2
THE ORGANISATIONAL ENVIRONMENT

Learning outcomes

Following study of this chapter you will be able to:
*   describe the main forces of the external environment and show how they impact on built environment organisations
*   describe the main forces of the internal (or task) environment and show how they impact on built environment organisations
*   explain how Porter's 'five forces' determine industry profitability
*   understand Porter's 'three generic strategies'.

2.1 The organisational environment defined

All societies are influenced by managers and their organisations. Managers need to have a clear understanding of the environment in which their organisations function (see Table 2.1).

Table 2.1 Organisations in society and the built environment

Organisations in Society	Organisations in the Built Environment
Hospitals	Sanctioning authorities and sponsoring agencies (employers)
Schools	Planning and regulatory authorities
Government agencies	Environmental agencies and groups
Business organisations	Built environment professional firms
Voluntary groups	Construction companies and materials suppliers
Religious groups	Financial and property asset companies

An organisation has been defined (Griffin 2008) as:

> a group of people working together in a structured and co-ordinated fashion to achieve a set of goals.

All organisations interact with the environment in which they operate. Everything that customers, companies and other institutions do will have some impact on the environment. The environment is composed of a number of elements that can

determine the success or failure of an organisation. The environment of an organisation may be defined as: *all those elements that lie outside and inside the organisation's boundary with which the organisation interacts*. From this definition it is apparent that an organisation operates in both an **external** (*macro*) and **internal** (*task/project*) environment. An organisation can also operate in an **international** environment (global).

2.2 The external environment

The external environment consists of elements that lie outside an organisation and have the potential to influence that organisation in significant ways (see Figure 2.1). Organisations cannot determine external environmental factors, such as a nation's recession or boom period. The external environment comprises elements that can be divided into four main groupings, known by the acronym **STEP**:

- the **social** environment
- the **technological** environment
- the **economic** environment
- the **political–legal** environment.

Figure 2.1 Forces in the external and internal environments—STEP
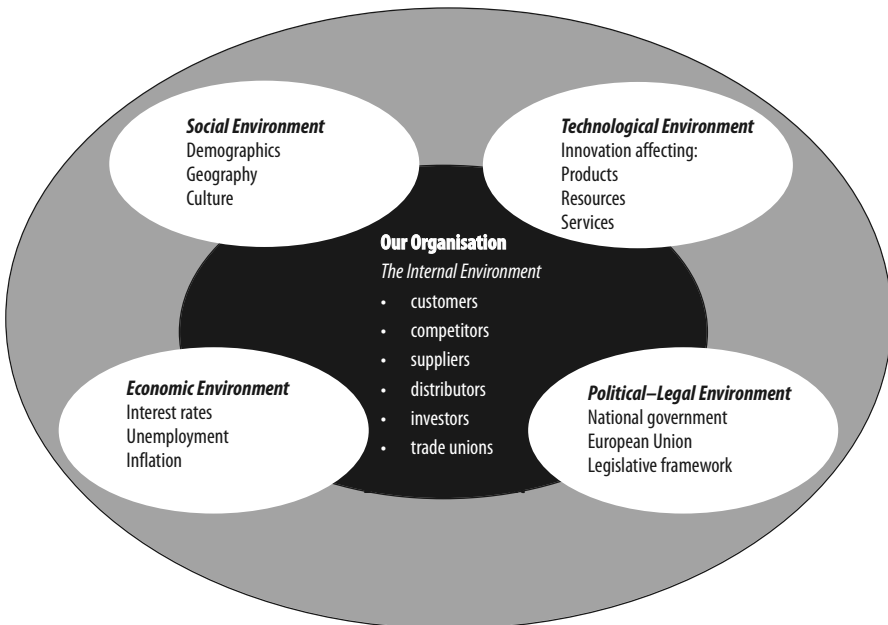
The social environment

The social, societal or socio-cultural environment refers to the elements that generally make up society. These elements include the *demographic, geographic* and *cultural factors* in which an organisation operates. Social processes influence organisations in servicing demands for products and services, and also influence standards of organisational conduct according to the respective societal values in which differing organisations operate. Religion, for example, can be an important cultural determinant and influence on a society. The social environment can impact on the built environment, in both the public and private sectors. Society can determine a demand for building and for different types of facilities such as housing, schools and roads.

The social environment, however, can go through significant changes, even during a decade. According to Turley (1986), the importance of Irish religious institutions in determining culture was found to be above the European average in the 1980s, whereas a survey conducted in 1998 showed a marked decline in the centrality of religion to Irish society (RTÉ 1998). Other significant social changes in Ireland during the 1990s included the introduction of divorce and the decriminalisation of homosexual practices; and in the current decade, there is growing societal and legal support for full civil partnerships for heterosexual and gay couples.

Society is also influenced by international trends, and the development of environmental awareness has followed these trends in recent years. The social environment in Ireland is adapting to the need for more sustainable practices in the way people live in the natural environment.

The social environment determines the goods, services and standards that society values. Social changes have an impact on the built environment, for example in the housing sector the increase in one-parent families has an impact on the need for social housing. Society can also determine other changes in client requirements, for example the multi-storey housing used as a solution to housing shortages during the 1970s. This trend is now reversed in recent years with the supply of more mixed housing units and apartment blocks. Additionally, the increased awareness of environmental issues such as energy use, CO_2 emissions, climate change, and flooding has resulted in better standards for the planning, design and construction of buildings and infrastructures.

Demographic factors

Demographic factors include:
- population
- age structure
- income distribution.

Population changes affect the demand for products and services; for example, since

the average expected life span is now greater than in previous generations, the supply of health care services and facilities for the elderly has greatly increased. The shift in the Irish population from rural areas to cities also affects infrastructural services, such as transport systems, housing and schools. These services and facilities need to be of high quality to meet the safety requirements of the end user. Where a housing development is being undertaken, planners need to ensure that sufficient facilities such as schools and crèches will be available to the new house owners. *Age structure* also has an influence on an organisation's environment; for example, during a baby boom period the demand for child-related products and services increases. *Income distribution* also influences the environmental factors of an organisation; for example, the demand for luxury items and non-essential services are directly affected when the members of the society in which an organisation operates experience changes to their disposable income.

Home buyers will have different perceptions about what they expect from a new home, often dependent on their disposable income and size of family. Show houses will need to be presented differently to various target segments of potential buyers. Families with children will expect bedrooms to be big enough for children's toys; and the choice and design of fitted furniture will be influenced by the tastes and disposable income of the potential buyer.

Geographic factors

These include:
- transport infrastructure
- climate
- sources of energy
- language

and have an influence on the operations of an organisation. In Ireland, for instance, many organisations are based close to the seaports and airports of Dublin, Cork and Shannon, and many American organisations prefer to set up operations in the European Union in the English-speaking environments of Ireland or Britain. The National Spatial Plan (2002), which is a twenty-year national planning framework for Ireland, aims to deliver more sustainable regional development during the period covered by the plan. The plan aims to improve people's quality of life and deliver better areas to live in.

Cultural factors

Cultural factors, such as:
- values
- social norms
- the prevailing attitudes of a population

influence the environment in which an organisation operates. Differences in

culture arise from nationality, gender, social class, education, religious background and age. National culture in all countries remains very strong and successful managers have to be prepared to adapt to local environments. Attitudes and social values that determine a culture are constantly changing in all countries, and managers also have to be adaptable to these changing factors. Organisations took time to adapt to the cultural diversity created by the influx of foreign workers into the construction sector during the boom years of the late 1990s and early 2000s. While the construction industry in Ireland has gone into steep decline since 2007, it still remains culturally diverse and this diversity is now valued as an asset when Irish construction firms tender for work abroad.

Cultural changes in relation to customer demands in the built environment are also evident. One of the most noticeable developments in this area is that clients and end users are now more environmentally aware. Renewable technologies are now popular, and the construction industry has been adapting to these changes, for example by developing the building energy rating system.

The technological environment

According to Griffin (2008), 'technological environment' refers to the methods available for converting resources into products or services. Technology affects the operation of internal organisational environments, and relies on technology which is available in external environments. Technological environments are rapidly changing, with noticeable advances in organisations, ranging from information communication technologies (ICT) to bio-engineering technology in human health sciences and foods, from Internet technologies developing business and networking opportunities to computer modelling technologies for large-scale building design, and nanotechnology systems and structures for industry and science.

The built environment now has a large range of technologies and design tools to enable greater modelling and testing of projects prior to construction. Common standards and practices in the commissioning of projects, however, are not uniform in Ireland and this needs to be developed if the full benefits of design, manufacture and facilities management technologies are to be utilised and co-ordinated. There is an urgent need for standards in computer-aided design drawings to have prescribed layering conventions so that the various design disciplines can co-ordinate their designs and avoid unnecessary conflicts at construction/manufacturing stages.

The economic environment

The economic dimension of the external environment refers to the overall conditions in which an organisation operates. The economic environment influences the costs of operating in different locations, for example the cost of labour in a particular country. Other factors that influence the economic environment include:

- inflation
- interest rates
- unemployment
- per capita income.

The current economic recession in Ireland has seen a reversal of the Celtic Tiger period of the late 1990s to 2007, resulting in high unemployment, falling gross national product, growing government shortfalls for day-to-day expenditure and an unprecedented financial crisis in banking institutions (see Chapter 10). As creators of fixed capital in the form of buildings and roads, the construction and civil engineering sectors have experienced particular difficulties with rapid decline in employment, output and revenues. These sectors must now adopt lean management practices to reduce costs, and undergo major organisational restructuring to enable companies in the sectors to fit the current market and to enable future growth. The CRH case study on page 175 illustrates how an Irish company can adapt to the changing economic environment.

The political–legal environment

The political–legal environment refers to government regulations imposed on organisations and the legal framework established for operations. In Ireland, organisations operate under Irish and European Union laws. EU member states have to adhere to common decisions on, for example, fishing, agriculture, trade, economics and the physical environment.

   The built environment is a heavily regulated sector in terms of the legislative frameworks applied to designs, planning approval, building regulations, health and safety, sustainability, energy and carbon profiles, and statutory licensing and consents. Table 2.2 presents an example of the consents and licence requirements for public work contracts.

Table 2.2 Consents and licence requirements for public works contracts

Item	Consent/Licence
1	Outline Planning Permission
2	Planning Permission under the Planning and Development Act 2000
3	Part 8 Planning and Development Regulations 2001
4	Part 9 Planning and Development Regulations 2001
5	Compulsory Purchase Orders (i.e. in accordance with the Housing Act 1966)
6	Toll Scheme (Section 57 of the Roads Acts 1993 as amended)
7	Motorways Scheme Orders under the Roads Act 1993 (as amended)
8	Wayleaves (Section 43 Gas Act 1976)
9	Foreshore Licence under the Foreshore Acts 1933–2003
10	Dumping at Sea Permit – Dumping at Sea Act 2004 (No. 35)
11	Agreements with state or semi-state bodies (i.e. ESB, Coillte, NRA, OPW, Irish Rail)

12	Rights of way/consents in relation to habitats, Special Areas of Conservation (SACs), Natural Heritage Areas (NHAs) (Wildlife Acts 1976–2000, Council Directives 79/409 EEC, 82/72 EEC, 92/43 EEC)
13	Tree felling licence (Forestry Act 1946)
14	Approval of local fisheries boards (Fisheries, Tidal Waters Act 1934)
15	Appropriate licences/consents under the National Monuments Acts 1930–2004
16	Bridge Order required in certain circumstances from Minister for the Environment, Heritage and Local Government (Local Government Act 1946)
17	Consent of the Commissioners of Public Works to all new bridge proposals under Section 50 Arterial Drainage (Amendment) Act 1995
18	Railway Order (Transport Railway Infrastructure Act 2001)
19	Canal By-laws (Canal Act 1986 (By-laws) 1988)
20	Position of vehicle/mobile crane/hoist application
21	Temporary Road Closure Application (Section 75 of the Roads Act 1993)
22	Road opening licence/T-2 Licence (S13 subsection 109b of the Roads Act 1993)
23	Hoarding/Scaffolding Licence
24	Abnormal Indivisible Load (Road Traffic (Construction and Use of Vehicle) Regulations 2003)
25	Effluent discharge licence

Source: *Capital Works Management Framework Guidance Note 1.5 (Ver. 1.1) Public Works Contracts*, Department of Finance, 2009.

2.3 The internal environment

The internal environment is also referred to as the *operating environment* or the *task environment*. Factors that are part of the internal environment and that affect organisational behaviour include:
- customers
- competitors
- suppliers
- distributors
- investors
- trade unions
- professional bodies (e.g. Engineers Ireland, Society of Chartered Surveyors, Royal Institute of Architects of Ireland and Chartered Institute of Builders)
- industry representative organisations (e.g. the Construction Industry Federation).

Customers

Managers have to decide the answers to two fundamental questions:

1. *What business are we in?*

2. *Who are our customers?*

And when an organisation begins to ask itself: '*What "line of business" are we actually in?*' it is beginning to identify its potential customers.

By asking these questions it is clear that an organisation is identifying **marketing** as an important management function. Once the organisation understands the business it is in, doing what it is good at ('sticking to the knitting') becomes clear. The organisation can then begin to segment and target the various markets and then position its product(s) for those customers it wishes to serve. An organisation's customers can include:

*   individuals—who may be buying products/services for their own consumption
*   other companies—who may be interested in buying products/services
*   government departments.

It is important for an organisation to know its customers in order to meet their requirements by having *the right product*, *at the right place*, *at the right time*. The many clients of the built environment have a variety of reasons for constructing new buildings: for example, a private sector client who wishes to sell or rent property in anticipation of a financial return; a manufacturer who builds a new factory and is expecting a productivity gain; and a public sector client who would expect a return on a social investment from a new school.

Construction markets are classified by the Department of the Environment, Heritage and Local Government as:

1. Residential construction
    *   Private housing
    *   Public housing
2. Non-residential construction
    *   Industry
    *   Commercial
    *   Agricultural
    *   Tourism
    *   Worship
3. Productive infrastructure
    *   Roads
    *   Water services
    *   Airports/seaports
    *   Energy
    *   Transport
    *   Communications
4. Social infrastructure
    *   Education

- Health
- Public buildings.

Competitors

The competitors of an organisation are other organisations that compete with it for revenue. As organisations operating in the same industry compete for the same customers, managers must anticipate and react to the strategies of competitors in order to remain competitive. Competition in the construction sector, for example, has increased dramatically with the decline in work volumes; fewer contracts are available, so companies must develop business models, tendering strategies and organisational structures that enable them to compete for market share.

Suppliers

Suppliers are organisations that provide resources for other organisations. Supplies vary and can include:
- capital goods
- vehicles
- equipment
- raw materials
- finance
- personnel, provided through agencies or by sub-contract.

Most organisations use several suppliers simultaneously because having a sole supplier brings a higher risk if that company goes out of business. Losing a key supplier of raw materials can mean that production flow is interrupted or a lower-quality product or more expensive substitution has to be made. Choosing suppliers, negotiating terms and building professional working relationships are tasks that managers have to perform frequently. Work in the built environment is heavily dependent on suppliers such as Tobermore for paving products and Cemex for concrete. Suppliers can be domestic or nominated with pre-approved procedures in place for ordering and delivery of materials.

Distributors

Distribution involves handling and moving out-bound goods from an organisation to customers. Distribution may be direct, using company-owned transport, or indirect, using external agents or brokers. The distributors' task is to ensure that the right product will be at the right place at the right time, and the choice of distribution channel is determined by the needs of customers as well as by knowledge of particular markets. The choice of distributors also has to be consistent with the needs and capabilities of an organisation. Concrete, for example, is a product that requires an efficient and effective distribution system. The distribution of concrete is generally organised by a concrete manufacturing

facility which batches the concrete to the prescribed mix required by the customer. The delivery vehicles are normally privately owned by independent operators who deliver and pour the concrete where the client requires it.

Investors

Investors include banks and other financial institutions, which provide short-term finance to shareholders, or lenders of long-term capital who have a long-term commitment.

Trade unions

According to Gunnigle *et al*. (1999), trade unions are seen as an effective means of achieving satisfactory pay and working conditions for employees. Trade unions aim to ensure that employees are treated fairly by employers. The basic strength of a trade union lies in its ability to organise and unite workers. The main objectives of trade unions are to:
* achieve satisfactory levels of pay and conditions of employment
* provide members with a range of services
* strengthen employee bargaining power by replacing individual bargaining with collective bargaining
* reflect the interests of wage earners or workers.

Workers in the built environment are generally represented by craft, industrial or general trade unions.

Craft unions: membership is based on a particular skill gained after a period of training or apprenticeship. Members are represented by BATU (Building and Allied Trades' Union).

Industrial: membership is based on a particular industry. Members are represented by TEEU (Technical Engineering and Electrical Union).

General: membership is broadly based, normally across several industries. Members are represented by SIPTU (Services, Industrial, Professional and Technical Union). See Chapter 8 for more on trade unions.

Professional bodies and construction employer organisations in the built environment

A professional body is an organisation in a particular profession which aims to establish and maintain professional standards in order to protect the interests of its members and the interests of the public. Table 2.3 provides examples of various professional bodies in the built environment. Customers hiring members of a professional body can be confident that they are employing people who have a professional qualification and who are undertaking lifelong learning through career development.

Table 2.3 Professional bodies in the built environment

Professional Body	Represented Parties
Chartered Institute of Building (CIOB) (www.ciob.org.uk)	Represents various professionals in the built environment. The CIOB has over 2,800 members in the Irish branch. The body aims to: • serve its members effectively • raise the institute's profile in Ireland.
Engineers Ireland (www.iei.ie)	Represents over 24,000 engineers from all disciplines in Ireland. Aims to: • promote knowledge of engineering • establish and maintain standards of professional engineering and engineering education • provide opportunities for continuing professional development (CPD) for engineers • maintain standards of professional ethics and conduct • ensure that professional titles are granted to qualified candidates • act as the authoritative voice of the engineering profession in Ireland.
Irish Auctioneers and Valuers Institute (IAVI) (www.iavi.ie).	Represents over 1,400 qualified property professionals. Aims to 'promote the highest professional, ethical and educational standards in the property industry'.
Royal Institute of the Architects of Ireland (RIAI) (www.riai.ie)	Represents qualified architects in Ireland. Promotes the highest standards in architecture and provides impartial and authoritative advice and information on issues affecting architects, the built environment and society. Aims to maintain high standards of professional practice by: • setting standards of knowledge, skill and competence for practice • monitoring standards of admission to the profession • accrediting architectural and architectural technology courses • carrying out examinations in professional practice and in architectural technology • supporting continuing professional development for architects and architectural technologists • monitoring requirements for architectural education and training.

Society of Chartered Surveyors (SCS) (www.scs.ie)	Represents chartered surveyors operating in Ireland: over 1,800 qualified practising members. The SCS aims to: • promote the diverse knowledge of the profession • maintain the highest educational and professional standards • protect consumers through strict codes of practice • provide expert advice on property and built environment issues • be the state registration body for the titles of quantity surveyor and building surveyor under the Building Control Act 2007.

The construction employer organisation in Ireland is the Construction Industry Federation (CIF). The Construction Employers Federation (CEF) represents construction companies in Northern Ireland. Table 2.4 gives a brief summary of the services offered by each organisation.

Table 2.4 The Construction Industry Federation and the Construction Employers Federation

Construction Industry Federation (CIF) (www.cif.ie)	Professional body representing over 3,000 members in all areas of the built environment in Ireland. It represents companies of all sizes, from all sectors of the industry. The sectors are categorised into four main areas : • general contractors • mechanical and electrical contractors • specialist contractors • home builders. It offers a comprehensive range of services for members, including training and development in: • health and safety • management • tendering and contracting • energy and environmental issues • industrial relations, employment and manpower services.

Construction Employers Federation (CEF) (www.cefni.co.uk)	Represents over 1,300 companies of all sizes and across all sectors of the construction industry in Northern Ireland, from civil engineering to general construction, house building and repair and maintenance. Provides a wide range of services for all member companies, including:
	• member liaisons: deals with important issues in all sectors of the industry through various committees and liaison groups
	• courses and seminars aimed at both managers and construction professionals
	• planning advice: free advice to full and associate members on planning issues
	• free legal hotline: free legal advice for up to a half an hour on a wide range of legal topics
	• health and safety support and advice: includes services such as site safety inspection, accident investigation management, courses and seminars, leaders in construction safety and best practice guidance
	• environmental support and advice: professional advice to members on both general and legal environmental queries
	• tax helpline: offers advice on business and taxation issues
	• employment support: provides members with a range of information and assistance on employment issues such as wages, holidays, terms and conditions of employment
	• tender query support: takes a proactive role in promoting and persuading clients to follow best practice tendering for construction projects.

2.4 The international environment

The international environment of an organisation is concerned with operating across national boundaries. Within the international environment there are multiple economic, social, cultural, legal, political, and technological environments. Managers have to make decisions regarding, for example, currency, shipping costs, import duties, and other taxes. Operating in the international environment, therefore, is far more complex than operating domestically.

Organisations that operate internationally need to pay special attention to varying socio-cultural factors, social structures, and customs. Many Irish companies operating in the built environment began to work internationally in countries such as Britain, France and Dubai during the boom years of the late 1990s and early 2000s. This led to problems with different cultures and practices relating to contractual arrangements, in particular, where contracts had been written in a different language and contained unfamiliar clauses.

Griffin (2008) views the international environment as the extent to which an organisation is involved in or is affected by business in other countries. Organisations that operate in only one country can also be affected by the international environment as they may face competition from foreign imports or may find it necessary to import raw materials to manufacture their product(s). For many Irish organisations the international environment is of increasing importance for both exporting and importing products. CRH (Cement Roadstone Holdings), for example, is Ireland's leading building materials company, which employs in excess of 90,000 people in thirty-five countries with group worldwide sales of €10 billion (www.crh.ie).

The transfer of employees from their home countries to host countries to work for a number of years is another aspect that many human resource managers have to deal with. The preparation, recruitment, selection and training of both staff members and their family members are some of the issues that have to be dealt with when employees move internationally.

In the European context, co-operation in trade and economic policies has an influence on Irish management policies. Ireland's participation in the European Union means that Irish laws and customs are affected by European Union laws, guidelines and decisions. The single European market has also opened up many opportunities for Irish organisations. The EU, for example, produced a directive stating that public contracts over €5 million have to be advertised across the EU. This allows Irish construction companies to compete for public contracts throughout the European Union.

2.5 The competitive environment

The performance of an organisation will be influenced by the structure of the particular industry in which it operates as this affects the level of competition in that market; for example, Mercury Engineering, Bowen Group, Jones Engineering Group, and Kirby Group Engineering (the top four mechanical and electrical companies in 2008 by turnover) are among the main competitors in this sector. Porter (1980) suggested that, to be successful, *an organisation needs to gain competitive advantage* over competitors. **Competitive advantage** means being different from or doing something better than the opposition in a way that is important to target customers.

Organisations might differentiate themselves from competitors by offering

similar products at lower prices or by supplying prestige products with higher quality than the quality of opposition products.

The effective management of human resources can also be a source of competitive advantage for an organisation; for example, contented and hard-working employees are more likely to produce excellent work that adds value to their organisation. While many organisations attempt to imitate the competitive advantage of their opposition, imitating employee behaviour of opponents is, however, a difficult task. Overall, the task for managers is first to create a competitive advantage and then to sustain that advantage.

According to Barney (1996), a **sustained competitive advantage** is a competitive advantage that exists after all attempts at strategic imitation have ceased.

Porter's five forces

Michael Porter, of Harvard Business School, has taken competitive advantage as his focus in developing corporate strategy. Porter emphasises the impact of external environments on an organisation. He suggests that there are five major influences or forces which impact on an organisation's ability to compete and which determine industry profitability (see Figure 2.2):
- rivalry among existing competitors
- threat of substitute products and services
- threat of new entrants
- bargaining power of suppliers
- bargaining power of customers.

The five forces explained

1. **Competitive rivalry** is intense when there are many competitors operating in the same industry. Rivalry among competitors may appear in terms of advertising, price, quality, increased customer service, and product differentiation. An organisation needs to decide with whom it is really competing and to be aware of the main threats emerging from competitors. Competitive rivalry is intense in all sectors of the construction market with tenders for construction projects during 2009 coming in significantly under cost. Rivalry at this intense level is unsustainable, which has resulted in some companies being unable to continue to compete.

2. **The threat of substitutes** is more powerful where there are alternatives and substitutes for a company's products. Organisations, therefore, compete not only with other organisations providing similar products but also with organisations that provide substitute products. This can be a concern for suppliers operating in the built environment. Substitute materials being specified and preferred on

construction projects can lead to increased competition for suppliers; for example, uPVC window frames have replaced timber window frames, which are now viewed by some clients as obsolete.

3. **The threat of new entrants** is the extent to which new competitors can enter a market. Potential new entrants to an industry have more difficulty in setting up a high capital-intensive industry, such as a cement producing plant, than a concern that requires a smaller amount of capital, such as a small design practice or sub-contracting firm. New entrants would assess the extent of the 'barriers to entry', which might include government regulations, distribution channels and location. The threat of new entrants to the construction industry is low at present because of the current state of the market; however, during more prosperous times international construction companies, suppliers, consultancies and skilled labour entered the Irish market in significant numbers.

Figure 2.2 Porter's five forces
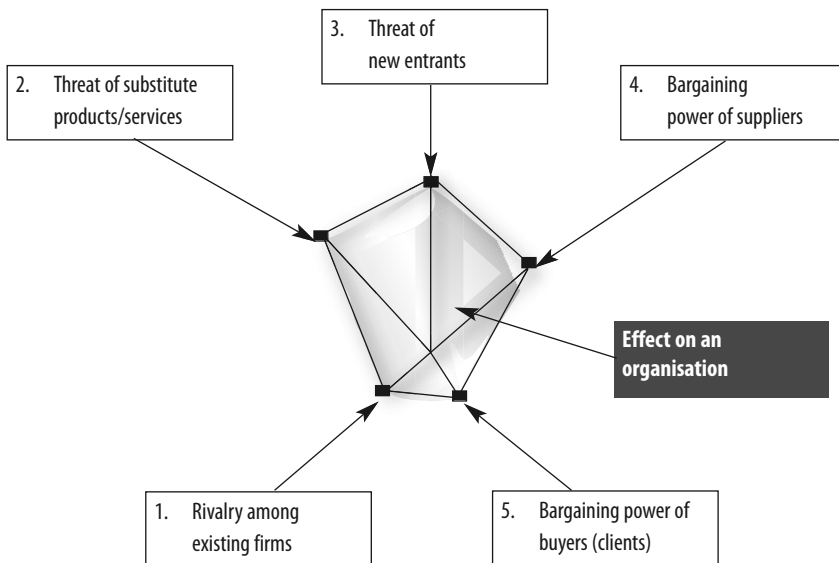
4. **The bargaining power of suppliers** depends on the availability of substitute suppliers. As a sole supplier can have great power, it is unwise for any organisation to depend on a sole supplier; a sole supplier can quite easily raise prices or reduce quality with little risk to the retention of its customer organisations. Alternatively,

where a particular organisation is the dominant customer of a supplier, that customer organisation is then in a relatively strong position, enabling it to demand lower prices, higher quality and better credit arrangements. Generally, the market for construction materials is highly competitive as there are many suppliers and the possibility of substitute products must be considered. Certain materials, however, such as crushed stone, mixed concrete, high craft-based items can often be difficult to secure locally for a project and these factors can put suppliers in a stronger position to dictate prices and terms.

5. **The bargaining power of customers** increases as customer information and advertising inform customers about the full range of price and product options available. Customers can exert pressure on organisations by demanding lower prices or higher quality. Customers have more power when they make large purchases and when alternatives can easily be found. Organisations are in a weak position if they depend on a few large customers as these customer organisations may decide to switch to competing suppliers. Clients in the built environment are buying an end product, i.e. a building, which they expect to be of high quality and standards. Currently, with competition high in the turbulent construction industry, clients and customers are putting pressure on construction companies to deliver high-quality work for lower prices.

The three generic strategies

Porter suggested that an organisation could find competitive advantage against these competitive forces through pursuing one of three **generic strategies** (see Table 2.5). Each strategy imposes different pressures on an organisation attempting to ensure that resources and capabilities are consistent with the requirements of the strategy selected. The actual choice of generic strategy depends on:
*   the fit between the demands of the strategy and an organisation's capabilities and resources
*   the abilities of main competitors
*   the key criteria for success in a market and their match with an organisation's capabilities.

The three alternative generic strategies are:
*   differentiation strategies
*   cost-leadership strategies
*   focus strategies.

Table 2.5 Porter's three generic strategies

Strategy	Features	Examples
1. Differentiation	Distinguishes products or services from competitors' through superior quality. Customers must value the benefits more than the extra money they have to pay.	Differentiation strategies used by: • professions—one-off house design • contractors—ISO, international standards for quality which must be met • specialists—e.g. Otis lifts • materials—steel systems.
2. Overall Cost-leadership	Operating more efficiently than competitors, thereby charging lower prices. Customers must be sensitive to price, but quality must be acceptable.	Overall cost-leadership strategy used by: • professions—budget service schedule • contractors—design and build • specialists—e.g. large-scale window manufacturers • materials—concrete systems.
3. Focus	Concentrates on a specific group of buyers, usually aimed at a limited target segment.	Focus strategy used by: • professions—regeneration design • contractors—roads and bridges • specialists—concrete bonding • materials—insulation materials.

1. A **differentiation strategy** involves an attempt to distinguish an organisation's products and services from others in the same industry segment. In order to succeed, an organisation must offer something to the customer that the customer values and which is different from the products or services of competing organisations. Product differentiation may involve branding, adding distinct features or providing extra services. If customers believe that a product is different from competitors' products they may be prepared to pay higher prices. The value added, however, must be sufficient to command a premium price for the organisation to justify the *price–value relationship*.

Builders can differentiate the houses they build by the construction methods used. Some house builders use timber frame construction to achieve high levels of thermal insulation; other builders use insulated concrete formwork (ICF) to create a robust building. All builders produce houses, but the end products are different and appeal to different clients.

2. Through the **cost-leadership strategy**, an organisation seeks a cost advantage over its competitors. This involves reducing costs in order to undercut competitors' prices while providing a product of a similar quality. The low price acts as a barrier against new entrants and substitute products. An example of a cost-leadership

strategy in the built environment is when a contractor works with a very keenly priced supplier; they can then afford to bid advantageously for projects.

3. A **focus strategy** is chosen by an organisation when it wants to be deliberately selective, focusing on a narrow group of customers rather than on the whole market. The philosophy of a focus strategy is to specialise, thus meeting the needs of a clearly defined group far better than competing organisations would. Focus in itself might not be enough, however, and an organisation may have to combine it with cost-leadership or differentiation to build competitive advantage. Focus strategies are used by construction companies who specialise in niche areas, for example retro-fitting insulation, insulated concrete formwork, quantity surveying firms who offer loan monitoring and due diligence reporting services.

Porter (1996) argued that choosing a unique position in industry is not enough to guarantee a sustainable competitive advantage, because a valuable position will attract imitating competitors. Porter believed that a manager's role is to create a fit among an organisation's activities and to integrate them so that an organisation does many things well. This requires trade-offs in competing in order to achieve a sustainable advantage, and therefore managers have to decide what *not* to do, as well as what to do.

Some managers view their organisational environment as an 'uncontrollable' element, to which they must adapt. They passively accept the environment and do not try to change it. They analyse environmental forces and design strategies that should help the organisation avoid threats and take advantage of opportunities provided by the environment.

Other managers take an **environmental management perspective**, which means that, rather than simply watching and reacting, their organisations take aggressive actions to modify environmental forces. Organisations, for example, hire lobbyists to influence legislation affecting their industries and stage media events to gain favourable press coverage. (An example of this in the built environment was the successful lobbying by timber frame manufacturers to have building regulations standards increased for thermal insulation and performance.) Managers, however, cannot always influence environmental forces; for example, it is difficult to influence geographical population shifts or the larger economic environment. Whenever possible, managers take a proactive rather than reactive approach to their environment.

2.6 Key points

The *external environment* of an organisation is composed of non-specific elements in its surroundings with which it interacts and which affect its activities. These elements include:
- social
- technological

- economic
- political–legal aspects.

The *internal* or *task environment* is composed of specific elements of an organisation's surroundings which affect its activities. These elements include:
- customers
- competitors
- suppliers
- distributors
- investors
- trade unions.

The *international dimension* is also an important element of the environment of management. The level of international business has increased in recent years. Managers need to have a clear understanding of the additional difficulties of managing internationally.

Porter suggested that an organisation's competitive environment is determined by 'five forces'. These are the:
- threat of new entrants
- bargaining power of suppliers
- bargaining power of buyers
- threat of substitute products
- rivalry among competitors.

The challenge for organisations is to achieve a competitive advantage and subsequently to sustain the advantage.

Porter also suggested that an organisation may gain its *competitive advantage* by pursuing one of three 'generic strategies':
- differentiation
- cost-leadership
- focus.

Organisations are affected by their external environment in several ways, for example changing cultural values, competitive forces and uncertainty.

Organisations use the elements of their internal environment to adapt to changes around them. The challenge for managers is to deal effectively with the constantly changing organisational environment in which they operate.

Important terms and concepts

bargaining power of customers (p. 41)
bargaining power of suppliers (p. 40)
building energy rating (p. 29)

Questions for review

1. List the forces in an organisation's external environment and discuss the impact these forces have on organisations. Illustrate your answer with an example of an organisation in the built environment sector.
2. List the forces in an organisation's internal environment and discuss the impact these forces have on organisations. Illustrate your answer in the context of an organisation the built environment sector.

3. Explain the following concepts, illustrating your answers with examples from organisations operating in the built environment:
    a. Competitive advantage
    b. Sustained competitive advantage.
4. Identify the leading professional bodies in Ireland's built environment and outline their primary roles.
5. Choose an organisation in the built environment with which you are familiar and illustrate how Porter's five forces affect that organisation.
6. Discuss the advantages and disadvantages of each of the three generic strategies for an organisation in the built environment.