Business environment

Name

Institution

Size, types, and scope of organizations

Organizations can broadly be classified as either for-profit or not-for-profit organizations, commonly referred to as non-governmental organizations. For-profit organizations are those that are engaged in an economic enterprise with the aim of making a profit and generating returns to the owners of the business. Not-for-profit organizations, on the other hand, are formed with the aim of furthering a given social cause such as advancement of justice for the poor, environmental conservation, child mortality, HIV and Aids programs, marginalized communities, drug and substance abuse etc.

Regardless of the type of organization, whether for profit or not-for-profit, organizations take three distinct legal structures i.e. sole proprietorships, partnerships and limited liability companies. Sole proprietorship establishments are characterized by a unitary ownership structure where the organization is owned by a single individual who enjoys several benefits such as profits, independence, decision making etc, as well as responsibilities and obligations such as losses that may arise from the operations of the business. A partnership, on the other hand, is a legal business form that is owned by at least 2 individuals and a maximum of 20 partners. It differs from other forms of businesses in that each individual, unlike a sole proprietorship or company, is legally liable for his/her actions; although individual partners actions still bind the other partners in the business. The benefit of a partnership is that partners still maintain a bit of autonomy in the business, share in the profits as well as salaries from the business, there is a larger pool of capital and expertise from the partners etc (Franklin, 2016). The challenges that face partnership business are that there is loss sharing, partnerships are unlimited and therefore are individually liable, unlike companies that have limited liability. Companies are the most common forms of businesses, especially larger enterprises. They can be formed by any number of people but must have at least 2 directors. The benefit of a company is the ease of access to capital from members as well as financial institutions, professionally managed by directors, managers, and the Chief executive, shareholders benefit from dividends, and also due to the limited nature of liability, the company's liability is limited to the amount of capital contributed.

Organizations are further classified as either micro, small, medium and large. According to Franklin (2016), micro businesses often employ less than 10 employees, small businesses employ between 10-49 employees, medium size businesses employ between 50-249 employees while large organizations employ 250 employees and more, have a large capital base and in most cases, their operations span different regions. As we shall find out later in this paper, the size of an organization significantly affects the structure that an organization adopts. It is also greatly related to the geographical operations of a business and market share.

Since organizations exist to fill a demand gap either in a local, regional or global market, organizations can still be classified as local, regional or multinational enterprises. Local or domestic organizations operate in a specific area, city or country; regional organizations may have operations in a given region spanning a few countries while multinational organizations have operations in most of the parts of the world. A great example of a multinational organization is Coca-Cola, Standard Chartered bank, Unilever, Glaxo -SmithKline etc. Such organizations are able to have a global presence through business transactions such as licensing arrangements, franchising and joint ventures.

Interrelationship between various organizational functions and their link to organizational structure

Organizations, regardless of their size, scope or legal formation requires various functions for its smooth operation such Marketing, finance, human resources, and operations. This holds true, even for micro and small organizations, even through these functions may not be well structured, or may not have the requisite staff and resources to run those functions. When an organization is formed, say a manufacturing concern, it will require capital which will be managed by the finance function, to ensure that all departments have the necessary resources for their operations. This capital will be used to purchase raw materials which will be manufactured into finished products. The operations function ensures the smooth running of the manufacturing process, logistics, transportation etc. The marketing function will ensure that the market is aware of the new product through various marketing strategies to generate sales. All these functions will be performed by employees who are hired by the human resource department, which ensures that each department and function has a team with the necessary skills to deliver. Larger organizations have more functions such as production, purchasing, research, and development etc.

The smooth operation of all these functions ensures that the organization is able to meet its objectives, mission vision. For such smooth operations, organizational functions are often grouped into an organizational structure, which defines the interactions and interrelationship between the various organizational functions and identifies the flow of command through the organization. There are three main types of organizational structures; functional, divisional and matrix structure. These are explained below.

Functional Structure

This is the most common form of organizational structure where different functions are grouped into departments, headed by departmental managers who report further up the command chain (Miles and Snow, 1978). For instance, an organization would have sales and marketing department, a legal department, production department, accounting, and finance department, human resource department, operations department etc. The advantages of a functional organizational structure are that there is a clear chain of command and lines of authority and also allows employees to concentrate on a particular function which ultimately increases productivity. Imagine a situation where one person performs, marketing, finance, and say human resource functions? Such employees would not only easily burn out fast, but would be less productive. The drawbacks of a functional organizational structure are that there may be a duplication of some tasks and resources **(Kaplan & Norton, 1996)**. Besides, in some cases, these departments may not work well together and therefore this may breed inefficiencies in an organization.

Divisional Structure

A divisional organizational structure is characterized by spreading of various organizational functions across the different branches or divisions in an organization, often suitable for very large organizations with many products or service lines. In this structure, each product or service line has its own functional departments and staff such as a research and development department, marketing, accounting, and finance etc. The main advantage of this organizational structure is that each division has the personnel to carry out the necessary functions which lead to specialization. The main disadvantage being the apparent duplication of tasks and resource utilization in an organization which is not only costly but breeds inefficiency.

Matrix Structure

In order to overcome the challenges faced by the above organizational structures, an organization can adopt a matrix structure which gives managers greater flexibility in the division of work in an organization. In this structure, employees work in function-based departments but can also be assigned to other projects, together with other employees from different departments under different managers. This structure adapts organizations to modern changing organizational needs and is most appropriate in project management. Its main challenge is that there is no clear chain of command which may be confusing to staff, inhibiting their creativity and productivity due to the varying reporting structures.

Impacts of the macro-environment on business operations

Businesses operate within an environment, either within or outside the organization (internal or external). The internal environment is those factors that are within the control of the business such as marketing strategies, operations etc while External factors are those factors outside the organization which affects the operations of the business. The acronym PESTEL is used to denote the components of the external or macro-environment and their intervening factors which either positively or negatively impact on a business (Adeoye & Elegunde, 2012). These are political, economic, social-cultural, technological, ecological and legal factors. The management of an organization must, therefore, be aware of the changes that continue to happen in the macro-environment since failure to do so can result in losing competitive advantage amongst their peers, besides threatening its very existence. Their role is to consider each factor and the changes that are taking place in these environments and establish the nature and severity of the impact that such a factor will have on the business It's also important to note that organizations with cross-border operations must consider these factors both at home and abroad, since they affect both revenues and cash flows. These factors are discussed below;

Political

This factor relates to the governments local and foreign activities that have the capacity to impact on business enterprises. It's also concerned with the activities of organizations and special interest groups that lobby governments and their pressure to influence government policy. The government's plans attitude and general policies towards a countries economic growth and development in both medium and long term and the possibility of elections and whether there is an expected peaceful or violent aftermath. These factors may be more severe in developing countries due to political instability, but in the recent past, we have witnessed the significant impact of the political climate even in advanced economies. The recent heated US elections that were controversially won by HE. President Donald Trump us a clear example of how political climate in advanced economies may affect businesses. Immediately after his win was announced, it's reported that Dow Jones futures went down by over 800 points, the S&P went to as low as 5% which is the cut-off point allowed for trading, Dow Futures plummeted by 300 points while oil prices took a hit overnight with the West Texas Crude oil falling to $43.09 per barrel. Due to an unfavourable political environment, other countries have experienced and continue to experience hyper-inflation, such as Zimbabwe under the iron fist rule of Robert Mugabe. Businesses must, therefore, anticipate some of these political situations and plan accordingly so as to avoid losses that may be occasioned by such environments. The political environment is not always gloom. Its influence on economic policies such as economic liberalization has a significant impact on business growth and competition as was experienced in many nations in the late 19th century.

Economic

Perhaps more than any other external environmental factor, the economic environment is probably the most important environmental factor that affects business decisions. External economic shocks such as changes in interest rates, employment, money supply, disposable income etc greatly impact on businesses. For instance, businesses tend to thrive in stable economic conditions where the main economic variables such as those listed above are stable, as sudden changes in these factors have significant impacts on businesses (Bourgeois, 1980). A business that operates in an economy that experiences high-interest rates may have challenges accessing capital. Such high-interest rates also affect consumer disposable income and purchasing power.

Social

In this environment, businesses have to consider the broader aspects of the market such as the changing attitudes, values, and needs as well as the general trends that affect consumer purchasing behaviour. For instance, it’s documented that some products endear more to the older people than the youth and vice versa. A case in point is the Harley Davidson motorcycles which are mostly associated with the older generation, often referred to as ‘grandpa's bike', or a particular model of cars such as the Subaru which is mostly associated with the younger generation. Organizations must clearly understand the social factors that affect the consumption of their products in order to design the most appropriate marketing mix for maximum returns.

Technology

That technology continues to impact our lives now than ever before is an open secret. The rise of the internet has greatly affected the way companies design their local or global marketing mix. Technology has changed the way marketing strategies are designed as well as how products are delivered to customers. Businesses are now able to sell their products online to clients all over the world and ship them to their client's doorstep at the click of a mouse and the response from customers has been enthusiastic. Technology has also reduced manual operations and effectively done away with a large number of workforce and other resources which have effectively reduced organizational expenses and improved efficiency (Frederic, Agnes and John 2011). The flip-side of technology is that it has opened up the market to many dealers which have increased competition as organizations can no longer compete on the basis of their geographical spread alone. Organizations that have not adopted technology have fallen by the wayside in this wave of change, with Nokia and Kodak being great case-studies on how not to adopt a technology. Technology also comes with serious challenges in security. With increased cases of cyber security being reported all over the globe, technology has opened up organizations financial systems to possible cyber attacks which may occasion significant losses to businesses.

Ecological

Businesses whose operations have a significant impact on the environment have to consider ecological factors since their public perceptions may greatly affect their business reputations and operations (Njuguna, Munywoki & Kibera, 2014). Oil companies and other organizations that emit greenhouse gasses have to consider ecological factors before they can launch operations.

The recent Volkswagen emissions scandal almost threatened to tear apart the company, leading to the resignation of the president of the company, and loss of sales is a great example of how ecological factors affect business operations.

Legal

This environment differs from the political environment discussed above in that it strictly relates to legislative issues. Legislation has a significant impact on businesses, sometimes in unprecedented measures. For instance, the proposed repealing of Obamacare will have a significant impact on healthcare providers and other related businesses. The proposal by some nations such as Kenya and Rwanda and some western nations to abolish the use of plastics and plastic bags will have a great impact on the operations of all companies that are involved in the business of manufacture of and packaging using plastic bags. On the flip side, companies dealing with organic packaging materials such as bamboo and sisal bags will greatly benefit from the increased demand as a result of the adoption of the adopted legislation.

Organizations and especially multinationals have to carefully study their macro environment in order to ensure that they are well equipped to succeed even with the challenges presented by such environments. To do this, organizations must utilize advanced management tools to assess their competence in the face of such macro-environmental challenges. One such tool is the SWOT analysis, which details and assessment of an organization's strengths, weaknesses, opportunities, and threats that are present in the environment. For the remaining section of this paper, a SWOT analysis of Britain-based Vodafone, a telecommunications giant will be analyzed.

SWOT analysis of Vodafone

Strengths

As one of the largest mobile service providers with close to 500 million customers and still counting, Vodafone boasts of great financial leverage ($17.3 billion in revenue as of 2014), a great capacity to absorb business risks and capacity to steer the market (Brand Finance, 2011)

The geographical diversification of the company, with most of its revenues coming from the developed markets such as the European Union countries, and having significant investments in emerging economies such as India enables the company to easily compensate those regions that experience declining business.

The company also prides itself as having developed advanced networks and technology. It has deployed LTE technology and high-speed Wi-Fi networks in most of its markets such as Germany, UK, Australia, South Africa, and Turkey among others. It has also launched the use of 4G technology in most of its markets, making its technology deployment unassailable (BBC News, 2012).

Having fashioned itself as the powerhouse for creative advertising, great customer experience among other great offers, Vodafone has cemented itself among the better global brands. This serves to increase their customer attraction and retention potential.

Weaknesses

The sluggish economic conditions in Europe, worsened by BREXIT have compounded challenges for the company since two-thirds of its revenue originates from Europe. Economic challenges that continue to face countries such as Greece, Spain, Italy, and Ireland have had a significant impact on the company's revenues due to reduced disposable income and higher rates of unemployment in those countries.

Competition still remains a great challenge in this market. The company faces stiff competition from dealers such as Orange telecom, Three network, Movistar, MTN, Vodacom, Airtel etc. (Strategic Direction, 2012), The increased competition has led to a global reduction in call rates which continues to negatively impact on the company's average return per client, a situation that does not have an immediate solution.

Opportunities

There are arguments that the telecoms market, especially in most developed nations is getting saturated (Osita, et al 2014). This does not mean that opportunities for innovative brands do not exist. Investment in emerging markets such as India presents a great opportunity since the country has great potential based on its huge population and the rather low mobile reach. Other areas such as Africa still have a lot of untapped potentials which presents an opportunity for expansion by the company.

There still lies great opportunity in non-mobile services such as fixed telecom and cable and data services. The company continues to make landmark acquisitions of other players in this sub-segment such as the Cable and Wireless (2012), Kabel Deutschland (2014) and Spanish cable company, Ono. This will drive the company to become a fully integrated telecom service provider.

Threats

European market saturation presents the single most important threat to operations of the company. According to Research and markets (2016) while the company has a 30% market share, it derives at least two-thirds of its revenue from the European market. The overreliance on this market, which already has a 100% penetration rate means that there is little growth potential in this market and therefore revenues can only decline unless the company diversifies to other areas.

The increasing uncertainties in the global telecoms regulatory climate still remain a thorn in Vodafone's expansion efforts. The issues of falling mobile termination rates, reduction in roaming charges, mergers and acquisition policies etc., have a significant bearing on the telecoms market.

Vodafone continues to face an increasing menace from wireless telecom service providers such as the over the top services (KPMG, 2012). If a customer can talk and see their family and loved ones via Skype, sent Whatsapp and iMessage and other similar mobile applications, why would they make talk calls? The challenge with this is that it will only get worse as more and more OTT services continue to be invented

Conclusion

Organizations, whether for-profit or not-for-profit establishments exist for a purpose. Regardless of the legal formation, organizational tasks are grouped into functions which help in the smooth operation towards realizing the organizational goals and objectives. In order for these functions to existing in harmony, organizations group these function in either functional, divisional or matrix organizational structures in order to establish a command structure and ease of control. Additionally, businesses operate within an environment and their operations are affected by such environments. The acronym PESTEL is used to denote the components of the external or macro-environment and their intervening factors which either positively or negatively impact on a business. The role of management is to consider each factor and the changes that are taking place in these environments and establish the nature and severity of the impact that such a factor will have on the business. To do this, management must utilize advanced management tools to assess their competence in the face of such macro-environmental challenges (Gupta, 2013). One such tool is the SWOT analysis, which details and assessment of an organization's strengths, weaknesses, opportunities, and threats that are present in the environment. From the assessment of Vodafone Telecoms Company, it’s noted that despite the apparent weaknesses and threats, the company is not in any imminent danger as it still remains as one of the most profitable and stable telecommunication company in the world.

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