

Rick Sapio is being challenged by forces greater than he is—first a booming economy that perhaps led to unhealthy growth, and then a collapsed stock market, threatening the livelihood of the entire company.

Even in a seemingly simple, low-tech industry such as manufacturing baby food, challenges from the environment can wreak havoc on an organization's reputation, sales, and profits, as Gerber's found when some of its baby foods were criticized for using genetically altered corn, which some environmental groups claimed contained toxins.² In high-tech industries, environmental conditions are even more volatile. Xerox, one of the original high-tech companies emerging after World War II, once owned the copier market, but has suffered huge losses in recent years, partly because managers misread cues from the environment and changes in technology needs.

Dialog Corp., the pioneer of the data-retrieval industry founded by Lockheed in 1963, is now fighting for its life after managers missed an opportunity to become a leader of the Internet revolution. "Dialog had a chance at the inception of the Web to index it, in essence to be a Yahoo!," says Jeffrey Gault, former head of the business. "But we passed on it because we couldn't see how we could make money on it."³ The environment surprises many companies. Bookstores such as Barnes & Noble and Borders were caught napping when a new approach to bookselling emerged. Amazon.com was ringing up sales on the Internet for a year before Barnes & Noble managers even began thinking about selling online, and the company had a whopping three-year head start over Borders' online site.⁴

Government actions and red tape can also affect an organization's environment and foment a crisis. Deregulation of the electric utilities industry is forcing a massive restructuring of power companies in states such as California, Texas, and Massachusetts, and will eventually impact companies all across the United States. Changes in Medicaid are hurting hospitals such as La Rabida, on Chicago's South Side, which is dedicated to serving the poor.⁵

The study of management traditionally has focused on factors within the organization—a closed systems view—such as leading, motivating, and controlling employees. The classical, behavioral, and management science schools described in Chapter 1 focused on internal aspects of organizations over which managers have direct control. These views are accurate but incomplete. Globalization and the trend toward a borderless world affect companies in new ways. Even for those companies that try to operate solely on the domestic stage, events that have greatest impact typically originate in the external environment. To be effective, managers must monitor and respond to the environment—an open systems view. This chapter explores in detail components of the external environment and how they affect the organization. We will also examine a major part of the organization's internal environment—corporate culture. Corporate culture is shaped by the external environment and is an important part of the context within which managers do their jobs.

The External Environment

The world as we know it is undergoing tremendous and far-reaching changes. These changes can be understood by defining and examining components of the external environment.

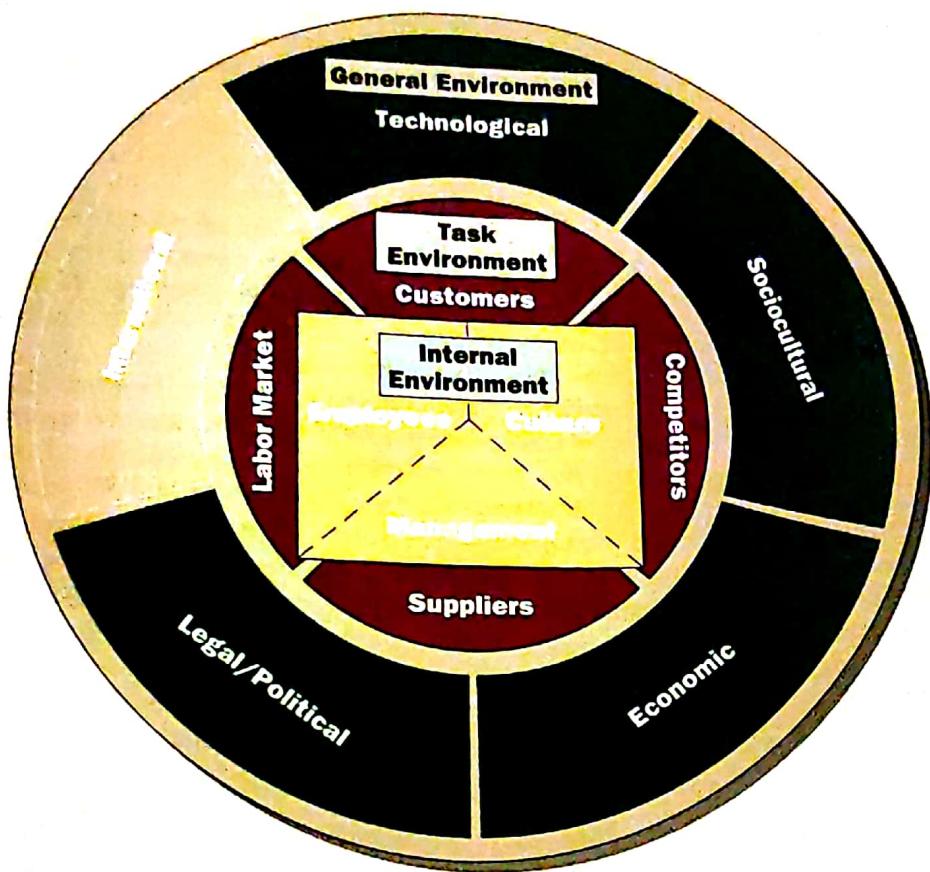
The external organizational environment includes all elements existing outside the boundary of the organization that have the potential to affect the

organizational environment
elements existing outside the
organization's boundaries that have the
potential to affect the organization.

The External Environment

EXHIBIT 2.1

Location of the Organization's General, Task, and Internal Environments



organization.⁶ The environment includes competitors, resources, technology, and economic conditions that influence the organization. It does not include those events so far removed from the organization that their impact is not perceived.

The organization's external environment can be further conceptualized as having two layers: general and task environments, as illustrated in Exhibit 2.1.⁷

The general environment is the outer layer that is widely dispersed and affects organizations indirectly. It includes social, demographic, and economic factors that influence all organizations about equally. Increases in the inflation rate or the percentage of dual-career couples in the workforce are part of the organization's general environment. These events do not directly change day-to-day operations, but they do affect all organizations eventually. One way they impact is by creating parents who have more demands for educating their young children, a situation one company is capitalizing on, as shown in the example below.

Talk about looking for trouble. The U.S. toy industry is dominated by giants: Mattel, Hasbro, Fisher Price, Little Tykes, and so on. With so many failed start-ups in recent years (anyone remember Purple Moon?), it would be foolish for a new company to introduce a toy that would compete with the big guys, wouldn't it? Not to mention that educational toys don't usually make money.

Luckily, Mike Wood and Jim Marggraff at LeapFrog didn't know that. When high-paid law partner Wood became frustrated looking for materials to teach his three-year-old to read, he started building an electronic toy to help children

general environment
The layer of the external environment affects the organization indirectly.

LeapFrog

<http://www.leapfrog.com>

make the sounds that correspond to the letters of the alphabet. With a clumsy prototype in hand, he got an order for 40,000 units from Toys 'R' Us. That was enough for him to bid the law firm goodbye, raise \$800,000 from friends and family, and start his own company, LeapFrog. After developing a series of follow-up toys, Wood offered \$40 million for a majority stake in his company to Knowledge Universe, owned by Michael Milken (former junk-bond king of the 1980s) and others.

That's when Jim Marggraff entered the picture. He had left a lucrative job at Cisco Systems to launch an innovative globe with an interactive pen-like pointer. Marggraff's pointer combined with Wood's unit ultimately evolved into LeapPad, a paper book placed on top of an electronic pad. When a child touches the pen to a word in the book, the pad "speaks" that word.

Still, there were all those big toy companies to worry about. Few small companies have lived to tell about competing with the giants. In a market dominated by GameBoy, Pokémon, and PlayStation, the odds were against LeapFrog. Nevertheless, its \$49.99 LeapPad became the best-selling plaything in 2000, outperforming even the red-hot Razor Skooter®. Good things just kept happening. Revenues for 2001 were \$314 million, almost a 100 percent increase over 2000. With Wal-Mart and Toys 'R' Us its biggest customers, LeapFrog is now trying to increase sales to schools.

Leapfrog has also developed a prototype for an interactive adult magazine, a sort of *Time* magazine with electronic games. Marggraff says he's gotten some positive responses from publishers. Perhaps he'll try management textbooks next.⁸

environment
Part of the external environment that influences the organization's survival and performance.

internal environment
Environment within the organization's boundaries.

general environment
External environment that originates in foreign countries as well as opportunities for American companies in other countries.

The task environment is closer to the organization and includes the sectors that conduct day-to-day transactions with the organization and directly influence its basic operations and performance. It is generally considered to include competitors, suppliers, and customers.

The organization also has an internal environment, which includes the elements within the organization's boundaries. The internal environment is composed of current employees, management, and especially corporate culture, which defines employee behavior in the internal environment and how well the organization will adapt to the external environment. Exhibit 2.1 illustrates the relationship among the general, task, and internal environments. As an open system, the organization draws resources from the external environment and releases goods and services back to it. We will now discuss the two layers of the external environment in more detail. Then we will discuss corporate culture, the key element in the internal environment. Other aspects of the internal environment, such as structure and technology, will be covered in Parts Four and Five of this book.

General Environment

The general environment represents the outer layer of the environment. These dimensions influence the organization over time but often are not involved in day-to-day transactions with it. The dimensions of the general environment include international, technological, sociocultural, economic, and legal-political.

International. The international dimension of the external environment represents events originating in foreign countries as well as opportunities for American companies in other countries. Note in Exhibit 2.1 that the interna-

The External Environment

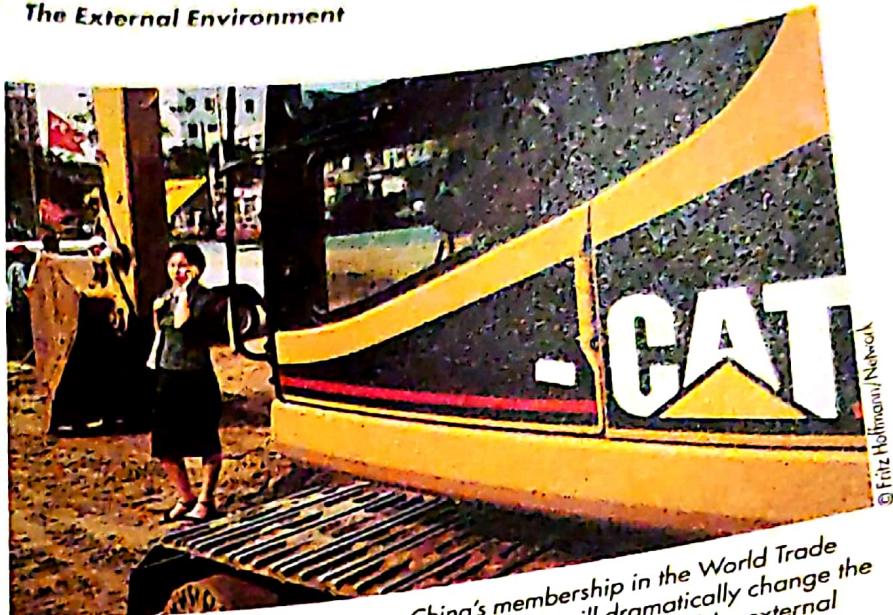
tional dimension represents a context that influences all other aspects of the external environment. The international environment provides new competitors, customers, and suppliers and shapes social, technological, and economic trends, as well.

Today, every company has to compete on a global basis. Dixon Ticonderoga Co., which makes pencils, is in trouble because of increased foreign competition, especially from low-cost pencil companies in China. Today, about 50 percent of the pencils bought in the United States come from overseas, compared to 16 percent a decade ago.⁹ High-quality, low-priced automobiles from Japan and Korea have permanently changed the American automobile industry. With the development of the Internet as a place for doing business, even the smallest companies can look at the whole world as their market. When operating globally, managers have to consider legal, political, sociocultural, and economic factors not only in their home country but in various other countries as well. For example, a drop in the U.S. dollar's foreign exchange rate lowers the price of U.S. products overseas, increasing export competitiveness.

Many companies have had to cut prices to remain competitive in the new global economy. Economic problems in other parts of the world now have a tremendous impact on U.S. companies. Companies such as Coca-Cola, which get a large percentage of sales from Asia, are feeling the pinch of the Asian economic crisis. Russia's economic woes also are affecting U.S. companies. For example, a small distributor of vitamins and sports supplements near Nashville, Tennessee, gets 20 percent of its sales from Russia. The economic turmoil in that country, however, has left U.S.A. Laboratories struggling to get paid and make up for lost orders.¹⁰

The global environment represents an ever-changing and uneven playing field compared with the domestic environment. Changes in the international domain can abruptly turn the domestic environment upside down. The mad-cow epidemic in Europe affected U.S. companies in numerous ways because of concerns about the spread of the disease to the United States. The Red Cross adopted a rule against blood donations from persons who have spent six months or more in mad-cow countries, even though there's no evidence the human form of the disease is transmitted this way. The ruling has decreased the already declining supply of blood, affecting hospitals, insurance companies, and consumers, who must cope with higher health care costs.

Technological. The technological dimension includes scientific and technological advancements in a specific industry as well as in society at large. In recent years, this dimension has created massive and far-reaching changes for organizations in all industries. Fifteen years ago, many organizations didn't even use desktop computers. Today, computer networks, Internet access, videoconferencing capabilities, cell phones, fax machines, pagers, and laptops are practically taken for granted as the minimum tools for doing business. Technological advancements that make the Internet accessible to nearly everyone have changed the nature of competition and of organizations' relationships

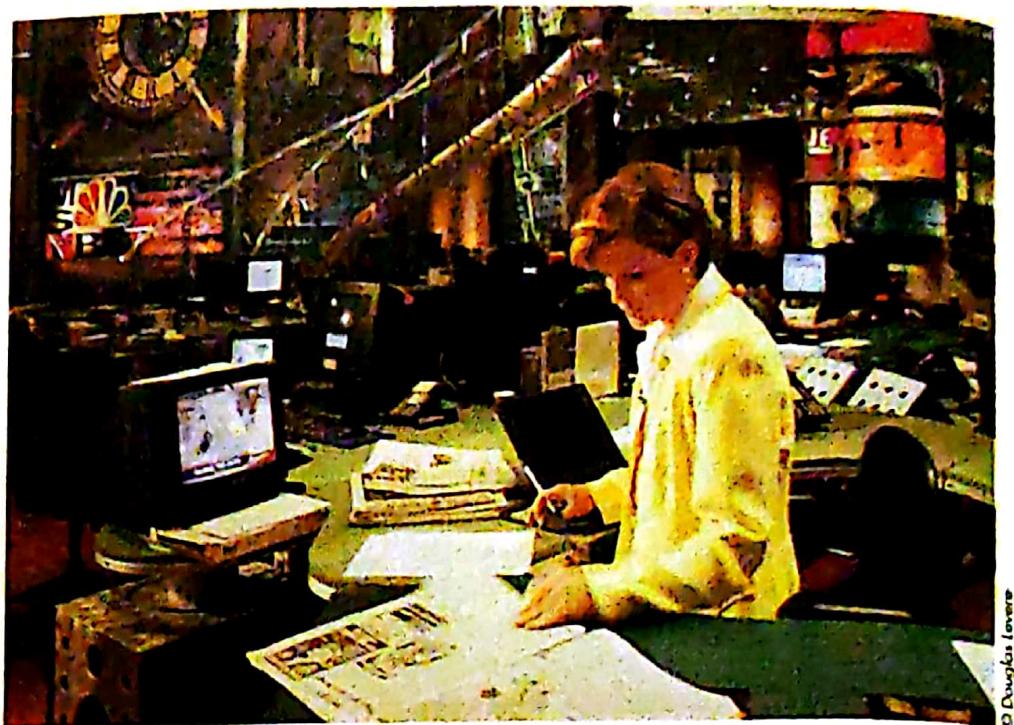


China's membership in the World Trade Organization will dramatically change the international dimension of the external environment. With 1.3 billion people, China is already an attractive market, but WTO membership will spur economic growth even more. For U.S. construction companies such as Caterpillar, and sales representative Anny Wong, pictured here, China is a dream market, with highways, dams, and buildings springing up everywhere. However, doing business in this new market also presents many challenges, such as setting up distribution chains, service centers, and dealer networks.

technological dimension

The dimension of the general environment that includes scientific and technological advancements in the industry and society at large.

MSNBC, the cable and online television news network, was begun by Microsoft Corp. and General Electric Co.'s NBC unit in recognition of the technological dimension of the company's general environment. MSNBC positions NBC for a high-tech future where TV and the Internet are combined. With high-tech appeal beamed out of a converted warehouse in hues of metallic orange-tinted blue, MSNBC draws the affluent 25–54 age group, viewers that advertisers covet.



© Douglas Lovett

to customers. Many companies are adopting technologically sophisticated e-business methods that use private networks or the Internet to handle practically all their operations. Wireless technology and new software applications are making the Internet easily accessible from a cell phone or other hand-held devices. Communications and computing devices are getting smaller, more powerful, and more affordable. A technology research firm reports that more than half of all U.S. households have a cell phone, and in eight European countries, including Finland, Portugal, and Italy, the number of cell phones is now greater than the number of fixed-line telephones.¹¹

Other technological advances will also affect organizations and managers. The recent decoding of the human genome could lead to revolutionary medical advances. Cloning technology and stem cell research are raising both scientific and ethical concerns. Scientists interpreting the secrets of matter at the level of the atom have been able to create amazing new materials, such as "smart gels" that mold to human needs on cue. Shoes made with smart gels in the soles conform to the wearer's feet to achieve a perfect fit. High-tech composites, embedded with sensors that enable them to think for themselves, are being used to earthquake-proof bridges and highways as well as build better airplanes and railcars.¹² Cellular telephone technology has helped change the culture in some organizations, as shown in Digital, Inc.

sociocultural dimension

The dimension of the general environment representing the demographic characteristics, norms, customs, and values of the population within which the organization operates.

Sociocultural. The sociocultural dimension of the general environment represents the demographic characteristics as well as the norms, customs, and values of the general population. Important sociocultural characteristics are geographical distribution and population density, age, and education levels. Today's demographic profiles are the foundation of tomorrow's workforce and consumers. Forecasters see increased globalization of both consumer markets and the labor supply, with increasing diversity both within organizations and consumer markets.¹³ Consider the following key demographic trends in the United States:

DIGITAL, INC.

Unplugged Conversations

When mobility is the key word in communications, you can't beat cell phones. North America is behind European cities, some of which have more cell phones than land lines. Changing to a cell-phone-based business communication system can change the culture of an organization. At the Swedish Postal Service's Postnet Internet subsidiary, being wireless is more than a technological advance: It is now part of the culture. There are no desks or even what might be called offices. Rooms contain a number of tables with electrical and data-connection cables. Almost no one sits at the same table each day; instead, an employee finds a spot, hooks up his or her laptop, and makes calls on the cell phone. At night, all that's left are the cables.

CEO Lisbeth Gustafsson spends most of her day walking around, making calls on her mobile phone, which is connected to the main switchboard of the postal system. "If I had a fixed phone, I would have to be in a fixed place, and that's not part of the concept. The concept here is mobility," she says. If people want to work at home, it's no sweat for the company, and the customer never knows the difference.

Cell phones are also offering new perks for business travelers. Next time you are at Helsinki airport, you will be able to call a toll-free number, order a Coca-Cola from the nearby vending machine, and have the cost posted to your cell-phone account. That kind of freedom is the "real thing" in technology.

SOURCE: Janet Guyon, "The World Is Your Office," *Fortune* (June 12, 2000), 227-234.

1. By 2050, non-Hispanic whites will make up only about half of the population, down from 74 percent in 1995. Hispanics are expected to make up nearly a quarter of the U.S. population.¹⁴
2. The huge post-World War II baby-boom generation is aging and losing its interest in high-cost goods. Meanwhile, their sons and daughters, sometimes called Generation Y, rival the baby boomers in size and will soon rival them in buying power.
3. The fastest-growing type of living arrangement is single-father households, which rose 62 percent in 10 years, even though two-parent and single-mother households are still much more numerous.¹⁵
4. The U.S. will continue to receive a flood of immigrants, largely from Asia and Mexico.

The sociocultural dimension also includes societal norms and values. A groundswell of interest in spirituality in the U.S. since the mid-1990s is beginning to affect organizations. In 1999, 78 percent of Americans reported feeling a need to experience spiritual growth, compared to only 20 percent five years earlier. Sales of books and other materials related to religion and spirituality are booming, and some companies are openly bringing spiritual values and ideas into the workplace.¹⁶ Other sociocultural trends also affect organizations. Handgun manufacturers struggled as public acceptance and support of guns in the home fell in the wake of tragic school shootings, and then witnessed a surge in buying following the September 11, 2001, terrorist attacks. The anti-cholesterol and low-fat fervor of a few years back has cooled, hurting the profit margins of companies manufacturing healthy food products.

Economic. The economic dimension represents the general economic health of the country or region in which the organization operates. Consumer purchasing power, the unemployment rate, and interest rates are part of an organization's economic environment. Because organizations today are operating in a global environment, the economic dimension has become exceedingly



American consumers' growing taste for international foods reflects a change in the sociocultural dimension of the environment. Interest in Italian cuisine, for example, has been growing rapidly. Gourmet pasta maker Monterey Pasta was recently ranked as Number 26 on Fortune magazine's list of the 100 fastest-growing companies, based partly on an annual earnings-per-share growth rate of 147 percent.

economic dimension

The dimension of the general environment representing the overall economic health of the country or region in which the organization functions.

complex and creates even more uncertainty for managers. The economies of countries are more closely tied together now. For example, an economic recession and the decline of consumer confidence in the U.S. following the September 11 terrorist attacks affected economies and organizations around the world. Similarly, economic problems in Asia and Europe have had a tremendous impact on companies and the stock market in the United States.

One significant recent trend in the economic environment is the frequency of mergers and acquisitions. Citibank and Travelers merged to form Citigroup, Glaxo Wellcome bought out SmithKline Beecham, and Wal-Mart purchased Britain's ASDA Group. In the toy industry, the three largest toy makers—Hasbro, Mattel, and Tyco—gobbled up at least a dozen smaller competitors within a few years. At the same time, however, there is a tremendous vitality in the small business sector of the economy.

legal-political dimension

The dimension of the general environment that includes federal, state, and local government regulations and political activities designed to influence company behavior.

Legal-Political. The legal-political dimension includes government regulations at the local, state, and federal levels as well as political activities designed to influence company behavior. The U.S. political system encourages capitalism, and the government tries not to overregulate business. However, government laws do specify rules of the game. The federal government influences organizations through the Occupational Safety and Health Administration (OSHA), Environmental Protection Agency (EPA), fair trade practices, libel statutes allowing lawsuits against business, consumer protection legislation, product safety requirements, import and export restrictions, and information and labeling requirements. Litigation and regulation can create big problems for companies. Microsoft Corporation has been involved in a long, expensive, and exhausting antitrust battle with the U.S. Department of Justice. Microsoft managers have learned the huge impact this environmental sector can have on an organization. Many organizations also have to contend with government and legal issues in other countries. Coca-Cola came under government regulatory surveillance in parts of Europe because of alleged unsanitary conditions in some of its bottling plants. General Electric's attempted \$41 billion purchase of Honeywell International won regulatory approval in the U.S., but was squashed by European Union (EU) regulators on the grounds that it would severely reduce competition and raise prices for consumers.

pressure group

An interest group that works within the legal-political framework to influence companies to behave in socially responsible ways.

Managers must recognize a variety of pressure groups that work within the legal-political framework to influence companies to behave in socially responsible ways. Automobile manufacturers, toy makers, and airlines have been targeted by Ralph Nader's Center for Responsive Law. Tobacco companies today are certainly feeling the far-reaching power of antismoking groups. Middle-aged activists who once protested the Vietnam War have gone to battle to keep Wal-Mart from "destroying the quality of small-town life." Some groups have also attacked the giant retailer on environmental issues, which likely will be one of the strongest pressure points in the coming years.¹⁷ Two of the hottest current issues for pressure groups that are also related to environmental concerns are biotechnology, as illustrated by this chapter's opening case, and world trade. Environmental and human rights protesters have disrupted World Trade Organization meetings and meetings of the World Bank and the International Monetary Fund to protest a system of worldwide integration that has food, goods, people, and capital freely moving across borders. This current international issue will be discussed in more detail in Chapter 3.

Task Environment

As described earlier, the task environment includes those sectors that have a direct working relationship with the organization, among them customers, competitors, suppliers, and the labor market.

Customers. Those people and organizations in the environment who acquire goods or services from the organization are **customers**. As recipients of the organization's output, customers are important because they determine the organization's success. Patients are the customers of hospitals, students the customers of schools, and travelers the customers of airlines. Clothing companies have to stay constantly in touch with shifting customer tastes. Levi Strauss's fortunes have faded faster than a pair of new jeans in recent years because of the company's failure to respond quickly to fashion trends such as flared legs, cargo pockets, and baggy pants. Young, fashion-conscious consumers think of Levi's as "for the older generation, like middle-aged people."¹⁸ Abercrombie & Fitch picked up on the trends, making its clothes the hottest fashion among college-age students a few years back, but now the company is also having trouble coming up with fresh, new styles to boost sagging sales. Marketers are hoping the controversial magazine-style catalog, featuring racy photographs of teenagers, will revive Abercrombie's image among youth, but parents are rebelling against what many consider pornographic displays of children.

customers
People and organizations in the environment who acquire goods or services from the organization.

One concern for managers today is that the Internet has given increased power to customers and enabled them to directly impact the organization. For example, gripe sites such as walmartsucks.org, where customers and sales associates cyber-vent about the nation's largest retailer, and untied.com, where United Airlines employees and disgruntled fliers rail against the air carrier, can quickly damage a company's reputation and sales. "In this new information environment," says Kyle Shannon, CEO of e-commerce consultancy Agency.com, "you've got to assume everyone knows everything."¹⁹ However, smart managers and companies are also tapping into the power of the Internet to learn all they can about customers as well, as described in the example below.

Managers in companies all over the world are discovering how the Internet keeps customers informed and interconnected. Some are also using the power of the Internet to learn everything they can about customers, as well. Managers in many companies regularly monitor gripe sites to see what is being said about them so they can make changes and respond to problems. Keeping tabs on gripe sites provides a kind of free focus group for companies.

Look-Look
<http://www.look-look.com>

Now, a new market research company, Look-Look, headquartered in Hollywood, is taking a further step toward helping companies use the Web to tap into the needs and interests of the coveted youth market. Look-Look uses the Web to monitor rapidly changing youth market trends and provides the information to apparel companies, beverage firms, cosmetics companies, and movie studios. However, the most innovative aspect of Look-Look is its global corps of teen correspondents, who are paid to e-mail information about their styles, trends, opinions, and ideas. Look-Look's clients pay an annual fee of about \$20,000 to instantly reach a virtual, worldwide focus group, 24/7. The company's founders, DeeDee Gordon and Sharon Lee, read and study everything their correspondents tell them about, from J. K. Rowling's series of Harry Potter books to Web sites such as *Ain't It Cool*, to spot trends, make connections, and give their clients predictions about what will sell and what won't.

We want to be as close as possible to what's going on with kids," says Gordon, "so we get it from the kids themselves." Look-Look's online approach enables their company to deliver up-to-the-minute market research with the speed and accuracy that companies need. With youth spending estimated at \$140 billion a year and growing, companies that target the youth market are logging on fast.²⁰

competitors

Other organizations in the same industry or type of business that provide goods or services to the same set of customers.

Competitors. Other organizations in the same industry or type of business that provide goods or services to the same set of customers are referred to as competitors. Each industry is characterized by specific competitive issues. The recording industry differs from the steel industry and the pharmaceutical industry.

FOCUS ON COLLABORATION

The New Golden Rule: Cooperate!

News flash: Companies all over the world are sleeping with the enemy. A decade ago, many managers would have considered it heresy to collaborate with competitors, but today they are finding that collaboration is necessary to compete in a rapidly changing environment. Worldwide, research and development budgets are shrinking even as technological complexity grows by leaps and bounds. Collaboration in product development is sweeping every field from autos to aircraft to biotechnology. Archrivals GE Aircraft Engines and Pratt & Whitney teamed up to share the \$1 billion cost of developing a new jet engine. Bayer, Germany's \$28-billion-a-year drug company, partnered with CuraGen, a tiny U.S. genomics company, to search for new obesity and diabetes drugs. What's remarkable about the partnership is that the unequal partners will split profits from any products they develop 50-50.

Suppliers are also a part of this new collaborative business model. Speed is essential in today's economy, which requires a seamless integration between a company and its suppliers. Volkswagen, Europe's biggest automaker, has stretched the supplier relationship to new limits at its revolutionary plant in Brazil. Twelve international suppliers work directly in Volkswagen's factory, making their own commitments and then fastening them together into finished trucks. And in the United States, few auto companies, including Ford, DaimlerChrysler, and General Motors, are also experimenting with this modular approach, in which suppliers provide premade chunks of a vehicle that can be quickly assembled into a finished car or truck by a handful of workers. Manufacturers win with lower costs, while suppliers gain in higher volume, and transaction costs go down for everyone. In the quest for speed and efficiency, collaboration is a trend that is likely to go even further in coming years.

Experts have looked at the key elements that help make collaborative relationships successful and offer the following tips:

- Enter the relationship with a spirit of true partnership. An arm's length, semiadversarial, no-trust, "dump-them-tomorrow-if-we-get-a-better-deal" mindset guarantees failure. Successful partnerships are based on openness, trust, and long-term commitment.
- Outline what each partner is expected to bring to the relationship from the beginning to the end of the collaborative project. This enables managers to determine where there are gaps and how to fill them. It also establishes what the partners expect from one another to help maintain good relationships throughout the life of the partnership.
- Clarify the responsibilities of all partnership members. This includes defining those who will lead the project, how decisions will be made, review and oversight responsibilities, and who has final authority regarding any negotiations, contract approvals, and so forth.
- Determine how the risks and profits will be shared. Include the stake expected from each member and how profits will be divided.
- Put it in writing. An open, trusting relationship does not mean there should not be a legal contract and clear, written guidelines for how the partnership will conduct business. A legal contract prevents misunderstandings and provides continuity through changes in personnel and management.

SOURCES: Based on information in Lee Barton, "Shall We Dance?" *CFO* (January 1998), 28-35; Brian O'Reilly, "There's Still Gold in Them Thar Hills," *Fortune* (July 23, 2001), 58-70; David Woodruff with Ian Katz and Keith Naughton, "VW's Factory of the Future," *Business Week* (October 7, 1996), 52-56; Diana Jean Schemo, "Is VW's New Plant Lean, or Just Mean?" *The New York Times* (November 19, 1996), D1; Philip Siskman, "Building 'Em Better In Brazil," *Fortune* (September 6, 1999), 246(c)-246(f); Oren Harari, "The Logistics of Success," *Management Review* (June 1999), 24-26; and Gail Dutton, "The New Consortium," *Management Review* (January 1999), 46-50.

The Organization-Environment Relationship

Competitive wars are being waged worldwide, in all industries. Coke and Pepsi continue to battle it out for the soft-drink market. UPS and FedEx are fighting the overnight delivery wars. In the home improvement market, competition between Home Depot and Lowe's is getting sharper than a buzz saw. Home Depot revolutionized the home improvement retail industry with its immense orange warehouse stores and well-trained sales force. But in recent years, the industry's Number 2 retailer, Lowe's, has been building even larger stores on Home Depot's turf and slowly stealing market share. To fight back, Home Depot recently announced that it will begin selling appliances to compete with Lowe's appliance business.²¹ Part of the new workplace involves competitors working together, in ways unheard of previously, as shown in the Focus on Collaboration box.

Suppliers. The raw materials the organization uses to produce its output are provided by suppliers. A steel mill requires iron ore, machines, and financial resources. A small, private university may utilize hundreds of suppliers for paper, pencils, cafeteria food, computers, trucks, fuel, electricity, and textbooks. Large companies such as General Motors, Westinghouse, and Exxon depend on as many as 5,000 suppliers. However, many companies are now using fewer suppliers and trying to build good relationships with them so that they will receive high-quality parts at low prices. The relationship between manufacturers and suppliers has traditionally been an adversarial one, but many companies are finding that cooperation is the key to saving money, maintaining quality, and speeding products to market.

suppliers

People and organizations who provide the raw materials the organization uses to produce its output.

labor market

The people available for hire by the organization.

Labor Market. The labor market represents people in the environment who can be hired to work for the organization. Every organization needs a supply of trained, qualified personnel. Unions, employee associations, and the availability of certain classes of employees can influence the organization's labor market. Labor market forces affecting organizations right now include (1) the growing need for computer-literate information technology workers; (2) the necessity for continuous investment in human resources through recruitment, education, and training to meet the competitive demands of the borderless world; and (3) the effects of international trading blocs, automation, and shifting plant location upon labor dislocations, creating unused labor pools in some areas and labor shortages in others.

The Organization-Environment Relationship

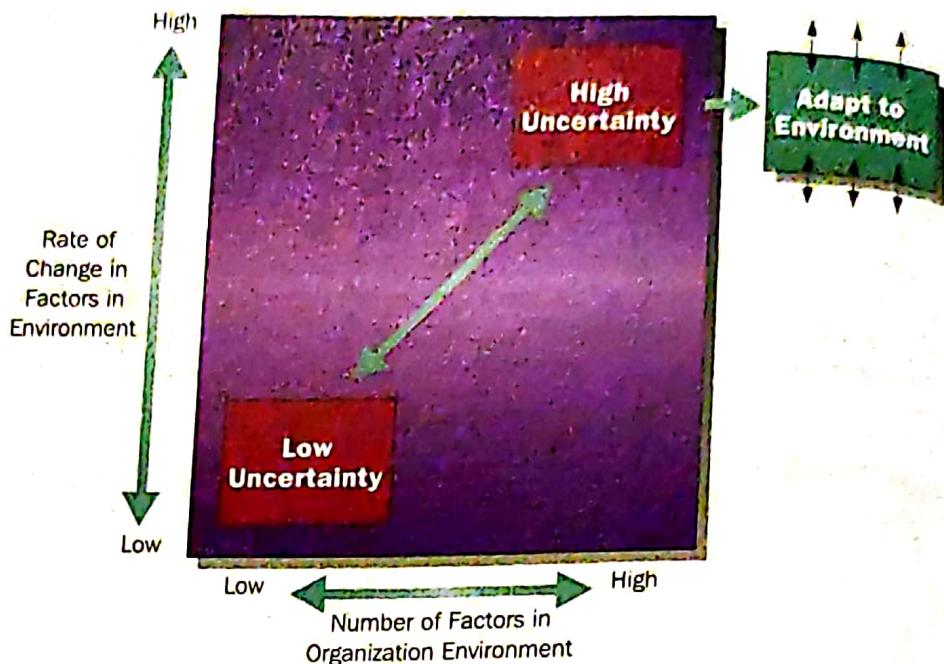
Why do organizations care so much about factors in the external environment? The reason is that the environment creates uncertainty for organization managers, and they must respond by designing the organization to adapt to the environment.

Environmental Uncertainty

Organizations must manage environmental uncertainty to be effective. Uncertainty means that managers do not have sufficient information about environmental factors to understand and predict environmental needs and changes.²² As indicated in Exhibit 2.2, environmental characteristics that influence uncertainty are the number of factors that affect the organization and the extent to

EXHIBIT 2.2

The External Environment
and Uncertainty



which those factors change. A large multinational like Nortel Networks has thousands of factors in the external environment creating uncertainty for managers. When external factors change rapidly, the organization experiences very high uncertainty; examples are telecommunications and aerospace firms, computer and electronics companies, and e-commerce organizations that sell products and services over the Internet. Companies have to make an effort to adapt to the rapid changes in the environment. When an organization deals with only a few external factors and these factors are relatively stable, such as for soft-drink bottlers or food processors, managers experience low uncertainty and can devote less attention to external issues.

Adapting to the Environment

If an organization faces increased uncertainty with respect to competition, customers, suppliers, or government regulation, managers can use several strategies to adapt to these changes, including boundary-spanning roles, interorganizational partnerships, mergers or joint ventures, and flexible structure.

Organic organizations create many teams to handle changes in raw materials, new products, government regulations, or marketing. Fleet Financial Group found flexible groups helped some important productivity problems, as described in the example below.

Fleet Financial Group

<http://www.fleet.com>

"If businesses in America want to face the global challenges of a world economy," heard CEO Terry Murray at a business meeting, "they need to redesign work so it enhances both productivity and family life." Even though the Radcliffe Public Policy Center's Paula Rayman spoke with certainty, the Fleet Financial Group CEO was skeptical.

Fleet had grown from one bank in Rhode Island in the 1980s to 75 banks by the late 1990s, and then to 1,500 by 2002 after some mergers. In order to remain "fighting trim," layoffs and extended hours were common. The company was anything but family-friendly. Turnover was running at 30 percent, costing hundreds of thousands of dollars each year. Happy employees are more pro-

The Internal Environment: Corporate Culture

ductive, noted Rayman, but unhappy employees end up being expensive. Murray's response: "Prove it! Prove that what's good for work and family is good for the bottom line." And he gave her a year and a budget to prove it.

Rayman and MIT professor Lotte Bailyn embarked on a project that put under a microscope two Fleet units—a 20-person group that had recently moved from Framingham, Massachusetts, to Boston and a Providence, Rhode Island, 35-employee group. Though the leaders feared griping, initial brainstorming sessions with employees uncovered their main concerns, how they knew if they were productive, and how they balanced (or didn't) work and family. Small groups of employees further brainstormed solutions to both productivity and family issues.

How to prove this would work? Employees completed before and after questionnaires, as well as detailed diaries of work, productivity, and family. In the "before" responses, two-thirds were not satisfied with the work/family balance, some having severe conflicts at home that even caused physical illnesses from the stress.

The Framingham unit wanted to reduce their long commutes, and they realized there was too much work piled on the underwriters, which resulted in backups and overtime. The team came up with ways to redistribute the work more equitably, including the hiring of two administrative assistants to write loan commitment letters. "The quality of our lives improved tremendously," said underwriter David Bengston. At the same time, the Providence group was feeling overloaded due to new accounting and computer systems and felt they were about to burn out. So they asked for flextime and some telecommuting to relieve pressure, as well as offering ways to streamline the work itself. Half of the employees ended up telecommuting a few days a week and two-thirds went on flextime. An added bonus: the flexible environment required more communication, meaning they all learned more about what others were doing.

The final piece in making it work was a breakdown of the computer network in Providence. The programmers at home were the only ones who could hook into their work. So manager Maria Barry told the employees, "Go home and we'll tell you when to come back."

Employees rated the experiment a success, flextime workers reported feeling more control over their jobs, productivity was up, and family members who were interviewed noted that loved ones worked fewer hours. Even skeptic CEO Murray now sees that it doesn't matter how the work is completed. If employees are happy, results are better. "What impresses me is how enthusiastic our employees are," he says. "Morale is good and the work is getting done."²³

The Internal Environment: Corporate Culture

The internal environment within which managers work includes corporate culture, production technology, organization structure, and physical facilities. Of these, corporate culture has surfaced as extremely important to competitive advantage. The internal culture must fit the needs of the external environment and company strategy. When this fit occurs, highly committed employees create a high-performance organization that is tough to beat.²⁴ Culture can be defined as the set of key values, beliefs, understandings, and norms shared by members of an organization.²⁵ The concept of culture helps managers understand the hidden, complex aspects of organizational life. Culture is a pattern of shared values and assumptions about how things are done within the organization.

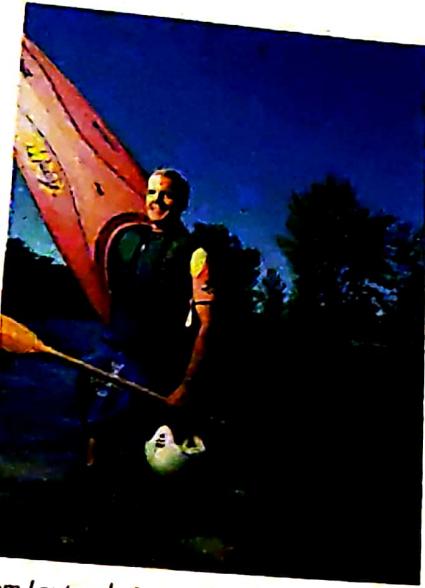
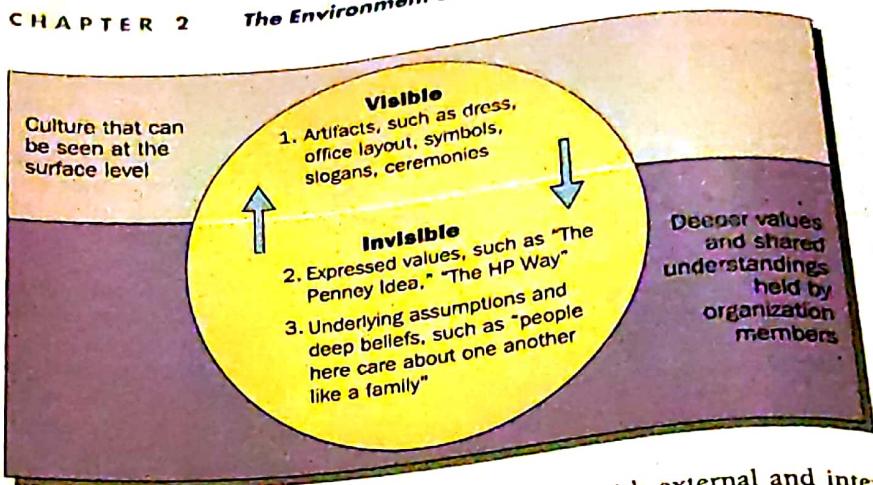
culture

The set of key values, beliefs, understandings, and norms that members of an organization share.

EXHIBIT

2.3
Levels of Corporate Culture

CHAPTER 2 The Environment and Corporate Culture



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Tom Loutzenheiser, technology president of software company Apexx Technology, appreciates the many positive attributes of the company's Boise, Idaho location, including affordable housing, short commutes, and the opportunity to kayak on the Boise River just minutes away. Employees at Apexx also appreciate the company's corporate culture, which values the individual and believes in giving employees freedom, privacy, and responsibility. Apexx Technology's office layout reflects its cultural values by offering employees more personal space, offices with real windows, and solid walls that rise all the way to the ceiling. "It's not a cube farm," says employee Jennifer Bedford, reflecting her approval.

This pattern is learned by members as they cope with external and internal problems and taught to new members as the correct way to perceive, think, and feel. Culture can be analyzed at three levels, as illustrated in Exhibit 2.3, with each level becoming less obvious.²⁶ At the surface level are visible artifacts, which include such things as manner of dress, patterns of behavior, physical symbols, organizational ceremonies, and office layout. Visible artifacts are all the things one can see, hear, and observe by watching members of the organization. At a deeper level are the expressed values and beliefs, which are not observable but can be discerned from how people explain and justify what they do. These are values that members of the organization hold at a conscious level. They can be interpreted from the stories, language, and symbols organization members use to represent them. Some values become so deeply embedded in a culture that members are no longer consciously aware of them. These basic, underlying assumptions and beliefs are the essence of culture and subconsciously guide behavior and decisions. In some organizations, a basic assumption might be that people are essentially lazy and will shirk their duties whenever possible; thus, employees are closely supervised and given little freedom, and colleagues are frequently suspicious of one another. More enlightened organizations operate on the basic assumption that people want to do a good job; in these organizations, employees are given more freedom and responsibility, and colleagues trust one another and work cooperatively. Basic assumptions in an organization's culture often begin with strongly held values espoused by a founder or early leader.

One of the most important things leaders do is create and influence organizational culture because it has a significant impact on performance. In comparing 18 companies that have experienced long-term success with 18 similar companies that have not done so well, James C. Collins and Jerry I. Porras found the key determining factor in successful companies to be a culture in which employees share such a strong vision that they know in their hearts what is right for the company. Their book, *Built to Last: Successful Habits of Visionary Companies*, describes how companies such as Disney and Procter & Gamble have successfully adapted to a changing world without losing sight of the core values that guide the organization.²⁷ Some companies put values in writing so they can be passed on to new generations of employees. PSS World Medical, a specialty marketer and distributor of medical products, gives every employee a

bouquet titled *The Blue Ribbon Scorecard—A Foundation for PSS Culture*.²⁸ Companies known for their strong, distinctive cultures, such as Southwest Airlines, the Container Store, and SAS Institute, regularly show up on Fortune magazine's list of the best companies to work for in America.

The fundamental values that characterize cultures at these and other companies can be understood through the visible manifestations of symbols, stories, heroes, slogans, and ceremonies. Any company's culture can be interpreted by observing these factors.

Symbols

A symbol is an object, act, or event that conveys meaning to others. Symbols associated with corporate culture convey the organization's important values. For example, managers at WorldNow, a New York-based start-up that provides Internet solutions to local television broadcasters, wanted a way to symbolize the company's unofficial mantra of "drilling down to solve problems." They bought a dented old drill for \$2 and dubbed it The Team Drill. Each month, the drill is presented to a different employee in recognition of exceptional work, and the employee personalizes the drill in some way before passing it on to the next winner.²⁹

At Siebel Systems in San Mateo, California, employees are surrounded by symbolic reminders that the customer always comes first. Every conference room is named after a major Siebel customer. All the artwork on office walls comes from customer ads or annual reports. "The cornerstone of our corporate culture," says CEO Tom Siebel, "is that we are committed to do whatever it takes to make sure that each and every one of our customers succeeds."³⁰

Stories

A story is a narrative based on true events that is repeated frequently and shared among organizational employees. Stories are told to new employees to keep the organization's primary values alive. One of Nordstrom's primary means of emphasizing the importance of customer service is through corporate storytelling. An example is the story about men's clothing salesman Van Mensah, who received a letter explaining that a customer had mistakenly washed his 12 new shirts in hot water, causing the shirts to shrink. The customer wanted to know whether Mensah had any suggestions to help him out of his predicament. Mensah immediately called the customer in Sweden and informed him that a dozen new shirts—in the same size, style, and colors—were being mailed out that day, compliments of the company.³¹ A frequently-told story at UPS concerns an employee who, without authorization, ordered an extra Boeing 737 to ensure timely delivery of a load of Christmas packages that had been left behind in the holiday rush. As the story goes, rather than punishing the worker, UPS rewarded his initiative. By telling this story, UPS workers communicate that the company stands behind its commitment to worker autonomy and customer service.³²

Heroes

A hero is a figure who exemplifies the deeds, character, and attributes of a strong culture. Heroes are role models for employees to follow. Sometimes heroes are real, such as Lee Iacocca, who proved the courage of his convictions

symbol

An object, act, or event that conveys meaning to others.

story

A narrative based on true events that is repeated frequently and shared by organizational employees.

hero

A figure who exemplifies the deeds, character, and attributes of a strong corporate culture.

by working for \$1 a year when he first went to Chrysler. Other times they are symbolic, such as the mythical sales representative at Robinson Jewelers who delivered a wedding ring directly to the church because the ring had been ordered late. The deeds of heroes are out of the ordinary, but not so far out as to be unattainable by other employees. Heroes show how to do the right thing in the organization. Companies with strong cultures take advantage of achievements to define heroes who uphold key values.

At Minnesota Mining and Manufacturing (3M), top managers keep alive the heroes who developed projects that were killed by top management. One hero was a vice president who was fired earlier in his career for persisting with a new product even after his boss had told him, "That's a stupid idea. Stop!" After the worker was fired, he would not leave. He stayed in an unused office, working without a salary on the new product idea. Eventually he was rehired, the idea succeeded, and he was promoted to vice president. The lesson of this hero as a major element in 3M's culture is to persist at what you believe in.³³

slogan

A phrase or sentence that succinctly expresses a key corporate value.

Slogans

A slogan is a phrase or sentence that succinctly expresses a key corporate value. Many companies use a slogan or saying to convey special meaning to employees. H. Ross Perot of Electronic Data Systems established the philosophy of hiring the best people he could find and noted how difficult it was to find them. His motto was, "Eagles don't flock. You gather them one at a time." At Sequins International, where 80 percent of the employees are Hispanic, words from W. Edwards Deming, "You don't have to please the boss; you have to please the customer," are embroidered in Spanish on the pockets of workers' jackets.³⁴ Cultural values can also be discerned in written public statements, such as corporate mission statements or other formal statements that express the core values of the organization. The mission statement for Hallmark Cards, for example, emphasizes values of excellence, ethical and moral conduct in all relationships, business innovation, and corporate social responsibility.³⁵

ceremony

An activity that makes up a special occasion and is conducted for the benefit of an audience.

Ceremonies

A ceremony is a planned activity that makes up a special event and is conducted for the benefit of an audience. Managers hold ceremonies to provide dramatic examples of company values. Ceremonies are special occasions that reinforce valued accomplishments, create a bond among people by allowing them to share an important event, and anoint and celebrate heroes.³⁶

The value of a ceremony can be illustrated by the presentation of a major award. Mary Kay Cosmetics Company holds elaborate awards ceremonies, presenting gold and diamond pins, furs, and luxury cars to high-achieving sales consultants. The setting is typically an auditorium, in front of a large, cheering audience, and everyone dresses in glamorous evening clothes. The most successful consultants are introduced by film clips, like the kind used to present award nominees in the entertainment industry. These ceremonies recognize and celebrate high-performing employees and emphasize the rewards for performance.³⁷ An award can also be bestowed secretly by mailing it to the employee's home or, if a check, by depositing it in a bank. But such procedures would not make the bestowal of rewards a significant organizational event and would be less meaningful to the employee.

In summary, organizational culture represents the values, norms, underpinnings, and basic assumptions that employees share, and these values are signified by symbols, stories, heroes, slogans, and ceremonies. Managers help define important symbols, stories, and heroes to shape the culture.

Environment and Culture

A big influence on internal corporate culture is the external environment. Cultures can vary widely across organizations; however, organizations within the same industry may often reveal similar cultural characteristics because they are operating in similar environments.³⁸ The internal culture should embody what it takes to succeed in the environment. If the external environment requires extraordinary customer service, the culture should encourage good service; if it calls for careful technical decision making, cultural values should reinforce managerial decision making.

Adaptive Cultures

Research at Harvard on 207 U.S. firms illustrated the critical relationship between corporate culture and the external environment. The study found that a strong corporate culture alone did not ensure business success unless the culture encouraged healthy adaptation to the external environment. As illustrated in Exhibit 2.4, adaptive corporate cultures have different values and behavior from unadaptive corporate cultures. In adaptive cultures, managers are concerned about customers and those internal people and processes that bring about useful change. In the unadaptive corporate cultures, managers are concerned about themselves, and their values tend to discourage risk taking and change. Thus a strong culture alone is not enough, because an unhealthy culture may encourage the organization to march resolutely in the wrong direction. Healthy cultures help companies adapt to the environment.³⁹

EXHIBIT 2.4

Environmentally Adaptive vs. Unadaptive Corporate Cultures

	Adaptive Corporate Cultures	Unadaptive Corporate Cultures
Visible Behavior	Managers pay close attention to all their constituencies, especially customers, and initiate change when needed to serve their legitimate interests, even if it entails taking some risks.	Managers tend to behave somewhat insularly, politically, and bureaucratically. As a result, they do not change their strategies quickly to adjust to or take advantage of changes in their business environments.
Expressed Values	Managers care deeply about customers, stockholders, and employees. They also strongly value people and processes that can create useful change (e.g., leadership initiatives up and down the management hierarchy).	Managers care mainly about themselves, their immediate work group, or some product (or technology) associated with that work group. They value the orderly and risk-reducing management process much more highly than leadership initiatives.

Types of Cultures

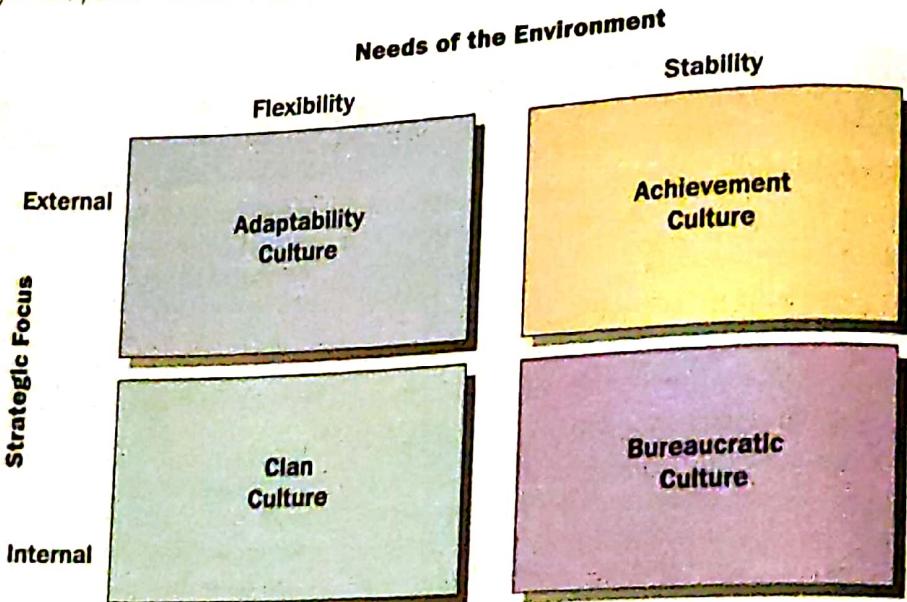
In considering what cultural values are important for the organization, managers consider the external environment as well as the company's strategy and goals. Studies have suggested that the right fit between culture, strategy, and the environment is associated with four categories or types of culture, as illustrated in Exhibit 2.5. These categories are based on two dimensions: (1) the extent to which the external environment requires flexibility or stability; and (2) the extent to which a company's strategic focus is internal or external. The four categories associated with these differences are adaptability, achievement, clan, and bureaucratic.⁴⁰

The *adaptability culture* emerges in an environment that requires fast response and high-risk decision making. Managers encourage values that support the company's ability to rapidly detect, interpret, and translate signals from the environment into new behavior responses. Employees have autonomy to make decisions and act freely to meet new needs, and responsiveness to customers is highly valued. Managers also actively create change by encouraging and rewarding creativity, experimentation, and risk taking. One good example of an adaptability culture is 3M, the maker of Post-it notes, Scotch-Brite scrubbing pads, and hundreds of other innovative products. All employees attend a class on risk taking and are encouraged to use 15 percent of their time working on projects of their own choosing, without management approval. Most e-commerce companies, as well as companies in the electronics, cosmetics, and fashion industries, use this type of culture because they must move quickly to respond to changes in the environment.

The *achievement culture* is suited to organizations that are concerned with serving specific customers in the external environment but without the intense need for flexibility and rapid change. This is a results-oriented culture that values competitiveness, aggressiveness, personal initiative, and willingness to work long and hard to achieve results. An emphasis on winning and achieving specific ambitious goals is the glue that holds the organization together.⁴¹ Siebel Systems, which sells complex software systems, has thrived on an achievement

EXHIBIT 2.5

Four Types of Corporate Cultures



SOURCES: Based on Daniel R. Denison and Aneil K. Mishra, "Toward a Theory of Organizational Culture and Effectiveness," *Organization Science* 6, no. 2 (March–April 1995): 204–223; Robert Hooijberg and Frank Petrow, "On Cultural Change: Using the Competing Values Framework to Help Leaders Execute a Transformational Strategy," *Human Resource Management* 32, no. 1 (1993): 29–50; and R.E. Quinn, *Beyond Rational Management: Mastering the Paradoxes and Competing Demands of High Performance* (San Francisco: Jossey-Bass, 1988).

culture. Employees who succeed at Siebel are intense, competitive, and driven to win. Those who perform and meet stringent goals are handsomely rewarded; those who don't are fired. Nearly every employee at Siebel is given a ranking within each department, and every six months the bottom 5 percent are axed. Employees who thrive on the competitive culture helped Siebel's revenues grow rapidly.⁴²

The *clan culture* has an internal focus on the involvement and participation of employees to rapidly meet changing needs from the environment. This culture places high value on meeting the needs of employees, and the organization may be characterized by a caring, family-like atmosphere. Managers emphasize values such as cooperation, consideration of both employees and customers, and avoiding status differences. One company that achieves success with a clan culture is SAS Institute, based in Cary, North Carolina.

SAS, which stands for statistical analysis software, writes software that makes it possible to gather and understand data, producing products that set the industry standard in the world of knowledge management. It is a competitive field with high stakes, but the atmosphere at SAS headquarters in Cary, North Carolina, is relaxed, almost serene. Jim Goodnight, co-founder of SAS, created a caring corporate culture where employees are respected and given the freedom and information they need to perform at the top of their abilities.

The most important value is taking care of employees and making sure they have whatever they need to be satisfied and productive. Employees are encouraged to lead a balanced life rather than to work long hours and express a hard-charging, competitive spirit. The company even adopted a seven-hour workday to give employees more personal time. SAS also offers amazing benefits, including two Montessori day-care centers, a 36,000 square foot fitness center, unlimited sick days, an on-site health clinic, elder care advice and referrals, and live music in the cafeteria, where employees may eat with their families. Other key values at SAS are equality, fairness, and cooperation.

SAS's culture places a high value on people and human relationships. Managers at the company trust employees to do their jobs to the best of their ability—and then they expect them to go home and enjoy their friends and families. As one employee put it, "Because you're treated well, you treat the company well."⁴³

Thanks to SAS's clan culture, employees care about one another and about the company, a focus that has helped SAS adapt to stiff competition and changing markets.

The final category of culture, the *bureaucratic culture*, has an internal focus and a consistency orientation for a stable environment. Following the rules and being thrifty are valued, and the culture supports and rewards a methodical, rational, orderly way of doing things. In today's fast-changing world, few companies operate in a stable environment, and most managers are shifting away from bureaucratic cultures because of a need for greater flexibility. However, one thriving new company, Pacific Edge Software, has successfully implemented some elements of a bureaucratic culture, ensuring that all their projects are on time and on budget. The husband-and-wife team of Lisa Hjorten and Scott Fuller implanted a culture of order, discipline, and control from the moment they founded the company. The emphasis on order and focus means

SAS Institute

<http://www.sas.com>

employees can generally go home by 6:00 PM rather than working all night to finish an important project. Hjorten insists that the company's culture isn't rigid or uptight, just careful. Although sometimes being careful means being slow, so far Pacific Edge has managed to keep pace with the demands of the external environment.⁴⁴

Each of these four categories of culture can be successful. The relative emphasis on various cultural values depends on the needs of the environment and the organization's focus. Managers are responsible for instilling the cultural values the organization needs to be successful in its environment.

Shaping Corporate Culture for the New Workplace

Research conducted over the last decade by a Stanford University professor indicates that the one factor that increases a company's value the most is people and how they are treated.⁴⁵ In addition, a recent Fortune magazine survey found that CEOs cite organizational culture as their most important mechanism for attracting, motivating, and retaining talented employees, a capability they consider the single best predictor of overall organizational excellence.⁴⁶ At Athene Software, managers created a strong, people-oriented culture to keep talented engineers happy and productive, as described in the Best Practices box. However, managers face new challenges in shaping and maintaining strong, adaptive corporate cultures because of changes in the nature of work and the workplace.

BEST PRACTICES

Athene's Culture Nurtures Loyalty and Excellence

At Athene Software, a Boulder, Colorado-based developer of software for communications service providers, ISPs, and other e-businesses, managers deliberately created an "engineer-friendly" culture that has helped the small company keep good employees and compete in a tough, changing industry.

They began with the basic assumption that creating great software is all about people joyfully working together. To make that happen meant treating people with care and respect. Athene's culture depends first and foremost on hiring the right people. The hiring process begins with phone interviews with the company's technical advisors and background checks to screen candidates for technical qualifications. These are followed by a series of interviews with key managers and potential colleagues. Finally, candidates are required to "audition" before a voluntary group of company employees by demonstrating something about themselves that shows how they will fit in at Athene. The audition process serves an added function of helping to retain current employees because they have a chance to help select top-quality people who strive for excellence and want to be part of building a great company.

After people are hired, Athene makes sure they have whatever they need to perform. Managers have built an environment that adapts to people's needs rather than expecting the opposite. "A big part of our culture is balance," says CEO Eric Johnson. "Everyone has a hierarchy of things that are important to them. . . . We want to support [the employee] as a whole person." Whenever employees have to work extra hours, their contribution is recognized with monetary bonuses, public thank-yous, and extra time off that they are required to take. Athene also ensures that its people get to work on leading-edge technology, have the tools and equipment they need, and have opportunities for training and career development. The company gives all engineers private offices, spends around \$10,000 on each for hardware and software, and offers in-house training classes once a week. That commitment leads directly to higher job satisfaction and higher retention rates. "A technology business is all about people," says Johnson. "It is suicide not to treat people with compassion and integrity."

SOURCE: Mark Gordon, "Corporate Culture Manifesto," CIO (March 15, 2002), 62-66.

New Demands for Managing Corporate Culture

In today's increasingly global and virtual organizations, shared cultural values are what holds far-flung people and operations together. Culture can provide the glue that gives people a sense of belonging, serves as a compass for employee behavior, and enables dispersed employees to work in concert toward shared goals that meet changing needs from the environment.⁴⁷ But how do managers create and maintain a strong culture in a workplace where some employees may never even see one another? Trends such as virtual teams, networks, flexible hours, and telecommuting, in addition to global dispersion, mean that the traditional mechanisms for transmitting culture may be lost. Employees have little opportunity to learn about the values of the organization from observing others and sharing in activities such as stories and cultural symbolism on a regular basis.

One way managers are addressing this issue is by putting increased emphasis on selection and socialization of new employees. Dale Pratt, director of human resources for Nortel Networks, described earlier in the chapter, manages a virtual team with colleagues as far away as Europe and China.⁴⁸ She and other managers emphasize that success in the new workplace begins with selecting the right people. For example, at Microsoft, the interview process is designed to find employees who "fit" the company's culture and already share many of the values the organization promotes. The interview consists of a grueling ritual in which job candidates are grilled by their prospective colleagues with questions such as, "Why are manhole covers round?" and, "Given a gold bar that can be cut exactly twice and a contractor who must be paid one-seventh of a gold bar a day for seven days, what do you do?" The correct answers aren't as important as how candidates handle the pressure and think on their feet. Microsoft wants employees who are smart, passionate, and unconventional. Those who make it through the process feel like members of a special club. The mystique of the entrance exam is only one element that reinforces Microsoft's esprit de corps.⁴⁹ But it is an important one because it ensures that people who join the company are likely to fit the company's distinctive corporate culture.

Other companies also have strenuous interviewing and hiring practices. PSS World Medical doesn't call candidates back for follow-up interviews. Requiring the candidate to take the initiative through every step of the hiring process, which takes six to eight weeks, ensures that PSS hires people with the right values and attitudes to fit its culture.⁵⁰

After employees are hired, socializing them into the culture is also important. Putting the company's values in writing and distributing them in various forms—through newsletters and magazines, videos, intranets, in training classes—is important when people are working in far-flung locations, but people generally need more than that to begin to internalize the values. Many companies that have global and virtual employees bring people together with longtime employees early in their employment so they can learn the culture. Nokia, the mobile phone supplier, has all new employees take a cultural awareness class, where they learn how the Swedish company's culture and management style is different from many American companies. Costco, a discount warehouse operator, brings new overseas managers to the United States for up to 10 weeks to work side-by-side with longtime employees so they can learn about the company's values.⁵¹ One company uses a company song to transmit its culture, as described in the Focus on Leadership box.

FOCUS ON LEADERSHIP

Lennar Corporation

Not many CEOs lead corporate meetings by reading Dr. Seuss books. Or call themselves "Dr. Seuss" and pen company songs such as "Scratchings from the Little Red Hen." Meet 43-year-old Stuart Miller, CEO of Lennar Corporation, a fast-growing company that has recently become the number two home builder in the U.S.

What may seem like peculiar practices have actually helped the upstart company maintain its unity and strength as it went through explosive growth in recent years. Begun by Miller's father in 1954 with a \$10,000 investment, Lennar acquired so many companies, the rate of growth was dizzying. Still, something worked. Even during a recent economic downturn, profits soared by 32 percent.

Outsiders may not know much about the Little Red Hen, but the company song is printed on little cards and distributed to all workers, who often recite lines to one another at meetings and gatherings.

Recently hired Chief Financial Officer Bruce Gross thought the Little Red Hen was a little too weird and tried to talk executives out of reciting it in front of a banker's meeting, worried it would hurt the credibility of the company. But the bankers loved it.

Lennar also made some smart strategic decisions several years ago, subdividing homes builders offered houses with customized floor plans. Wanting to be more efficient, Lennar cut down on the number of options available in tiles, appliances, and moldings, despite warnings against this strategy. This practice paid off, helping to trim costs and appealing to price-conscious home shoppers.

Some people think that wacky culture means no discipline. On the contrary, units are held to high standards and even month each of the 50 division heads sends a one-page report to Miller on their status in meeting financial goals.

At a recent seminar for 150 employees, the company met in a hotel convention space decorated in a jungle theme and simulated the "Survivor" show under a banner that read "Search of RONA" (return on net assets), where participants were grilled on financial goals, as well as being taught responses to tough media questions and how to handle crises.

It's a company that "Yertle, the Turtle" would be proud of.

SOURCE: Evan Perez, "Lennar Corp. Thrives as Residential Builder with Odd Culture," *The Wall Street Journal* (July 27, 2001), A1, A4.

Few organizations have yet adequately addressed the problem of transitioning culture to virtual workers. In the late 1990s, Hewlett-Packard created training and development program for managers called "Managing Remote Processes, and how to orient virtual employees to HP's culture.⁵² However, most companies do not have anything so extensive. Many companies that virtual workers require that people work on-site for a period of time in beginning to allow the culture to sink in. Some also require periodic office visits or occasional face-to-face forums where the culture is reinforced.⁵³ As the number of virtual teams and telecommuters grows, managers will face growing challenge of building and maintaining a unifying culture. Managers can learn to create a sense of connectedness that binds virtual employees together and brings them into the cultural fold.⁵⁴ One key aspect of shared culture in all organizations is cultural leadership.

Cultural Leadership

One way managers change norms and values toward what is adaptive to the external environment or for smooth internal integration is through cultural leadership. Managers must overcommunicate to ensure that employees understand new culture values, and they signal these values in actions as well as words.

A cultural leader defines and uses signals and symbols to influence corporate culture. Cultural leaders influence culture in two key areas:

cultural leader

A manager who uses signals and symbols to influence corporate culture.

1. The cultural leader articulates a vision for the organizational culture that employees can believe in and that generates excitement. This means the leader defines and communicates central values that employees believe in and will rally around.
2. The cultural leader leads the day-to-day activities that reinforce the cultural vision. The leader makes sure that work procedures and reward systems match and reinforce the values. Actions speak louder than words, so cultural leaders "walk their talk."⁵⁵

One way leaders create a culture that everyone can believe in is by directly involving employees in determining what the company's values should be. Managers at United Stationers built a new, adaptive culture from the ground up by asking all 6,000 globally dispersed employees to help define the values that would be the building blocks of the culture.⁵⁶

Managers also widely communicate the cultural values through words and actions. At Starbucks, CEO Howard Schultz welcomes all new employees by video, where he tells about the company's history and culture and shares some stories of his own personal experiences. Each employee also receives 24 hours of initial training, during which they talk with managers and other employees about Starbucks's mission and values.⁵⁷ Starbucks managers use these mechanisms as a way to maintain the culture as the company expands internationally. At MTV Corp., managers work with every new employee to create an "expectations agreement," an ever-evolving document that ensures that actions and work procedures that reinforce the company's cultural values will be adhered to.

BEST PRACTICES

Eileen Fisher

Simple, elegant, and natural: This describes not only Eileen Fisher's clothing designs, but also the way the \$130 million, 400-employee, company is run. It began when graphics designer Fisher felt overwhelmed while getting dressed every morning for work. Why couldn't women clothing be attractive and yet as simple and unchanging as men's? She bought a \$350 terry-cloth remnant in 1984, stitched up four garments, took them to a trade show, and got \$3,000 in orders, with \$40,000 in orders the following month. Eileen Fisher Inc. was born.

Eileen Fisher designs are simple and elegant, made from natural fabrics such as cotton, wool, and silk. Each piece can be mixed and matched with other pieces, much like a Lego system, which simplifies a woman's wardrobe. Fisher says she was inspired by her parochial school uniforms, which made getting dressed in the morning so easy. The goal is to help customers achieve a simple and joyful life.

The company, too, has developed a culture that might be called simple, elegant, and natural. A few years ago she moved her company to Irvington, New York, where employees could get to work without using cars. The Hudson River loca-

WELLNESS

tion gives a sense of calm to workers. Her values call for the development of the "natural woman" in customers and the same kind of natural-person philosophy for employees. "It's not about money," she said. "It's about people, friends, family, and community and how people treat each other. There has to be natural growth. It can't be something you force."

Natural growth requires wellness, says Fisher. Wanting not only company growth, but also growth of every worker, several years ago Fisher offered each employee \$1,000 for self-care activities, such as yoga, massage, voice lessons, and so on. Recently Susan Schor joined as vice-president of people and culture, and she brings self-care activities into the workplace, making it easier for employees to participate. This focus on wellness helps create an energized and creative workforce.

Eileen Fisher is designing her strategy to reinforce the culture. Goals include creating wellness in the business development process, nurturing relationships with customers and employees, and helping people to tell the truth to one another. "You must love the product—and the people," says Fisher.

SOURCES: Claudia Z. Corlin, "Eileen Fisher Simplifies," *Westchester Magazine* (May 2002), 44-45+; and Merri Rosenberg, "A Designer Who Lives by Her Clients," *The New York Times* (Sept. 10, 2000), 6.

CHAPTER 2 *The Environment and Corporate Culture*

by both managers and workers.⁵⁸ Top executives at Weirton Steel act as cultural leaders by participating in every team training session to symbolize their commitment to a team-based culture—a significant commitment in an 8,000-employee organization.⁵⁹ Eileen Fisher is one CEO who lives her values in the workplace, as described in the Best Practices box.

Some companies also directly tie compensation to how well people live their values. Gillette Co., based in Boston, Massachusetts, and Germany's Siemens both consider managers' and employees' commitment to the cultural values as part of their overall performance during salary reviews, a powerful reminder that culture is important.⁶⁰ Creating and maintaining a strong, adaptive culture is not easy in today's changing workplace, but through their words—and particularly their actions—cultural leaders let everyone in the organization know what really counts.