

David Needle
and Jane Burns

Business **in** Context

An Introduction to Business
and its Environment

7th Edition

**David Needle
and Jane Burns**

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and its Environment**

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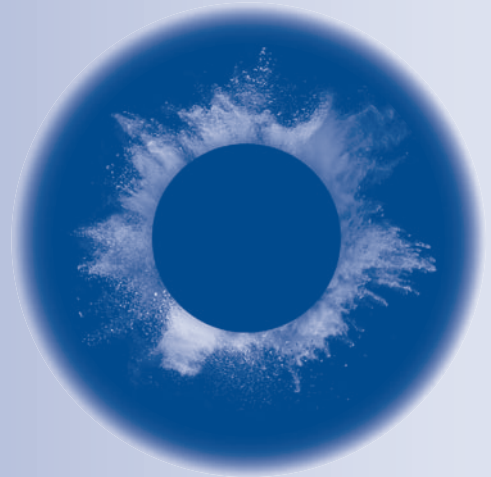
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To Jacquie – David Needle
To Ellie – Jane Burns

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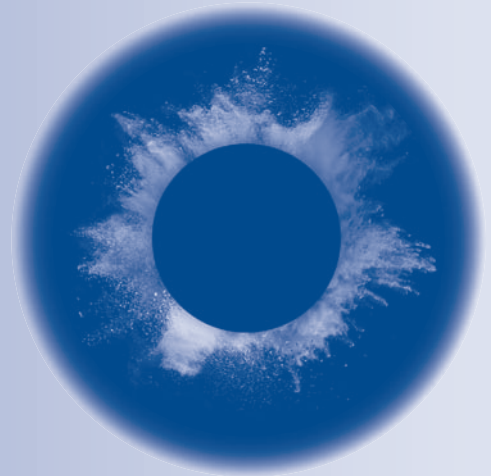
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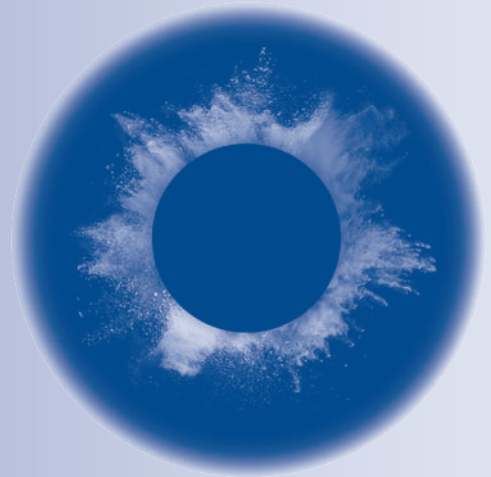
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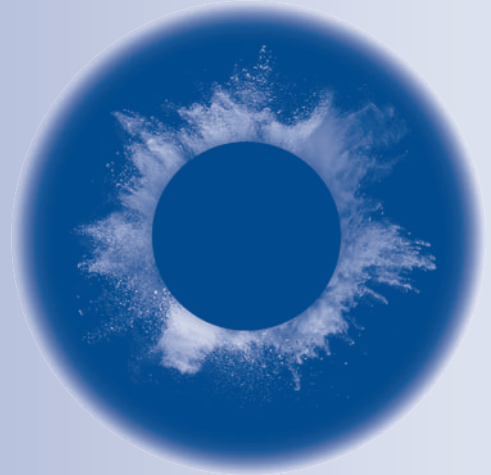
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PREFACE



The origins of this book lay in a module that I developed and taught at the University of East London in the early 1980s. The content and themes were further developed in my teaching at Queen Mary, University of London and, for the last 11 years at King's College, London. A key theme running through the book is the inter-related nature both of business activities themselves and their relationships with the strategic, organizational and environmental contexts in which they operate. A second important theme is the identification of key issues in business. These two themes have guided the development of this, the seventh edition.

The book was aimed originally at first and second year undergraduates studying business and management, to give them a multidisciplinary approach to their studies and an insight into the real world of business. However, the book has been found to be useful wherever there is a need for an overview of business or a treatment of business and the environment. As a result, the book has been adopted on MBA and specialist Masters programmes and on some professional courses.

This edition picks up on the ideas developed in previous editions:

- Businesses are perceived as operating through a complex network of inter-relationships and our Business in Context model is a simplification of this complexity.
- While business activities are undoubtedly influenced by their strategic, organizational and environmental contexts, those same business activities help shape those very same contexts.
- In all aspects of business life we need to remind ourselves that decisions are made by people. An understanding of behavioural and political issues is therefore important, as is the need to view issues from a number of different perspectives to gain a more complete understanding.
- Very rarely can we view business activities in isolation, as decisions made in one area inevitably have significant consequences, not only for other parts of the same business but for other businesses and even the wider community.

- Many of the new ideas, issues and techniques that have emerged over the years are undoubtedly products of influences that were operating at the time. While some have stood the test of time, others have become passing fashions and fads.

The major change in this edition is that I have been greatly assisted by a co-author. Jane Burns' background is in the IT industry, where she worked for many years on very large scale communications and organizational change programmes. Jane specializes in dealing with the human factors and issues associated with change. She is a Principal Teaching Fellow in Management at University College London where she teaches marketing communications and business research. She has brought fresh insights to much of the text, contributed some of the new cases and added a range of useful examples.

In this edition all the chapters have been updated to reflect the changes that have taken place in businesses themselves and in the business environment and new concepts such as the gig economy have been added. Nearly all the data and tables have been brought up to date, including those associated with the cases. All the cases from the previous edition have been updated, some of them radically as with Hewlett-Packard and Executive Pay. The London Zoo case has been updated to reflect its new existence as ZSL. Some cases have disappeared and new ones added. The new cases are an examination of tax avoidance by multinationals focusing on Apple in Ireland, Moonpig, Anheuser-Busch InBev and Carillion.

The core elements of previous editions are retained:

- each chapter starts with a set of learning objectives
- each chapter highlights key concepts and provides a separate explanation of these
- throughout each chapter students are invited to reflect on key ideas and concepts and link them to their own experiences
- each chapter illustrates key issues by using cases, all written by the authors, to support the information in the chapter
- each chapter is supported by a summary, a list of discussion questions and suggestions for further reading
- there is a glossary at the back containing useful short definitions of all the major concepts in the book.

This book, like its predecessors, takes a broad sweep of business and its environment. A great deal of selectivity is inevitable and the main criteria for the inclusion of material has always been that it interested us. Many of the ideas are attributed to their rightful source, but many are the product of our experiences in business and the years discussing business issues with students, friends and colleagues. We thank all of them for their contribution, with the rider that the misinterpretations and mistakes are all our own.

David Needle, May 2018

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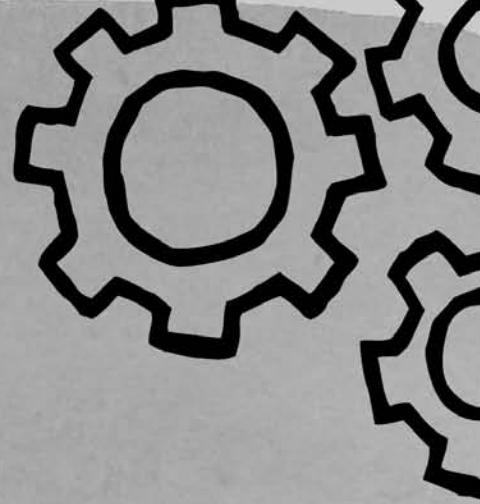
There are several who deserve our thanks for their help in producing this book. David would like to thank his colleagues and students in the King's Business School at King's College, London for providing feedback on previous editions. Special thanks should be given to King's colleagues David Guest and Aditi Gupta for their suggestions on improvements and additions to the chapters on HRM and Accounting and Finance respectively. Abbie Coppin at Cengage deserves both authors' thanks for being a patient and supportive editor. The authors and the publisher would like to thank the following academics for their helpful advice when reviewing draft chapter material:

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1

THE CONCEPT OF BUSINESS IN CONTEXT

LEARNING OBJECTIVES At the end of this chapter you should be able to:

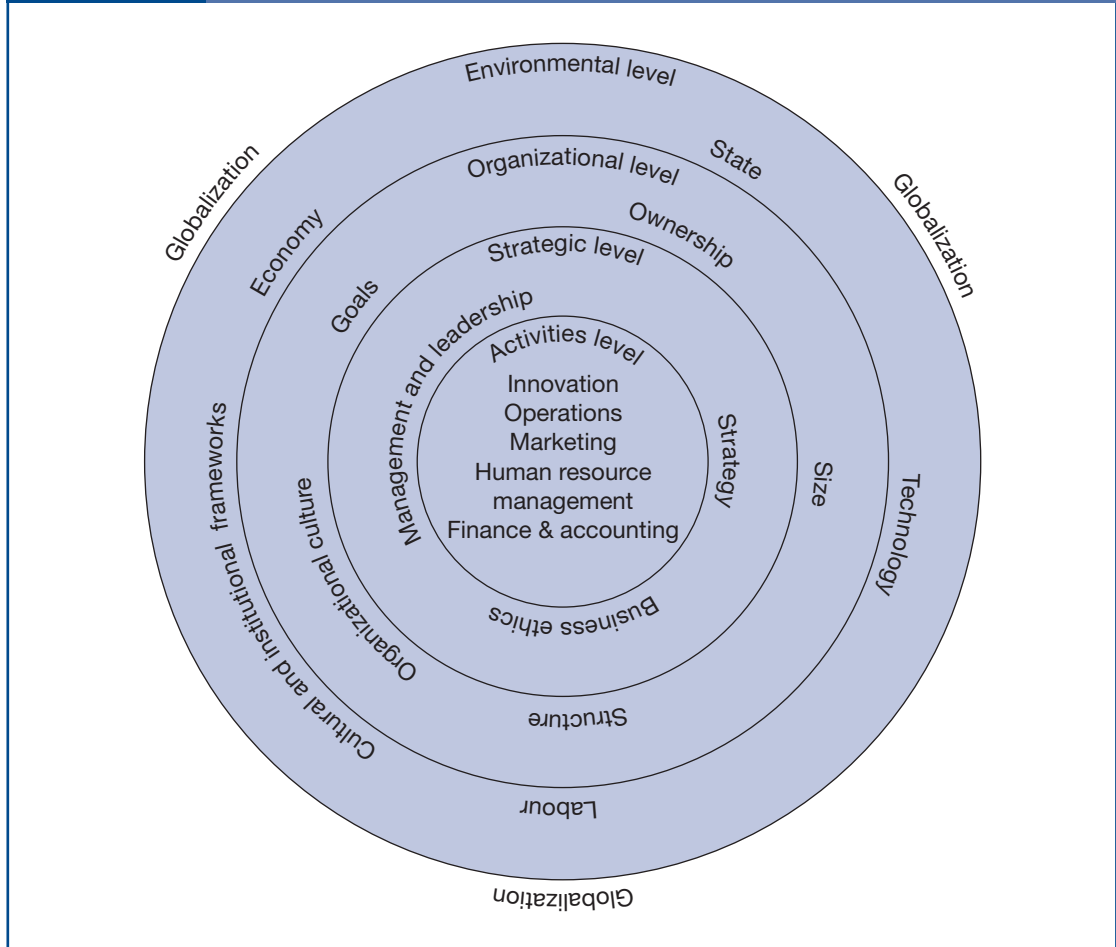
- Define and illustrate business as a broadly based and varied activity.
- Identify and illustrate the key activities of business and the relationships between them.
- Identify the strategic, organizational and environmental contexts within which business operates.
- Articulate the complex interactions that operate within and between business activities and their contexts.
- Use the Business in Context model to analyze a variety of business situations and cases.
- Define systems and contingency theories as they apply to business and assess their contribution to an understanding of business.

INTRODUCTION

The theme of this book is that businesses are complex. They cannot be understood by reference to their activities alone. These activities – which include innovation, operations, marketing, human resource management, finance and accounting – take place in a set of contexts. It is our contention that they can only be understood fully when those contexts within which they operate are also understood. In this first chapter we will explain what we mean by business and identify the

relevant contexts. It is also our contention that the relationship between business activities and these contexts is dynamic. The Preface introduced a model of business. We present the model in Figure 1.1 and use it to illustrate the elements of this dynamic relationship. This model can be used to analyze industrial and service sectors as well as the events at a single firm.

FIGURE 1.1 Business in Context model



We introduce briefly two theoretical approaches to the analysis of business organizations: the systems and contingency approaches. These are often used as the starting point for our analysis throughout this book and reference will be made to them in other chapters. We will conclude this first chapter by outlining the layout of this book.

BUSINESSES AND THEIR CONTEXTS

In this text we present a broad view of business. Businesses operate in all kinds of areas, including manufacturing industry, retailing, banking and other financial services, transport, media and entertainment. The publishers of this book are engaged in a business activity, involving

the production, marketing and selling of books to generate income both to make profits and to finance future operations. Businesses also vary considerably in terms of size. The corner newspaper and grocery store is a business, as is the Japanese car giant, Toyota.

We challenge the view that businesses are exclusively profit oriented. Business systems and methods operate in all kinds of organizations. In 2017, the 24 Russell Group Universities (the UK's leading research based universities) had an average income in excess of £688 million and four of the universities, Oxford, Cambridge, UCL and Manchester each had income of over £1 billion. The figures are much higher in the USA where the operating revenue for New York University in 2017 was US\$9.8 billion, Stanford US\$6.3 billion and Harvard just short of US\$5 billion. In short most universities are fairly complex organizations in which all the activities normally associated with business may be identified. For example, there are few colleges that do not market their courses, seek to increase their revenues or have to operate in dynamic and competitive markets both at home and overseas. Hospitals, too, are large complex organizations experiencing the type of management problems found in businesses anywhere. In any case, the distinction between profit and non-profit organizations has become blurred. All universities and colleges must rely increasingly on generating their own income owing to changes that have taken place in public funding. In the UK, the growth of medical provision outside the National Health Service (NHS) has seen the growth of profit oriented private hospitals which compete in the marketplace for customers and advertise their services internationally as well as nationally. In countries such as the USA this has always been the case.

KEY CONCEPT 1.1 BUSINESS

A business is the organized effort of individuals to produce and provide goods and services to meet the needs of society. We view business as a broad concept, incorporating profit-making concerns such as manufacturing firms and banks, and non-profit-making or not-for-profit concerns such as schools, hospitals and charities.

Business activities

As can be seen from Figure 1.1, a number of business activities have been identified. In this book we deal with them as five groups:

- innovation
- operations
- marketing
- human resource management
- finance and accounting.

Each of these groups is sufficiently broad to cover a number of related functions. When examining business activities there are two points to consider. First, the activities interact with one another. For example, operations decisions influencing the quantity and quality of the goods produced and the services provided will have implications for the other functional areas. Can products and services be designed to differentiate them from competitors' offerings? Is there a market and where does it exist? Can staff be recruited in sufficient numbers and with sufficient skills? Can the planned operation be financed? Second, as we have already indicated, these activities do not exist in a vacuum, but are shaped by, and in turn shape, the contexts within which they operate. In the

Business in Context model we have identified three types of context: strategic, organizational and environmental. In addition, we view these within the context of globalization.

Business contexts

At the **strategic level** we are concerned with those management decisions, and the influences on those decisions, that determine the direction of business activities. Strategic decisions will influence such factors as the range of products and services, the amount spent on advertising, the numbers and type of people employed, as well as the shape and nature of the organization. Strategies are often a question of reconciling opportunities and constraints which exist within both the organization and the environment in which it operates. The managing director of a small firm with a potentially profitable innovation often faces a strategic dilemma. Its organizational size means that expanding production capacity is impossible and its credit standing is such that it may be unable to raise sufficient development capital. The availability of finance is, in any case, a function of the economic and political climate. The options may be to sell the idea for development by a larger firm or simply sell out to a larger organization, both of which may be personally unacceptable to the owner of the small business. In this way, strategic issues are inseparable from the organization and environment in which they operate and can, in fact, alter those two other contexts. It is widely accepted that the structure of a firm is often a product of its strategy (Chandler, 1962, offers a forceful argument for this). Economic, cultural and political globalization have changed the nature of business and created globally complex business structures. The overseas investment strategies of large multinational corporations have been seen to have considerable influence on the economic and political affairs of other nations, especially those in the developing world.

Strategies are invariably the product of managers and we explore the concept of management and leadership in Chapter 7, which sets the immediate context for strategic decisions. A theme in business strategy and a currently popular rhetoric of business leaders and annual reports is that of corporate social responsibility (CSR). We explore both the rhetoric and reality of business ethics and CSR in Chapter 9.

KEY CONCEPT 1.2 STRATEGY

A strategy comprises a set of objectives and methods of achieving those objectives. A strategy is usually formulated by top management and is based on a mixture of careful analysis of the environment and the organization, the personal preferences of the managers involved, and a process of negotiation with various other stakeholders.

At the **organizational level** we are concerned with issues grouped under the following headings:

- goals
- structure
- ownership
- size
- organizational or corporate culture.

Many such issues are interrelated. The public ownership of business firms may well mean the pursuit of social as well as business goals, and publicly owned firms invariably have bureaucratic

structures. This is partly a function of organizational culture and partly a function of the large size of most public sector operations. All firms as they increase in size tend to adopt more formalized structures. Such organizational factors can place limitations on the nature of business activities. Formalized structures can inhibit certain types of product and process development and size, when the business is small, can be a restriction on expansion, as we saw in our illustration of strategic issues. In more general terms these organizational factors combine with management strategy to create distinctive organizational cultures.

KEY CONCEPT 1.3 ORGANIZATION

An organization refers to the way in which people are grouped and the way in which they operate to carry out the activities of the business. We define the key elements of the organization as the goals of the business and the way they are formulated, ownership and control, size, structure and organizational culture.

We have identified five factors that operate at the **environmental level**:

- the economy
- the state
- technology
- labour
- cultural and institutional differences.

The influence of all these elements and their interaction with individual organizations takes place within the context of **globalization**. The increasing need to view all businesses in a global context is dealt with in Chapter 2.

Some of these factors are deliberately broad. We examine the workings of the economy and its interaction with business activity as well as the nature of competition. Coverage of the state includes discussion of government, legal and political issues. The examination of labour focuses on the workings of the labour market. The review of cultural and institutional differences examines those issues that differentiate businesses in different countries and covers historical, cultural, political, economic and legal and regulatory differences.

As with the other factors in the model, there is considerable interaction between these environmental factors. The behaviour of labour markets is a function of the level of economic activity as well as legal provisions dealing with issues such as trade union membership and discrimination, which in turn reflect the policy of governments. The composition of the labour market reflects changes in technology, economic and social changes, and government policy. The mobility of labour within and between countries varies with the social and cultural traditions of those countries as well as with the laws on immigration and work permits. Technological innovations are often motivated both by declining economic fortunes and by direct state intervention. Similarly, we can cite illustrations of the interaction between the environment and our other contexts. The technological complexity of the product market in which the firm operates will largely determine the extent of its research and development (R&D) activity, and hence its strategies and structure. In the 21st century, human resources policies and practices are determined by cost considerations in an increasingly competitive global business environment.

The interplay that typifies the relationship between business activities and the contexts in which they operate will be a constant theme in this book. We will attempt to show that many

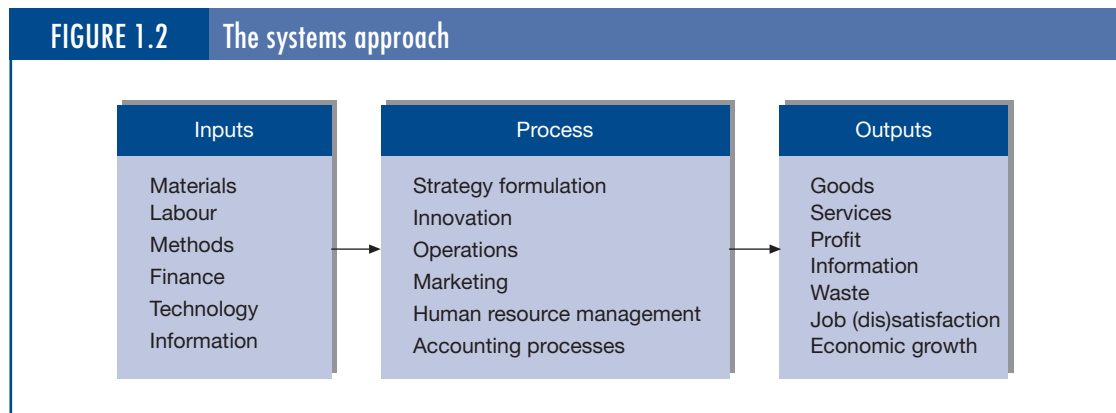
of the relationships are two way. The economic environment referred to above not only shapes businesses but is, in turn, a product of business activity. Changes in technology are products of innovation activity at the level of the firm. We are thus able to build up a model of business as a constant interplay of interactions and influences.

INTERACTION–INFLUENCE, SYSTEMS AND CONTINGENCY APPROACHES

It has been stressed elsewhere in this introductory chapter that the various elements of the Business in Context model interact with one another and influences go backwards and forwards across the various levels (see Figure 1.1). We are presenting an **interaction–influence model**. The idea of such a model for businesses is not new but forms the basis of the systems and contingency approaches that have been developed as part of organization theory. It is not our intention to present either a comprehensive review or a critique of these two approaches. Instead, we present a brief summary of their main ideas. Their importance as far as we are concerned is that they offer the student of business an important framework for analysis.

The systems approach

The systems approach assumes that all organizations are made up of interdependent parts which can only be understood by reference to the whole. As such, organizations may be analyzed in terms of inputs, processes and outputs, as illustrated in Figure 1.2. It may be seen from this that there are many similarities with the Business in Context model.



The development of systems thinking from an organizational perspective starts with the analogy of the firm as a living organism. To be effective, the firm, like the organism, must adapt to its environment to survive. The inputs, processes and outputs must be balanced so the firm can obtain equilibrium, especially with its environment. The application of the systems approach in organizational analysis first gained prominence through the use of a socio-technical systems perspective. This is based on the assumption that the social system of the firm and its technical system interact in a complex way.

KEY CONCEPT 1.4 THE SYSTEMS APPROACH

The systems approach is a view of business involving two related concepts. First, businesses are made up of a series of interactions, involving business activities, the various aspects of the organization, and aspects of the environment. What we identify as a business is the sum total of all these influences and interactions. Second, the systems approach views business as a series of inputs from the environment, internal processes and eventual outputs.

The contingency approach

The contingency approach starts with an analysis of the key environmental variables, which shape the organization. It then proceeds with the assumption that the successful firms are those that adapt to the key influences and achieve some kind of best fit with their environment. This approach has been very influential in the area of corporate strategy. The strategist attempts to match the environmental opportunities and threats with the organization's own strengths and weaknesses to develop an optimum strategy for the firm in question.

Both the systems and contingency approaches are based on the concept of an organization interacting with elements in its environment and adapting to them. Both systems and contingency approaches have been criticized for focusing on a limited range of environmental variables, for being deterministic, and for ignoring both the influence of the organization on its environment and the values and behaviour of management and the workforce. It is our view that such criticisms place unnecessary limits on the use and value of both approaches. In developing our model of business we wish to use systems and contingency thinking to present a broad analytical framework, enabling us to gain a greater insight into the way businesses operate. We are concerned to show, however, that businesses, while influenced by their environments, are not wholly determined by them. Business strategies can and do influence environmental contingencies and most managers will attempt to control the environment in which they operate.

KEY CONCEPT 1.5 THE CONTINGENCY APPROACH

The contingency approach focuses on the relationship between the organization and its environment. It embraces the notion that business activities and the way they are organized are products of the environment in which they operate. The most successful businesses are therefore those that are organized to take advantage of the prevailing environmental influences. The contingency approach can be traced through the work of Woodward (1965) and Burns and Stalker (1966), although the term itself was popularized in the work of Lawrence and Lorsch who wrote:

Organizational variables are in a complex interrelationship with one another and with conditions in the environment. If an organization's internal states and processes are consistent with external demands . . . it will be effective in dealing with the environment.

(Lawrence and Lorsch, 1967, p. 157)

THE STRUCTURE OF THIS BOOK

The chapters that follow will analyze each of the elements of the Business in Context model. The chapters have been grouped into three parts. The first part will examine the environmental context and begins with a review of globalization. The second part focuses on the organizational

and strategic aspects and includes coverage of both management and leadership and business ethics, both linked to strategy.

Part 1: The environmental context

Chapter 2	Globalization
Chapter 3	The environment and business: the economy and the state
Chapter 4	The environment and business: technology and labour
Chapter 5	Cultural and institutional frameworks

Part 2: The organizational and strategic contexts

Chapter 6	Organizational aspects of business
Chapter 7	Management and leadership
Chapter 8	Strategy
Chapter 9	Business ethics and corporate social responsibility

Part 3: The functional context

Chapter 10	Innovation
Chapter 11	Operations
Chapter 12	Marketing
Chapter 13	Human resource management
Chapter 14	Finance and accounting

SUMMARY

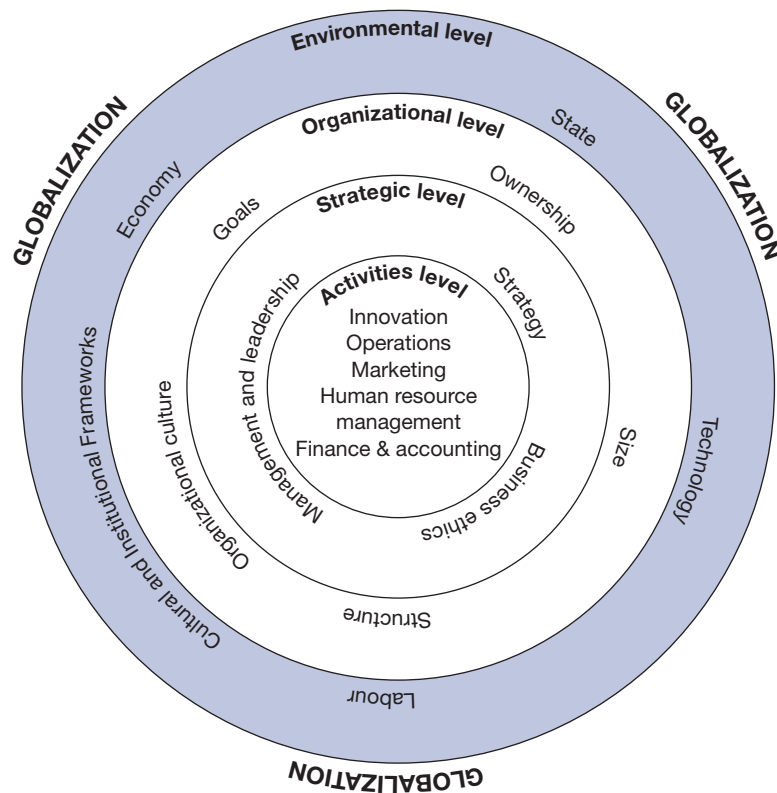
- In this introductory chapter the workings of the Business in Context model have been outlined and in so doing mapped out the rest of this book.
- In the model, variables are identified that interact with business. These variables have been arranged in levels, which have been termed environmental, organizational and strategic. It is believed that understanding the way businesses and their activities operate is enhanced by placing them in this contextual framework.
- The theoretical underpinnings of the model are discussed with reference to the systems and contingency approaches to organizational analysis.

DISCUSSION QUESTIONS

- 1 The five environmental, five organizational variables and five business activities have been identified in the model. By necessity these represent broad categories. What elements might be considered under the various headings used in the model of business?
- 2 Take in turn an industry, a firm and a specific issue, and analyze each using the Business in Context model.
- 3 What is the value of the systems and contingency approaches to an understanding of business?

PART ONE

THE ENVIRONMENTAL CONTEXT



- 2 Globalization
- 3 The environment and business: the economy and the state
- 4 The environment and business: technology and labour
- 5 Cultural and institutional frameworks