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CASE STUDY

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GE’s Aerospace Division underwent a re-structuring or delayering exercise in early 1990s.

Division introduced a new MIS of networked workstations equipped with latest CAD/CAM (Computer Aided Design and Computer Aided Manufacturing) software. This system allowed its engineers to track projects, share information or data & even view images simultaneously.

Division was then able to reduce several layers of middle management resulting in there being only 5 reporting levels between engineers and the president.

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2.3 Technological (T)

Technological changes will influence the organization in its operations as well. Most technological changes affect the *total net outputs* and usually come in three ways, namely:

- Productivity gains
- Reduced costs
- New products

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2.3.1 Effects of technological change on the organization structure:

1) Downsizing

It is a term used for ***reducing the number of employees*** in an organization without necessarily reducing the work or the output.

2) Delayering

It is the process of ***removing layers of management***. This is to change the organization from one framework with numerous layers into a flatter organization with minimal layers of management.

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3) Outsourcing :

It is the contracting out of specified operations or services to an external vendor which could be divided into four types:

- **Ad-hoc** (employing programmers on a *short-term* contract to help with the programming of bespoke software)
- **Project management** (the development and installation of a *particular project* such as accounting system)
- **Partial** (some IT service are outsourced)
- **Total** (an external supplier provides the vast majority of an organization' s services)

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The advantages and disadvantages of outsourcing

Advantages	Disadvantages
Certainty	Risk
Flexibility	Lock in (switching cost)
Speciality	Loss competitive advantages
Economies of scales	Lack of internal consideration

2.3.2 Other effects of IT on organizations include:

- Routine processing (bigger volumes, greater speed, greater accuracy)
- Digital information and record keeping
- New skills required and new ways of working
- Reliance on IT

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- New methods of communication and of providing customer service
- Information technology has enabled organisations to provide better customer service. Customer databases, EDI, extranets, websites and data mining can all be applied to improving service levels.
- Interoperability (encourages collaboration across organization boundaries) and open systems
- The view of information as a valuable resource
- The view of information as a commodity which can be bought, sold or exchanged ('information market')

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2.4 Environmental factors（PESTEL）

Environmental footprint is the impact that a business's activities have upon the environment including its resource environment and pollution emissions.

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2.4.1 Environmental cost

At an individual firm or business level environmental impact can be measured in terms of environmental costs in various areas.

Direct or indirect environmental costs

- Waste management
- Remediation costs or expenses
- Compliance costs
- Permit fees
- Environmental training

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- Environmentally driven research and development
- Environmentally related maintenance
- Legal costs and fines
- Environmental assurance bonds
- Environmental certification and labeling
- Natural resource inputs
- Record keeping and reporting

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Contingent or intangible environmental costs

- Uncertain future remediation or compensation costs
- Risk posed by future regulatory changes
- Product quality
- Employee health and safety
- Environmental knowledge assets
- Sustainability of raw material inputs
- Risk of impaired assets
- Public/customer perception

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2.4.2 Stakeholder expectations

Pressures on organizations to widen the scope of their corporate public accountability come from increasing expectations of stakeholders and knowledge about the consequences of ignoring such pressures.

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2.4.3 Reputation risk

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Increasingly a business must have the reputation of being a responsible business that enhances **long-term shareholder value** by addressing the needs of its stakeholders–employees, customers, suppliers, the community and the environment.

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3. Competitive forces

Porter’s Five Competitive Forces model

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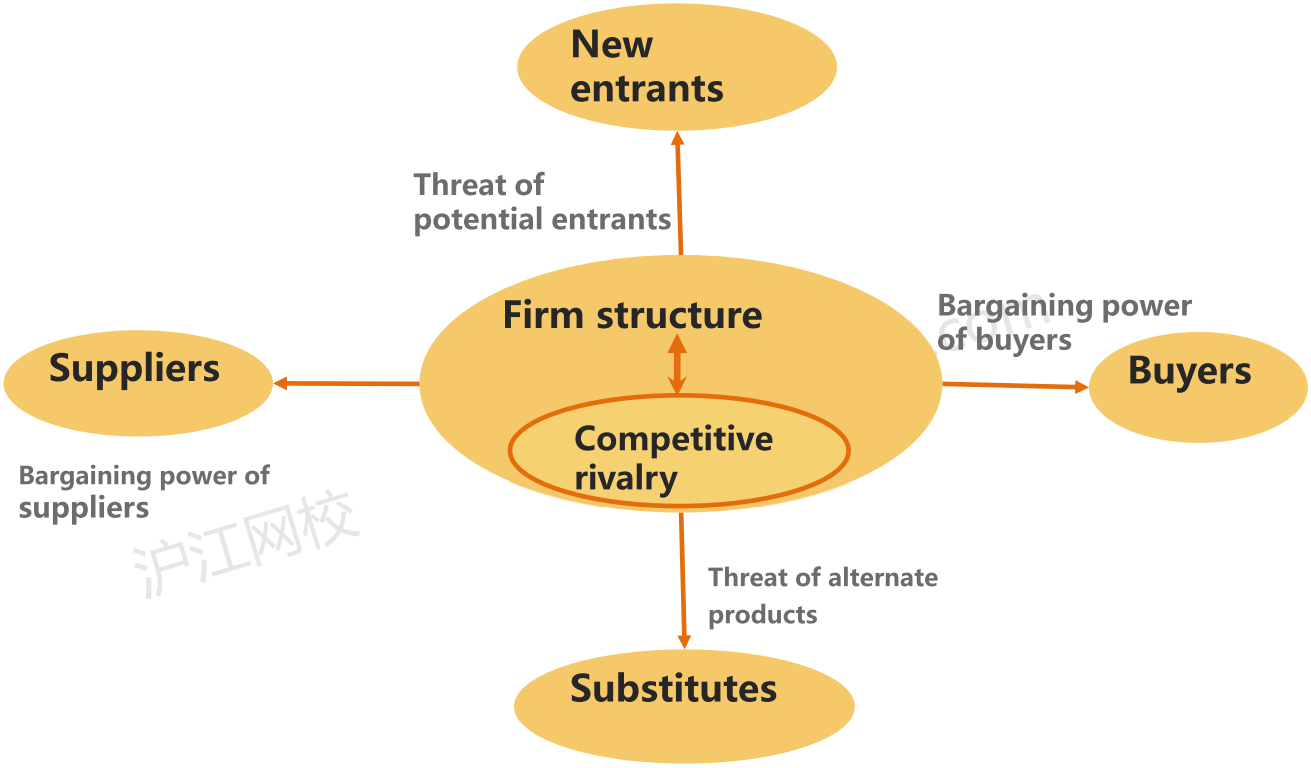

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Example

- Enter into oil exploration business would lead to purchase of very expensive assets such as: oil rigs, drills
- To become an IT consultancy business. Requires: office space & computers

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The threat of new entrants (and barriers to entry to keep them out)

A new entrant into an industry will bring **extra capacity** and **more competition**. The strength of this threat is likely to vary from industry to industry and depends on two things:

- The strength of the **barriers to entry.** Barriers to entry discourage new entrants. (investment ,economies of scale, technology, permission)
- The likely response of existing competitors to the new entrant

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The threat from substitute products

A substitute product is a good or service produced by another industry which satisfies the same customer needs.

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EXAMPLE:

- **Fax machine made telex redundant. It will become obsolete because of email.**

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The bargaining power of customers

Customers want ***better quality*** products and services at a ***lower price***. Satisfying this want might force down the profitability of suppliers in the industry. Just how strong the position of customers will be depends on a number of factors.

- How much the customer buys
- How critical the product is to the customer's own business
- Switching costs (ie. the cost of switching supplier)

- Whether the products are standard items (hence easily copied) or specialized
- The customer's own profitability: a customer who makes low profits will be forced to insist on low prices from suppliers
- Customer's ability to bypass the supplier (or take over the supplier)
- The skills of the customer purchasing staff, or the price-awareness of consumers
- When product quality is important to the customer, the customer is less likely to be price-sensitive, and so the industry might be more profitable as a consequence

Example

- *Unilever* has begun consolidating its purchasing for all its companies from one central location. Results: achieving cost efficiencies & economies of scale as it now mass orders the goods it requires.

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The bargaining power of suppliers

Suppliers can exert pressure for higher prices. The ability of suppliers to get higher prices depends on several factors:

- Whether there are just one or two dominant suppliers to the industry, able to charge monopoly or oligopoly prices
- The threat of new entrants or substitute products to the supplier’ s industry

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- Whether the suppliers have other customers outside the industry, and do not rely on the industry for the majority of their sales
- The importance of the supplier’s product to the customer’s business
- Whether the supplier has a differentiated product which buyers need to obtain
- Whether switching costs for customers would be high

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EXAMPLE

- Switching to an alternative operating system would be difficult for most computer users given the almost universal usage of Windows.
- Therefore consumers have very little or no bargaining power when it comes purchasing the Windows operating system.

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The rivalry amongst current competitors in the industry

- The intensity of competitive rivalry within an industry will affect the profitability of the industry as a whole.
- Competitive actions might take the form of **price competition, advertising battles, sales promotion campaigns**, introducing new products for the market, improving after sales service or providing guarantees or warranties.
- Competition can stimulate demand, expanding the market, or it can leave demand unchanged, in which case individual competitors will make less money, unless they are able to cut costs.

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EXAMPLE

- Canadian banking is the most competitive industry in the world. It is dominated by 5 "major" banks that have approximately the same size or product offerings. Therefore competition for customers is very fierce between these banks as all offer same products, services & quality.

SUMMARY

1. Technological (T)

   Downsizing

   Delayering

2. Environmental (E)

3. Competitive forces

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