1 Business Organizations: The Internal Environment

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Anyone embarking upon a journey towards a genuine understanding of business must acquire an underpinning knowledge of the inner workings of the firm, how a firm sustains its operations, and the relationship between the firm and its external environment. This chapter gives a detailed definition of the internal business environment, and the main purpose of both business organizations and strategy are discussed. Furthermore, an understanding of the key concepts relating to business organizations and how such organizations continue to create value for the consumer in today's uncertain business environment will be developed.

The purpose of a business organization – its vision/mission

A **business organization** is an individual or group of individuals who collaborate in order to achieve certain commercial objectives; in essence, it is an economic system where goods and services are exchanged in return for profit. Business organizations come in a variety of forms, and each varies in type and size, from small family businesses to large multinational corporations. A business organization can be privately owned, not-for-profit, or state-owned. An example of a large corporate business is PepsiCo, while a small business such as an independently owned restaurant or shop is termed a private enterprise (Casadesus-Masanell and Ricart, 2010). These business organizations are usually formed to earn income for their owners, while the public or social enterprise is often founded to raise money and to utilise additional resources to provide or support public programmes. There are three common types of business organizations: public, private and voluntary, and there is often crossover between each type, as indicated by the arrows in Figure 1.1.

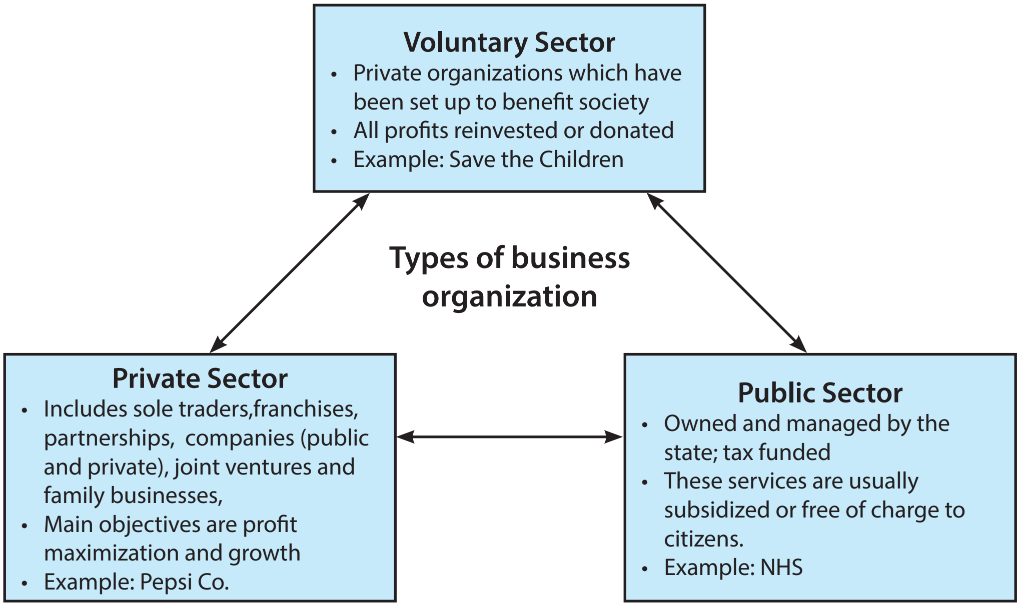

Figure 1.1: Types of organization

Defining business size can be surprisingly complex, as no single measure exists. Usually business size is determined by a combination of factors: the number of employees, the number of outlets or business units, total revenue, overall gross profit, capital investment and market value. However, the number of employees is the most common measure of the size of a business (Table 1.1).

Table 1.1: UK Business Statistics, 2014

Business type	Number of employees	Number of enterprises (000s)
Micro	0-9	5,010
Small	10-49	195
Medium	50-249	31
Large	250+	7

Source: Ward, M., and Rhodes, C., 2014. *Small Business and the UK Economy*. Standard Note: SN/EP/6078. (9 December 2014). Economic Policy and Statistics. House of Commons Library. P. 3.

Table 1.1 shows both the number of micro, and small and medium enterprises (SMEs) in the UK in 2014. There are a small number of multinational corporations (MNCs) (those with over 250 employees). In fact, in 2014 there were 4.9 million businesses in the UK, rising to 5.2 million businesses in 2015, and of those 99% were SMEs, accounting for 14.5 million in employment (Rhodes, 2013). This is significant in that many of these SMEs are micro in size with between 0-9 employees, and the number is growing with increased access to technologies. Thus, the contemporary business landscape in the UK comprises of a small number of dominant, influential organizations, contrasted by far more small and micro enterprises.

Exercise

Spend the next 5 minutes outlining what a business organization means to you.

How might you measure business success?

The strategic direction of an organization: Industries and markets

As well as establishing clear vision and aims for an organization, managers must also determine its direction. Strategy is therefore a fundamental part of the planning process, allowing firms to determine where they want to be in relation to where they currently are. There is no commonly agreed definition, and the term strategy means different things to different business organizations (Mintzberg *et al.*, 2005), not only in terms of what their strategy is, but also how they implement it. That said, most strategy scholars agree that the strategy of an organization should make clear the answers to key questions of identity, positioning and purpose. Regardless of size, type, or focus then, there should be a clear view of where the organization is, where it wants to be, and how it plans to get there.

According to McGoldrick (2002), these questions form a 'blueprint' upon which a firm will draw to achieve its objectives. Three levels of strategic decision-making are generally identified, (Table 1.2).

All three levels hold distinctive strategic concerns and draw on different sets of tools, techniques and approaches. Traditionally, corporate level strategy has set the direction for businesses, but we can see that there are occasions when corporate strategy emerges from, or is shaped by, functional level and business level decisions and actions (McIntosh and Maclean (2015). Thus, each level of strategy interacts in an iterative and dynamic manner with the others. For example, whilst marketing and advertising are seen as part of the functional role of the business strategy, corporate strategy cannot be set without a clear understanding of the consumer – this in essence is the purpose of marketing.

Table 1.2: Levels of strategic decision-making

Strategic Level	Description	Typical areas of decision
Corporate	Concerns the direction and composition of an organization, and the co-ordination of the businesses and activities that comprise large and diversified organizations.	• Mission of the organization • Unique attributes • Business portfolio management • Obtaining/retaining businesses • Priorities and portfolio
Business	Relates to the operation and direction of each of the individual businesses within a group of companies.	• Positioning to compete in strategically relevant markets • Product offerings • Internal management in support of chosen competitive approach
Functional	Concerns individual business functions and processes such as finance, marketing, manufacturing, technology and human resources.	• Translating higher-end strategies into operational terms. • Functions and processes organization

Source: Adapted from McGoldrick (2002)

Understanding strategy at all levels is essential. Strategy is concerned with creating value for the consumer and stakeholders of the business organization. Therefore business strategy is often heavily concerned with the wealth and well-being of the organization now and in the future. The strategic blueprint is also about articulating the values of the business, internally and externally, in assisting the implementation of ideas and ideals. Strategy also provides focus at all levels of a business, empowering those within to follow suit. Corporate strategy strengthens the brand while also providing motivation for employees towards achieving objectives. It strengthens the direction of the firm by empowering its employees, providing them with direction and achievable goals, while enriching management and the social contract within the organization. Tools such as **mission statements** can be used to provide general guidance on the internal strategic direction and values of the firm.

Mission statements can provide organizations with an opportunity to explain (both internally and externally) the company's goals, ethics, corporate culture, values and norms for decision-making. Usually, mission statements are one-sentence statements describing the reasons an organization exists, guiding subsequent decision-making about its priorities, actions, and responsibilities (MacIntosh and Maclean, 2015). The mission statement is also used internally, providing a clear idea of where the business is going and how it intends to get there. When these value statements are outlined to the public they are used to articulate the fundamental assumptions of the business.