LEADERSHIP DEVELOPMENT PROGRAMME

5TH OCTOBER TO 4TH DECEMBER 2020

ORGANISATIONAL ENVIRONMENT

WORKBOOK

WEEK 4

WEBINAR 3 – 20TH OCTOBER 2020

Contents

INTRODUCTION

This workbook provides a structured framework that enables programme participants to ensure Learning Objectives can be met within the context of the One Health, HORN Regional Network. This workbook can be completed before, during and after the Organisational Environment Webinar.

HOW TO USE THIS WORKBOOK

Throughout the workbook you will see the following four visuals to guide your learning:

- Key Point

- Make Notes in Workbooks

- Complete an Activity

- Short section to read

LEARNING OBJECTIVE

To be able use analysis tools including PESTLE/SWOT to gain a deeper understanding of the challenges, opportunities and constraints that exist in the context in which we work.

Leadership in organizations does not take place in a vacuum. It takes place in organizational context

L.W. Porter, G.B. McLaughlin / The Leadership Quarterly 17 (2006) 559–576

The study of leadership needs to reflect not only leaders' personal characteristics and behaviours but also the situational factors which influence leadership emergence and effectiveness"

(Shamir & Howell, 1999, p. 279).

What are your initial thoughts about the statements provided above. What conclusions do you draw from the statements?

UNDERSTANDING THE ORGANISATIONAL CONTEXT

Every organisation needs to be perceived as operating in an environment. Organisations are neither self sufficient or self contained. Rather they exchange resources with and are dependent upon the external environment. The external environment consists of all the forces and conditions outside the organisation that are relevant to its operation and influence. Organisations take inputs (raw materials, money, labour and energy) from the external environment, transform them into products or services, and send back as output to the external environment. There is also the internal environment which can be defined as all the forces and conditions within the organisation that influences its behaviour. Thus, enivronment can be broadly classified into (1) external and (2) internal.

1)   External Environment

The external environment becomes more clear if it is further divided into two distinct segments: general and task.

General Environment

The general environment consists of interrelated forces that can be categorised into four elements:

1.   Economic Environment
2.   Socio-culture Environment
3.   Political Legal Environment
4.   Technological Environment

Task Environment

The task environment puts indirect pressures on organisation management through the institutional processes of the following elements:

1. Customers
2. Suppliers
3. Competitors
4. Financial Institutions
5. Government
6. Media

2)   Internal Environment

Each organisation has an internal environment, which includes all the elements within the organisations boundaries. The major components are:

a) Employees
b) Shareholders and Board Directors
c) Culture

Several models exist that can help you study the external and internal environment of your organisation. Throughout this workbook you will be introduced to some of those models: PESTLE, SWOT, McKinsey Seven S Framework, Burke Litwin Causal Model of Organisational Change.

By becoming familiar with the models you will be able to choose the one that best suits your context and situation.

PESTEL Analysis
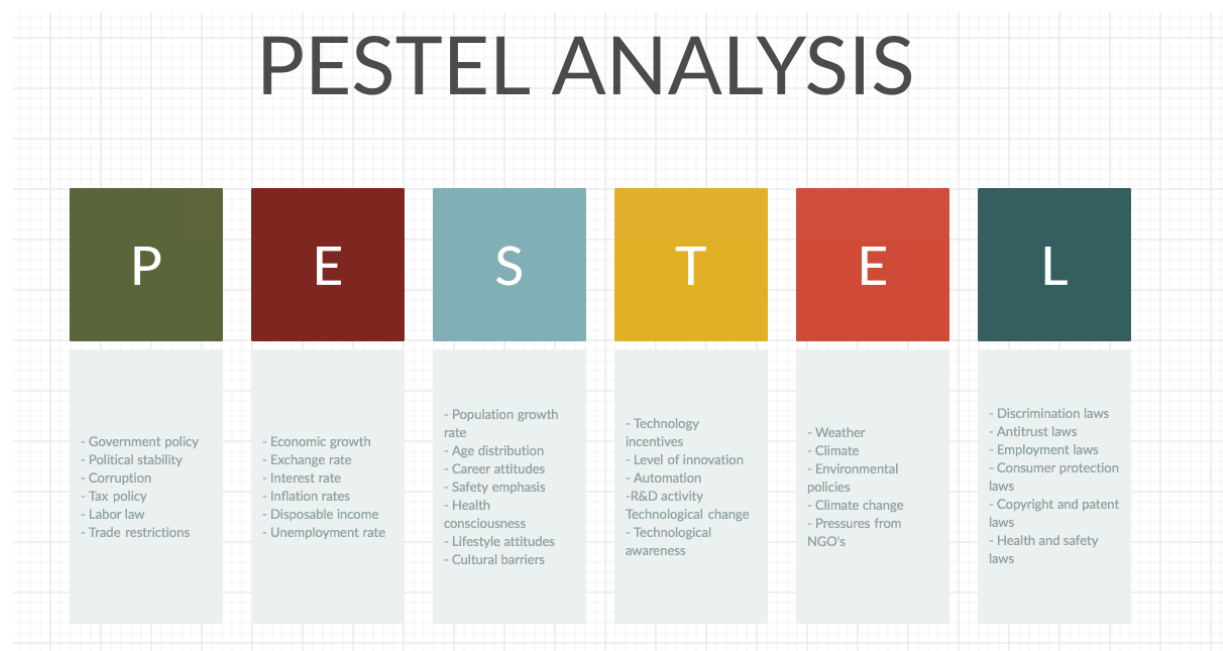
A PESTEL analysis is an audit of six external influences on an organisation:

- Political: Tax policy; environmental regulations; trade restrictions and reform; tariffs; political stability
- Economic: Economic growth/decline; interest, exchange, inflation and wage rates; minimum wage; working hours; unemployment (local and national); credit availability; cost of living
- Sociological: Cultural norms and expectations; health consciousness; population growth rates; age distribution; career attitudes; health and safety
- Technological: New technologies are continually emerging (for example, in the fields of robotics and artificial intelligence), and the rate of change itself is increasing. How will this affect the organisation's products or services?
- Environmental: Global warming and the increased need to switch to sustainable resources; ethical sourcing (both locally and nationally, including supply chain intelligence).
- Legal: Changes to legislation impacting employment, access to materials, quotas, resources, imports/exports, and taxation

By analysing those factors, organisations can gain insight into the external influences which may impact their strategy and business decisions. It allows HR and senior managers to assess any risks specific to their industry and organisation and use that knowledge to inform their decisions.

The term PESTEL has been used regularly in the last decade or so and its true history is difficult to establish. Various other similar acronyms have been used, including ETPS, STEP, PEST, PESTLE and STEEPLE (where the extra E stands for Ethical).

PESTEL underlines the importance of considering the impact of external forces on a range of plans for change. It can also highlight the potential for additional costs, and prompt further research to be built into future plans.

Carrying out a PESTEL analysis should start with thinking through and planning the process. This means following these steps:

- Identify the scope of the research. It should cover present and possible future scenarios, and apply to areas of the world in which the business operates.
- Decide how the information will be collected and by whom. Data gathered is often more rich in content when more than one person contributes to collecting it.
- Identify appropriate sources of information. These could be stakeholders looking for people professionals to address specific issues or current policies that require updating.
- Gather the information using a template.
- Analyse the findings.
- Identify which of these factors listed above are most important or could cause issues.
- Identify the business specific options to address the issues, as demonstrated in the example template.
- Write a discussion document for all stakeholders.
- Disseminate and discuss the findings with stakeholders and decision makers.
- Decide what actions need to be taken, and which trends to monitor on an ongoing basis.

To be effective, a PESTLE analysis needs to be done on a regular or ongoing basis. Organisations that regularly and systematically conduct such analyses often spot trends before others, thus providing competitive advantage.

What is PESTEL analysis used for?

A PESTEL analysis is often used as a broad fact-finding activity. It helps an organisation establish the external factors that could impact decisions made inside the organisation.

An organisation on its own cannot affect these factors – nor can these factors directly affect the performance of an organisation. By understanding these external factors, it's possible to maximise opportunities and minimise threats to the organisation. Conducting a strategic analysis means scanning the external environment to detect and understand broad, long-term trends.

A PESTEL analysis is an appropriate framework and activity to use in a range of business planning situations. These can encompass:

Strategic business planning	A PESTLE analysis report is a useful document to have available when starting a business planning process. It provides the senior management team with contextual information about the direction in which the business is going, brand positioning, growth targets, and any areas or risks concerning a decline in productivity. It can also help determine the validity of existing products and services and define new product development.
Workforce planning	Workforce planning is a business process that aligns business and people strategies. A PESTLE analysis can help to identify disruptive changes to business models that may have a profound impact on the future employment landscape. Organisations are facing huge changes in their workforce from increased skills gaps, the creation of job roles that did not exist 10 years ago, and job reductions or displacement. This pace of change will only increase.
Marketing planning	As with business planning, a PESTEL analysis provides the essential element of 'climate' in the situation analysis phase of the marketing planning process. It can help prioritise business activities to accomplish specific marketing objectives within a set timeframe.
Product development	By offering insights on what's happening externally to an organisation, a PESTLE analysis can help you decide whether to enter or leave a route to market, determine whether your product or service still fulfils a need in the marketplace, or when to launch a new product.
Organisational change	A PESTLE analysis can be a powerful activity for understanding the context for change, and the potential areas of focus to make change successful. In this situation, PESTLE is most effective when used in association with a SWOT analysis to provide information about potential opportunities and threats around labour changes; for example, skills shortages and current workforce capabilities.
People strategies, reports and projects	A PESTLE analysis can also be used as a framework for looking outside the organisation to hypothesise what may or may not happen in future. It can ensure that basic factors are not overlooked or ignored when aligning people strategies to the broader organisation strategy. It can also help in deciding what additional evidence-based research should be explored.

From the business planning situations outlined on the previous page, which one might you be involved in within your role and your context?   Provide details below:

For the context and situation you described on the previous page, using the PESTEL framework, and template below, consider the external factors and importance of those factors to your organisation.

	External factors to consider	Factors affected within my sector	Importance to organisation
POLITICAL	Government policy Political stability Tax Industry regulations Global trade agreements and or restrictions		
ECONOMIC	Exchange rates Globalisation Economic growth / decline Inflation Interest rates Cost of living Labour costs Consumer spending habits		
SOCIAL	Fashions Consumer buying habits Lifestyle factors Career attitudes Work-life balance Population demographics Consumer trends/tastes		
TECHNOLOGY	Automation Innovation Disruptive technologies Social networking Upgrades Robotics Artificial Intelligence Security		
ENVIRONMENTAL	Environmental restrictions imposed by in-country governments Sustainable resources CSR (Corporate social responsibility) Ethical sourcing Transportation Procurement Supply chain management		
LEGAL	Employment law Common law Local labour law Health and safety regulations		

SWOT ANALYSIS

SWOT is an acronym for Strengths, Weaknesses, Opportunities, Threats. Occasionally, it may also be found as a 'WOTS up' analysis or the TOWS analysis. The technique is credited to Albert Humphrey who led a research project at Stanford University in the 1960s and 1970s using data from leading companies involved in long range planning processes.

A SWOT analysis is a planning tool used to understand key factors - strengths, weaknesses, opportunities, and threats - involved in a project or in an organisation. It involves stating the objective of the organisation or project and identifying the internal and external factors that are either supportive or unfavourable to achieving that objective. SWOT is often used as part of a strategic or planning process, but can be applied to help understand an organisation or a situation, and also for decision-making for many different scenarios.

The value of SWOT lies mainly in the fact that it offers self-assessment for management. The methodology has the advantage of being used as both a 'quick and dirty' tool or a comprehensive management tool, and that one (the quick) can lead to the other (the comprehensive). This flexibility is one of the factors that has contributed to its success.

While the elements can appear deceptively simple and easy to apply, experience shows that to do a SWOT analysis that's both effective and meaningful, requires time and a significant resource. Deciding what the strengths and weaknesses of an organisation are, as well as assessing the impact and probability of opportunities and threats, is far more complex than first appears. It requires a team effort and can't be done effectively by just one person.

Further, the inherent risk of making incorrect assumptions when assessing the SWOT elements can cause senior management to procrastinate when deciding between various strategic alternatives, frequently resulting in undesirable delays.

It's important to note the strengths and weaknesses are intrinsic value-creating skills or assets, or the lack of these, relative to competitive forces. Opportunities and threats are external factors which are not created by the organisation, but emerge as a result of the competitive dynamics caused by future gaps in the market. PESTLE analysis is used to look at opportunities and threats (external) elements.

Doing a SWOT analysis can be very straight forward, but its strengths lie in its flexibility and experienced application.

- Decide how the information is to be collected and by whom (often a team approach is much more powerful than one person's view).
- Identify appropriate sources of information.
- Gather the information - it's useful to use a template as the basis for exploring the factors and recording the information. See our practical and ready-to-use template below.
- Plot the findings.
- Identify the most important issues.
- Identify strategic options.
- Write a discussion document.
- Disseminate and discuss the findings.
- Decide which activities are a priority in the context of the organisations goals and values – a possible action plan framework appears below.

The table below provides a comprehensive overview of what might be considered as part of a SWOT Analysis.

INTERNAL FACTORS

STRENGTHS

What advantages and value proposition do you have to rival other businesses?

People, skills capabilities
- Staff development
- Communication
- Engagement levels
- HR strategy
- EVP
- Knowledge and expertise
- Benefits
- Succession plans
- Culture, philosophy and values
- Data

Resources, assets
- Properties and locations
- Equipment
- Financial reserves
- Technology

Competitive advantage
- Intellectual property
- Products and, or services
- Markets and reach
- Innovation
- Unique selling proposition

Internal processes
- HR and operational

WEAKNESSES

Identify vulnerabilities, the areas of your business and, or HR function that require change to be more efficient, or stopped?

People, skills capabilities
- Staff morale
- Budget constraints
- Skills gaps
- Employee turnover
- Expertise
- Internal disruption
- Historical data
- HR recognition impeding contribution
- People management

Resources, assets
- Core activities
- Reliability
- Cash flow
- Dated technology/equipment

Competitive advantage
- Reputation and brand perception
- Quality
- Procurement strength
- Beaurocracy
- Reactive rather than proactive

Internal processes
- HR and operational

EXTERNAL FACTORS

OPPORTUNITIES

What opportunities and trends can you capitalise on?

People, skills capabilities
- Workforce planning
- Organisational design
- Restructure
- The gig economy
- Industry trends
- Technology development
- Target markets
- New product developments
- Expansion and growth
- Partnerships

THREATS

What external factors could impede your progress?

People, skills capabilities
- Losing staff to competitors
- Changes to demographics
- Increasing regulation
- Labour market conditions
- New competitors
- Changes to market demand
- PESTLE factors (see our PESTLE factsheet)
- Innovations in technology
- Cost of investments
- Loss of market share

For a major project that you are involved in use the table below to capture the Strengths, Weaknesses, Opportunities and Threats using the template below:

STRENGTHS	WEAKNESSES
OPPORTUNITIES	THREATS

The McKinsey 7-S Framework

The McKinsey 7S model (Figure 1) is a management model for making an internal analysis. McKinsey states that you can divide the internal organization into 7 main components (factors). All 7 factors need to be in balance with optimum operational management.

There are hard elements and soft elements but it is important that all the components are held together and balance is maintained by the organisational values. If one of the 6s does not match the rest, this has a negative impact on business operations. If the middle S (Shared values) changes, then it affects all other Ss.

Figure 1: The McKinsey 7-S Framework
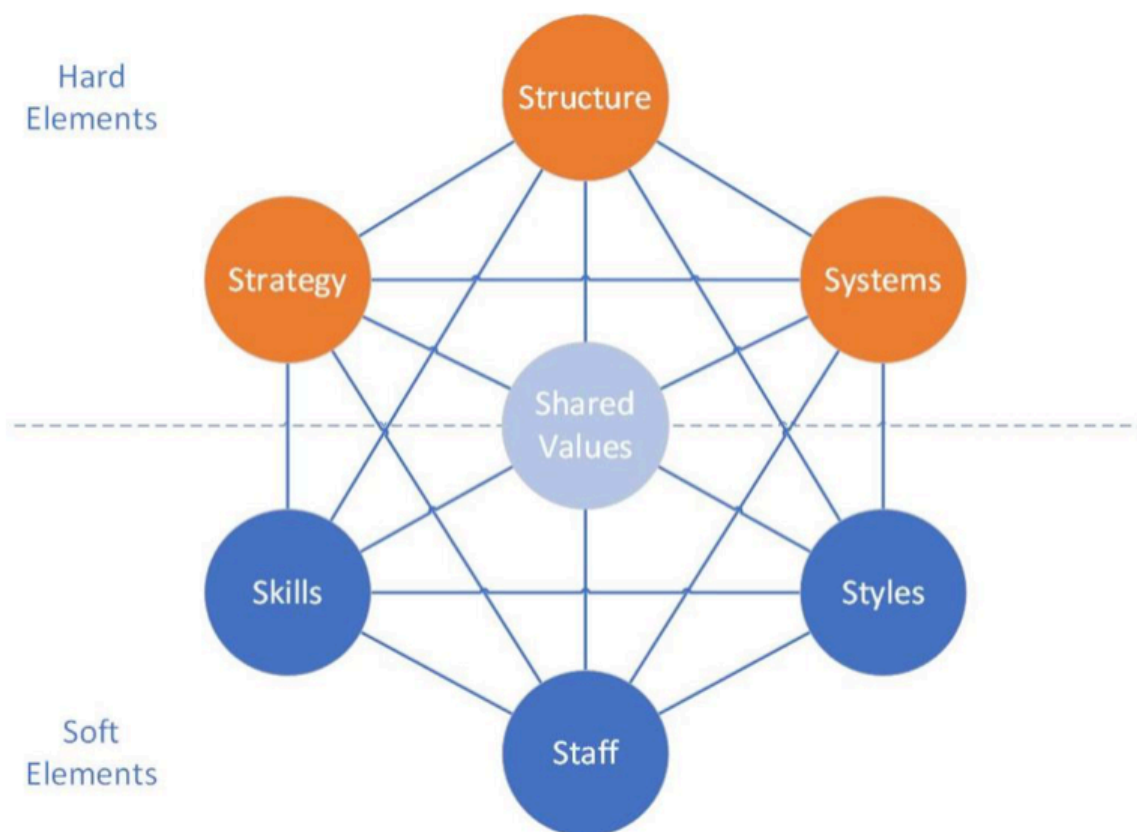
Why would you use the McKinsey 7 S Model?

For change projects, the 7S model can be used as a framework to prevent the organization from becoming unbalanced. With the 7S model from McKinsey you can make a so-called 'Gap analysis'. You look at the current situation and compare it with the situation you want to go to. Once problems have been identified, they can be addressed. After a while you perform the analysis again to see if the problems have indeed been solved.

The elements of the Seven S Model include:

- **Strategy:** this is your organization's plan for building and maintaining a competitive advantage over its competitors.
- **Structure:** this how your company is organized (that is, how departments and teams are structured, including who reports to whom).
- **Systems:** the daily activities and procedures that staff use to get the job done.
- **Shared values:** these are the core values of the organization, as shown in its corporate culture and general work ethic. They were called "superordinate goals" when the model was first developed.
- **Style:** the style of leadership adopted.
- **Staff:** the employees and their general capabilities.
- **Skills:** the actual skills and competencies of the organization's employees.

What are your initial thoughts about this model?

Using the McKinsey 7-S Model

You can use it to identify which elements you need to realign to improve performance, or to maintain alignment and performance during other changes. These changes could include restructuring, new processes, an organizational merger, new systems, and change of leadership.

To use the 7-S Model you would follow these steps:

1. Start with your shared values: are they consistent with your structure, strategy, and systems? If not, what needs to change?

2. Then look at the hard elements. How well does each one support the others? Identify where changes need to be made.

3. Next, look at the soft elements. Do they support the desired hard elements? Do they support one another? If not, what needs to change?

4. As you adjust and align the elements, you'll need to use an iterative (and often time-consuming) process of making adjustments, and then re-analyzing how that impacts other elements and their alignment. The end result of better performance will be worth it.

It is suggested that you use a template matrix (shown below) to help with your analysis and that it is done as a team activity to gain many perspectives on the same situation.

Current Situation (Point A)

	Shared Values	Strategy	Structure	Systems	Style	Staff	Skills
Shared Values							
Strategy							
Structure							
Systems							
Style							
Sta							
Skills							

Future Situation (Point B)

	Shared Values	Strategy	Structure	Systems	Style	Staff	Skills
Shared Values							
Strategy							
Structure							
Systems							
Style							
Sta							
Skills							

Useful Checklist Questions for the McKinsey 7-S Framework

The following questions are a starting point for exploring your situation in terms of the 7-S framework. Use them to analyze your current (Point A) situation first, and then repeat the exercise for your proposed situation (Point B).

Strategy:

- What is our strategy?
- How do we intend to achieve our objectives?
- How do we deal with competitive pressure?
- How are changes in customer demands dealt with?
- How is strategy adjusted for environmental issues?

Structure:

- How is the company/team divided?
- What is the hierarchy?
- How do the various departments coordinate activities?
- How do the team members organize and align themselves?
- Is decision making and controlling centralized or decentralized? Is this as it should be, given what we're doing?
- Where are the lines of communication? Explicit and implicit?

Systems:

- What are the main systems that run the organization? Consider financial and HR systems as well as communications and document storage.
- Where are the controls and how are they monitored and evaluated?
- What internal rules and processes does the team use to keep on track?

Shared Values:

- What are the core values?
- What is the corporate/team culture?
- How strong are the values?
- What are the fundamental values that the company/team was built on?

Style:

- How participative is the management/leadership style?
- How effective is that leadership?
- Do employees/team members tend to be competitive or cooperative?
- Are there real teams functioning within the organization or are they just nominal groups?

Staff:

- What positions or specializations are represented within the team?
- What positions need to be filled?
- Are there gaps in required competencies?

Skills:

- What are the strongest skills represented within the company/team?
- Are there any skills gaps?
- What is the company/team known for doing well?
- Do the current employees/team members have the ability to do the job?
- How are skills monitored and assessed?

How do you think you might use the McKinsey 7-S model?

Burke-Litwin: Understanding Drivers for Change

 There are many reasons that change occurs in organisations. The Burke-Litwin model of organisational change and performance can help you identify different drivers of change and consider the implications for you as a change manager.

The Model

The Burke-Litwin model (shown below) shows the various drivers of change and ranks them in terms of importance. The model is expressed diagrammatically, with the most important factors featuring at the top. The lower layers become gradually less important. The model argues that all of the factors are integrated (to greater or lesser degrees). Therefore, a change in one will eventually affect all other factors.

Burke-Litwin believe environmental factors to be the most important driver for change. Indeed, most change can be traced back to external drivers for change.

Important elements of organisational success, such as mission and strategy, leadership and organisational culture, are often impacted by changes that originate outside the organisation. It is your job to understand these external changes and identify the implications for you and your team.

Burke Litwin Causal Model of Organisation Performance & Change
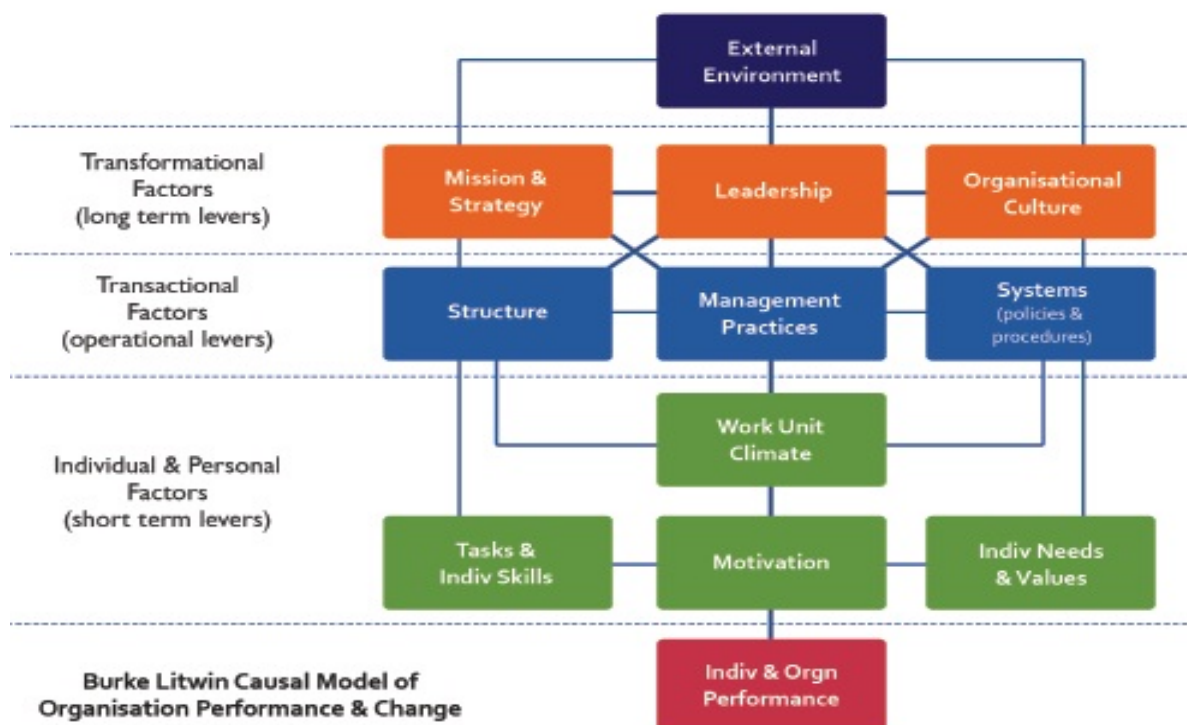
Identifying and Dealing with Drivers for Change

1. External Environment

This includes such factors as markets, legislation, competition and the economy. All of these will have consequences for organisations, and, as a change manager, it is vital that you continually scan the environment for issues that will affect you and your team. For example, in the world of accountancy, International Accounting Standards and International Financial Reporting Standards will have a significant impact on the way companies manage their accounts and report their results. In the public sector, legislative changes across health, local government and other services have a direct impact on the work organisations are required to carry out.

2. Mission and Strategy

An organisation's mission articulates its reason for existing. It is the foundation upon which all activity should be built. The strategy then sets out, in broad terms, how the organisation will go about achieving its mission. Very often, the strategy will be developed in light of environmental change, and will have a significant impact on the work you do. As a change manager, you need to understand change in strategy and be able to communicate the implications to your staff.

3. Leadership

This considers the attitudes and behaviour of senior colleagues and how these behaviours are perceived by the organisation as a whole. The way in which change is implemented and accepted through the organisation will be largely influenced by the top team. Does your team believe that senior colleagues are committed to change, or is it just another initiative that will disappear in six month's time?

4. Organisation Culture

Organisation culture can be described as "the way we do things around here". It considers the beliefs, behaviours, values and conventions that prevail in an organisation. Culture change does not happen overnight. It evolves over time as a result of many other changes in the organisation. As a manager, you should keep in mind the desired state for the organisation, in terms of how you expect people to behave (and not to behave), and what your organisation values as important. You need to ensure that your behaviour fits with these expectations at all times, and that you 'walk the walk'.

5. Structure

Very often, changes in strategy can lead to changes in the way the organisation is structured. This can impact on relationships, responsibilities and ways of working. Your job is to assess the impact of the structural change and ensure your team understands why it is required, and what it means for them.

6. Work Unit Climate

This considers employees' perception of their immediate colleagues and working environment. Our immediate working environment is often what shapes our view of the organisation as a whole, and influences the extent to which we feel satisfied in our jobs. Changes to the immediate working environment need to be managed sensitively, as they are likely to invoke a range of emotional and political responses from staff. This is particularly the case where change involves moving location, a change in personnel, or a change in terms of conditions of service, such as working hours.

7. Task Requirements and Individual Skills/Abilities

Change at a higher level in the organisation will often require changes in the work carried out and the skills available in the team. As the change manager you need to assess whether: all the right skills are in place; if they can be developed; or, if you need to bring them in from outside the team.

8. Individual Needs and Values

Changes to team membership can mean a change in the team dynamic. In a perfect world, we would be able to recruit the exact fit for our teams, in terms of personal style, abilities and skills mix. However, in reality it is not always possible, and it is your job to identify any risks in this areas and mitigate them as best you can.

9. Employee Motivation

Considers the significance of individual and organisational goals. Motivation is key to effective change. The real challenge is to maintain motivation throughout a change project, particularly when change is often not well-received by those affected.

For each of the drivers for change, reflect on which are within your sphere of influence and how you are directly involved in influencing the success of that particular driver:

| Driver	Within your sphere of influence?	How are you directly involved?
External Environment		
Mission and Strategy		
Leadership		
Organisational Culture		
Structure		
Work Unit Climate		
Task Requirements and individual skills/abilities		
Individual Needs and Values		
Employee Motivation		

REFLECTION AND ACTION: KOLB'S EXPERIENTIAL LEARNING CYCLE

Kolb's Experiential Learning Cycle can be used to help assimilate your learning for this particular theme/concept to the workplace/project.

Kolb's Experiential Learning Cycle provides a framework for learners to reflect upon their experiences 'in the moment' or 'after' a particular event helping to make sense of new knowledge/skills and how they can be applied in reality. The four stages of Kolb's cycle is shown here:
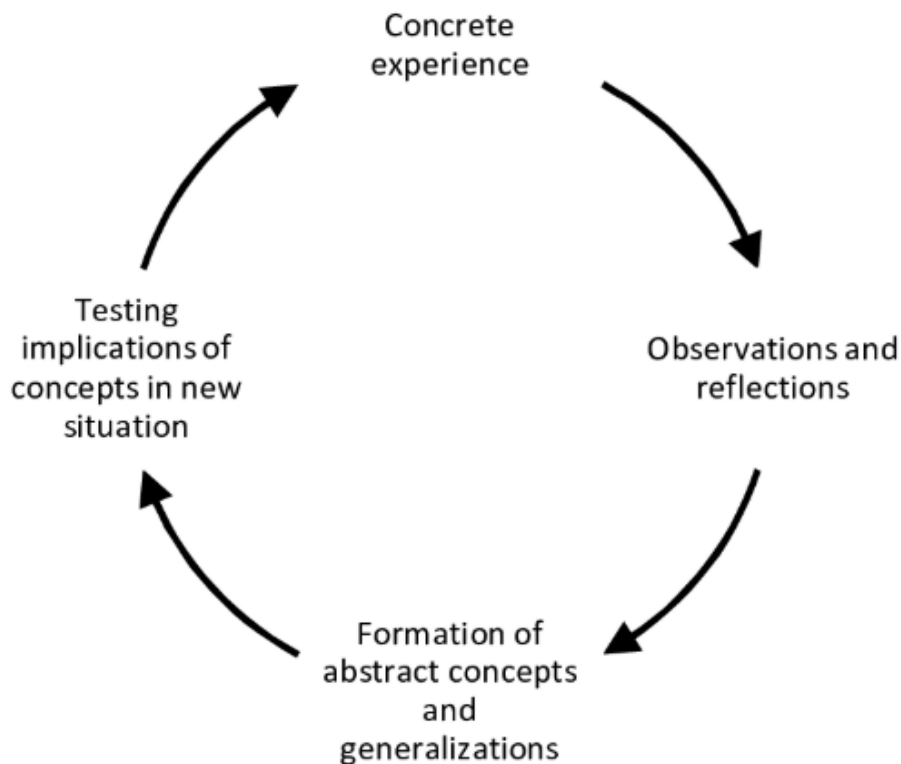
Concrete experience: a new experience or situation is encountered, or a reinterpretation of existing experience

Observations and reflections: of particular importance are any inconsistencies between experience and understanding

Formation of abstract concepts and generalizations: reflection gives rise to a new idea, or modification of an existing abstract concept – meaning an individual has learnt from their experience

Testing implications of concepts in new situations: the learner applies their new knowledge/idea/s to the world around them to see what manifests in reality

ACTIVITY

Using Kolb's Experiential Learning Cycle use the boxes below to describe your experience of completing the Vision and Mission module and how your knowledge can be applied in practice in the future:

Concrete Experience:
Observations and Reflections:
Formation of abstract concepts and generalizations:
Testing implications of concepts in new situations:

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Background of the 7S model

The 7S model was developed by the consultants of McKinsey in the late 70s. McKinsey is one of the leading consulting firms in the world. Tom Peters has also contributed to the model, and used it in its mega bestseller In search of excellence

Burke and Litwin Model

Burke & Litwin, 'A Causal Model of Organisation Performance and Change', Journal of Management, Vol 18, No 3 (1992), pp 523–545.