

# External Environments and Industries

*by Sophia*

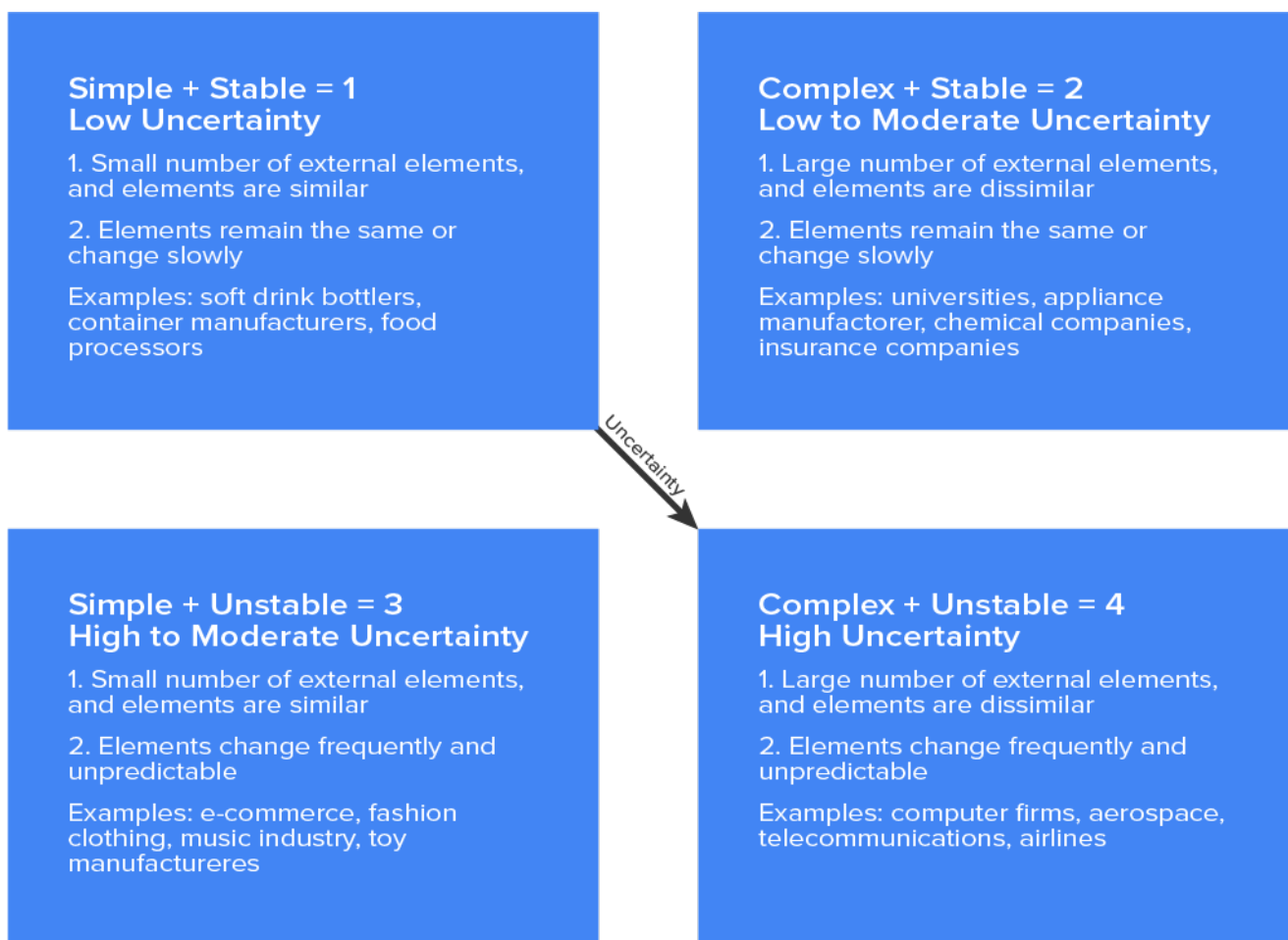


## WHAT'S COVERED

In this lesson, you will learn that external environments can be understood by identifying environmental forces. Two dimensions of organizational complexity, environmental complexity and environmental change, will be explored. You will also be introduced to strategies for managing high levels of complexity. Specifically, this lesson will cover:

## 1. Identifying Contemporary External Forces That Pressure Organizations

Industry and organizational leaders monitor environments to identify, predict, and manage trends, issues, and opportunities that their organizations and industries face. Some corporations, such as Amazon, anticipate and even create trends in their environments. Most, however, must adapt. External environments, as identified in the previous section, can be understood by identifying the uncertainty of the environmental forces. The illustration below shows a classic and relevant depiction of how scholars portray environment-industry-organization “fit,” that is, how well industries and organizations align with and perform in different types of environments.



Source: Adapted from: Duncan, R. (1972). *Characteristics of organizational environments of uncertainty*. American Science Quarterly, 17 (September), 313-327; Daft, R. *Organizational Theory and Design*, 12th edition, p. 151, Mason, OH, Cengage Learning.

The two dimensions of this figure represent “environmental complexity” (i.e., the number of elements in the environment, such as competitors, suppliers, and customers), which is characterized as either simple or complex, and “environmental change,” described as stable or unstable.

How available monetary and financial resources are to support an organization’s growth is also an important element in this framework (De Toni, A.F. & De Zan, G., 2016). Certain industries—soft drink bottlers, beer distributors, food processors, and container manufacturers—would, hypothetically, fit and align more effectively in a stable (i.e., relatively unchanging), simple, and low-uncertainty (i.e., has mostly similar elements) external environment—cell 1 in the diagram. This is referred to as a **simple-stable environment**.

Of course unpredicted conditions, such as global and international turmoil, economic downturns, and so on, could affect these industries, but generally, these alignments have served as an ideal type and starting point for understanding the “fit” between environment and industries. In a stable but complex, low- to moderate-uncertainty environment, cell 2 in the diagram, universities, appliance manufacturers, chemical companies, and insurance companies would generally prosper. This is referred to as a **complex-stable environment**.

When the external environment has simple but high to moderate uncertainty, cell 3 of the diagram, e-commerce, music, and fashion clothing industries would operate effectively. This is referred to as a **simple-unstable environment**.

Whereas in cell 4 of the diagram, an environment characterized by a high degree of uncertainty with complex and unstable elements, industries and firms such as computer, aerospace, airlines, and telecommunications

firms would operate more effectively. This is referred to as a **complex-unstable environment**.

The Company Industry Fit diagram is a starting point for diagnosing the “fit” between types of external environments and industries. As conditions change, industries and organizations must adapt or face consequences. For example, educational institutions that traditionally have been seen to operate best in low-to moderate-uncertainty environments, cell 2 of the diagram, have experienced more high to moderate uncertainty (cell 3)—and even high uncertainty (cell 4)—during this past decade.



#### TERMS TO KNOW

##### **Simple-stable Environment**

Environments that have a small number of external elements; elements are similar and remain the same or change slowly.

##### **Complex-stable Environment**

Environments that have a large number of external elements; elements are dissimilar and remain the same or change slowly.

##### **Simple-unstable Environment**

Environments that have a small number of external elements; elements are similar and change frequently and unpredictably.

##### **Complex-unstable Environment**

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## 2. Organizational Complexity

It is important to point out here that external (and internal) organizational complexity is not often as simple as it may seem. **Organizational complexity** has been defined as “...the amount of complexity derived from the environment where the organisation operates, such as the country, the markets, suppliers, customers and stakeholders; while internal complexity is the amount of complexity that is internal to the organisation itself, i.e. products, technologies, human resources, processes and organisational structure. Therefore, different aspects compose internal and external complexities” (Eisenhardt & Sull, 2001).

The dilemma that organizational leaders and managers sometimes face is how to deal with external and internal complexity. Do you grow and nurture it or reduce it? Some strategies call for reducing and managing it at the local level while nurturing it at the global level—depending on the organization’s size, business model, and the nature of the environment.



#### REFLECT

1. What factors within the economic environment affect businesses?
2. Why do change and shifts and technological developments create both challenges and new opportunities for business?



#### TERMS TO KNOW

##### **Organizational Complexity**

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## SUMMARY

In this lesson, you learned that external environments can be understood by **identifying contemporary external forces that pressure organizations**, specifically, by identifying the uncertainty of the environmental forces that impact them. You explored a diagram illustrating how well industries and organizations align with and perform in different types of environments, showcasing the two dimensions of **organizational complexity**: environmental complexity (i.e., the number of elements in the environment, such as competitors, suppliers, and customers), which is characterized as either simple or complex, and environmental change, described as stable or unstable. Based on these characterizations, environments can be referred to as simple-stable, complex-stable, simple-unstable, and complex-unstable. It is important to note that even though the diagram is a starting point for diagnosing the “fit” between types of external environments and industries, as conditions change, industries and organizations must adapt or face consequences.

Best of luck in your learning!

Source: Access for free at <https://openstax.org/books/principles-management/pages/1-introduction>

## REFERENCES

De Toni, A.F. & De Zan, G. (2016, December 31). The complexity dilemma: Three tips for dealing with complexity in organizations. *Emergence*, 18(3-4), H1. [journal.emergentpublications.com/article/the-complexity-dilemma/](http://journal.emergentpublications.com/article/the-complexity-dilemma/).

Eisenhardt, K., & Sull, D. (2001). Strategy as simple rules. *Harvard Business Review*, 79(1), 106-119. [hbr.org/2001/01/strategy-as-simple-rules](http://hbr.org/2001/01/strategy-as-simple-rules).



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