

Organization Management

Prof. Vinayshil Gautam

Department of Management Studies

Indian Institute of Technology, Delhi

Module No. # 03

Lecture No. # 32

Environmental Analysis Techniques and Impact for Organizational Growth

(Contd.)

Let us look at the socio-cultural variables; I will itemize the socio-cultural variables, which impact the organization as a dimension of environmental interaction with organizations. Now, this is not to be confused with what we looked at in terms of socio-cultural factors in organization structures.

(Refer Slide Time: 00:32)



Socio-Cultural:

- Population growth rate and age profile
- Population health, education and social mobility, and attitudes to these
- Population employment patterns, job market freedom and attitudes to work
- Press attitudes, public opinion, social attitudes and social taboos
- Lifestyle choices and attitudes to these
- Socio-Cultural changes

 IIT DELHI

26

Here, we are looking at that aspect of the socio-cultural dimension, which has to do from the migration of a culture of the society to within the system. Because, please remember, each organization creates its own socio-cultural system. IBM will have its own socio-cultural system as distinguished from Motorola, even though the supply side maybe the

same in both. We are not talking of that kind of a socio-cultural environment, we are talking of the socio-cultural environment which is exogenous - that is outside the system.

Population health, education and social mobility and attitudes to these; now, please remember certain industries draw younger people, certain industries have higher turnover, certain industries are more stable - for example, textile is a stable industry. In information technology industry, you have very high turnover, the age profile is lower. So, the linking off with the preceding argument population growth rate has everything to do with it. If you have the youthful society, the chances of IT sprouting there are higher, than if you have a society where the age profile is 50 plus dominating the rest of the age brackets. You progressively notice that environmental factors are very critical to the entire understanding of the way an industry grows.

You have got the population health, education and social mobility and attitudes to these. Population employment patterns, there are certain industries where there are larger women employed. There is no obvious reason for that happening other than traditionally more women have practiced that. There are certain professions which have quite a contradiction.

Domestic cooking is very often women - driven, but industrial cooking is more often than not, male - driven. You ask that chef to come and **quick** cook at home, he will never do it. If you want a cook from outside to come and cook at your place, at a domestic level the chances are more even that not that you will get a woman, I cannot understand any reason. In fact, even chefs I believe have their wives cooking for them. Somebody asked me, why do you think that happens? My answer was because women are such better cooks. This is they are just covering up for a social exploitation and I clearly did not want to enter that kind of a debate.

The long and short of it is that population employment patterns, job market freedom and attitudes to work determine which way the population goes. Even large number of school teachers is women; when somebody did a study of it the findings, were it suits their lifestyle; they work from 7 to 2, they can come back and take care of the family. Why does not the man take care of the family? Because, the man works for 7 to 5, so let us reverse it, why cannot men teach in schools and women go to office? Does not happen, why does it not happen? I do not know; should it happen? I do not know; how do I

choose for the people who exercise the choice? I am not here to tell people how families should be structured.

Press attitudes, public opinion, social attitudes and social taboos, all of these affect industrial work. Lifestyle choices and attitude to these; attitude to what? Your attitude to social taboos, your attitude to public opinion, your attitude to press, your attitude to work, the job market freedom, all these factors affect lifestyle choices. They in turn affect the industry and then of course, socio-cultural changes. You find that dress habits have changed considerably, they have changed so obviously that I do not have to spend my time illustrating it.

(Refer Slide Time: 06:25)

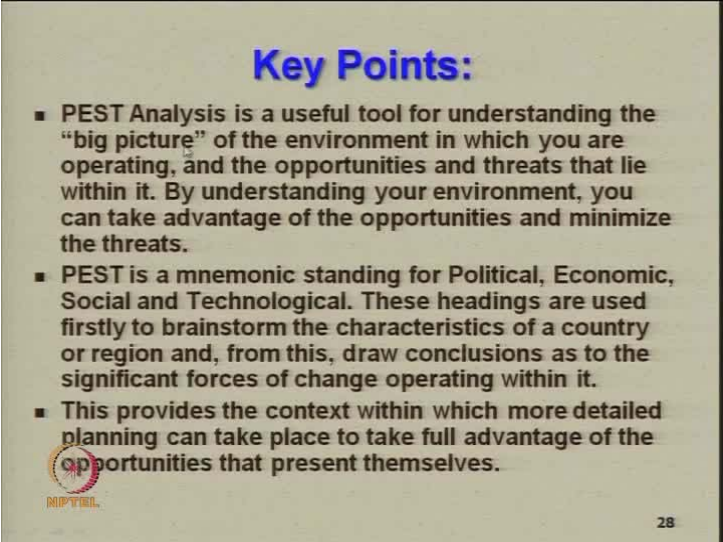


Before moving on, we can make a reference to the technological environment, to see that the impact of emerging technologies, impact of internet, reduction in communication costs and increased remote working has altered the nature of the workplace.

You hear more and more people talking of, I work out off home; how do you work out off home? No, I go to office once in a while, but I work out off home, which means what? They are networked to their office. The organization also finds it eminently useful, their office infrastructure costs goes down, there is less maintenance to do and very few people who work out of home claim any public utilities. When they claim, it is such a small part of what they would have actually spent if they were going out to work. So

there is a question of research and development activity and the impact of technology transfer.

(Refer Slide Time: 07:33)



Key Points:

- PEST Analysis is a useful tool for understanding the “big picture” of the environment in which you are operating, and the opportunities and threats that lie within it. By understanding your environment, you can take advantage of the opportunities and minimize the threats.
- PEST is a mnemonic standing for Political, Economic, Social and Technological. These headings are used firstly to brainstorm the characteristics of a country or region and, from this, draw conclusions as to the significant forces of change operating within it.
- This provides the context within which more detailed planning can take place to take full advantage of the opportunities that present themselves.

28

PEST analysis is a useful tool for understanding the big picture of the environment, in which you are operating the opportunities and threats that lie within it. By understanding your environment, you can take advantage of the opportunities and minimize the threats.

PEST is a mnemonic - stands for political, economic, social and technological tools; this is something which I have already explained to you. These headings are used firstly to brainstorm the characteristics of a country or region, from this, draw conclusions as to the significant forces of change operating within it.

This provides the context within which more detailed planning can take place, to take full advantage of the opportunities that present themselves. Ultimately, you want an equal opportunity society, not only for the individuals, but also for industry and the world embarked. You will grow only if you are operating in an equal opportunity environment, where you can get from one sector to another without losing advantages or without suffering.

(Refer Slide Time: 08:56)



PORTER'S DIAMOND – An Overview

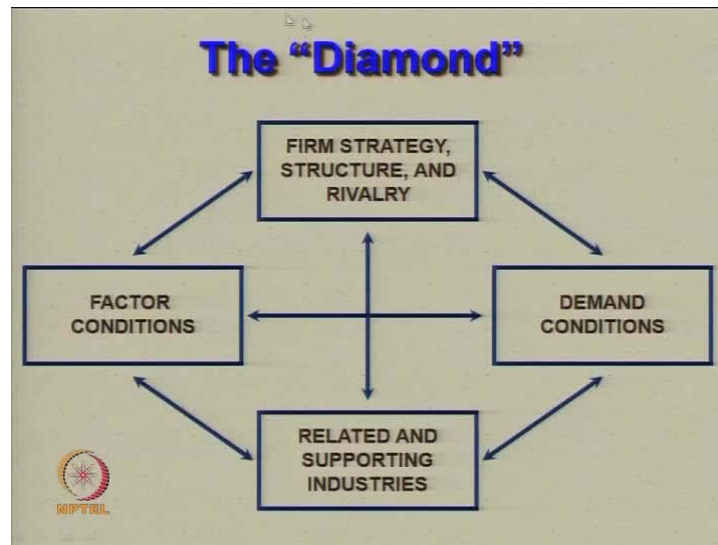
- Developed by Michael Porter, a famous Harvard professor.
- Porter believes that classical theories on comparative advantage of firms are inadequate (even wrong).
- A nation can be competitive only if its firms are competitive and innovative.


30

There is the Porter's Diamond, let us take a look at that another technique developed by Michael Porter, a famous Harvard professor. Porter believes that classical theories on comparative advantage of firms are inadequate and even wrong. Remember, comparative advantage theories ruled the roost for a decade and a half. Everyone was talking of comparative advantage; now they say, this is no theory at all, it is all wrong.

A nation can be competitive only if its firms are competitive and innovative, fairly commonsensical, but what? Price is the competitiveness amongst nations, because the same competitiveness theory applies to nations.

(Refer Slide Time: 09:40)



This is the diamond; firm strategy structure and rivalry, demand conditions, related supporting industries, factor conditions, so the diamond emerges.

(Refer Slide Time: 10:03)

FACTOR CONDITIONS

- Factor conditions are the inputs used by a firm.
- Two types – 1. key factors
2. non-key factors
- Porter argues that a lack of resources often actually helps countries to become competitive. Abundance generates waste and scarcity generates an innovative mindset.

IPTIL 32

What are the factor conditions? Factor conditions are the inputs used by a firm. They are two types: key factors and non-key factors. Porter argues that a lack of resources often actually helps countries to become competitive. Interesting thought because, there was a time when people believed that a country's strength depended upon its - the availability of natural material to it. Now, they say that lack of resources helps you to be more

competitive. Abundance generates waste; I do not buy that at all. It is not as if you have abundance, you will generate waste, it can, but, it is not as if you are abundant, it will generate waste; this is a wrong correlation. Scarcity generates an innovative mindset; I do not buy that at all, it may or it may not; in fact scarcity may generate an inferiority complex.

There are two types of reactions; if you are cycling to school, you find that another class friend of yours is coming to school in a BMW luxury, you can react in two ways; one is you feel inferior, the other is you say, so what, this is a cycle which I bought on my scholarship, he is riding his dad's car.

The same thing can be interpreted in two different ways, so it is not as if there is a one-to-one correlation between abundance. Therefore, **wastivity**, scarcity, therefore innovation, no abundance can also go along with innovation. It is a question of how your mindset works, not a question of external environment necessarily.

(Refer Slide Time: 12:25)

DEMAND CONDITIONS

- a sophisticated domestic market is an important element to producing competitiveness.
- If the nation's discriminating values spread to other countries, then the local firms will be competitive in the global market.

 33

What are the demand conditions? It is a sophisticated domestic market, is an important element to producing competitiveness; yes, this is true, but then a lot of economies are not domestically focused at all, but are export-oriented. Chinese economy for example highly export-oriented if the nations discriminating values spread to other countries then the local firms will be competitive in the global market. I suppose this is an argument which Mr. Porter makes. I have to convey that argument to you, good luck to him for

stating it, good luck to you having understanding it. I am party of neither, I neither stated it, nor am I quite sure what to make out of it, but if I am explaining Mr. Porter, I have to explain Mr. Porter as Mr. Porter. I cannot say that my abilities will determine the boundary conditions of the professor.

(Refer Slide Time: 13:32)



Related and supporting industries - a set of strong related and supporting industries is important to competitiveness of the firms, this is an absolute must. You cannot have an industry in isolation and it need not. This is true not only for the assembly line-based industry; this is waste for an industry. In fact, an industry survives on the easy availability of maintenance industries around it.

Therefore, you talk of industrial clusters, you talk of servicing stations and you talk of a system, where industries grow at the same geography in a collective manner, because it is easy to sustain those industries. You find a chain of cement industries in one locality, you find a chain of brick clinks in the same locality; let us not forget the small and medium enterprises. Constant reference to the to the large and loud is not necessarily a wise thing, because if they grow in a cluster, the infrastructure which is required to nurture them can be shared and created; that is the important point to be understood.

(Refer Slide Time: 15:13)



FIRMS – STRATEGY, STRUCTURE AND RIVALRY

- STRATEGY
 1. CAPITAL MARKETS
 2. INDIVIDUALS' CAREER CHOICE
 - Individuals base their career decisions on opportunities and prestige. A country will be competitive in an industry whose key personnel hold positions that are considered prestigious.

 35

Firm-Strategy Structure and Rivalry strategy is determined by capital markets, we have discussed that earlier on, fairly obvious one. How capital markets make money available? They are also determined by individual's career choices, because that is the sort of people you get.

An owner of a sugar mill asked me a question once, which I had some, answers to, but they were not very scientific answers, in my scientific means a defying logical. He said, you see my sugar mill is in this area, I said, yes. You know, it is one of the cleanest sugar mills you can possibly have, I said true. The feeders are local therefore it has to be in the agricultural locality, true. We give them a separate bungalow for each executive, true, these bungalows were luxurious, to make the list short, they had a club, they had a swimming pool, they had a movie theater, they had even transport services and of course, they had arranged for the amenities, thus the stores were there, the vegetable vendors were there, large choices was there, because this was in a rural area.

When they come to recruitment related to prestigious management institutions, where do you think these **johnnies** go. Never to a sugar mill, they will go to an oil company even though the sugar mill maybe giving them better salary and quality of life, how do you explain that?

Individuals' Career Choices - somehow in the social setup, it is more prestigious to say I work in the oil sector, than to say I work in the sugar sector; these are very material

circumstances. The type of spouse the society will give you, if you work in the sugar sector, will be of a lesser quality, than the type of spouse, you will get if you are in the Indian oil sector.

Who is worried about the quality of life the child would have, but it is nice to say my son-in-law is in the oil sector; he is in the sugar sector, you did not get another job for him? Now, what is the point of saying, he is earning more, living better.

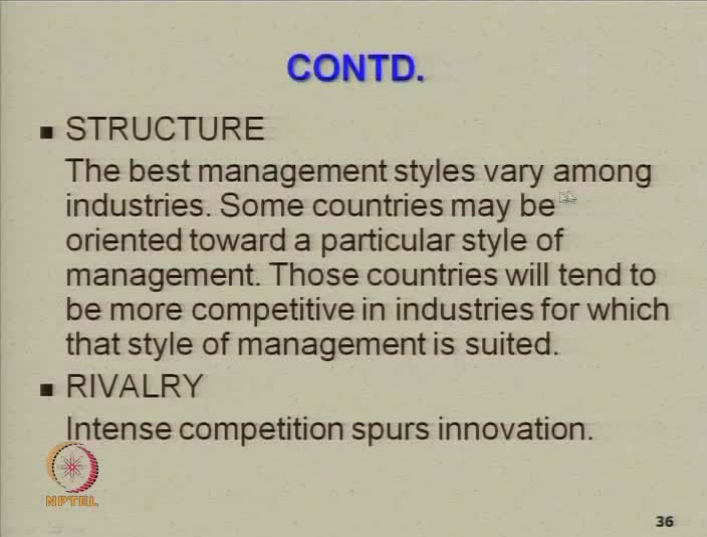
So, there are popular images which refuse to go away, when they refuse to go away, they determine individuals' choices that are the larger point which I want to make. Individual base their career decisions on opportunities and prestige, a very important concept in India [FL] now what is [FL] nobody has ever defined. I understand [FL] even goes away if you marry out of caste, [FL] if you marry out of religion. I have never studied the nature of material of [FL], so I cannot answer that question. You know, taste and smell, you know properties of matter, remember your chemistry or you have forgotten all that. So, I have never knows the properties of [FL].

How does it dissolve so quickly? I remember, in earlier stages, I was being taught this material is soluble, this is not soluble, is that right? So then the teacher would show me an experiment, you see this dissolves, this does not dissolve. Obviously [FL] is a very highly soluble product; it dissolves in out of nothingness. Now, do not expect me to answer these questions, do not even write back asking me, what is material of [FL]?

But, the Indian is driven by it and he is driven by it irrespective of whether he was a Sikh, a Christian, a Hindu, a Muslim or a Parsi, all Indians are driven by [FL]; that is why India is one, the social assumptions are one. All the [FL] of the families always bestowed upon the women; the women are supposed to preserve the [FL], the male can do whatever he wants. He can go gallivanting, but the woman [FL] the question of [FL], now how did [FL] gravitate to the woman? I do not know, do not ask me and do not even write back asking me to answer this question. These are the assumptions of a society, which help them or which do not help them, but this is what a society lives by.


Individuals base their career decisions on opportunities and prestige. A country will be competitive in an industry whose key personnel hold positions that are considered prestigious.

(Refer Slide Time: 20:22)



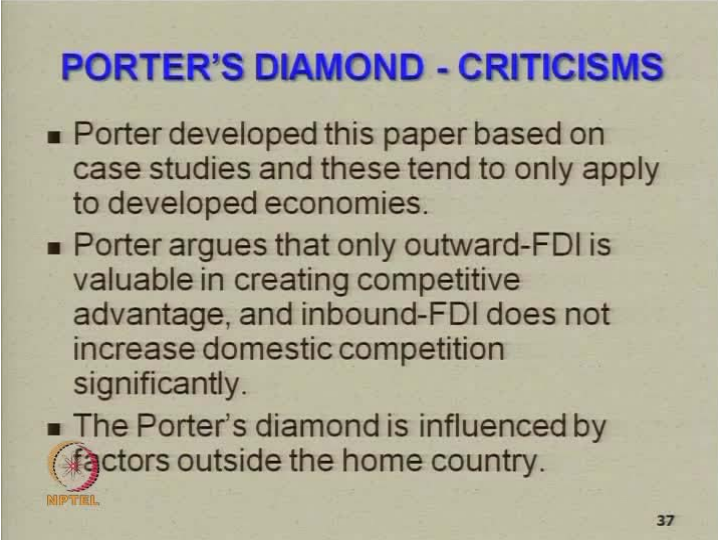
CONTD.

- **STRUCTURE**
The best management styles vary among industries. Some countries may be oriented toward a particular style of management. Those countries will tend to be more competitive in industries for which that style of management is suited.
- **RIVALRY**
Intense competition spurs innovation.

 36


Structure: The best management styles vary among industries. Some countries may be oriented towards a particular style of management. Those countries will tend to be more competitive in industries for which the style of management is suited. China is a great example of this. Take any industry, the industry will be something which determines that actual operations. If you link it to the kind of investments which go there and the kind of people it draws. Rivalry: intense competition spurs innovation.

(Refer Slide Time: 21:11)



PORTER'S DIAMOND - CRITICISMS

- Porter developed this paper based on case studies and these tend to only apply to developed economies.
- Porter argues that only outward-FDI is valuable in creating competitive advantage, and inbound-FDI does not increase domestic competition significantly.
- The Porter's diamond is influenced by factors outside the home country.

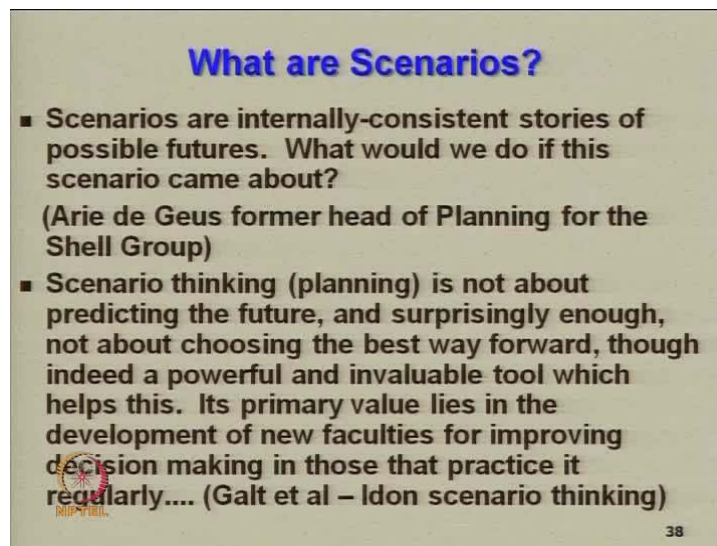
 37

Porter developed his paper based on case studies and these tend to only apply to developed economies; now this is very interesting. The question which has still to be answered is what happens to multinational companies? I will tell you what the answer is, it will apply to the locations of these multinational companies, which are in developed countries and will not apply to locations which are in the developing countries. But then that is great deal of fuzziness, because locations in developing countries may have a workforce of multiethnic groups.

To make it more complicated, it may be catering to a market, which is in the developed country, where is it said that if a location of a production unit is in developing countries, it only caters to the need of the developing countries? Do you understand the complexity of it all, which is why it is necessary to develop Porter's theory further; do not say just because Porter [FL] discovered a diamond, all must buy it. No, it does not work that way, yet you have to learn what Potter's diamond theory is, because you are expected to learn these theories as a part of your learning process.

Porter argues that only outward-FDI is valuable in creating competitive advantage and inbound-FDI does not increase domestic competition significantly. He also argues that Porter's diamond is influenced by factors outside the home country.

(Refer Slide Time: 23:02)



What are Scenarios?

- **Scenarios are internally-consistent stories of possible futures. What would we do if this scenario came about?**
(Arie de Geus former head of Planning for the Shell Group)
- **Scenario thinking (planning) is not about predicting the future, and surprisingly enough, not about choosing the best way forward, though indeed a powerful and invaluable tool which helps this. Its primary value lies in the development of new faculties for improving decision making in those that practice it regularly.... (Galt et al – Idon scenario thinking)**

38

What are scenarios? We were talking of scenario building and anticipating the future, technological forecasting and all sorts of things. When we were talking of the future, let us take a quick walk around that.

Scenarios are internally-consistent stories of possible futures, though that I think is a good definition. Scenarios are internally consistent stories of possible futures. What would we do if this scenario came about? Arie de Geus former head of planning for the shell group; this statement is about him and from him. He would first develop scenarios, which are internally consistent and then he would ask his managers to respond to every simple question; what would we do if this scenario came about? That is how you exercise yourself in anticipating the future; that is how you exercise yourself in preparing for the future.


Scenario thinking, planning is not about predicting the future, surprisingly enough, not about choosing the best way forward; please note this proposition. Scenario thinking and planning is not about predicting the future and surprisingly enough not about choosing the best way forward, though indeed a powerful and invaluable tool which helps this. Its primary value lies in development of new faculties for improving decision making, in those that practice it regularly.

Therefore, scenario thinking, this planning is a training tool of your capacity to meet with the future and be drilled about the future when you meet it. So, it is like preparing for the rugby match, you make sure you have a fully developed body; it is like preparing for the football match, it is like preparing for the cricket match. You have healthy body, you have practiced the nets, you have been bowled to, you have learned how to handle a Yorker, a full toss, a short length ball, so when you get out onto the field, hopefully it will be one of these or a permutation combination of these and therefore, you shape better. The same thing you practice of management, this is taken from Idon's scenario thinking.

(Refer Slide Time: 25:57)

Scenarios...contd.

- **Scenario planning is about making choices today with an understanding of how they might turn out... Using scenarios is rehearsing the future. You run through the simulated events as if you were already living them. You train yourself to recognise which drama is unfolding. That helps you avoid unpleasant surprises, and know how to act. (Peter Schwarz – The Art of the Long View)**
- **Scenarios are not predictions. Rather they help us visualise different possibilities, take account of inherently unpredictable events.**

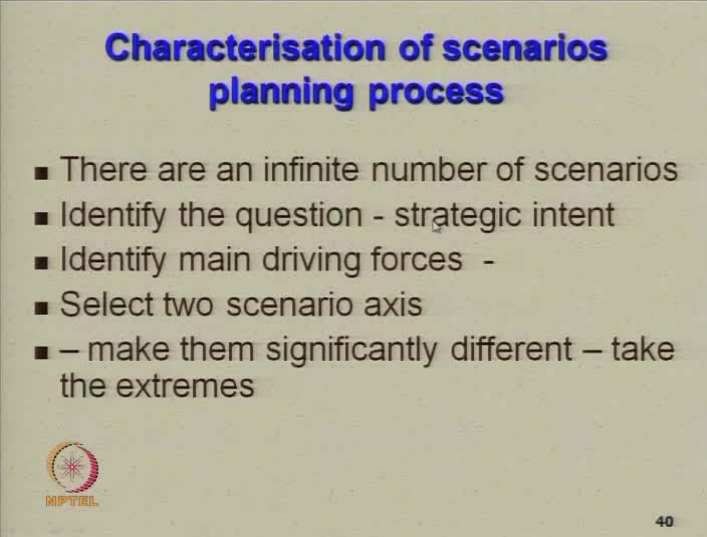
 (Global scenarios for the 21st Century)

39

Scenario planning is about making choices today with an understanding of how they might turn out. I want you to note this sentence very carefully; scenario planning is about making choices today with an understanding of how they might turn out.


Using scenarios is rehearsing the future. You run through the simulated events as if you already are living them. You train yourselves to recognize which drama is unfolding. That helps you avoid unpleasant surprises and it helps you to know how to act. Scenarios are not predictions, the sentence is so obvious it does not need an elaboration; scenarios are drawing up of possibilities for which you should prepare. Rather they help us to visualize different possibilities, take account of inherently unpredictable events. This is how you use your tools and techniques to drill, to give yourself a more robust future.

(Refer Slide Time: 27:52)



**Characterisation of scenarios
planning process**

- There are an infinite number of scenarios
- Identify the question - strategic intent
- Identify main driving forces -
- Select two scenario axis
- – make them significantly different – take the extremes


40

What are the characteristics of scenario planning process? They are infinite number of scenarios; no matter, how many scenarios you build up, there will be always more.

Identify the question and the strategic intent. Identify the main driving forces; all this you do to build a scenario. You have to identify the question and the strategic intent, you have to identify the main driving forces, you select two scenario axis and make them significantly different take the extremes. Everything turns out well then what do we do? Everything goes wrong then what do we do? One is called an optimistic scenario; the other is called the pessimistic scenario. In between you work out various points of possibilities, you prepare what, if, then situation. Remember, the sequence what, if, then and therefore, in each case you have to see what makes them significantly different and work around it.

(Refer Slide Time: 28:57)

Requirements of Scenarios

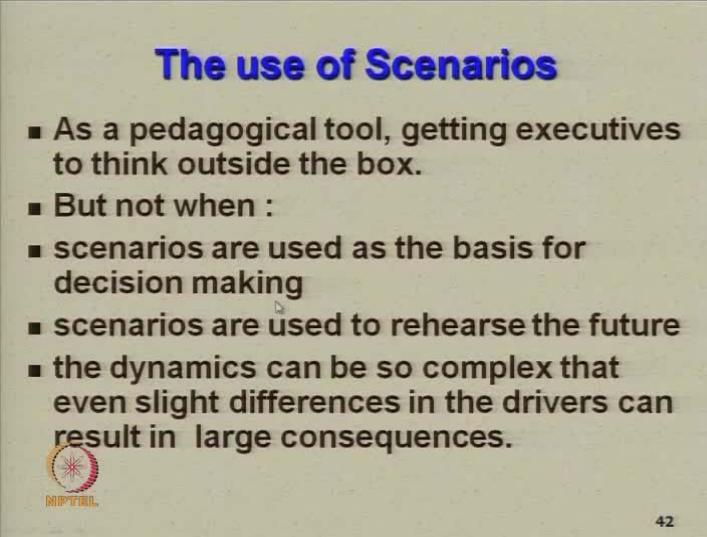
- consistent and robust
- coherent
- possible and probable
- provide structured understanding and plausible.
- defensible.

MITPRL 41

What are the requirements of scenarios? Each scenario must be internally consistent and robust, in other words, each scenario must be a serious possibility. Do not create outlandish scenarios which have one in a million chances. Each scenario must be coherent. The difference between consistent and coherent is you can be consistent, but yet you could not be coherent. This can be a mathematical derivation, but in real life it will never happen.


Coherence is of a life stream, consistency is a mathematical phenomenon; it should be possible and probable; probable here means likely; possible here means technically it could happen. Possibility is something which cannot be ruled out; probability is chances are higher, provides structured understanding and plausibility, above all it must be defensible. You should be able to show how that scenario will actually work? Why it is a probability? It cannot be a figment of your imagination.

(Refer Slide Time: 30:30)



The use of Scenarios

- As a pedagogical tool, getting executives to think outside the box.
- But not when :
 - scenarios are used as the basis for decision making
 - scenarios are used to rehearse the future
 - the dynamics can be so complex that even slight differences in the drivers can result in large consequences.

 IITRIL

42

The use of scenarios: As a pedagogical tool, getting executives to think outside the box. As has been repeatedly realized, executives get grooved. To get them out of the groove, you have to do alternative scenario building, so that they do not stick to the tried and the tested solution. To get out of the tried and the tested solution, a little bit of scenario building is a must, and what is it not? When scenarios are used as a basis for decision making; scenarios cannot be used as a basis of decision making.

Scenarios can be used only as preparations for the future. Scenarios cannot be used for any other purpose, but rehearsing the future; you cannot make it into a reality. The dynamics can often be so complex that even slight differences in drivers can result in large consequences. Please note this; a small impact can make a large change. The dynamics can be so complex that even a slight difference in drivers can result in large consequences. Here, are some references that you may find useful.

(Refer Slide Time: 32:02)

References

- Organization Management Handout, By Prof. Vinayshil Gautam.
- Diagnosing Organizations-Michael I. Harrison. Second Edition, Sage Publications, 1994.
- Organizational Environments-John W. Meyer & W. Richard Scott. Updated Edition, Sage Publications, 1992.
- www.Businessballs.com
- www.Quickmba.com/strategicmanagement/
- www.Pacific.usb.uk

