

Part I

The Dynamic Management
Environment

COPYRIGHTED MATERIAL
<http://www.pbookshop.com>

<http://www.pbookshop.com>

The Modern Business Environment

During the past two decades, the business environment in many sectors has been characterized by rapid changes. The main revolution has been the transition from a sellers' market to a buyers' market. The sellers' market, which was rather common in the past, refers to a somewhat monopolistic business environment where the supplier or service provider dictated the dimensions of a transaction:

- *Price*: Usually determined by a “cost-plus” approach where the customer is charged the full costs of the services rendered plus a “reasonable profit.”
- *Response time*: Determined by the supplier (“We are doing our best and we are really trying.”).
- *Quality*: Determined by the service/product provider (“We are doing the best we can under the circumstances.”).
- *Performance*: Dictated to the customer (“We know better than the customers what they need. We are the professionals.”).

From a Sellers' Market to a Buyers' Market

Today's business environment is that of a buyers' market. This trend is the result of international transitions and macroeconomic,

technological, political, and social changes. This environment is characterized by:

- Globalization of the world economy
- Fierce competition among organizations within and across countries
- Global excess capacities in production, services, and in some areas of development
- Using new managerial approaches
- Availability and accessibility of data and knowledge
- Timely availability of materials and services
- Ease of global travel and conveyance
- Adoption of advanced technologies for production and development
- Extensive use of advanced computers and information systems
- The extensive use of cheap and rapid communication technology
- Shortened life cycles of products and services
- Democratization and customer empowerment

Globalization—The Small Global Village

The world is gradually becoming a *world without borders*. In most regions, particularly in the Western countries, people can travel freely without the need for entry visas. Similarly, customs and tariffs on goods transferred across borders have been reduced or totally

eliminated. Travel between countries is easy, fast, and cheap, whether be it people, merchandise, or materials.

In the past decade, we witnessed a trend in the formation of *multinational firms*. Successful companies acquire partial or full ownership of firms in other countries, thus obtaining an advantage of access to additional markets and diversification of the product line of the parent company. Firms engage in *international cooperation* with foreign firms, resulting in mutual benefits. Many companies have *excess capacity in production and services*, and it is essential to find additional market channels and better congruence with customers of the various world markets.

Communication has become global. Many television programs, radio broadcasts, and written media are readily transportable to other parts of the world. People in remote areas watch, for better or worse, the same television programs, laugh at the same jokes, and are exposed to messages of democracy and an open world.

The globalization trend is not coincidental. It is strongly affected by the end of global wars and the opening of borders, resulting in a shift of resources from military industries to civilian ones, including services such as health care and education, as well as privatization of economic activity. The world has opened up and we are witnessing a desire for individual and social welfare, customer empowerment, and awareness of environmental quality. The enhanced openness has made technological and managerial knowledge accessible to all.

A leading company in the field of electronic measurement equipment identified a short lead time as a competitive edge with respect to their (potential) customers. By cutting their lead time from the industry standard of three months to two weeks, the company was able to deliver a variety of products to the customers in a

(continued)

short lead time. As a result, they became the industry's leader. Using the cash generated, they acquired a British company, a French company, and later a Chinese company and became a global company competing worldwide.

A buyers' market is characterized by:

A fierce local/global competition

Excess capacity

Short life cycle of services/products

High uncertainty

Mature and demanding customers

Antitrust regulations

High pressure from shareholders

In a buyers' market the customer or the market determines the:

- *Price*: Determined by the market. The manufacturer or service provider must adjust to market prices to survive. Customers are not interested in how much it costs the manufacturer or the service provider. The market dictates the price, leaving the manufacturer or the service provider with the cruel choice of adjusting to market prices or disappearing. In some cases, superior quality, unusual features, or performance can improve the price by 10 percent to 15 percent or more.
- *Response time*: Determined by the best response time in the market. For example, for film and photo developing, when one-hour developing emerged, stores with a lead time of a full day had no chance of survival.
- *Quality*: Determined by the best quality existing in the market. For example, automobiles and electronic equipment are compared to Japanese products that provide

the standard for quality. Even lower prices cannot provide market survival for those who do not perform to standards.

- *Performance*: Customers determine their wishes and needs.

The process of globalization and the shift from a sellers' market to a buyers' market also caused shareholders to put pressure on management. A manager is evaluated by different criteria than in the past. He is dealing with shareholders who will not accept excuses, know alternative solutions to problems, and are aware of and demand new managerial approaches and up-to-date managerial standards. Globalization and strong competition result in many firms coping with survival.

In not-for-profit organizations, including government agencies and hospitals, there has been an *increase in demand* for services on the one hand, and *budget reductions* on the other. This situation results in much higher pressures on management. Using new managerial approaches and philosophies enables management to extract additional output from their organizations without increasing resources. For example, in one major hospital, operating room output has increased by 20 percent with the same resources and with better clinical and service quality.

The Remedy—Adoption of New Managerial Approaches

Advanced technology, professional personnel, and powerful information systems do not guarantee survival in the highly competitive market. They are perhaps necessary or supportive conditions, but definitely not sufficient. The main determinant in the ability of the organization to survive the competition is the adoption of advanced managerial approaches that are compatible with the new business environment.

Recently, new managerial approaches have been developed and successfully implemented in many organizations. In many

instances, managerial decision-making processes have changed. The foundation for the development of these new approaches is the desire to be compatible with a new business environment and to engage relevant value drivers to improve and enhance the value of these organizations.

Organizations realize that in order to succeed in the global competitive environment, it is not enough to revert to technological innovation or to use cheaper resources and materials. It is essential to manage differently. New managerial approaches result in enhancing the value of the organization.

Value enhancement: Increasing the value of the organization to its owners usually goes hand in hand with value creation for its workers and to the community.

The new managerial approaches have several characteristics in common:

- They are based on common sense.
- They evolved out of practice; only later did they receive academic and scientific validation.
- They are simple and use the KISS (“Keep It Simple, Stupid”) approach.
- They break down the myth of the input-output model (Figure 1.1).

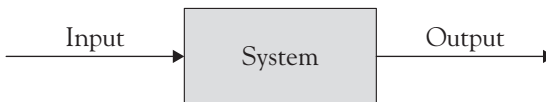


Figure 1.1 The Input-Output Model

The input-output model implies: “If we want to increase system outputs, we must increase inputs.” For example, if we want to increase patient volume in a clinic by 20 percent, we may request more input in the form of personnel, space, advertising, and so on. If we ask the head of the development department to increase the throughput by 20 percent, we will usually get in return a request for more personnel and equipment. The modern managerial approaches show that this cycle can be broken. We can *increase output* without increasing input, just by changing the managerial approach. Evidence for better management of *existing resources* can be found in Mabin and Balderstone (2000) and in Coman and others (1996). An additional input has been added—a different and novel managerial approach.

Summary

The world has become a small village with global competition. The market faced by organizations is not only the region or the country in which they operate, but rather the whole world. On the one hand, this creates a threat from organizations outside the country, but on the other hand, it opens opportunities to penetrate huge outside markets. Management has become more difficult and more demanding in light of fierce competition, the increasing complexity and diversity of products and services, and the need to implement advanced technology. Past achievements are becoming obsolete as a result of competitors’ improvements. An organization that does not improve will be driven out of the market. Technology, skilled personnel, and information systems are necessary but not sufficient conditions for survival. In addition, managerial approaches that are congruent with the competitive environment of today must be implemented.

Not-for-profit organizations, hospitals, government agencies, and others face increased demand for their services while budgets

are shrinking. Implementation of new managerial approaches improves these organizations' performance.

The goal of management is to enhance the value of the firm (in business firms) or to improve organizational performance (in task-oriented and not-for-profit organizations). Many organizations are fighting for their survival. They need to identify relevant value drivers and improve them using innovative approaches based on common sense. The bottom line of these approaches is *doing more with what you have*.

<http://www.pbookshop.com>