# Chapter 4: External and Internal Organizational Environments and Corporate Culture

## Learning Outcomes:

1. Define the external environment of organizations.
2. Identify contemporary external forces pressuring organizations.
3. Identify different types of organizational structures and their strengths and weaknesses.
4. Explain how organizations organize to meet external market threats and opportunities.
5. Identify the fit between organizational cultures and the external environment.
6. Identify environmental trends, demands, and opportunities facing organizations.

### 1. Define the external environment of organizations

**External environment**, also referred to as the general environment, is an inclusive concept that involves all outside factors and influences that impact the operation of a business that an organization must respond or react to in order to maintain its flow of operations.
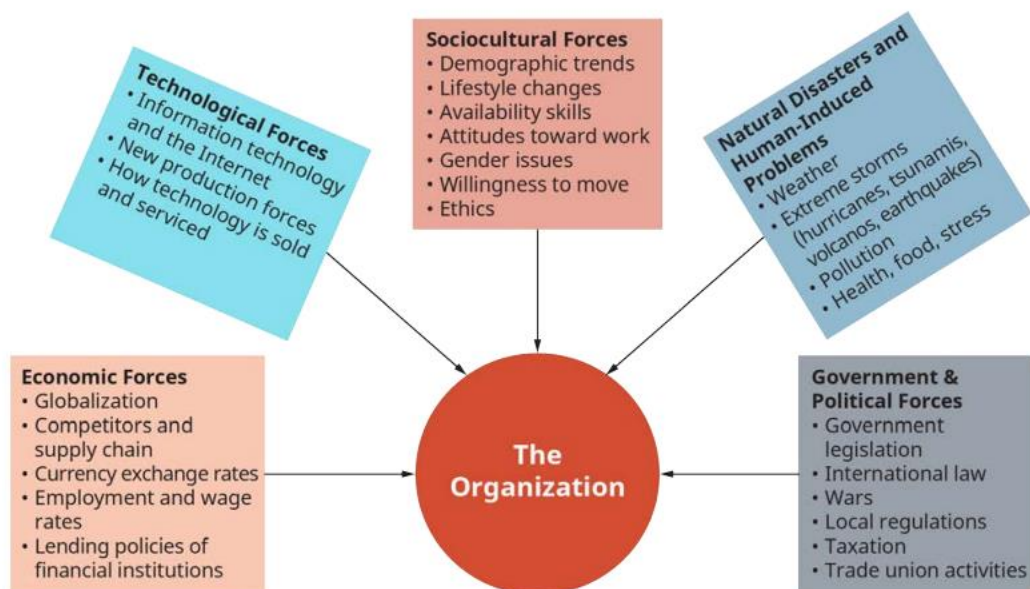


**Exhibit 4.2  Macro Forces and Environments** (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

To succeed and thrive, organizations must adapt, exploit, and fit with the forces in their external environments. Organizations are groups of people deliberately formed together to serve a purpose through structured and coordinated goals and plans. As such, organizations operate in different external environments and are organized and structured internally to meet both external and internal demands and opportunities.

## 2. Identify contemporary external forces pressuring organizations

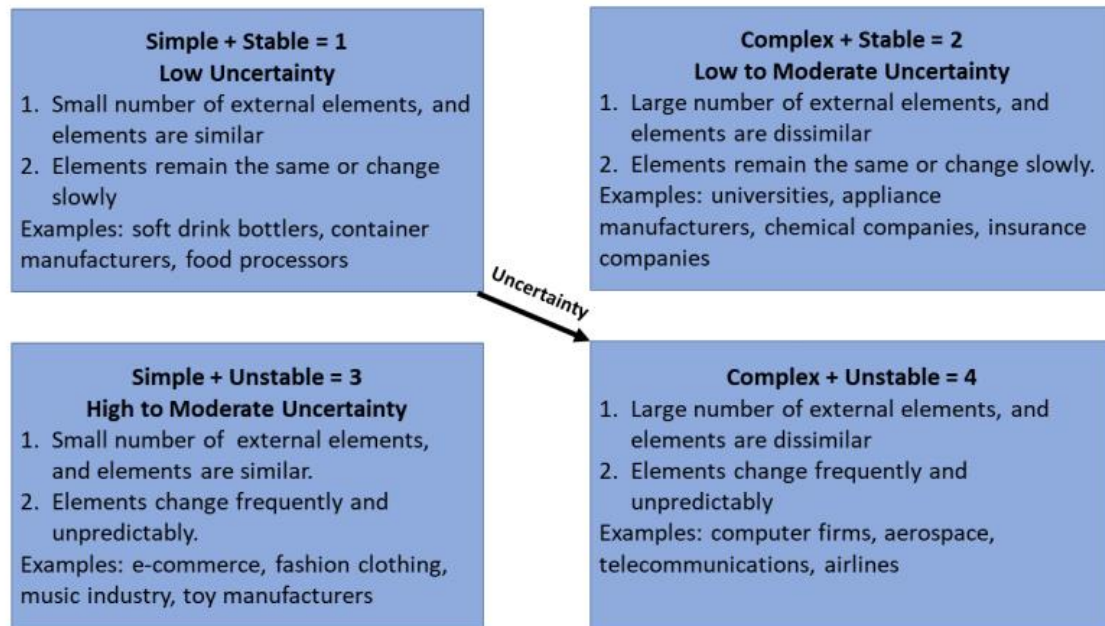| Simple + Stable = 1<br>Low Uncertainty<br>1. Small number of external elements, and elements are similar<br>2. Elements remain the same or change slowly<br>Examples: soft drink bottlers, container manufacturers, food processors | Complex + Stable = 2<br>Low to Moderate Uncertainty<br>1. Large number of external elements, and elements are dissimilar<br>2. Elements remain the same or change slowly.<br>Examples: universities, appliance manufacturers, chemical companies, insurance companies |
| --- | --- |
| Simple + Unstable = 3<br>High to Moderate Uncertainty<br>1. Small number of external elements, and elements are similar.<br>2. Elements change frequently and unpredictably.<br>Examples: e-commerce, fashion clothing, music industry, toy manufacturers | Complex + Unstable = 4<br>1. Large number of external elements, and elements are dissimilar<br>2. Elements change frequently and unpredictably<br>Examples: computer firms, aerospace, telecommunications, airlines |

*Uncertainty* →

**Exhibit 4.4  Company Industry Fit**  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.*

## 3. Identify different types of organizational structures and their strengths and weaknesses.

| Mechanistic<br>Stable, low uncertainty environment | Organic<br>Unstable, high uncertainty environment |
| --- | --- |
| Top-down heirarchy | Less rigid, horizontal organization |
| Narrow span of control | Flexible, few rules |
| Specialized tasks | Two-way communication |
| Formal rules | Participatory decision-making |
| Vertical communication | Generalized shared tasks |
| Structured decision-making | Wide span of control |

**Exhibit 4.5  Mechanistic and Organic Organizations** (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

**Mechanistic organizational structures** (Exhibit 4.5) are best suited for environments that range from stable and simple to low-moderate uncertainty (Exhibit 4.4) and are characterized by top-down hierarchies of control that are rule-based. The chain of command is highly centralized and uses formal authority; tasks are clearly defined and differentiated to be executed by specific specialized experts. Bosses and supervisors have fewer people working directly under them (i.e., a narrow span of control), and the organization is governed by rigid departmentalization (i.e., an organization is

divided into different departments that perform specialized tasks according to the departments' expertise). This form of organization represents a traditional type of structure that evolved in environments that were, as noted above, stable with low complexity.

**Organic organizational structures** and systems, however, have opposite characteristics from mechanistic ones. As Exhibit 4.4 shows, these organizational forms work best in unstable, complex, changing environments. Their structures are flatter, with participatory communication and decision-making flowing in different directions. There is more fluidity and less-rigid ways of performing tasks; there may also be fewer rules. Tasks are more generalized and shared; there is a wider span of control (i.e., more people reporting to managers).

## Types of Structures:
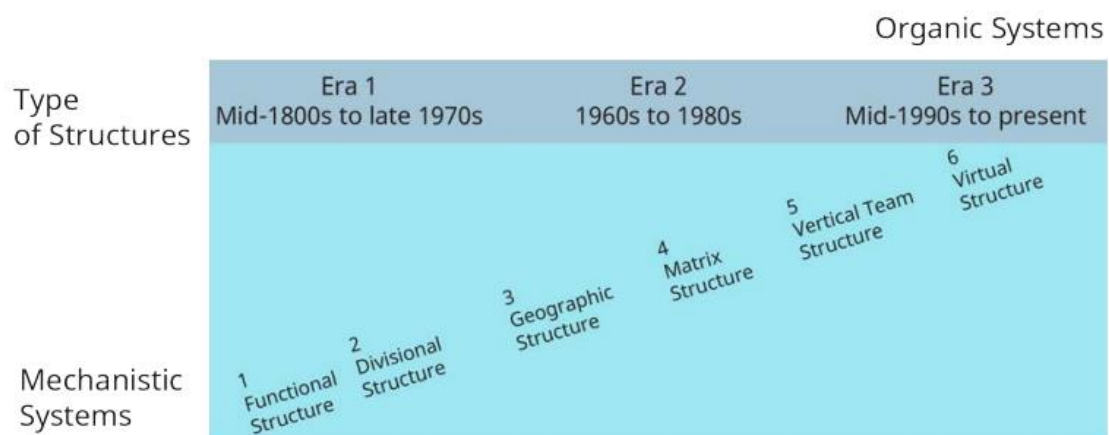


Exhibit 4.6  **Evolution of Organizational Structure**  Adapted from: Daft, R., 2016, Organization Theory and Design, 12th edition, Cengage learning, Chapter 3; Warren, N., "Hitting the Sweet Spot Between Specialization and Integration in Organizational Design", People and Strategy, 34, No. 1, 2012, pp. 24-30.

**Functional structure:**

a functional org structure starts with positions with the highest levels of responsibility at the top and goes down from there. Primarily, though, employees are organized according to their specific skills and their corresponding function in the company. Each separate department is managed independently.
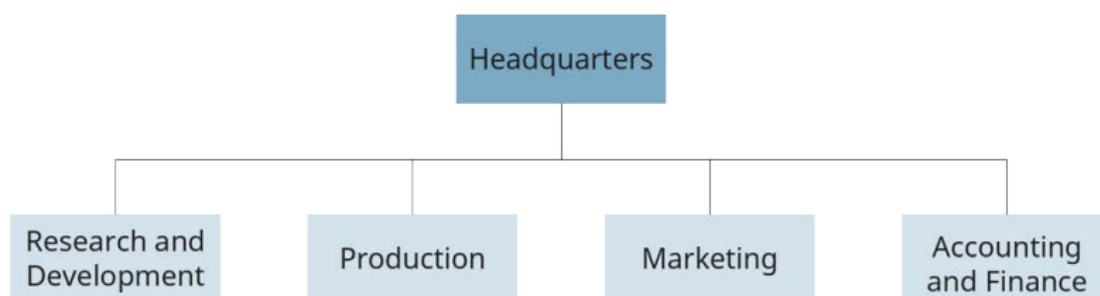


Exhibit 4.7  **Functional Structure**  (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

**Divisional structure:**

In divisional organizational structures, a company's divisions have control over their own resources, essentially operating like their own company within the larger organization. Each division can have its own marketing team, sales team, IT team, etc. This structure works well for large companies as it

empowers the various divisions to make decisions without everyone having to report to just a few executives.
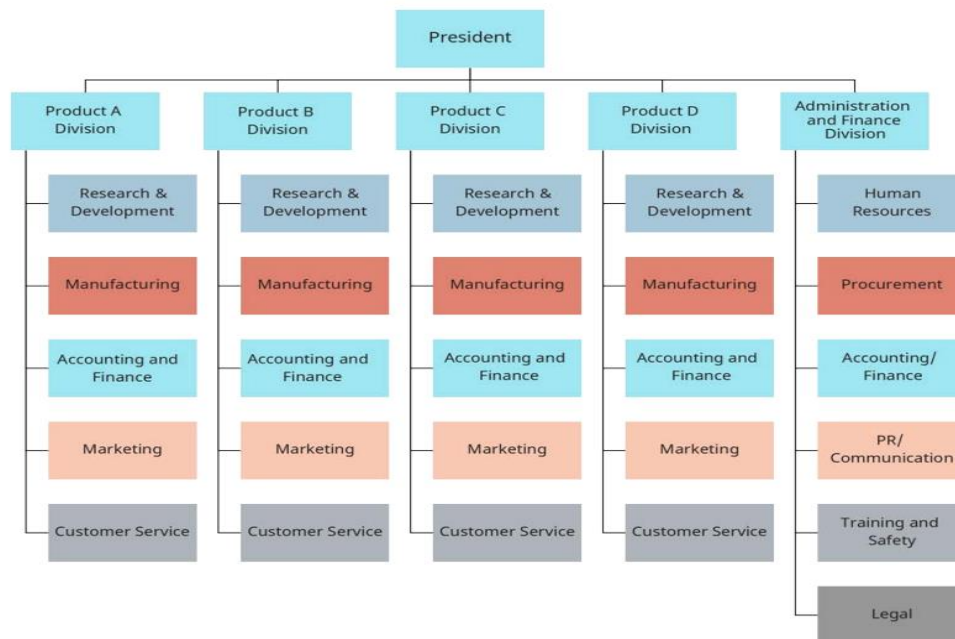


**Exhibit 4.8  Divisional Organization Structure** (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

**Matrix structure:**

A matrix organizational chart looks like a grid, and it shows cross-functional teams that form for special projects. For example, an engineer may regularly belong to the engineering department (led by an engineering director) but work on a temporary project (led by a project manager). The matrix org chart accounts for both of these roles and reporting relationships.
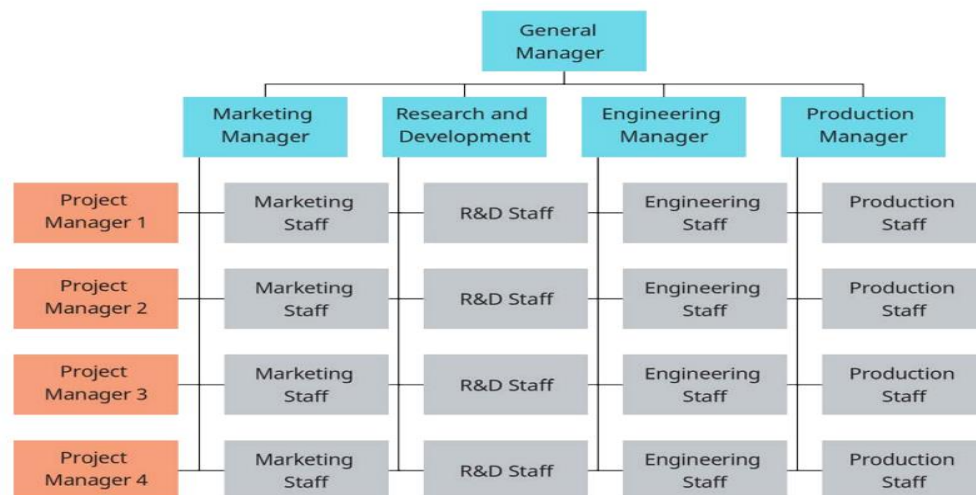


**Exhibit 4.11  Matrix Structure** (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

**Geographic structure:**

If an organization spans multiple geographic regions, and the product or service needs to be localized, it often requires organization by region. Geographic structuring involves grouping activities based on geography, such as a Latin American division. Geographic structuring is especially important if tastes and brand responses differ across regions, as it allows for flexibility in product offerings and marketing strategies.     +
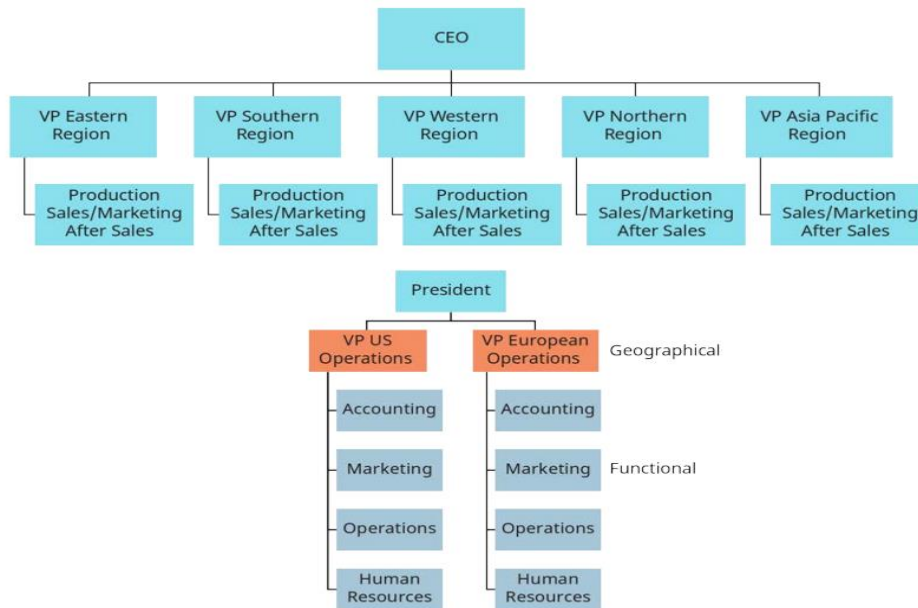
Exhibit 4.9  Geographic Structure (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

**Networked team structures**:

Networks structures are another form of the horizontal organization. Moving beyond the matrix structure, networked teams are more informal and flexible. a networked organizational structure is one that naturally forms after being initially assigned. Based on the vision, mission, and needs of a problem or opportunity, team members will find others who can help—if the larger organization and leaders do not prevent or obstruct that process.
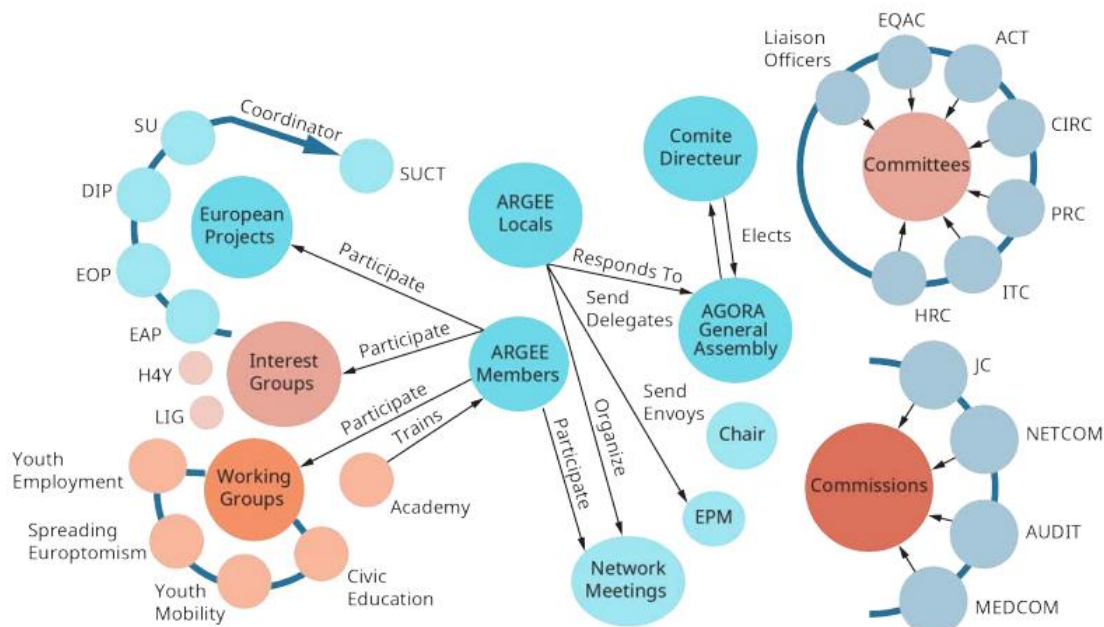


Exhibit 4.12  Networked Team Structure (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

**Virtual structures and organizations:**

as a response to requiring more flexibility, solution-based tasks on demand, fewer geographical constraints, and accessibility to dispersed expertise. Related to so-called modular and digital organizations, virtual structures are dependent on information communication technologies (ICTs)
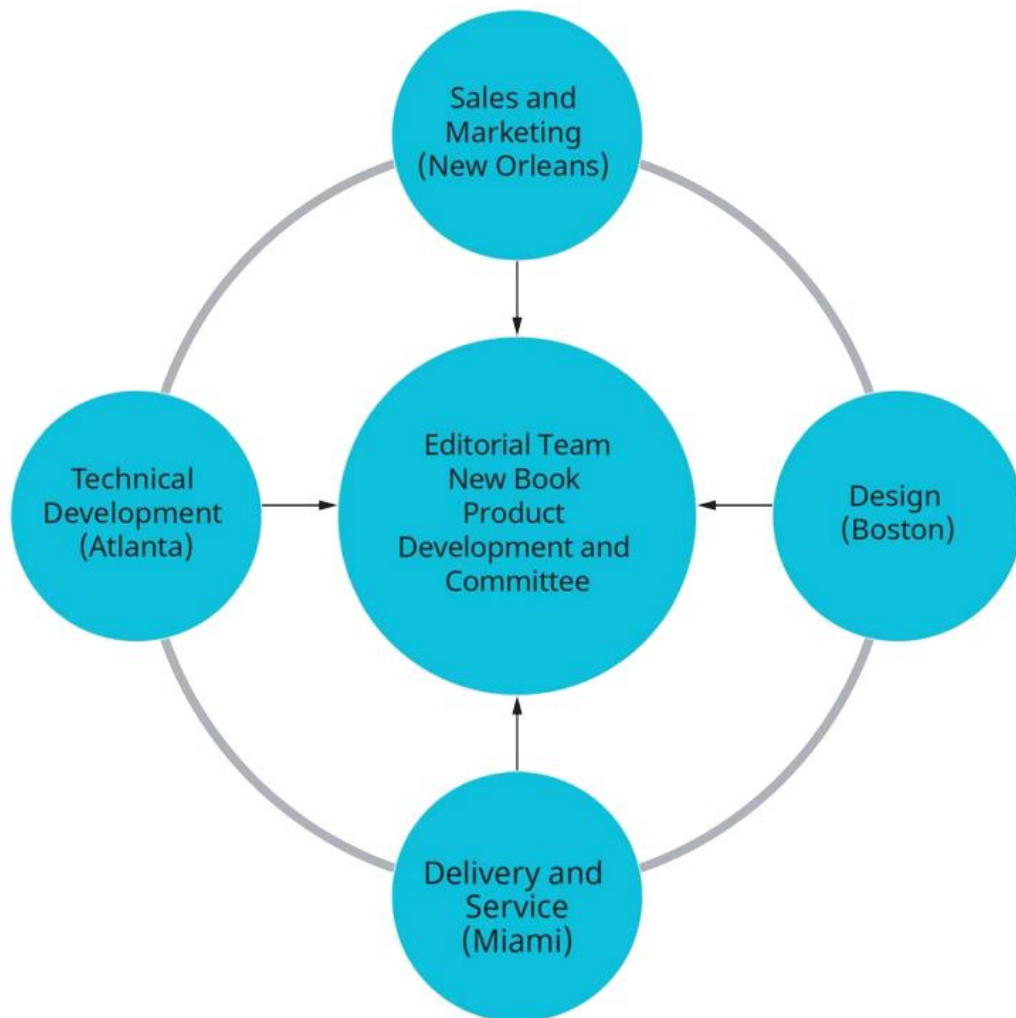
These organizations move beyond network team structures in that the headquarters or home base may be the only or part of part of a stable organizational base. Otherwise, this is a "boundaryless organization." Advantages of virtual teams and organizations include cost savings, decreased response time to customers, greater access to a diverse labor force not encumbered by 8-hour workdays, and less harmful effects on the environment. Disadvantages are social isolation of employees who work virtually, potential for lack of trust among employees and between the company and employees when communication is limited, and reduced collaboration among separated employees and the organization's officers due to lack of social interaction.

**4. Explain how organizations organize to meet external market threats and opportunities.**

Environment

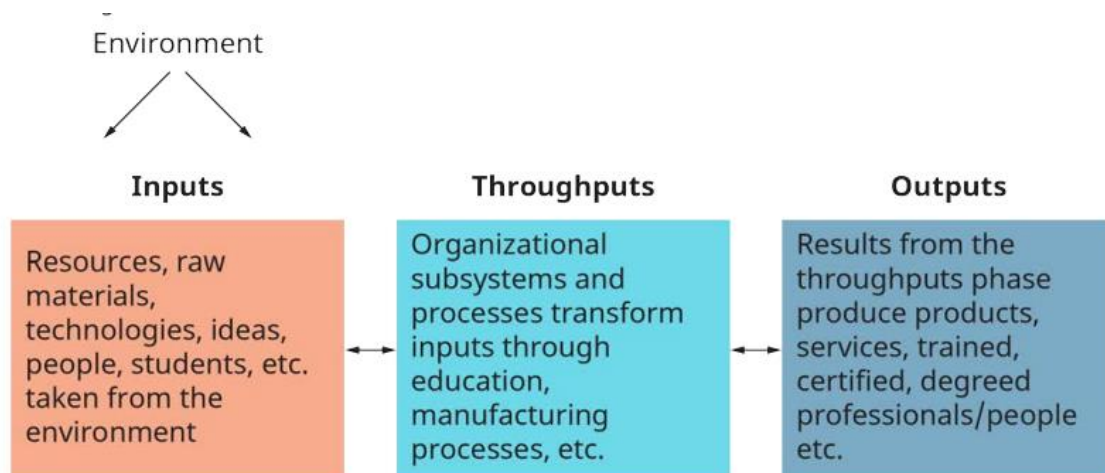| Inputs | Throughputs | Outputs |
|---|---|---|
| Resources, raw materials, technologies, ideas, people, students, etc. taken from the environment | Organizational subsystems and processes transform inputs through education, manufacturing processes, etc. | Results from the throughputs phase produce products, services, trained, certified, degreed professionals/people etc. |

**Exhibit 4.15   Open System Model of an Organization** (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

The open systems model serves as a feedback loop continually taking in resources from the environment, processing and transforming them into outputs that are returned to the environment. This model explains organizational survival that emphasizes long-term goals. Organizations according to this theory are considered as either Open or Closed systems, (or relatively opened or closed) depending on the organization's sensitivity to the environment. Closed systems are less sensitive to environmental resources and possibilities, and open systems are more responsive and adaptive to environmental changes.

Organizations respond to external environments not only through their structures, but also by the domains they choose and the internal dimensions and capabilities they select. An organization defines itself and its niche in an environment by the choice of its **domain**, i.e., what sector or field of the environment it will use its technology, products, and services to compete in and serve. Some of the major sectors of a task environment Chapter 4 External and Internal Organizational Environments and Corporate Culture 103 include marketing, technology, government, financial resources, and human resources.

**External Environment**

Economic Forces

Technological Forces

The Organization
Internal Environment

**Formal Subsystem**
Leadership, Strategy,
Management, Goals,
Marketing, Operations,
Technology, Structure

**Informal Subsystems**
Managers, Culture,
Norms, Relationships,
Politics, Leadership

Political-Legal Forces

Sociocultural Forces

**Exhibit 4.16   Internal Organization** (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

**internal organizational dimensions:**

These dimensions and systems include leadership, strategy, culture, management, goals, marketing, operations, and structure. Relationships, norms, and politics are also included in the informal organization. There are other internal functions not listed here, such as research and development, accounting and finance, production, and human resources. Another popular depiction of internal organizational dimensions is the McKinsey 7-S model, shown in Exhibit 4.17. Similarly, strategy, structure, systems, skills, staff, and style all revolve around and are interconnected with shared values (or culture) in an organization.
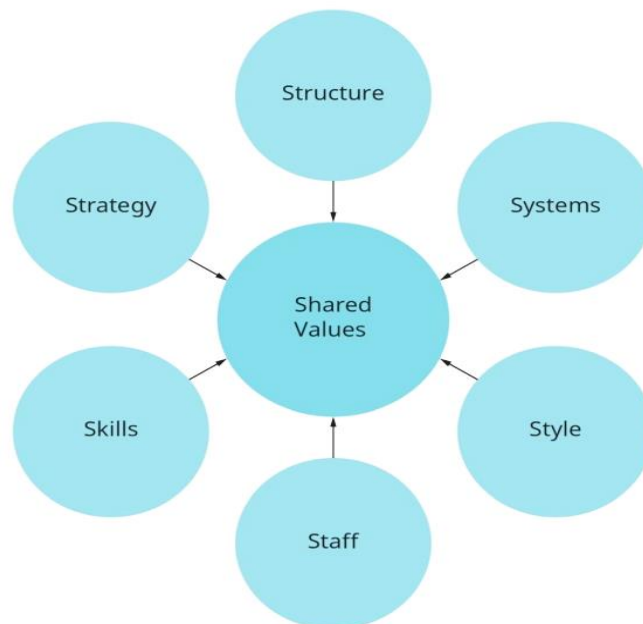


**Exhibit 4.17** **The McKinsey 7-S Model** (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)
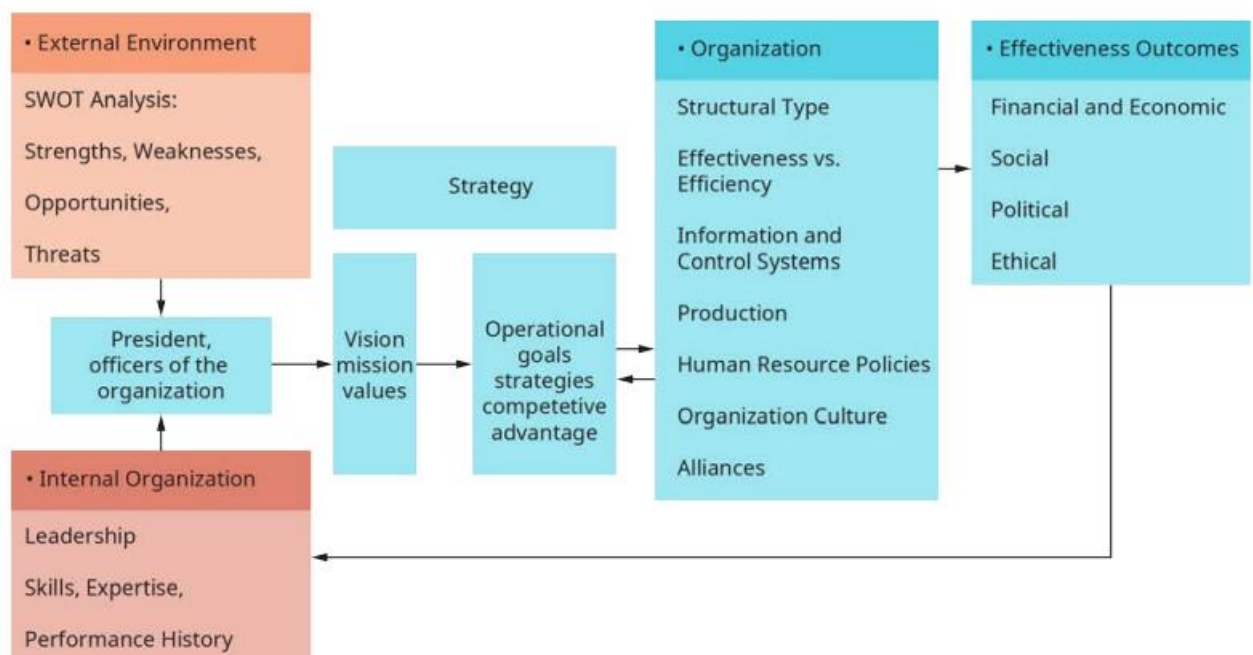


**Exhibit 4.18** **The Internal Organization and External Environment** (Attribution: Copyright Rice University, OpenStax, under CC-BY 4.0 license)

**5. Identify the fit between organizational cultures and the external environment**

Organizational culture is considered one of the most important **internal dimensions of an organization**'s effectiveness criteria. **corporate culture** is more influential than strategy in terms of motivating employees' beliefs, behaviors, relationships, and ways they work since culture is based on values. Strategy and other **internal dimensions of organization** are also very important, but organizational culture serves two crucial purposes: first, culture helps an organization adapt to and integrate with its external environment by adopting the right values to respond to external threats and opportunities; and secondly, culture creates internal unity by bringing members together so they work more cohesively to achieve common goals. Culture is both the personality and glue that binds an organization. It is also important to note that organizational cultures are generally framed and influenced by the top-level leader or founder.

The **Competing Values Framework (CVF)** is one of the most cited and tested models for diagnosing an organization's cultural effectiveness and examining its fit with its environment.
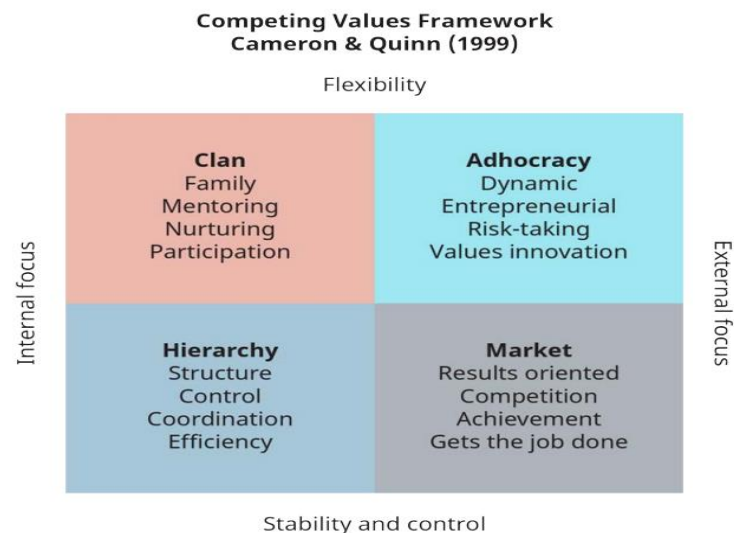


**Exhibit 4.21   The Competing Values Framework** Source: Adapted from K. Cameron and R. Quinn, 1999. Diagnosing and Changing Organizational Culture, Addison-Wesley, p. 32.

The two axes in the framework, external focus versus internal focus, indicate whether or not the organization's culture is externally or internally oriented. The other two axes, flexibility versus stability and control, determine whether a culture functions better in a stable, controlled environment or a flexible, fast-paced environment. Combining the axes offers four cultural types: (1) the dynamic, entrepreneurial **Adhocracy Culture**—an external focus with a flexibility orientation; (2) the people-oriented, friendly **Clan Culture**—an internal focus with a flexibility orientation; (3) the process-oriented, structured **Hierarchy Culture**—an internal focus with a stability/control orientation; and (4) the results-oriented, competitive **Market Culture**—an external focus with a stability/control orientation.

**Adhocracy Culture:** profile of an organization emphasizes creating, innovating, visioning the future, managing change, risk-taking, rulebreaking, experimentation, entrepreneurship, and uncertainty. This profile culture is often found in such fastpaced industries as filming, consulting, space flight, and software development.

**Clan Culture:** type focuses on relationships, team building, commitment, empowering human development, engagement, mentoring, and coaching. Organizations that focus on human development, human resources, team building, and mentoring would fit this profile.

**Hierarchy Culture:** emphasizes efficiency, process and cost control, organizational improvement, technical expertise, precision, problem solving, elimination of errors, logical, cautious and conservative, management and operational analysis, and careful decision-making.

**Market Culture**: focuses on delivering value, competing, delivering shareholder value, goal achievement, driving and delivering results, speedy decisions, hard driving through barriers, directive, commanding, and getting things done.

## 🔑 Key Terms

**Adhocracy culture** Creates an environment of innovating, visioning the future, accepting of managing change, and risk taking, rule-breaking, experimentation, entrepreneurship, and uncertainty.

**Clan culture** Focuses on relationships, team building, commitment, empowering human development, engagement, mentoring, and coaching.

**Competing Values Framework** Developed by Kim Cameron and Robert Quinn this model is used for diagnosing an organization's cultural effectiveness and examining its fit with its environment.

**Complex-Stable environments** Environments that have a large number of external elements, and elements are dissimilar and where elements remain the same or change slowly.

**Complex-Unstable environments** Environments that have a large number of external elements, and elements are dissimilar and where elements change frequently and unpredictably

**Corporate culture** Defines how motivating employees' beliefs, behaviors, relationships, and ways they work creates a culture that is based on the values the organization believes in.

**Divisional structure** An organizational structure characterized by functional departments grouped under a division head.

**Domain** The purpose of the organization from which its strategies, organizational capabilities, resources, and management systems are mobilized to support the enterprise's purpose.

**Functional structure** The earliest and most used organizational designs.

**Geographic structure** An Organizational option aimed at moving from a mechanistic to more organic design to serve customers faster and with relevant products and services; as such, this structure is organized by locations of customers that a company serves.

**Government and political environment forces** The global economy and changing political actions increase uncertainty for businesses, while creating opportunities for some industries and instability in others.

**Hierarchy culture** Emphasizes efficiency, process and cost control, organizational improvement, technical expertise, precision, problem solving, elimination of errors, logical, cautious and conservative, management and operational analysis, careful decision making.

**Horizontal organizational structures** A "flatter" organizational structure often found in matrix organizations where individuals relish the breath and development that their team offers.

**Internal dimensions of organizations** How an organization's culture affects and influences its strategy.

**Market culture** Focuses on delivering value, competing, delivering shareholder value, goal achievement, driving and delivering results, speedy decisions, hard driving through barriers, directive, commanding, competing and getting things done.

**Matrix structure** An organizational structure close in approach to organic systems that attempt to respond to environmental uncertainty, complexity, and instability.

**McKinsey 7-S model** A popular depiction of internal organizational dimensions.

**Mechanistic organizational structures** Best suited for environments that range from stable and simple to low-moderate uncertainty and have a formal "pyramid' structure.

**Natural disaster and human induced environmental problems** Events such as high-impact hurricanes, extreme temperatures and the rise in $CO_2$ emissions as well as 'man-made' environmental disasters such as water and food crises; biodiversity loss and ecosystem collapse; large-scale involuntary migration are a force that affects organizations.

**Networked-team structure** A form of the horizontal organization.

**Organic organizational structures** The opposite of a functional organizational form that works best in unstable, complex changing environments.

**Organizational structures** A broad term that covers both mechanistic and organic organizational structures.

**Simple-Stable environments** Environments that have a small number of external elements, and elements are similar, and the elements remain the same or change slowly.

**Simple-Unstable environments** Environments that have a small number of external elements, and elements are similar and where elements change frequently and unpredictably.

**Socio-cultural environment forces** Include different generations' values, beliefs, attitudes and habits, customs and traditions, habits and lifestyles.

**Technological forces** Environmental influence on organizations where speed, price, service, and quality of products and services are dimensions of organizations' competitive advantage in this era.

**Virtual structure** A recent organizational structure that has emerged in the 1990's and early 2000's as a response to requiring more flexibility, solution based tasks on demand, less geographical constraints, and accessibility to dispersed expertise.