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| <b>CHAPTER<br/>2</b> | <b>THE<br/>MANAGEMENT<br/>ENVIRONMENT</b> |
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**LEARNING OUTCOMES**

After reading this chapter students should be able to:

1. Explain what the external environment is and why it's important.
2. Discuss how the external environment affects managers.
3. Define what organizational culture is and explain why it's important.
4. Describe how organizational culture affects managers.

**Opening Vignette – Going to Extremes****SUMMARY**

What does it take to be the number one best e-retailer? Zappos.com believes that it more than just providing a great selection of products, super-fast shipping, and free returns. Zappos believes the secret of their success lies in their organizational culture. As part of its culture, Zappos espouses 10 corporate values. At the top of that list is “Deliver WOW through service.” And do they ever deliver the WOW!

Another factor that contributes to success is how an organization deals with their dynamic environment. Change is everywhere. Companies must be able to adapt to assess and adapt to internal and external changes if they want to survive in today's turbulent business world.

**Teaching Tips:**

Have students think about how organizational culture can be used to create a competitive advantage. What is it that distinguishes the best companies from their competitors?  
What are some of the current changes facing organizations?  
How have the best companies reacted to these changes and thrived?

## I. WHAT IS THE EXTERNAL ENVIRONMENT AND WHY IS IT IMPORTANT?

### A. Introduction

1. The term **external environment** refers to factors, forces, situations, and events outside the organization that affect its performance.
2. Exhibit 2–1 shows the five components of the external environment.
  - a) The economic component encompasses factors such as interest rates, inflation, changes in disposable income, stock market fluctuations, and business cycle stages.
  - b) The demographic component is concerned with trends in population characteristics such as age, race, gender, education level, geographic location, income, and family composition.
  - c) The technological component is concerned with scientific or industrial innovations.
  - d) The sociocultural component is concerned with societal and cultural factors such as values, attitudes, trends, traditions, lifestyles, beliefs, tastes, and patterns of behavior.
  - e) The political/legal component looks at federal, state, and local laws, as well as laws of other countries and global laws.

### B. How has the Economy Changed?

1. Analysts argue that the recent economic crisis—called the “Great Recession” began with turmoil in home mortgage markets in the United States as many homeowners found themselves unable to make their payments.
2. The problems with home mortgages also affected businesses as credit markets collapsed.
3. As liquidity dried up, the worldwide economic system sputtered and nearly collapsed.
4. With trillions lost in home value, millions of home foreclosures, a huge public debt burden in many countries, and widespread social problems due to job losses, it’s clear that the U.S. and global economic environments have changed.
5. Experts believe that as the U.S. economy emerges from recession, the way businesses operate will not be the way it’s always been.
6. The biggest change is likely to be in the role of government, especially in financial markets and in consumer protection.
7. Regulations will also likely increase as government spending increases.
8. The public is more concerned about the budget expenditures and the overall debt.

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| <h4>From the Past to the Present</h4> |
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| <p>Just how much difference does a manager make in how an organization performs? After being passed in sales by Ford for the first time, General Motors announced an overhaul in its top management ranks. Will GM’s new executives do a better job? Management theory proposes two perspectives in answering this question: the omnipotent view and the symbolic view. The <b>Omnipotent View</b> maintains that managers are directly responsible for the success or failure of</p> |
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an organization. The **Symbolic View** of management upholds the view that much of an organization's success or failure is due to external forces outside managers' control. Reality suggests a synthesis. Managers are neither helpless nor all powerful. Instead, the more logical approach is to see the manager as operating within constraints imposed by the organization's culture and environment.

**Teaching Tips:**

Questions for students to consider:

- Why do you think these two perspectives on management are important?
- How are the omnipotent and the symbolic views of management similar? Different?

**C. What Role Do Demographics Play?**

1. The size and characteristics of a country's population can have a significant effect on what it's able to achieve.
2. **Demographics**, the characteristics of a population used for purposes of social studies, can and do have a significant impact on how managers manage.
3. Demographic characteristics of concern to organizations include: age, income, sex, race, education level, ethnic makeup, employment status, and geographic location.
4. Age is a particularly important demographic for managers since the workplace often has different age groups all working together.
  - a) Baby Boomers are those individuals born between 1946 and 1964. The sheer numbers of people in that cohort means they've had a significant impact on every aspect of the external environment – including Social Security System
  - b) Gen X is used to describe those individuals born between 1965 and 1977. This age group has been called the baby bust generation since it followed the baby boom and is one of the smaller age cohorts.
  - c) Gen Y (or the "Millennials") is an age group typically considered to encompass those individuals born between 1978 and 1994. As the children of the Baby Boomers, this age group is also large in number and making its imprint on external environmental conditions as well
  - d) Post-Millennials—the youngest identified age group, basically teens and middle-schoolers.<sup>16</sup> One thing that characterizes this group is that "many of their social interactions take place on the Internet, where they feel free to express their opinions and attitudes."

**Teaching Notes**

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## II. HOW DOES THE EXTERNAL ENVIRONMENT AFFECT MANAGERS?

- A. One of the important organizational factors affected by changes in the external environment is jobs and employment. For example, economic downturns result in higher unemployment and place constraints on staffing and production quotas for managers. Not only does the external environment affect the number of jobs available, but it also impacts how jobs are managed and created. Changing conditions can create demands for more temporary work and alternative work arrangements
- B. Environments differ in their amount of **environmental uncertainty**, which relates to (1) the degree of change in an organization's environment and (2) the degree of complexity in that environment (see **Exhibit 2-2**).
  1. Degree of change is characterized as being dynamic or stable
  2. In a dynamic environment, components of the environment change frequently. If change is minimal, the environment is called a stable environment.

### Technology and the Manager's Job Changing and Improving the Way Managers Manage

Technology includes the equipment, tools or operating processes to make work more efficient. In some cases, human labor has been replaced by electronic and computer equipment. Technology has also impacted information enabling work to be done anywhere and anytime. In turn, management is impacted by technology while attempting to manage virtual employees and in the way they plan, organize, lead and control.

#### Teaching Tips:

Many students assume that the loss of jobs to technology is a bad thing. What they may not think about are the positives dynamics that technology can create for the average worker.

Questions for students to consider:

- Is management easier or harder with all the available technology?
- What benefits does technology provide and what problems does technology pose for (a) employees and (b) managers?
- Which technologies have been most useful to you personally thus far? Why?
- Do you think they will remain useful to you as you begin your career? Why or why not?

3. The degree of **environmental complexity** is the number of components in an organization's environment and the extent of an organization's knowledge about those components.
4. If the number of components and the need for sophisticated knowledge is minimal, the environment is classified as simple. If a number of dissimilar components and a high need for sophisticated knowledge exist, the environment is complex.

5. Because uncertainty is a threat to organizational effectiveness, managers try to minimize environmental uncertainty.

**C. The more obvious and secure an organization's relationships are with external stakeholders, the more influence managers have over organizational controls.**

1. Stakeholders are any constituencies in the organization's external environment that are affected by the organization's decisions and actions. (See **Exhibit 2-3** for an identification of some of the most common stakeholders.)
2. Stakeholder relationship management is important for two reasons:
  - a) It can lead to improved predictability of environmental changes, more successful innovation, greater degrees of trust among stakeholders, and greater organizational flexibility to reduce the impact of change.
  - b) It is the "right" thing to do, because organizations are dependent on external stakeholders as sources of inputs and outlets for outputs and the interest of these stakeholders should be considered when making and implementing decisions.

**Right or Wrong**

Most students will be familiar with Apple products and some may know about the health issues of CEO Steve Jobs. The questions presented in this dilemma revolve around the right to privacy and the investors need to know about the stability of leadership. Jobs had always been seen as a strong advocate in advancing technology, and to Apple investors his status in the company could reflect on their decisions to extend or withdraw their holdings in the company.

After the writing of this text, Steven Jobs died from cancer on October 5<sup>th</sup>, 2011. His resignation was announced on August 24, 2011, citing "Unfortunately, that day has come," wrote Jobs, for he could "no longer meet [his] duties and expectations as Apple's CEO".

Questions for students to consider:

- Do the heads of publicly traded firms have a right to medical privacy? Why or why not?
- What stakeholders do you think are most important in this situation?
- What responsibilities do organizations have to stakeholders in situations like this?
- What ethical implications might arise in such a situation?

Students may also be asked how they would feel if their private health information was required by their employer or worse yet, if it was required to be posted on the internet!

**Teaching Notes**

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### III. WHAT IS ORGANIZATIONAL CULTURE AND WHY IS IT IMPORTANT

- A. Just as individuals have a personality, so, too, do organizations. We refer to an organization's personality as its culture.

#### B. What is Organizational Culture?

1. **Organizational culture** is the shared values, principles, traditions, and ways of doing things that influence the way organizational members act. This definition implies:
  - a) Individuals perceive organizational culture based on what they see, hear, or experience within the organization.
  - b) Organizational culture is shared by individuals within the organization.
  - c) Organizational culture is a descriptive term. It **describes**, rather than evaluates.

#### C. How can Culture Be Assessed?

1. Seven dimensions of an organization's culture have been proposed (see **Exhibit 2-4**).
  - a) Innovation and risk taking (the degree to which employees are encouraged to be innovative and take risks).
  - b) Attention to detail (the degree to which employees are expected to exhibit precision, analysis, and attention to detail).
  - c) Outcome orientation (the degree to which managers focus on results or outcomes rather than on the techniques and processes used to achieve those outcomes)
  - d) People orientation (the degree to which management decisions take into consideration the effect on people within the organization)
  - e) Team orientation (the degree to which work activities are organized around teams rather than individuals)
  - f) Aggressiveness (the degree to which employees are aggressive and competitive rather than cooperative)
  - g) Stability (the degree to which organizational activities emphasize maintaining the status quo in contrast to growth)

#### D. Where Culture Comes From?

1. The original source of an organization's culture is usually a reflection of the vision or mission of the organization's founders.

2. The culture is a result of the interaction between the founders' biases and assumptions and what the first employees subsequently learned from their own experiences.

## E. How Do Employees Learn the Culture?

1. Culture is transmitted principally through stories, rituals, material symbols, and language.
  - a) **Organizational stories** are one way that employees learn the culture. These stories typically involve a narrative of significant events or people.
  - b) **Rituals** are repetitive sequences of activities that express and reinforce the key values of the organization, which goals are most important, and which people are important or expendable.
  - c) The use of **material symbols and artifacts** is another way in which employees learn the culture, learn the degree of equality desired by top management, discover which employees are most important, and learn the kinds of behavior that are expected and appropriate.
  - d) **Language** is often used to identify members of a culture. Learning this language indicates members' willingness to accept and preserve the culture. This special lingo acts as a common denominator to unite members of a particular culture.

### Teaching Notes

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## 1. HOW DOES ORGANIZATIONAL CULTURE AFFECT MANAGERS?

- A. An organization's culture is important because it establishes constraints on what employees and managers can do.

### B. How Does Culture Affect What Employees Do?

1. **Strong cultures** are found in organizations where key values are intensely held and widely shared.
2. Most organizations have moderate-to-strong cultures. In these organizations, high agreement exists about what is important and what defines "good" employee behavior, for example.

3. Strong cultures can create predictability, orderliness, and consistency without the need for written documentation.

**C. How Does Culture Affect What Managers Do?**

1. Constraints from organizational culture are rarely explicit.
2. The link between corporate values and managerial behavior is fairly straightforward.
3. The culture conveys to managers what is appropriate behavior.
4. An organization's culture, particularly a strong one, constrains a manager's decision-making options in all managerial functions (see **Exhibit 2-5**).

**Teaching Notes**

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## **REVIEW AND APPLICATIONS**

### **CHAPTER SUMMARY**

- 2.1 Explain what the external environment is and why it's important.** The external environment refers to factors, forces, situations, and events outside the organization that affects its performance. It includes economic, demographic, political/legal, sociocultural, technological, and global components. The external environment is important because it poses constraints and challenges to managers.
- 2.2 Discuss how the external environment affects managers.** There are three ways that the external environment affects managers: its impact on jobs and employment, the amount of environmental uncertainty, and the nature of stakeholder relationships.
- 2.3 Define what organizational culture is and explain why it's important.** Organizational culture is the shared values, principles, traditions, and ways of doing things that influence the way organizational members act. It's important because of the impact it has on decisions, behaviors, and actions of organizational employees.
- 2.4 Describe how organizational culture affects managers.** Organizational culture affects managers in two ways: through its effect on what employees do and how they behave, and through its effect on what managers do as they plan, organize, lead, and control.

### **UNDERSTANDING THE CHAPTER**

- 1. How much impact do managers actually have on an organization's success or failure?**

**Answer:** The omnipotent view supports the idea that a manager is directly responsible for the success and failure of the organization. Top CEO's (and head football coaches) would be more likely to be held accountable for the entire organization's outcomes while lower level managers would be held responsible for the outcomes in their respective departments. This view adopts the premise that managers set the priorities/goals of the organization and are responsible for making major success oriented decisions. If the goals and decisions managers choose are correct, then the organization should thrive. The symbolic view is a counterpart to the omnipotent view and asserts that much of an organization's success or failure can be attributed to factors in the external environment, such as competition, economic conditions, or governmental influences. According to this view, management decisions are often flawed and poorly implemented due to factors beyond their direct control. Considering the random and ambiguous situations manager's face, they should not be held responsible for organizational performance.

- 2. Describe the six external environment components. Why is it important for managers to understand these components?**

**Answer -** Forces in the external environment play a major role in shaping managers' endeavors. The external environment includes these six broad external conditions that may affect the organization: economic, political/legal, sociocultural, demographic, technological, and global conditions. Political/legal conditions include the general political stability of countries in which an organization does business and the specific attitudes that elected officials have toward business. Federal, state, and local governments can influence what organizations can and cannot do. Sociocultural conditions include the changing expectations

of society. Societal values, customs, and tastes can change, and managers must be aware of these changes. Technological conditions have changed more rapidly than any other element of the general environment. Global factors include global competitors and global consumer markets.

- 3. How has the changed economy affected what managers do? Find two or three examples in current business periodicals of activities and practices that organizations are using. Discuss them in light of the changed environment.**

**Answer** - The recent recession has had an overall negative impact on organizations and has made the manager's job more challenging. Students may find examples of how organizations are dealing with a general level of uncertainty regarding job security and wages. On the bright side, some students may find articles on innovative tactics companies are using to do more with less and how organizations are now leveraging limited resources to provide a more exciting and challenging job for employees.

- 4. Why is it important for managers to pay attention to demographic trends and shifts?**

**Answer** - As demographics change, so do the defining characteristics of employees and customers. Managers must adapt to these changes in order to properly motivate their employees and meet the needs of customers. For example, as the Baby Boomers are on the verge of retirement, managers are faced with a younger workforce with different ideas of work and organizational commitment. This change in society will also present opportunities as more seniors will demand a greater emphasis on health care and other services important to an aging population.

- 5. What is environmental uncertainty? What impact does it have on managers and organizations? Find two examples in current business periodicals that illustrate how environmental uncertainty affects organizations.**

**Answer – Environmental uncertainty** relates to (1) the degree of change in an organization's environment and (2) the degree of complexity in that environment. Because uncertainty is a threat to organizational effectiveness, managers try to minimize environmental uncertainty. Students should find articles on organizations that operate in varying degrees of uncertainty. Firms that operate in technology intensive markets, such as computers or cell phones, will typically experience a high degree of uncertainty. Managers in these firms will have to work hard to minimize the impact of behavioral variables such as stress on the workforce. On the other hand, firms that operate in a less dynamic environment have managers that are less stressed by constant change in the environment.

- 6. "Businesses are built on relationships." What do you think this statement means? What are the implications for managing the external environment?**

**Answer –** Organizations depend on their environment and their stakeholders as a source of inputs and a recipient of outputs. Good relationships can lead to organizational outcomes such as improved predictability of environmental changes, more successful innovations, greater degrees of trust among stakeholders, and greater flexibility in acting to reduce the impact of change. In addition, relationship management and maintaining good relationships have been proven by many researchers to have an effect on organizational performance. High-performing companies tend to consider the interests of all major stakeholder groups as they make decisions

**7. Is organizational culture an asset to an organization? Explain. Can it ever be a liability? Explain.**

**Answer** - In some cases organizational culture can be a competitive advantage for an organization. Having a strong culture would likely emphasize employee outcomes such as quality and productivity and would give significant attention to detail. In other cases where the culture is weak or does not match the demands of the environment, organizational culture could be a liability. For example, a weak culture that does not promote ethical decision making by employees could produce high levels of employee theft or fraud. Because culture is difficult to change, it should be stressed that choosing the building a strong culture can pay dividends in the long run.

**8. How is an organization's culture formed and maintained?**

**Answer** – Culture is established and maintained through the transmission and adoption of values. Following the figure from left to right, we see that the founder, through the values they choose for the organization, is the person most responsible for setting the organizational culture. The strength of founder values is then reinforced by the employees chosen for the organization. Employees who are selected for their fit with the founder's values will carry on the culture better than those who do not adopt his/her values. As the time increases from the start of the organization by the founder, top management values become important. Top management may attempt to modify or significantly change the values of the company. Socialization is the process by which employees learn the culture. They do this from learning the company's philosophy, artifacts, ceremonies, and language.

**9. Discuss the impact of a strong culture on organizations and managers.**

**Answer** – At one time, researchers supported a direct connection between the strength of an organizations culture and its performance. Today, we know that the strength of an organization's culture is more closely tied to acceptance of an organization's values. In the end, strong cultures aid a manager in fulfilling their functions: planning, organizing, leading and controlling.

**10. Pick two organizations that you interact with frequently (as an employee or as a customer) and assess their culture according to the dimensions shown in Exhibit 2–4.**

**Answer** - Answers to this question will vary. Have students look at the seven dimensions of organizational culture described in the text and rate them from high to low for each company. One point you might want to explore: What role does the founder/CEO of the company play in establishing the culture of the company? Ask students to relate this information to the role a teacher might play in establishing the culture of a classroom.