynamic and an opened structure to survive. No organization can evolve in quarantine. Thus, we can conclude that an agitated industry may deadly affect the organization.

The progress of the technology makes up one of the threatening elements that affect the process of a traditional management. Nowadays, to survive in a global environment, organizations have to open themselves to the technology. Because, “ Markets, technologies, and organizations are becoming increasingly interconnected”, (Richard L. Daft, Understanding the Theory and Design of Organizations). Moreover the digital workplace created by the advanced technology is a big challenge for the traditional model.

Now we understand how the volatile environment can challenge the traditional management, it is important to see the degree of influence of these perturbations on an organization which adopts the modern approach of management.

Today, many organizations adopt a new model of management.

Organizations have a new approach for identifying, collecting and storing intellectual capital; in some words, a new way of working in order to achieve its goal.

**COMING SOON !!!**

**Elaboration of How does the volatile environment influence the processes of the organization (the new approach of management)?**

**How does the volatile environment make up opportunities for the organization?**