

# The chief internal and external factors commerce essay

[Business](#)



Sir Richard Branson, the charismatic and eccentric UK based businessman is the founder of the Virgin group of companies. It has business interests in a wide variety of fields of which the main ones are lifestyle, travel and entertainment. But the company does not believe in limiting itself to few areas of business. In essence, Branson's philosophy is that his company will and does actively involve in any area and the only concern is quality of the product and service that it offers. The Virgin Group is headquartered in London and employs over 50, 000 employees. The group recorded revenues of approximately 23, 000 million during the fiscal year ended March 2008. The present case analyses of Virgin Group consist of the discussion with regard to three aspects of business and management. The first one is the main internal and external factors that have influenced the group's business. The second factor are the strategies employed and the third is the critical assessment of the effectiveness the strategies implemented by the company. In the process, the paper will also discuss and evaluate the strategic options available for the next five years using appropriate models and concepts. The chief internal and external factors that have influenced the company and the strategies employed will also be discussed in detail.

### **The chief internal and external factors that have influenced the company and the strategies employed**

Organizations are made up of people and hence considered to be social entities or micro-societies. In an organization there would be people with different culture and different life styles. There are different views on the concept of the organization like treating it as an entity, a group of people, a structure, and a process. As an entity, organization means an enterprise or

company. From the viewpoint of those who treat organization as social systems, it can be defined as " a group of people intentionally organized to accomplish an overall, common goal or set of goals" (Bruhn, 2007). In terms of a structure, organizations involve relationship between different people and different positions. Organization as a process means the process of organizing people and other aspects. Even though there are different views on what an organization is, achievement of a common objective is common in all views. The success of an organisation depends upon multitudinous factors. Irrespective of the type of organisation, there is a significant role for various internal and external factors, like a proper organisational structure, efficient management and leadership, competition and also the organisational culture in achieving the objectives or goals of the organisation. First of all, a well designed organisational structure is essential for the success of any kind of organisation. Various internal as well as external factors that influenced the Virgin Group and its strategy are explained below:

### **Background:**

The Virgin Group has around 200 companies operating under its name and employs around fifty thousand people. Its different companies operate in around thirty countries. According to an interview with Branson by the editor of the online Leaders magazine, " with around 200 companies in over 30 countries, the Virgin Group (www. virgin. com) has expanded into leisure, travel, tourism, mobile, broadband, TV, radio, music festivals, finance, and health".

## **Organisational structure and management:**

Organisational structure simply means the structure of the internal operations of an organisation including different departments, divisions, human resource. According to online business dictionary, organisational structure can be defined as " formal and informal framework of policies and rules, within which an organisation arranges its lines of authority and communications, and allocate rights and duties." It is the connection between different activities and tenure in an organization. The organizational structure cannot be easily identified just like a tree structure or as it does not have physical visibility. A good organizational structure must have some qualities like simplicity, optimum management positions and suppleness. According to Kal Bishop, a London-based management consultant, there are different types of organizational structures, but most commonly seen ones are mechanistic structure and organic structure. The main difference between aforesaid two types of organizational structures is that, in mechanistic structure the authority is centralized, and in an organic structure, the authority is decentralized. Organizational structure can also be classified into formal and informal organizations structures. The former is the official structure of the organization which aims to achieve the laid down goals of the organization. In other words, it is the " the structure of jobs and positions with clearly-defined functions and relationships as prescribed by the top management" (Bose, 2002). Here more importance is given to the job and its performance rather than the person who perform the job. Accordingly, in an organization structure, each employee would be informed of his tasks and responsibilities and also they are positioned in the

organizational hierarchy based on the job specifications. In a formal organization structure the authorities and responsibilities are delegated. Informal organizational structure is an organization structure which does not come under the purview of formal organizational structure and authority. It is "the aggregate of personal and social relationships that arise spontaneously as people associate with one another in the work environment" (Rollinson, 2005). Informal organization structure has no relationship with the formal organization structure. Such an organizational structure may include personnel from the top level as well as bottom level of hierarchy. In the case of Virgin Group of companies there existed both forms of organizational structure, namely formal and informal ones. When analyzing the case of the company, it can be seen that its organizational structure is not sufficiently efficient or effective. It is evident from the failures of different companies of the Group. There is complexity in the organizational structure of the company, which caused proper management of all the units under the group a difficult task. Though the owner was successful in expanding business to different areas from mail order business, which was the first business of the Virgin Group, he was not successful in creating a proper organizational structure. As the Group is operating as an independent unit, consolidation of financial details would be difficult. The founder of the group, Branson, was of the idea that once a company under the Virgin Group reached a stable position it was possible to expand into other areas. The different companies under the Group are managed by his friends and relatives. Each company was given authority to take their own decision. In other words a decentralized decision-making policy was implemented by Branson. Branson

gave the top management of different companies' opportunities for taking initiatives to develop each individual company in his group. But a poor organizational and financial structure caused problems like shortage of funds while starting new ventures.

### **Organizational culture:**

Organizational culture, as defined by Gareth Morgan, is " the set of beliefs, values, and norms, together with symbols like dramatized events and personalities that represents the unique character of an organization, and provides the context for action in it and by it." The culture that exists within an organization strongly influences the day-to-day management of an organization. For studying an organization, it is necessary to understand its culture; otherwise the study may not give the expected result. The management must be very careful while implementing changes or new policies. That is they must make matters clear to the employees about the need for such change and how they are benefited by such change, otherwise there may arise opposite voice from the side of employees. The organizational culture that is found in the Virgin Group of Companies is a good one, which gives the employees an opportunity to take initiatives and express their views. This resulted in making the employees feel wanted since they were considered while making day to day decisions. Branson tried his level best to create a better organizational culture. For ensuring this he was careful while filling the various top positions in different companies under the group.

## **Competition:**

The competition existing in different markets influenced the business strategy of the Virgin Group. The nature of the competition faced by different companies under the Group was different. The reason is that the Group offers different special offers provided by the company that makes the company unique from the competitors. Example for such special offer or service is that the unique service provided by Virgin mobile during the quarter end period in 2009 when it lost 133, 292 customers. Virgin Mobile lessened the cost of the "all-you-can-eat plan" and initiated the "Pink Slip Protection program," which gave free 3 months' service to clients who lost their jobs. (Reardon, 2009).

## **Human Resources:**

The human resource policies of the virgin group companies were highly appreciated. Employees were given freedom of action and thereby motivating them to perform well and take initiatives (Grant, 2005).

## **(II) Critical assessment of the effectiveness of the strategies chosen**

For the success of any business organization, an effectively implemented strategy is essential. Different tools like SWOT analysis, PESTLE analysis and Porter's Five Forces Analysis are used here for analyzing the strategy of business organizations.

## **SWOT Analysis.**

The important part of strategic planning process is the scanning of external and internal environment of an undertaking. Factors, which are internal to

the firm's environment, can be classified as strengths and weaknesses and the factors which are external to the firm's environment can be categorized as opportunities and threats. This mode of analysis in the strategic environment of an organization is referred to as a SWOT analysis. A SWOT analysis will provide an idea about various resources of the organization and how it can be potentially used in the external environment (Hill, 2009).

**Strengths:** The main strength that Virgin Group enjoys is the very good brand name that the Group has. And also the reputation gained by the Group through the effective leadership of the Branson is strength. Flexibility in business operation is also strength of Virgin Group. The opportunity given by Branson to the staffs for taking initiatives helps in overall development of the Group. The group has wished with the availability of quality labors in different companies under the Group. **Weaknesses:** Though the group has number of strengths, it also suffers from some weaknesses. As mentioned earlier, the organizational structure of the Company is seen as inefficient. The owner, Branson, follows a policy of entering into all forms of business or industry. This creates problems in the overall management of the Group. As the company has different lines of products, it creates confusion among the consumers which ultimately affects the brand image of the Group.

**Opportunities:** Opportunities relate to the external environment of the organization. There are tremendous opportunities for the Virgin Group in the international expansion where the presence of Virgin Group has not yet reached. The Group can effectively utilize the brand image that the Group has all over the world. The brand name is well-known even in countries where the Group has not launched its operations. Therefore, the expansion would



not be a difficult task. The Group can concentrate on information technology as it offers lots of opportunities and with the IT industry all over the world growing at a high speed. Threats: In majority of the cases the changes in the external environment of the business organization is regarded as threat to the organization. The main threat that Virgin Group is facing is increasing competition. In the 1990s, Virgin group was leader in some industries, but now the situation has changed. New companies with strong sales promotional activities started to enter into the market (Dransfield, 2004).

### **Porter's Five Force Analysis:**

This form of analysis developed by Porter helps the marketer to identify the competitive environment of the market. Existing environmental factors are analyzed by focusing on a single business unit. It is generally accepted that "Michael Porter's Five Force Analysis is a powerful tool in marketing" (Cheverton, 2004). The five forces are illustrated in the following diagram. (Five Forces Analysis- marketingteacher. com)The central importance is given to the competitor analysis. The following factors are considered to be influential in analysis of the five forces. The threat of entry: The ability of an existing firm to make use of economies of sale and purchasing in large quantities to bring down costs is an important factor in competitiveness. Access to currently developed technology, and implantation of efficient channels of distribution are other factors that need to be considered. Any new firm that has the resources to obtain these factors can enter the market and pose a threat to existing players. So, Virgin Group faces a threat from such resource rich new entrants. It is to be noted that investing in such factors can make a company to provide cost effective products and services.

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As far as Virgin Group is concerned it is a serious threat (Ennew, 2006) Buyer power: When there are a large number of players in the market, the buyer has more choice with regard to purchase of products and services. The power of the buyer will be large in such markets. Another factor that needs to be considered is the cost of switching or changing buyers. If this is also low, the power of the buyer will be higher. For example, a customer can switch over to another airline or buy another product at his choice. There is very little or no switching costs in this case. In some industries the bargaining power of buyer is high while in some others, it is low.. Since Virgin Group is involved in a variety of business activities, buyer power will depend on the number of existing players and switching costs in each activity. For example, Virgin Atlantic Airways faces high buyer power since a large number of airlines compete with the company. The power of suppliers: If the number of suppliers is large, then a company can choose a particular supplier depending on factors like cost, quality, and delivery. Supplier power will be low in this instance. On the contrary, if suppliers are few in number, they will have the power to dictate terms to the buyer. The size and power of the buyer also needs to be considered. If a company has the resources and need for large quantities of a product, then also it can dictate terms to the supplier. In this instance also, supplier power will be low for that particular company even if the number of suppliers is limited. The Virgin group does not feel threatened by buyer power since there are a large number of suppliers in most of its business activities. The threat of substitutes: The availability of substitute products can also affect the competitiveness of firms. For example, a customer need not fly with a particular airline since

there are a large number of substitutes. But in the case of a recording or publishing company, a particular work may be copyrighted and hence substitutes for that particular work will not be available. The strength of a brand will also be a factor here. For example, there are many substitutes for Coca Cola and Pepsi, but its brand positioning and value ensures that many people will buy their products and not their substitutes. As far as the Virgin Group is concerned, the majority of the companies under the group has a few substitutes and therefore the threat from this area is low. Competitive rivalry: Competitive rivalry simply refers to the number of competing players in the market. It is dependent of most of the factors mentioned above and includes substitute products, and number of suppliers. Those companies that are able to control the market face less rivalry (Nelson, 2007). The competitive rivalry for Virgin Group of Companies depends on the nature of industry and location. For example, the competitive rivalry for the Virgin Mobile in India is moderate. In a nutshell it can be said that the current strategy of the Company is ineffective and it has to make a positive change in the present change, otherwise the survival would be a difficult task.

### **PESTEL Analysis:**

PESTEL or PESTLE analysis is an acronym for Political, Economic, Social, Technological, Environmental and Legal factors. These factors have to be taken into consideration in each market that a company operates. Political factors include the type and stability of the government, the political environment that exists at a given time; the policies with regard to business and investment etc. economic factors refer to the economic growth, stability, and market potential in each country of operation. The social beliefs and

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practices that exist within a society are covered in social factors. The technological infrastructure that is needed for a business to operate in a certain market is also important. The environmental policy that is implemented in a market through laws and statutes is also important. The power and honesty of the judiciary forms the legal part of the analysis. With regard to the Virgin group, these aspects have to be analyzed with regard to each market. This will be too detailed and hence a sample study is only provided here which is the United States of America. Most of these factors are strong here in the country. The only problem is the economic situation due to the current recession. The open market policy can bring about high levels of competition. The country has a strong government and legal system. The society is modern and welcomes technology and innovation. The country has a sound technical infrastructure. In effect, it is a safe country to do business in.

### **Some strategic options available to The Virgin Group for the next five years**

If Virgin Group is continuing with present strategy, it will definitely affect the growth and development of different companies under the Group. Some strategic options those are available to Virgin Group is discussed below.

#### **1. Changing the organizational structure:**

The main reason why many companies under the Group went on loss was that, these companies were having inappropriate organizational structure. The better option available in front of company is that to reduce the number of companies by way of merger, acquisition, or amalgamation. The complex organizational structure and diversity of its business is the major cause for <https://assignbuster.com/the-chief-internal-and-external-factors-commerce-essay/>

the failure of its subsidiaries. Creating an effective organizational structure by a stipulated period of time can bring growth and success to the company.

## **2. More expansion:**

Though the Group has expanded to some more foreign countries it need to ensure its presence in some unrepresented countries where there are higher chance of carrying out successful business. Before making any decision of international expansion, a deep analysis of various internal as well as external factors that influence the international business need to be conducted.

## **Conclusion:**

To conclude, a new strategy should be designed in such a way that it must ensure all the PESTEL (Political, Economic, Social, Technological, Environmental and Legal) factors are deeply analyzed before taking various crucial decisions. The PESTEL Analysis should be done in connection with the Porter's Five Force Analysis, so that a new and effective strategy can be implemented. The SWOT analysis will help in identifying and strengthening its capabilities and bringing down its weaknesses. The main practice for the management is to make its organizational structure simpler and to halt its expansion plans into new areas of business. This should only be done after its loss-making operation have stabilized and made profitable.