

Commercial awareness



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Introduction

Developing better commercial awareness has a lot to do with looking outward to the external environment and your organisation's place within it.

However, this free course, *Commercial awareness*, encourages you to look within your organisation and at your place within it. It considers how getting different perspectives and widening existing ones within your organisation can enhance commercial awareness.

This OpenLearn course is an adapted extract from the Open University course [BG020 *Commercial awareness*](#).

Learning Outcomes

After studying this course, you should be able to:

- articulate what an organisation exists to do: the value it creates
- appreciate a personal position within the organisation and how others relate to it
- relate the concept of a value chain to a personal working context, whilst acknowledging much more complex interrelationships within the organisation.

Commercial awareness

1 Understanding your organisation and how it creates value

There are good reasons why you should not stop your investigation at the edge of the organisation, but continue to zoom in through organisational boundaries to explore the activities and processes within. From the outside, two organisations may appear to be delivering equivalent services or products in the same way. They may have broadly similar suppliers and workforce size, their location and other large-scale features may even be comparable. Yet the costs incurred by processes inside these two apparently similar 'black boxes' may be vastly different. So although what goes into each organisation and what comes out may seem pretty much the same, the ways in which they create value could be radically distinct.

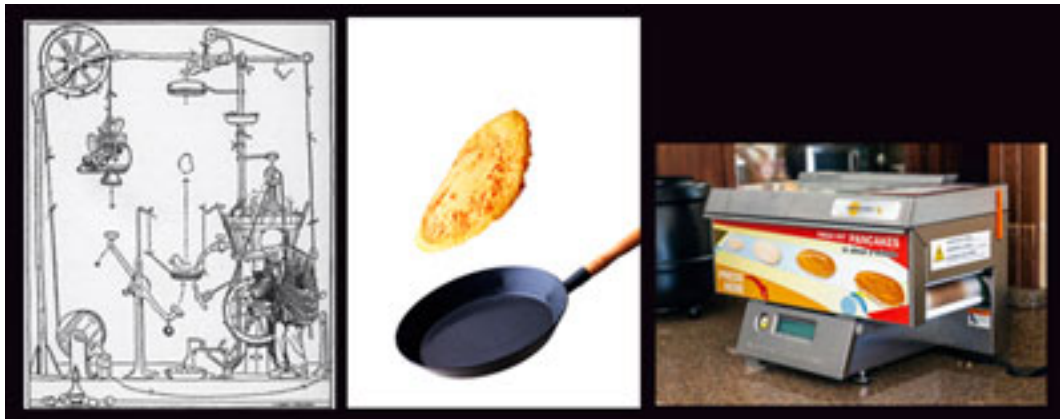


Figure 1 Although the product (pancakes) may be the same, the means of production in each case is very different.

Only by looking at their inner workings, is it possible to understand why one organisation outperforms another one, and why one has 'competitive advantage' over the other (Porter, 1985).

The organisation in which you are likely to have most interest – and the one you may think you know the best – is your own. But remember that an insider's perspective is just one perspective. Being immersed in an organisational culture can mean you overlook certain features of that organisation (good, bad and neutral) that would immediately be apparent a newcomer. Your current impressions of your organisation (what it is, how it works, what it does well and poorly) will be heavily influenced by the particular position you hold in it, and the subjective experiences you've had.

To be commercially aware, you must often break free from your organisation to consider it in a wider external context – but in this course you will look internally. We encourage you

to fully recognise, and then break free from, your own position inside the organisation, then imagine yourself in other positions, to try to explore the organisation afresh.

2 The value of identifying value

In an important sense, an organisation is a machine for adding value. In its simplest form this means it takes an input at one value and, if successful, converts it to an output at a higher value.

The concept is seen most clearly in manufacturing, where raw materials are worked on to produce finished goods that customers value and are prepared to pay a premium for. Whilst the raw materials or components already had worth, the process of manufacturing added more value.

Figure 2 charts a chain within the production of bio-plastics, and shows different levels at which value is added. Read it from the bottom up, starting with the agricultural industry, which produces crops which are refined to obtain starch and sugars. Subsequent links in the chain convert these to plastics which are moulded to serve a vast array of consumer uses.

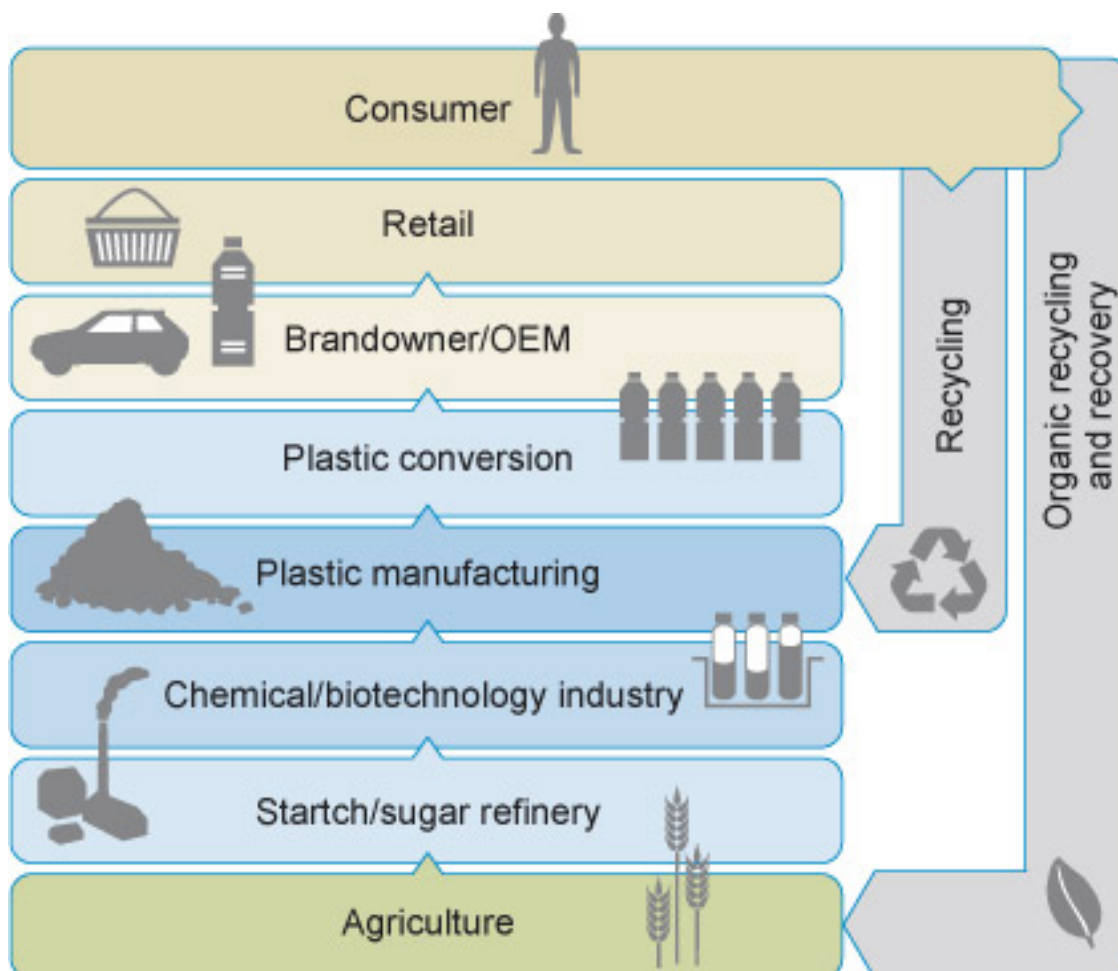


Figure 2 Bio-plastics production chain chart

There are three further points about Figure 2 to note:

- In a chain like this there could be several different organisations collaborating – or one large organisation could own the different links in the chain – an arrangement known as ‘vertical integration’. Particular organisations may have a monopoly at certain levels, or there may be a range of organisations at the different levels competing for business.
- Between the levels of plastic conversion and retailer lies ‘Brand owner/OEM’. We will learn more about the value added at this stage in Activity 1. OEM stands for Original Equipment Manufacturer, and represents companies that make a component which is used in another company’s final output.
- Note the two recycling arrows to the right of Figure 2. These provide further routes through which value can be generated after the consumer has finished with the product. This is one example of cross-linkage within a value chain (or value network).

These points indicate ways in which the systems of production are far more complicated than the simple metaphor of a ‘chain’ suggests.

Value is added incrementally by various people, activities and procedures. Often their contribution is not easy to see as a simple sequence of events. Chains of value run through economies, industries and organisations from suppliers to customers, with numerous, often complicated, systems and processes. Many processes are not linear, nor are they straightforward to follow. There may be iterative or repeated procedures involved and cycles of feedback. The production process may require matrix teams (teams of people from diverse backgrounds) collaborating to produce or deliver something, making it difficult to see precisely how each individual involved contributes to the value that results.

In understanding value and the way it is created through organisations, it is vital to bear in mind that organisations (and to an even greater extent, wider industries and economies) are complex systems. They involve a number of interacting components which together display nonlinear behaviour. **A change to one aspect of the system can have disproportionate, far- and wide-ranging impacts on many other components.**

To put this in terms of your own work and commercial awareness: the value that you are able to add to a system of production or service delivery impacts on, and is impacted on by, the values added and costs incurred by others across the organisation. For this reason it is not just your specialist role, nor only your immediate neighbours in a value chain, that you need to be aware of. Commercial awareness requires a much more holistic approach to learning across and beyond the organisation. In the rest of this course we look in more depth at this organisational level.

3 How do organisations add value?

Activity 1: Adding value

Allow 20 minutes

Watch Video 1 below, in which Evan Davis looks at the modern value chain, which he suggests has three stages.

Video content is not available in this format.

Video 1 The modern value chain



The clip is taken from the 2011 BBC television series *Made in Britain* in which Evan Davis asks how Britain can sustain itself in the global economy; and in particular if it is right for Britain to concentrate on excelling in the knowledge economy (commercial awareness is of course vital for nation states as well as for companies).

The three stages mentioned in the video are:

- creativity: coming up with a new product or process
- manufacturing: churning out the product (this is the tangible part of the chain but it adds less value than you might think)
- marketing, branding and advertising.

Having watched the video, now consider your own position within your organisation.

- Does your work fit neatly and exclusively into one of these three stages?
- In terms of a value chain (such as those described in the video) are you closest to the 'inputs' or the 'outputs' of your organisation? (Roles close to the input end might be procurement, enquiries, goods received, etc., those nearer to the output end might be invoicing, delivery, after-sales services, etc.).
- We talk of a value 'chain' – but to what extent does a linear chain (receiving work and passing it on, with added value) represent your work situation? Are there loops of feedback or more complicated connections between what you do and how others in the organisation operate?

Feedback

In the video it is clear that value relates to being competitive, and being competitive means being able to do things differently or better than others. At the level of the organisation, this means being more **efficient** (e.g. doing more with less, being quicker

or reducing the number of repetitions, reducing costs) or more **effective** (e.g. doing things that are more relevant, have greater priority or are more useful or desirable). When we understand what our objectives are in these terms, it makes it easier to suggest how to improve practices to eliminate waste, and enhance each individual's contribution to the total value. Crucially, it allows us to compare the value added by techniques we apply to those used in other organisations.

But how does this talk of value fit with our central concern: developing better commercial awareness? Why is identifying value valuable in that context? Why is it valuable to members across an organisation?

Recognising the value you yourself bring and contribute to the organisation:

- helps to align your day-to-day activities, short-term and 'local' objectives (e.g. what you want your team to be achieving this week) with the longer-term, 'global' aims and objectives of the organisation (e.g. what it is your organisation is here to do; its mission and purpose)
- provides enhanced motivation as you see your own effort and achievement manifested in the total achievement of that organisation
- provides enhanced motivation as you understand how your internal customers and other close colleagues perceive your worth and the array of benefits you bring to them
- can assist in raising your profile through your organisation as you realise (and communicate) the value you add to those more distant colleagues in your organisation (including leadership teams)
- by widening your appreciation of your own capabilities (and potential capabilities), puts you in a stronger position to seize opportunities to develop yourself, your team and your organisation.

Recognising the value others across the organisation contribute:

- widens horizons – it breaks you out of the dreaded 'silo mentality' which can cause teams and individuals to stagnate
- allows you to be more agile, responding to the needs of internal customers better and working smarter with those colleagues on whose work your own is dependent
- expands your reach into diverse sources of potentially useful information and human resource
- enables initiatives to be taken – having a better grasp of what others require and what situations demand, you are able to offer more and discover areas where you and your team can influence, serve and be recognised for taking the initiative
- makes for a stronger sense of organisation and shared purpose, which in turn helps to harmonise working and also provides the basis for resilience and better resolution when there is conflict or discord between individuals or teams.

4 Recognising value

Customers select the product they think is a superior value (benefits minus price). Competitive advantage is **delivering** a superior value to enough customers at a low enough cost to generate wealth. So a business is a system for superior value delivery: choosing a superior value proposition, and **echoing** it through the business system by **providing** and **communicating** it.

(Lanning and Michaels, 1988)

Everyone knows what is meant by the 'price' of a product. But just as important for strategic purposes is a product's value to the customer, something that is far less conspicuous because it often depends on the customer's subjective assessments. A product's value to customers is, simply, the greatest amount of money they would pay for it. In other words, a product will rarely be purchased when its price exceeds its value to the customer. Conversely, whenever the value of a product exceeds its price, customers can improve their lot by buying it.

(Golub and Henry, 2000)

The above quotes highlight the widespread sense of value as something that can be measured relative to the price paid by a consumer for a product or service. If the average consumer will pay a higher price for product A than product B, that is thought to be because the average consumer values A more highly than B. But this is not to say that higher-priced items are always those with the higher value.

In the price–value model illustrated in Figure 4, the organisation behind Product B is managing to deliver a higher-value product than the producers of product A. Product B has a higher value than Product A, but a lower price. This gives producers of Product B a competitive advantage over the manufacturers of Product A.

The products have been mapped against a reference product (with reference value 100, reference price 100). To gain an advantage over competitor products, manufacturers must aim for products that sit above the line of indifference. Customers offered a product with value 200 and price 200, i.e. a product that sits on the indifference line, are unlikely to switch from buying a reference product (value 200, price 200) with the same value–price ratio.

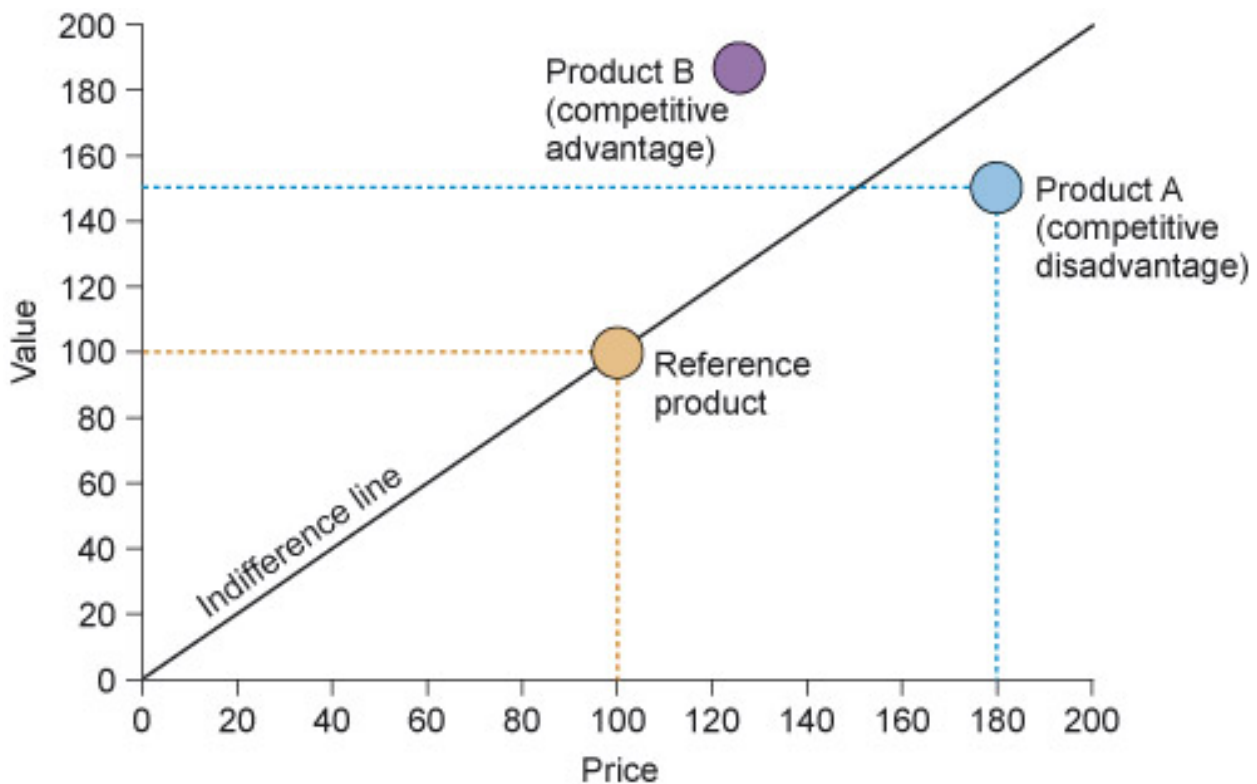


Figure 3 Price–value model

This model was specifically designed to aid strategic decision-making about which products to release onto a market. But you may like to consider how the thinking behind the model can be applied throughout an organisation, and in situations where there is not an obvious relationship between value and price.

Why am I studying this? The reason for presenting this to you is that when you have identified value (through your commercial awareness), an obvious next step is to review and enhance the value being generated, or the costs and mechanisms by which that value is generated; a process which will require more insight gained through commercial awareness.

Ultimately your actions, wherever you sit in an organisation, will have a bearing on how end users value the organisation's outputs. A fraction of the value of an end product or service is (at least in principle) attributable to you. But to recognise the value you've added doesn't always require you to analyse the final product offered by your organisation. The interim products or services that you deliver to internal customers, and those that are delivered to you by internal suppliers, might also be considered in terms of value–price or in terms of cost–value ratios, which will help deliver services in a more cost-effective way.

Within this course and its treatment of value, where we have focused on prices (and costs), the discussion has assumed an intimate link between value and money; it has assumed the recipients of the outputs of organisations always want 'value for money'. However it is important to note – although this theme will not be developed – that there are alternative assessments of value. The following extract gives a flavour of such an alternative and its importance in commercial environments.

companies are more than instruments for generating money; they are also vehicles for accomplishing societal purposes and for providing meaningful livelihoods for those who work in them. According to this school of thought, the value that a company creates should be measured not just in terms of short-term profits or paychecks, but also in terms of how it sustains the conditions that allow it to flourish over time.

(Moss Kanter, 2011)

These sorts of values may be difficult to measure and quantify – they may even run counter to certain political or corporate agendas – but they are values none the less, and what is presented in this course is applicable to these too.

5 Knowing your place

'I know my place' is a phrase that can seem negative and defeatist; consider some of the things it might suggest:

- I know my place, it's not my place to be doing anything other than this task.
- It's more than my job is worth to step outside my role. I'll leave it to the bosses to make decisions – I'm just going to do what I'm paid for, do as I'm told and keep my head down.
- I'm used to my place and it's where I feel happiest. Why mess with what works for me now?

This course seeks to rehabilitate the phrase '*I know my place*' because knowing your current place in an organisation – knowing how you 'fit' with other individuals and teams – can be a very positive and enriching thing:

- I know my current place in the wider set of things our company strives to achieve.
- I know how what I do helps us to achieve our mission and deliver the things that keep us operating.
- I know that without someone like me fulfilling the role I do, a link in the organisational network would be broken – and the organisation would be weaker – it might well fail.
- But I also know that 'my place' isn't the same as it was last month, or as it might be next month. The organisation, like the world around it, is dynamic – and for it to respond effectively, I need to too.

Activity 2 Things that would stop without you

Allow 20 minutes

In this activity, you are invited to take a sort of mental holiday and see how your organisation would get on without you – or someone like you – fulfilling your role. You may be familiar with the film *It's a Wonderful Life* (Frank Capra, 1946) in which the lead character George Bailey is led to appreciate his achievements in life by being shown how things would have been had he never existed. That's what this activity is getting at: give yourself an out-of-organisation experience by imagining the knock-on effects of your work not being done.

- What sort of requests for service or attention would come in to your workplace, in-tray or inbox, and not be addressed were you (or someone in a role like yours) not there to handle them and add in the value demanded or expected elsewhere?
- Who would be waiting on the work that is not getting done? What would not happen and why would that be of interest or concern to those you deal with? What about two or three steps further removed along the value chain; what further ramifications would there be affecting the ultimate delivery of goods and services? Your bosses's feelings matter of course, they're likely to be upset if you're not at your post – but of more use on this course is thinking about the wider effects of your disappearance, in terms of drop in effectiveness, income, service level or any other measure by which the value of your organisation is assessed.
- Look at the gap in value – the you-shaped hole that has opened up between where your work comes in and where it goes out. Taking a view from the positions of your (internal or external) customers and your (internal or external) suppliers opens up a broader picture of what value you are adding.

Feedback

Why am I studying this? This may strike you as a round-about way of answering the question 'What am I here at work for?'. The reason for taking this approach is to stress the dependency relationships that exist between you, the people from whom you receive work, those you pass it to and the wider network of stakeholders.

6 Thinking in systems

Through our discussion of value chains and interdependencies we've reached a good place to highlight an important distinction between ways of looking at and thinking about business. These ways are not mutually exclusive – indeed, it is strongly advised that to be commercially aware, managers should be adept at many different methods of analysis. To introduce the two broad approaches for contrast:

- **Reductionist approaches:** these reduce or break down issues into smaller chunks. In the process much of the real-world complexity of an issue can be lost. The benefit of this approach is that you can focus on a small scale, look at individual problems which are well-defined and (often) easier to deal with in isolation from the 'mess' of the rest of the organisation.
- **Systems approaches:** these refuse to strip down issues into something less complex. A much larger-scale, holistic system is considered in which there are multiple causes, with different aspects of the organisation interacting with other aspects in ways that are hard to pin down. Often the problems tackled in systems thinking remain ill-defined – but the level of analysis is wider and recognises the richness of interaction across an organisation.

Within your organisation or industry you may be a skilled professional – someone experienced in a particular field or line of work. Your substantive role may be to apply specialist expertise for the benefit of the organisation and its clients or customers. There will be things which you can do much better than your colleagues – qualities that you are called on to display and make use of. In that respect we are, each of us, 'experts' – and to

fulfil our specific roles it is inevitable that we often adopt a reductionist attitude to our own business.

If you continuously and exclusively think in whole-system terms you may not get the low-level, well-defined portion of your workload completed. However, whilst your expertise may be vital to fulfilling your role – the very reason you are employed as you are – it is only part of the story when it comes to being commercially aware. Full commercial awareness requires far more systems thinking than you may have realised when training or studying for the profession you now find yourself in.

Optional activity: Short introduction to systems thinking

Allow 5 minutes

To extend your understanding of this section of the course, you may wish to view an introductory video on systems thinking such as Video 2. Towards the end of the video is an example of how a systems approach might be adopted in car design.

Video content is not available in this format.

[Video 2 Systems thinking](#)



This activity has no feedback.

The final two sections of this course are made up of two activities. Both activities should reinforce the notion of the organisation as a complex system.

7 Networks of interaction

The following activity will help you reveal your own network of interaction that spreads throughout your organisation.

Activity 3: Your network of interaction

Allow 45 minutes

Part A

In this activity, you are asked to investigate your existing network of interaction – to think about the colleagues and departments with whom you communicate or exchange with in a typical week or month.

What is the strength of these connections? There are several (all imperfect) approaches to investigating connection strength listed below; which one you choose depends on the nature of your work and the ways you deal with others.

- Roughly how many bytes of data pass in email threads or other media transferred between you and other parties? Get a sense of this by looking at your inbox and sorting it by size of message – or by looking at the documents or data you've worked with this week or month.
- With whom do you exchange the most emails? Sort your outbox by 'To' and check over emails sent in the last week or month (you may wish to clear out your box for previous months first).
- How much time are you spending with different people in a given week or month? Do you have an appointment book, schedule, timesheet or time-tracking app that would indicate this?
- Which projects, tasks or workstreams take up most of your time? There may be clear 'outputs' you produce which allow you to (honestly and without prejudice) judge this for yourself. Again you could track messages or parts of the work which are collaborative – or you could even keep a diary for a week to find out.
- If you're used to tracking your performance in terms of income generated from a range of clients, you may be in a position to judge strength of interaction in terms of money received over a given period.

Other more appropriate ways may occur to you. Select one method.

Whichever way you choose to do this activity, by applying the method consistently to all the different people/bodies you deal with, you should be able to build up a picture of your own network of interactions.

Write down the names of 10–15 main stakeholders, in order of the strength of your connection.

Provide your answer...

Part B

To complete the next part of this activity we invite you to use the interactive whiteboard tool, provided below. The tool will save whatever you draw here on this site, so you can return to it during your study. If you would rather perform this activity on a large piece of paper please do so, but keep it safe to refer to in future activities.

Write 'me!' at the centre of the page/screen, and around the outside write down the 10–15 main stakeholders featured in your analysis of who you're interacting with and how strongly. Draw connecting lines between yourself and each stakeholder. Thick lines where the relationships are strong (by whatever means you judge strength) and thinner lines where the relationships are weaker.

If you've time, you might want to embellish your picture with some additional features:

- clustering or labelling stakeholders in terms of the nature of the relationship
- drawing arrows to represent the general flow of goods/services/information in to and out from yourself
- considering which stakeholders have most influence over you and labelling these
- naming more stakeholders whom you know are connected to the ones you're connected to, but who don't generally interact with you – they may form another layer of interaction sitting behind your own.

Click 'View' to access the interactive whiteboard tool. There are a number of shape tools available to choose from, as well as the ability to enter text. Once you have created an element of the map you can use the 'Select' option to drag and drop it, the Order 'Up' and 'Down' buttons to move it to the foreground or background, or the 'Delete' option to get rid of it entirely. After you have mapped the stakeholders you can save your final map here and also export a copy to print off.

Interactive content is not available in this format.

Feedback

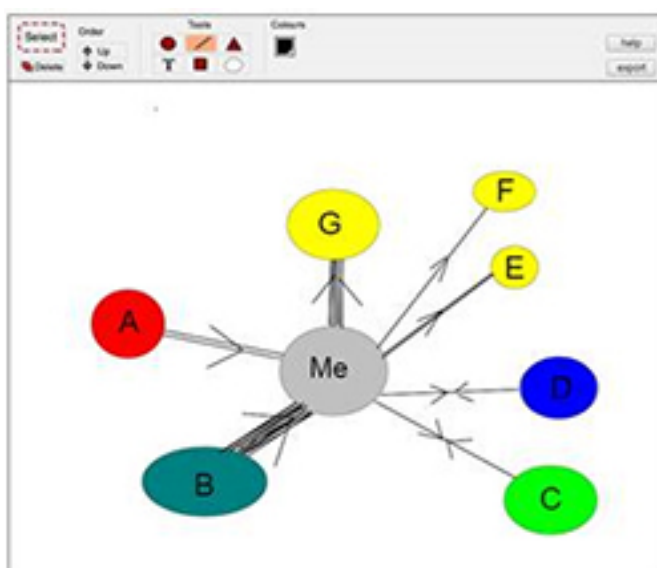


Figure 4 Example diagram

In light of the diagram you have produced, now ask yourself the following:

- Which parts of my organisation are not mapped out on this sketch? Do those unseen parts sit behind stakeholders I have included – or do they have no representation in my diagram at all?
- Why is it that I'm not better connected beyond the people/bodies included here? There may be good reasons for not being directly connected, but what am I 'not seeing' because I only have these channels of interaction?

So far, you should have had an opportunity to identify your 'blind spots' within the organisation to which you belong. In the next section you will develop a more formalised and complete picture of your organisational situation.

8 Mapping your organisation



Figure 5

The following activity will help you chart the structure of the whole organisation (in terms of resource, activity and value).

Activity 4: Map your organisation and the way it speaks to itself

Allow 45 minutes

You are allowed to cheat: if you already have access to a pre-prepared diagram issued by your organisation, print that out or use it as a basis for this activity – but be prepared to change and amend it. Unlike many organisational charts, yours will present a richer 'picture' of the organisation, putting the case for each of its main sub-units and answering:

- why that unit matters in terms of its contribution to the mission of the organisation

- what work or action performed by that unit impacts (directly or indirectly) on your own role and work
- how you could enhance your knowledge of what goes on in that unit and what learning you could take from it.

Step 1: List the main functional units of your organisation. You might want to use an existing list or structural chart, but be sure to consider whether the list is accurate and useful. For example project teams may not be listed on the chart but if they are a meaningful entity to you, list them; some departments may be large, and in terms of your interaction with department members it may be useful to split the department into sub-units for the purposes of the activity.

To complete the next part of this activity you are invited to use an interactive whiteboard tool again, see Figure 8 . The tool will save whatever you draw here on this site so you can return to it during your study. If you would rather perform this activity on a large piece of paper please do so, but keep it safe to refer to in future activities.

Click 'View' to access the interactive whiteboard tool. There are a number of shape tools available to choose from, as well as the ability to enter text. Once you have created an element of the map you can use the 'Select' option to drag and drop it, the Order 'Up' and 'Down' buttons to move it to the foreground or background, or the 'Delete' option to get rid of it entirely. After you have mapped the stakeholders you can save your final map here and also export a copy to print off.

Interactive content is not available in this format.

Step 2: Once you're happy with your list, arrange the units in labelled blocks to form an organisational landscape. Traditionally the arrangements of organisational charts are made on the basis of management levels: who is in charge of what and who reports to whom. That arrangement could be highly useful (particularly if you're a director or senior manager!) but here you are urged to take a more innovative approach. Here are some ideas:

- Place your own unit in the centre, those with which you deal surrounding your own, and beyond them, further units – a similar arrangement to what you were asked to produce in Activity 2, but this time ensuring *all* units are represented, even if you don't tend to interact with them. You want to capture a broad picture of your company.
- Place customers or end users of a service at one end of the paper, and have other units back up to them according to their proximity to the customer interface.
- Pick the unit you are least familiar with, and arrange unit blocks around it, to include (eventually) the functional area in which you work. The idea here is to give you a radically different perspective. It's perhaps the most difficult way to do the exercise – but it may be one of the most informative.

Step 3: Once you have a chart, answer the following three questions for each unit block. You may like to use different coloured text or different style text boxes so you can link your three responses to the relevant place on your organisational map.

- (a) Why does this unit matters in terms of its contribution to the mission of the organisation?

- (b) What work or action performed by this unit impacts (directly or indirectly) on your own role and work?
- (c) How could I enhance my knowledge of what goes on in that unit and what useful learning could I take from it?

Feedback

- (a) Understanding shared goals and differences in role allows you to delineate spheres of responsibility (to have greater clarity over who does what and why) yet at the same time to do things that appear to defy delineation: to open up windows of opportunity in terms of collaboration, and to develop business solutions which acknowledge and respond to the needs and purposes of other teams.
- (b) There will be obvious impacts (failure to supply X will stop us doing Y) but also more subtle impacts – if they give us less of X we could have more time to do Y. This question explores connectedness, and suggests there is use in you knowing how the actions of others have an effect on you – so you can prepare for and pre-empt those actions.
- (c) The term ‘useful learning’ should be explored here. There may be things you can take from the other units now which can directly assist your current work. But be aware that this is a reductionist response to what is and isn’t useful. Learning what are the current issues and challenges within another unit is not only useful in itself (to make you a stronger organisational player and contributor) but it primes you for more agile and creative responses to challenges that you and your team may face in the future – a future that certainly holds unknowns.

Conclusion

Through this free course, *Commercial awareness*, you have considered the internal environment of your organisation, thinking of that organisation as a complex entity full of interrelationships and interactions. You have built on – and in part critiqued – the idea of a ‘value chain’ running through the organisation, because although ‘value’ is a concept of central importance to becoming commercially aware, it is a connected network of agents (not a simple chain) who together create the ‘added value’ an organisation generates. In developing maps of your organisation and your communication network, you have located yourself within a complex picture. Such complexity can throw up challenges and barriers to developing commercial awareness but in generating a richer idea of what your organisation is, this course has put you in a more commercially aware state: you have a better appreciation of the value your business generates and the contributions you make to that value.

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