2

The Management Environment

Fundamentals of
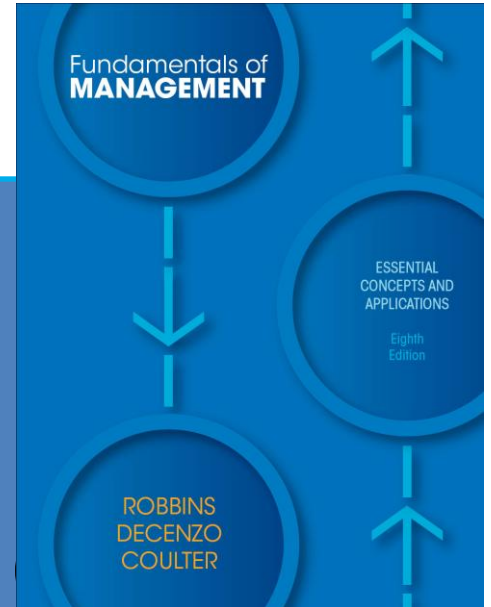**MANAGEMENT**

ESSENTIAL
CONCEPTS AND
APPLICATIONS

Eighth
Edition

ROBBINS
DECENZO
COULTER

Learning Objectives: Two Things

- Explain what the **external environment** is and why it's important.

- Discuss how the external environment affects managers.

- Define what **organizational culture** is and explain why it's important.

- Describe how organizational culture affects managers.

Opening Vignette – Going to Extremes

- What does it take to be the number one best e-retailer?

- Zappos.com believes that it is more than just providing a great selection of products, super-fast shipping, and free returns.

- Zappos believes the secret of their success lies in their **organizational culture**.

- As part of its culture, Zappos advocates 10 corporate values. At the top of that list is "**Deliver WOW through service**." And do they ever deliver the **WOW!**

- Another factor that contributes to success is how an organization deals with their **dynamic environment**.

- **Change is everywhere**.

- Companies must be able to adapt to assess and adapt to internal and external changes if they want to survive in today's turbulent business world.

Explain what the external environment is and why it's important.

2.1

What Is External Environment?

- **One of the biggest mistakes managers make today is failing to adapt to the changing world**.

- No successful organization, or its managers, can operate without understanding and dealing with the **dynamic** environment—external and internal—that surrounds it.

  - The term "**external environment**" refers to factors, forces, situations, and events outside the organization that affect its performance.

  - Because of today's **global society**, a volcanic eruption in Iceland in 2010 prevented delivery of auto parts that led to a shutdown at a BMW plant in South Carolina and a Nissan Motor facility in Japan.

Components of External Environment

Components of External Environment

- As shown in Exhibit 2-1, the **external environment** includes **six** components:

  1. The **economic component** encompasses factors such as interest rates, inflation, changes in disposable income, stock market fluctuations, and business cycle stages.

  1. The **demographic component** includes trends in population characteristics such as age, race, gender, education level, geographic location, income, and family composition.

  1. The **technological component** focuses on scientific and industrial innovations.

  1. The **socio-cultural component** is concerned with societal and cultural factors such as values, attitudes, trends, traditions, lifestyles, beliefs, tastes, and patterns of behavior.

  1. The **political/legal component** looks at federal, provincial, and local laws, as well as other countries' laws and global laws. It also includes a country's political conditions and stability.

  1. The **global component** encompasses issues associated with globalization and a world economy.

What Role Do Demographics Play?

- The size and characteristics of a country's population can have a significant effect on what it's able to achieve. (India and China)

- **Demographic** characteristics of concern to organizations include:

    - age,
    - income,
    - sex,
    - race,
    - education level,
    - ethnic makeup,
    - employment status, and
    - geographic location.

What Role Do Demographics Play?

- Additionally, the **size and characteristics of a country's population** can have a significant effect on what it can achieve.

    - For example, experts say that by 2050, "emerging economies led by India and China will collectively be larger than the developed economies."

    - Also, small European nations with low birth rates, such as Austria, Belgium, Denmark, Norway, and Sweden, are expected to drop off the list of the 30 biggest economies.

Discuss how the external environment affects managers.

2.2

How Does External Environment Affect Managers?

- One of the important organizational factors affected by changes in the external environment is **jobs** and **employment**.

- **For example**, economic downturns result in higher unemployment and place constraints on staffing and production quotas for managers.

  – Not only does the external environment affect the number of jobs available, but it also impacts how jobs are managed and created.

  – Changing conditions can create demands for more temporary work and alternative work arrangements

How Does External Environment Affect Managers?

- There are three ways that the **external environment** affects managers:

  1. Its impact on **jobs and employment**
  2. The amount of **environmental uncertainty**, and
  3. The nature of **stakeholder relationships**.

- Environments differ in their amount of **environmental uncertainty**, which relates to

  – (1) the degree of change in an organization's environment and
  – (2) the degree of complexity in that environment (see **Exhibit 2-2**).

- **Degree of change** is characterized as being **dynamic or stable**

How Does External Environment Affect Managers?

- As external environmental conditions change, managers face the impact of these changes on jobs and employment.

  - Economists predict that about one quarter of the 8.4 million U.S. jobs eliminated during the most recent economic downturn won't be reinstated.

- Such readjustments create challenges for managers who must balance work demands with having enough people with the right skills to do the organization's work.

- Changes in external conditions not only affect the types of jobs available but they also affect how the jobs are created and managed.

  - For example, many employers use flexible work arrangements and contract freelancers or temporary workers.

Assessing Environmental Uncertainty

EXHIBIT 2-2   **Environmental Uncertainty Matrix**

	Stable	Dynamic
Simple	**Cell 1** Stable and predictable environment Few components in environment Components are somewhat similar and remain basically the same Minimal need for sophisticated knowledge of components	**Cell 2** Dynamic and unpredictable environment Few components in environment Components are somewhat similar but are continually changing Minimal need for sophisticated knowledge of components
Complex	**Cell 3** Stable and predictable environment Many components in environment Components are not similar to one another and remain basically the same High need for sophisticated knowledge of components	**Cell 4** Dynamic and unpredictable environment Many components in environment Components are not similar to one another and are continually changing High need for sophisticated knowledge of components

Assessing Environmental Uncertainty

- Another constraint posed by external environments is the amount of uncertainty that exists, which can affect organizational outcomes. **Environmental uncertainty** refers to the degree of **change** and **complexity** in an organization's environment.

- Let's look at the matrix shown here, where each of the four cells represents different combinations of complexity and change.

  - The first dimension of uncertainty is the degree of unpredictable change; that is, a **stable** environment experiences minimal change and a **dynamic** environment experiences frequent change.

    - For example, a *stable* environment might have no new competitors, few technological breakthroughs by current competitors, little pressure from groups trying to influence the organization, and so on.

  - The other dimension of uncertainty describes the degree of **environmental complexity**, which looks at the number of components in an organization's environment and the knowledge that the organization has about those components.

  - That means we consider the six components of the external environment we discussed earlier: economic, demographic, technical, socio-cultural, political/legal, and global.

  - Therefore, an organization with few competitors, customers, suppliers, or government agencies to deal with, or an organization that needs little information about its environment, has a less complex and more certain, stable environment, as seen in Cell 1.

Assessing Environmental Uncertainty

- So how does the concept of environmental uncertainty influence managers? As illustrated here, each of the four cells represents different combinations of degree of complexity and degree of change.

  - Cell 1 (a stable-simple environment) represents the lowest level of environmental uncertainty and Cell 4 (a dynamic and complex environment) represents the highest level of environmental uncertainty.

  - Not surprisingly, managers have the greatest influence on organizational outcomes in Cell 1 and the least influence in Cell 4.

  - Because uncertainty is a threat to an organization's effectiveness, managers try to minimize it.

  - Most industries today face more dynamic change, and consequently, their environments are more uncertain.

Managing Stakeholder Relationships

The nature of stakeholder relationships is another way in which the environment influences managers.

Remember!

The more obvious and secure these relationships, the more influence managers will have over organizational outcomes.

Stakeholders are any constituencies in an organization's environment that are affected by that organization's decisions and actions.

These groups have a stake in, or are significantly influenced by, what the organization does.

In turn, these groups can influence the organization.

Why Manage Stakeholder Relationships?

- **There are a number of benefits to managing external stakeholder relationships.**

    – Good stakeholder management **improves** organizational performance.

    – The organization is perceived as "doing the right thing," which demonstrates corporate social responsibility and **creates** a positive image of the organization. **(animal testing)**

    – Because an organization depends on external groups for resources (such as vendors) and as outlets for goods and services (such as customers), decisions that consider stakeholders' interests can pay off. (ethics &CSR)

    – Gone are the days of "business as usual" for either organizations or managers. Managers will have to make difficult decisions about how they do business and about their people.

    – It's important to understand how changes in the external environment will affect *your* future organizational and management experiences.

Organizational Stakeholders

EXHIBIT 2-3   Organizational Stakeholders

Now that we've looked at the external environment of an organization, let's focus on the internal aspects of the organization, specifically its culture.

Define what organizational culture is and explain why it's important.

2.3

What Is Organizational Culture?

- **Organizational culture** has been described as the shared values, principles, traditions, and ways of doing things that influence the way organizational members act.

- In most organizations, these shared values and practices have evolved over time and largely determine how things are done in a given organization.

Defining Culture and Its Impact

- **"Culture" implies three things:** this is how things are done around here!

1. Culture is a *perception* that cannot be physically touched or seen, but is perceived based on what employees experience within the organization.

1. Organizational culture is concerned with how members **perceive or describe** the culture, not with whether they like it.

1. Employees tend to describe the organization's culture in similar terms, regardless of their backgrounds or their work at different organizational levels.

- Organizational culture is important because of the impact it has on **decisions**, **behaviors**, and **actions** of organizational employees.

Strong Corporate Culture = Success

"Deliver WOW through Service."

How Can Culture Be Assessed?

Research suggests that an organization's culture can be described using the seven dimensions shown in Exhibit here:

How Can Culture Be Assessed?

- These dimensions range from **low** (meaning *not* typical of the culture) to **high** (meaning *especially* typical of the culture).

- In many organizations, one cultural dimension is emphasized more than the others and essentially shapes both the organization's personality and the way organizational members work.

  - For instance, **Sony Corporation** focuses on product innovation, identified in this graphic as "innovation and risk taking."

  - In contrast, **Southwest Airlines** has made its employees a central part of its culture, illustrated in this graphic as "people orientation," which the company shows by how it treats its employees.

How Do Employees Learn the Culture?

- Stories
- Rituals
- Material symbols
- Language

- IKEA
- Wal-Mart
- Nordstrom; etc.

Employees most commonly learn an organization's culture through its stories, rituals, material symbols, and language.

- **Organizational stories** recount significant events or people, such as a popular Nike story that tells how its cofounder, the late Bill Bowerman, poured rubber into his wife's waffle iron to create a better running shoe.

- **Corporate rituals** are repetitive activities that express and reinforce the important values and goals of the organization.

  - For example, "Passing of the Pillars" at Boston Scientific is a ritual that acknowledges a challenging assignment by awarding the employee who completes the assignment with a two-foot high plaster-of-Paris pillar to show that this person has the support of all his or her colleagues.

- **Material symbols**, such as the layout of organizations facilities, how employees dress, employee perks, and so on, give a sense of whether the work environment is formal or casual, fun or serious, and the kinds of behavior that are rewarded, such as risk taking, conservative, participative, and so on.

- Many organizations use **language** to identify and unite members of a culture by developing unique terms to describe equipment, key personnel, customers, processes, or products related to its business.

Where Does an Organization's Culture Come From?

- An organization's culture generally reflects the vision or mission of its founders, who establish the early culture by projecting an image of what the organization should be and what its values are.

- The small size of most new organizations helps the founders impose their vision on all organization members. An organization's culture, then, results from the interaction between:

    1. The founders' biases and assumptions, and
    2. What the first employees subsequently learn from their own experiences.

How Does Organizational Culture Affect Managers?

- Organizational culture affects managers in two primary ways:

  - Through its effect on what employees do and how they behave, and

  - Through its effect on what managers do as they plan, organize, lead, and control.

- Marjorie Kaplan, president of the Animal Planet and Science television networks, describes how the power of organizational culture affects her as a manager.

  – She says that one of her company's stated goals is "to make it the place where, when you come to work, you feel like you have the *opportunity* to bring your best self—and you're also *challenged* to bring your best self."

How Does Culture Affect What Employees Do?

- An organization's culture has an effect on what employees do, depending on how strong or weak it is.

- **Strong cultures**—those in which the key values are deeply held and widely shared—have a greater influence on employees than weaker cultures do.

  - The more employees accept and commit to the organization's key values, the stronger the culture is, based on high agreement on what's important, what defines good employee behavior, what it takes to get ahead, and so on.

  - The stronger a culture becomes, the more it affects what employees do and the way managers plan, organize, lead, and control.

- Strong cultures can create predictability, orderliness, and consistency without the need for written rules and regulations because employees internalize these behaviors when they accept the organization's culture.

In today's lecture we will discuss….

Describe how organizational culture affects managers.

2.4

How Does Culture Affect What Managers Do?

How Does Culture Affect What Managers Do?

- An organization's culture **constrains** what managers can and cannot do, and **how** they manage.

- Such constraints are rarely **explicit** and all managers must **quickly learn** how to respond in their organization.

- For instance, the following values are unwritten, but each comes from a real organization:

  - Look busy even if you're not.
  - If you take risks and fail around here, you'll pay dearly for it.
  - Before you make a decision, run it by your boss so that he or she is never surprised.
  - We make our product only as good as the competition forces us to.
  - What made us successful in the past will make us successful in the future.
  - If you want to get to the top here, you have to be a team player.

How Does Culture Affect What Managers Do?

- The **link** between values such as the ones discussed on the last slide and managerial behavior is clear.

- If an organization's culture supports the belief that profits can be increased by cost cutting and that the company's best interests are served by achieving slow but steady increases in quarterly earnings, managers are unlikely to pursue innovative, risky, long-term, or expansionary programs.

- In an organization whose culture **conveys** a basic distrust of employees, managers are more likely to use an **authoritarian** leadership style rather than a **democratic** one because the culture establishes appropriate and expected behavior for managers.

Managerial Decisions Affected by Culture

An organization's culture, especially a strong one, influences and constrains the way managers plan, organize, lead, and control.

PLANNING

- The degree of risk that plans should contain
- Whether plans should be developed by individuals or teams
- The degree of environmental scanning in which management will engage

ORGANIZING

- How much autonomy should be designed into employees' jobs
- Whether tasks should be done by individuals or in teams
- The degree to which department managers interact with each other

LEADING

- The degree to which managers are concerned with increasing employee job satisfaction
- What leadership styles are appropriate
- Whether all disagreements—even constructive ones—should be eliminated

CONTROLLING

- Whether to impose external controls or to allow employees to control their own actions
- What criteria should be emphasized in employee performance evaluations
- What repercussions will occur from exceeding one's budget

Quiz

- **1 Explain what the external environment is and why it's important.**

- **2 Discuss how the external environment affects managers.**

Quiz

- **2.1 Explain what the external environment is and why it's important.**

    – The external environment refers to factors, forces, situations, and events outside the organization that affects its performance. It includes economic, demographic, political/legal, sociocultural, technological, and global components.
    – The external environment is important because it poses constraints and challenges to managers.

- **2.2 Discuss how the external environment affects managers.**
- There are three ways that the external environment affects managers:
    – its impact on jobs and employment,
    – the amount of environmental uncertainty, and
    – the nature of stakeholder relationships.