

Global organizational environment analysis of ikea



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Week 3 (Reflective Writing)

It is important to understand the industry's and business environment for organizations to make a penetration point in the marketplace if it is a new company or to gain a sustainable competitive advantage in the marketplace by exploiting core competencies and capabilities if it is an existing company in the industry. There were different methods which were used to analyze the external environmental layers of an organization. I wanted to learn about the different types of environment which an organization might have and this week provided some great learning and deep insights regarding the analysis of the environment and understanding of the managerial environment.

The key ideas which were gained from this week were (1) I was able to recognize the organization as an open system, (2) I learnt different dimensions of organizational environment such as complexity, stability, market diversity and hostility, (3) I understood the strategic significance of environmental scan and management of environmental conditions, (4) I recognized the importance of industry analysis and (5) Finally, this week taught me Political, Economic, Social and Technological (PEST) analysis for analyzing the environment. All of the above concepts were easy and I understood or learnt them efficiently. But I would like to increase my knowledge by reading Michael Porter's book "Competitive Strategy" because it is one of the greatest achievements and literatures regarding the environmental analysis.

I read an article "The five competitive forces that shape strategy" by Michael Porter (2008) in which I learnt the five forces (1) Bargaining power of

customers, (2) Bargaining Power of Suppliers, (3) Threat of New Entrants, (4) Threat of Substitutes, and (5) Competitive rivalry within the industry were the most effective forces that defined an industry's attractiveness and its environment. Moreover, if the above forces were favorable from company's perspective then the company might capitalize this opportunity but if the above forces were not favorable then it might consider a harvest or divest strategy to exit the industry.

Week 4 (Reflective Writing)

The Macro-economic environment is the most important environment which a firm or business must consider for devising an efficient strategy to gain a sustainable competitive advantage in the marketplace. The micro-economic environment of a business or industry is dependent on the macro-economic environment and there is a direct relationship between the business's success and its macro-economic environment that is surrounding it. I wanted to learn from this week that how the macro-environment worked and how it could change the dynamics of an industry or business environment.

The key ideas which I learnt from this week were (1) I was able to recognize the macro level operations of an economy, (2) I read about the objectives and different instruments adopted by government for devising an efficient macro-economic policy, (3) I was able to discuss impacts of macro-economic environment on business's performance, and (4) I tried to analyze the performance of UK economy in macro-economic terms. The most interesting concept was the circular flow of income. I would like to increase my knowledge by reading a book " Macro-Economics - A modern approach" by Robert J. Barro.

I read an article “ The competitive advantage of Nations: Is Porter’s Diamond Model framework a new theory that explains international competitiveness of countries” by A. J. Smith (2010). The framework introduced by Michael Porter is the best framework to identify the macro-economic factors for analyzing a business environment to increase the competitiveness of an organization. According to Michael Porter, the firm’s strategy, structure, and rivalry, factor conditions, demand conditions and supported industry play the most significant role in the competitiveness of industry and organizations. Most importantly, government plays the key role to enhance the above factors by devising an efficient macro-economic strategy.

Week 5 (Reflective Writing)

Economic environment of Europe is badly affected by the global economic recession and financial crisis. It is a threat for business and industrial environment of Europe. As I had learned in the previous week that governmental macro-economic policies could change the dynamics of business or industry environment of a country. In this paper, I wanted to learn about the key issues regarding the macro-economic environment of Europe and how these could affect the business and industrial environment of Europe. Also, I was curious to explore the policies and strategies of European Union.

After this week, I was able to (1) understand the most significant developments and geopolitical advancements that took place in Europe in the recent years, (2) analyze the frame work of European Union in terms of administration and policy making and its implications for modern business practices, (3) Analyze the concerns arising from successive European Union

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Enlargements, European Monetary Union with debates on Euro and UK's consideration for joining European Union. I studied different concepts regarding the monetary and economic developments and all were easy to understand. But I would like to increase my knowledge by reading the book "European business and Marketing" by Harris and McDonalds.

An article by Rayna Karcheva namely "Two Years after EU Accession: Risks and Challenges to New Member States" analyzed the current European Union Accessions. It was a study which offered a comparative analysis by selecting eight European Union Countries and described how the European Union accessions had effects on political structures and attitudes of these eight countries. This article provided some deep insights which were important and related to the week's learning.

Week 6 (Reflective Writing)

It is important for organizations which are operating globally or internationally to understand the global environment for being internationally competitive. A global or multinational organization must operate efficiently by employing both the elements of centralization and decentralization to survive internationally. The element of decentralization is important because different parts of the world have different kinds of environment and the multinational organizations have to customize their operations to operate under different environments in different regions of the world. I wanted to learn the different perspectives of an international environment which multinational corporations might face while operating internationally. Moreover, I wanted to study the impacts of changes in international environment on organizations that were present globally.

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After studying the module in this week, I was able to (1) understand the globalization, its different dimensions and its impacts on business and industrial environments, (2) describe the different dimensions and perspectives of a globalization, (3) recognize the forces that were significant in globalization (such as political, social, economic and technological conditions of different regions) and (4) understand the significance and role of globalization for being competitive by cost and differentiation advantages. I did not find any concept difficult. But I would like to read the book “Competitive Strategy” by Michael Porter to understand the globalization and competitive strategies.

Again, the article “The competitive advantage of Nations: Is Porter’s Diamond Model framework a new theory explains international competitiveness of countries” by A. J. Smith explains international competitiveness and globalization (2010). Porter’s diamond model is the best framework to identify and analyze the global business environment to increase the competitiveness of an organization. According to Michael Porter, the firm’s strategy, structure, and rivalry, factor conditions, demand conditions and supported industry play the most significant role in the competitiveness of industry and organizations. Most importantly, government plays the key role to enhance the above factors by devising an efficient macro-economic strategy. This article also defines that how global companies could achieve competitiveness through globalization.

Week 7 (Reflective Writing)

It is era of evolution and development. The dynamics of the world economy are changing rapidly and different less developed parts of the world such as <https://assignbuster.com/global-organizational-environment-analysis-of-ikea/>

Africa and Asia are developing rapidly with an integrated economic growth. I called it an integrated economic growth because most of the developed nations have the expertise while these less developed nations have resources. The corporations for developed countries are relocating to less developed countries in the quest of resources and cost-advantages to beat the competition. Therefore, these nations are enjoying a sustained and integrated economic growth due to direct foreign investments (FDIs) by corporations from the developed world. I wanted to learn from this session about developing economies of world like Asia, Africa and America and to make a comparative analysis of these economies. This week taught me some facts and insights about the developing nations of the world.

In this week, I learnt (1) the rising influence of developing economies on other parts of the globe and different characteristics of these developing economies, (2) to evaluate the Brazil, Russia, India and China (BRIC) countries' contributions to the global economy and differences among them, (3) the different challenges faced by BRIC countries and different challenges expected to be faced by them in future, and (4) to propose different solutions for the developing and reformation of Africa. All the concepts and topics related to these countries were interesting and I gained what I wanted easily and efficiently. For further enhancement of my knowledge, I would study the book "The Shackled Continent: Africa's Past, Present and Future" by Guest.

I studied an Article "India since Independence: An analytical growth narrative" by J. Bradford Delong (2001) in which I learnt the trends in economic growth of India and the different factors which anticipated growth

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in Indian economy and were expected to further grow the Indian economy in future. The most important factor that caused Indian economy to grow was the government initiatives and macro-economic policy which made India as one of the fastest growing economies of the world.

Week 9 (Reflective Writing)

Market Entry, Market Exit and Competitive Strategy are the most important decisions which a firm may have to adopt to gain a sustainable competitive advantage in the marketplace. It is very crucial for organizations to scan the environment of the industry at both micro or macro levels to take a strategic decision for surviving in the marketplace. Different frameworks such as Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis, PEST analysis and Porter five forces are used by firms to identify the business structures and to analyze the industry for devising an effective and efficient strategy. I wanted to learn the most accurate, valid and reliable framework for analyzing the industry and I found that Porter five forces was the best framework that could be used to analyze the industry for making a strategy.

After studying the module, I (1) understood the different types of market structures and behavior of firms. I also understood the implications of market structures on behavior of firms, (2) studied different types of competitions such as monopolistic competition, oligopoly and monopoly and measurement of competition by concentration ratios, (3) analyzed the role of governments to regulate the competition and competitive strategies of corporations, and (4) learnt how to analyze market structures and industry by Porter five forces and understood its implications to define an organization's strategic positioning. I understood all the concepts efficiently and I would like to read <https://assignbuster.com/global-organizational-environment-analysis-of-ikea/>

the book “ Competitive Strategy” by Michael Porter to increase my knowledge.

I read an article “ What is Strategy” by Michael Porter (1996) in which he defined that Strategic Positioning and operational effectiveness were two entirely different approaches and concepts. As most of the companies confused operational effectiveness and strategic positioning while analyzing business environments. Operational Effectiveness is necessary for a business success but not sufficient for it. An organization has to develop a strong strategic positioning to be globally competitive and to gain a sustainable competitive advantage which is not imitable by competition. Strategic Positioning is an entirely different approach and it is “ performing different activities from competitors or performing similar activities in different ways”. On the other hand, operational effectiveness is just performing similar activities from rivals in a better but not different way. Therefore, the competitive advantage gained from operational effectiveness is easily imitable because the competitors may also adopt the same or better practices to come up with the same or a better advantage. But, in case of strategic positioning, competitors could not imitate because the corporation adopting strategic positioning is entirely different from rivals and a competitor has to copy the whole activity systems to imitate that competitive advantage which is almost impossible because the own strategic positioning of that particular competitor would be lost after doing this. Japanese companies were well known for best-practices and Total Quality Management. Their global competitiveness was based on operational effectiveness in the 1970s and 1980s. In the race of operational

effectiveness, the Japanese companies could not develop strategic positioning and fell under the trap of competitive convergence. The focus of Japanese corporations was to imitate competitors and just to perform better. Japanese enjoyed success because the world economies were growing. But when the markets became saturated; the Japanese firms were stuck in their own traps and finally rubbed out of markets. (Michael Porter, 1996)

Week 10 (Reflective Writing)

Customers are the most important assets for an organization. Marketing is all about identifying customer needs and wants and satisfying those needs and wants for a profit. In simple words, marketing is all about creating value, delivering it to customers (customer value) and capturing a part of it in the form of profits. All firms have to efficiently design their marketing mixes (Product, Price, Place and promotion) for gaining a competitive advantage in the marketplace. I wanted to learn that how customer value could be generated and delivered to customers in this week. It is also important to note that customer value is the determinant of company profits and shareholders' value. The higher customer value leads to more profits for the company and more value for the shareholders (financial objective of the firm).

After this week, I learnt (1) market segmentation as dividing customers with different needs into small groups of customers with similar needs for targeting them efficiently to deliver value and capture a part of value, (2) the bases for segmentation were needs based, demographic, psychographic and geographic depending on the company's marketing focus, (3) different market segmentation strategies like Undifferentiated, Concentrated,

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Differentiated and Custom Marketing for delivering customer value and (4) Positioning as what customers' perceives as advantages and disadvantages of our product or service. I would like to read the book of Roger J. Best "Market Based Management - Strategies for growing customer value and profitability" to increase my knowledge.

I read different chapters from "Market Based Management" by Roger J. Best (2008) and learnt that brand positioning played the most significant role in delivering superior customer value. Moreover, Strong customer focus and strong competitor focus enables the companies to deliver superior value to customers. Enhancing customer experience also increase customer value. Efficient marketing communications are important for delivering customer value.

Week 11 (Reflective Writing)

Every performance and objective needs focus. It is sometimes easy to devise a marketing strategy but it is very difficult to manage a marketing strategy. I wanted to learn different methods and frameworks that could be used to analyze and define the marketing strategy for perform efficiently in the marketplace to delivering superior value to the customers. It is important to note that only those firms win the battle of competition who deliver superior value to customers relative to the competition. I wanted to learn the methodology to measure and evaluate the performance of brands and marketing efforts to deliver superior value to customers relative to competitors. I also learned some difficulties in conducting such analysis.

I understood different tools and mechanisms to analyze the marketing performance that managers adopted to deliver superior value to customers. Identifying market attractiveness and market potential is important for delivering value to customers. I learnt different methods that could be used to measure the performance and value of brands. One of the most important criteria was to measure the brand equity. If a brand has strong brand equity then it is supposed to deliver a superior value to customers in the marketplace relative to competition. I was able to evaluate the constituent elements used within the marketing performance. Also I learnt to examine the contribution of performance analysis for management in dynamic organizational environments. I will increase my knowledge by studying the book "Market Based Management" which is mentioned in the previous week.

Brands do have assets and liabilities like corporations and organizations and a brand's equity is estimated in the same way, by deducting liabilities from assets. Some examples of brand assets are emotional connection with customers, brand loyalty, product line extensions, and price premiums. While some liabilities of brand are customer dissatisfaction, questionable practices, poor record on social issues, and negative associations. Therefore, brand equity can be estimated as: $\text{Brand Equity} = \text{Brand Assets} - \text{Brand Liabilities}$ (Best R. J., 2008).

disadvantages of scenario planning. I learnt how to construct scenarios. I would like to increase my understanding by different articles and books.

IKEA – Global Organizational Environment

The name IKEA is an acronym for the initials of Ingvar Kamprad who is the former of IKEA, his farm Elmtaryd, and his country, Agunnaryd, in Smaland, South Sweden. It is interesting to note that Ingvar Kamprad started his career as an entrepreneur just in the age of 17 years. His initial business was selling fish, Christmas magazines and seeds. Then, in few years, he started selling diverse products such as ballpoint pens and furniture and employed a mail order business to sell these products. Then, he analyzed the business environment and decided that furniture business had the greatest potential and it was a great opportunity to start a furniture business. (Christopher A. Barlett, 1996)

Dramatically, Swedish economy enjoyed a post war boom and the trend for traditional Swedish practice of handling down customer-made furniture was replaced by young households demand for new but inexpensive furniture. But different suppliers and manufacturers exploited this opportunity with a wrong focus by increasing the prices of furniture because these suppliers and manufacturers had the weak analysis of business environment. As a result, furniture prices increased to 41%. But IKEA's founder identified this opportunity as a profitable opportunity and a social problem. IKEA capitalized this opportunity by offering standard furniture with lowest prices relative to competition. The basic purpose of explaining the above fact is to justify that efficient environmental analysis always lead to effective and efficient decisions. (Christopher A. Barlett, 1996)

The new approach of the company was criticized by different competitors and they started using different tactics to create problems for IKEA and its

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social purpose. When Kamprad's company started participating in the annual trade fair of Stockholm, different competitors complained that IKEA was only selling imitations. Therefore, due to negative associations and misconceptions spread by rivals, IKEA was legally restricted from selling at the trade fairs. But it analyzed the business environment and started taking orders instead of selling direct to customers at fairs. Then, again, IKEA was legally restricted to show prices on furniture because the traditional retailers, manufacturers and suppliers had become a mafia or lobby and they influenced the government bodies to enforce such kind of restrictions on IKEA. The above conflict did not stop here but instead the mafia restricted different suppliers to sell IKEA. But IKEA succeeded by an efficient environmental scan and reorganized its sourcing strategy by establishing new sources in Poland. It is important to note that after rescanning the environment and devising its sourcing strategy, the cost of IKEA fell more and it felt that it could charge even low prices. The basic purpose of describing the above facts is to reveal that the leadership of IKEA was committed to the effective and efficient environmental analysis and it is the main reason for the success of IKEA today. (Christopher A. Barlett, 1996)

IKEA opened its first store in 1958. But due to competitive pressures and environmental analysis, it decided to relocate or to operate globally for gaining a sustainable competitive advantage in the marketplace. Therefore, it opened its stores in Norway in 1963 and Switzerland in 1973. IKEA had total 316 stores in 2010. (IKEA Official Website, No Date)

Type of Organization

It is an interesting fact the IKEA is a privately owned organization and its shares are not publicly traded. Privately owned organizations have a lot of advantages and disadvantages. For example, privately owned businesses are more efficient because these kinds of businesses are serving the niche markets and their profits are sometimes even more than the publicly traded large organizations. There are different reasons for which the world has become obsessed with private ownership. It is also a general perception that due to free market competition, goods and services are more efficiently delivered by private market factors than the public limited companies. Therefore, privatization drives towards better quality, lower prices, less corruption and more efficient market access/ delivery of goods and services. Privatization increases the performance as the publicly owned corporations are more bureaucratic. While in privately owned organizations, there is a motivation for objective and goal achievement which increases the performance. Privatization increases the efficiency of the organizations and economy too. Privately owned organizations tend to perform efficiently due to market competitive and survival pressures. Privately owned organizations are more focused and these organizations produce goods and services to meet the diverse needs of people. There are chances of corruption in public corporations because of the political reasons. On the other side, there are less chances of corruption in private organizations. (Alberto Chong, 2003)

The main objective of discussing the above points was to reveal that being a privately owned organization is a competitive edge for IKEA and it is performing efficiently and effectively in the marketplace better than its

rivals. It possess all the advantages which a privately owned organization possess in marketplace and more importantly it has capitalized those advantages efficiently by analyzing the business and industrial environment to meet the diverse needs of customers in the marketplace. All the above opportunities, which privately owned organizations possess, are best availed only through effective environmental analysis of business and industry which is done efficiently by IKEA and it has sustained a competitive advantage in the marketplace. It is more profitable because it is serving a niche market of Youngsters by offering standard portable furniture goods at the lowest possible prices and it is a sustainable competitive advantage for IKEA being a privately owned corporation. (Christopher A. Barlett, 1996)

Another important feature for IKEA is that it is operating in the different global markets of the world through franchising. It operates by granting rights to local franchisees within their certain territories and locations. It is an important marketing channel and supply chain management strategy of IKEA. It saves heavy cost burdens of globalization or international availability. The main focus of IKEA is on cost advantage and its all activity systems are synchronized or interconnected in such a way that all the activities of IKEA are focused to reduce overall costs by offering low prices to target customers. For example, franchising, sourcing strategy in the form of exclusive suppliers of raw materials, cost friendly store structures, no sales persons on board, standardized furniture are all examples of focusing on cost advantage. (Christopher A. Barlett, 1996)

Organizations adopt vision from leadership and organizational philosophy. Leadership vision becomes the vision of organizations and it further gives

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rise to the culture and structure of the organization. If we understand the leadership vision of IKEA than it comes from Ingvar Kamprad. He was a very simple man and he was a social responsible man. He had a vision of serving the un-served people of society. For example, when the furniture manufacturers increased their prices, Ingvar Kamprad reduced prices by focusing it as a social problem. When Ingvar Kamprad travelled to different countries for business, then he used to lived in cheap hotels, travelled by bus rather than plane and its main focus was to reduce as much cost as it can. In short Ingvar Kamprad was a socially responsible man with cost reduction focus to offer goods to final customers at low prices with two perspectives: competitive edge and solution to solve social problem (everyone could purchase furniture). He also introduced an 11-page document " Testament of a furniture dealer" as a code of conduct (Christopher A. Barlett, 1996). Based on his vision, organization philosophy of cost leadership in IKEA developed and it focused and designed all of its activity systems to reduce costs to serve the needs of customers at low prices and mostly targeted un-served market segments with a social cause (Youngsters - un-served segment). This organizational philosophy became the vision of IKEA as " To create better everyday life for the people". (Christopher A. Barlett, 1996)

Scope of the organization

As we have discussed above that IKEA was established in Sweden and then it expanded to other parts of Europe and finally it expanded to different parts of the world such as North America, Middle East, Asia Pacific and Carribean. The globalization strategy was for being globally competitive by serving customers diverse needs internationally and by beating the competition by

gaining a sustainable competitive advantage (cost) in the marketplace.

Therefore, the scope of the organization was first at the national level (Sweden), then to the regional level (Europe) and finally it became global or international.

If we study the human resources strategy of IKEA, then it always hire young professionals. Culture of the organization is based on overall cost reduction to offer low prices to target customers. Young professionals or it is not wrong if we say “ young blood” is more innovative than the old mates. Young professionals develop innovative ideas to reduce costs and satisfy diverse and unmet needs of customers efficiently. This culture is developed from IKEA’s organizational philosophy and leadership (Ingvar Kamprad). Ingvar Kamprad himself started entrepreneurship in young age and his values provided foundations for IKEA to gain a sustainable competitive advantage in the marketplace. Ingvar Kamprad always preferred young professionals and young blood brought innovation and the same thing is now a source of sustainable competitive advantage for IKEA. (Christopher A. Barlett, 1996)

There are two different kinds of diversification: product diversification and market diversification. IKEA focused more on market diversification by being a global organization and the objective of diversification was to gain a sustainable competitive advantage by efficiently utilizing the core competency of IKEA (cost advantages). For example, IKEA has developed several In house manufacturing facilities to reduce costs. It mostly buys from non-traditional suppliers to decrease costs. All other activity systems of IKEA are strategically aligned with each other to reduce overall costs as we have discussed above. (Christopher A. Barlett, 1996)

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Organization Analysis

If we analyze the organization IKEA in terms of its performance and success story then it can be easily concluded that it is performing better than its rivals by “ performing similar activities in different ways” from the rivals which was strategic positioning according to Michael Porter (1996). Michael Porter argued that organizations need to “ perform different activities from rivals or similar activities in different ways” to gain a sustainable competitive advantage.

IKEA is “ performing similar activities in different ways” from its rivals by adopting all the three levels of fitness (Simple Consistency, reinforcement and optimization) among its activity systems and therefore the current competitive advantage (which is the cost advantage) is not imitable by competition. All the activity systems (recruitment, sourcing, channel strategy and production) are synchronized with each other according to the leadership vision and organizational philosophy (being low cost, low price, solution oriented and socially responsible) to support the strategy of cost advantage and innovation. A competitor of IKEA could not copy it because it had to copy the complete activity systems of IKEA which is impossible. Therefore the competitive advantage of IKEA is not imitable.

By adopting the above unique strategy, the results are remarkable for IKEA and it has enjoyed different achievements. IKEA is the 28th most valuable brand at the global level. Its turnover has grown to EUR 22, 713 million. It has 7% of global sales in UK. In the third quarter of 2009, total sales increased by 1. 1% EUR 1. 2 billion. Its estimated market share is 5. 4 percent. Its third quarter market share in 2008 was 6. 1 percent. It is the

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second largest furniture retailer in UK. It is important to note that all the above achievements were because of “ Strategic Positioning” (cost advantages) and “ Environmental Analysis” (Meeting unmet customer needs and globalization). (Verdict Consulting, 2010)

Political, Economic, Social, Technological, Environmental and Legal (PESTEL) Analysis

Political

Different global political and national trends are faced by IKEA and it has shown flexibility efficiently to survive in different parts of the world globally. As we have discussed that how different competitors (and mafia) tried to rub out IKEA from Swedish market but IKEA played smartly and survived that intense political influence by globalization and flexibility. It was actually due to effective market sensing of IKEA. IKEA managed to developed and manage itself among different political conditions of Europe.

Economic

IKEA strategy is flexible with the economic conditions. As European economy is under recession and consumer beh