External Environments

After reading the next four sections, you should be able to:

1. discuss how changing environments affect organizations.
2. describe the four components of the general environment.
3. explain the five components of the specific environment.
4. describe the process that companies use to make sense of their changing environments.

Changing Environments

Characteristics of Changing External Environments

- Environmental Change
- Environmental Complexity
- Resource Scarcity
- Uncertainty
Environmental Change

Environmental Change is the rate at which a company’s general and specific environments change.

- stable environments
- dynamic environments

Punctuated equilibrium theory

Companies cycle through stable and dynamic environments.

Environmental Complexity

Environmental Complexity: the number of external factors in the environment that affect organizations.

Simple environments - Complex environments

Resource Scarcity

Resource Scarcity

The abundance or shortage of critical organizational resources in an organization's external environment.
An Oncoming Diamond Shortage?

• After years of buying most of their diamonds pre-cut and pre-polished, Tiffany’s and many other diamond retailers began to fear oncoming supply shortages.
• Tiffany has invested in mine operators and opened cutting-and-polishing plants in several countries.
• Controlling all steps in the supply chain would require broad expertise to successfully manage.
• With diamonds representing 47% of Tiffany’s sales, the company believes maintaining its pipeline is worth the risk.

http://online.wsj.com/article/SB125650986946206903.html?mod=WSJ_hps_RIGHTTopCarousel
Components of the General Environment

- Economy
- Technological trends
- Sociocultural trends
- Political / Legal trends

Economy

- Growing vs. shrinking economies
- Predicting future economic activity
- Business confidence indices

Technological Component

Input
- Raw Materials
- Information

Technology
- Knowledge Tools
- Techniques

Output
- Products
- Services
Chapter 3

Sociocultural Component

- Demographic changes
- Changes in behavior, attitudes, and beliefs

Demographics Example

Political / Legal Component

- Legislation
- Regulations
- Court decisions

Managers must be educated about the laws, regulations, and potential lawsuits that could affect business

Web Link
- http://www.eeoc.gov/abouteeo/overview_laws.html
Chapter 3

Specific Environment
- Customer
- Competitor
- Supplier
- Industry Regulation
- Advocacy Group

Customer Component
- Monitoring customer wants and needs is critical for business success
  - Reactive customer monitoring
    - responding to problems, trends, and events
  - Proactive customer monitoring
    - anticipating problems, trends, and events

Competition Component
- Competitive Analysis
  - Deciding who your competitors are
  - Anticipating competitors’ moves
  - Determining competitors’ strengths and weaknesses
Beyond the Book

Pushing in on Google’s Search Space

Google currently holds 70.2% of the search market. Google’s most substantial competition could come from a combined effort from Yahoo and Microsoft’s Bing, which could garner as much as 27% of the market. Microblogger Twitter recently added a search function. OneRiot provides real-time search of current news and Twitter posts. Wolfram Alpha, Aardvark, ChaCha, and Mahalo are among services designed to provide concrete answers to factual queries. While none of these sites command anywhere near the market space that Yahoo and Bing do, Google must still account for them in its competitive environment.


Supplier Component

Buyer Dependence → Suppliers → Supplier Dependence

Opportunistic Behavior ↔ Relationship Behavior

Industry Regulation Component

Industry Regulation

Regulations and rules that govern the business practices and procedures of specific industries, businesses, and professions
Federal Regulation Agencies

<table>
<thead>
<tr>
<th>Agency</th>
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<tbody>
<tr>
<td>Department of Labor</td>
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<tr>
<td>Occupational Safety and Health Administration</td>
<td><a href="http://www.osha.gov">http://www.osha.gov</a></td>
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Cost of Compliance

Researchers studied U.S. manufacturers and the costs they incur complying with the 25 major federal regulations. They found:

- There are about 300,000 manufacturing companies in the U.S.
- Each company spends roughly $2.2 million

So, the aggregate cost of complying with federal regulations is roughly $660 billion

And that’s just for manufacturing.

Advocacy Groups

- Groups of concerned citizens who band together to try to influence the business practices of specific industries, businesses, and professions
- Techniques to try to influence companies:
  - public communications
  - media advocacy
  - product boycotts
Advocacy Groups

PETA is a well-known advocacy group that attempts to influence consumers and companies to pursue animal-friendly practices.

Competing Interests in the Utility Sector

The issue of cleaning up carbon emissions has brought new complications to the utility sector. Consider:

- Environmentalists are calling for greener energy.
- The government is working to pass new climate legislation that will reduce the effects of dirtier fuels like coal.
- Energy companies using cleaner fuels think the utilities that use the dirtier fuels (like coal) should foot the bill.
- The coal utilities counter that government policy has pushed them toward coal since the 1970s, when the country was trying to find alternatives to oil.
- All of the utilities must consider how the customer will respond to rising energy bills.


Making Sense of Changing Environments

- Evaluating External Environments
- Environmental Scanning
- Interpreting Environmental Factors
- Acting on Threats and Opportunities
Environmental Scanning

Searching the environment for events or issues that might affect an organization

- keeps companies current on industry factors
- reduces uncertainty
- alters organizational strategies
- contributes to organizational performance

Interpreting Environmental Factors

Opportunities?  Threats?

Acting on Threats and Opportunities

Cognitive Maps

- simplified models of external environments
- depicts how managers believe environmental factors relate to possible organizational actions
Internal Environments

After reading this section, you should be able to:

5. explain how organizational cultures are created and how they can help companies be successful.

Internal Environment

The events and trends inside an organization that affect management, employees, and organizational culture.

• important because it affects what people think, feel, and do at work
• organizational culture is the set of key values, beliefs, and attitudes shared by organizational members
A Culture of Innovation

How does a company like Genentech keep producing revolutionary breakthroughs in pharmaceuticals? Genentech puts special emphasis on fostering a culture of innovation, where employees are encouraged to take risks and pursue areas of interest. Genentech is the only pharmaceutical company to offer a postdoctoral program. One of the advantages of this program is that it constantly attracts younger people with a broad range of backgrounds and interests, which helps foster a spirit of creativity and entrepreneurship and keeps new ideas flowing through the company. Genentech employees are encouraged to pursue ideas in areas that they are interested, even when those ideas might not pan out.


Successful Organizational Cultures

- Adaptability
- Consistency
- Involvement
- Clear Vision

- Sales Growth
- Return on Assets
- Employee Satisfaction
- Quality
- Profits


Organizational Stories
- Company Founder
- Organizational Heroes

Organizational Heroes

Company Founder

Stages of Organizational Development
Levels of Organizational Culture

- Symbolic artifacts such as dress codes
- Workers and managers’ behaviors
- What people say
- Their decisions are made and explained
- Widely shared assumptions and beliefs
- Based deep below surface
- Rarely discussed or thought about

Changing Organizational Cultures

- Behavioral addition
  - is the process of having managers and employees perform a new behavior.
- Behavioral substitution
  - is having managers and employees perform a new behavior in place of another behavior.
- Change visible artifacts
  - such as the office design and layout, company dress codes, etc.

Transforming a Culture

Beyond the Book

New CEO Diana Dykstra transformed the San Francisco Fire Credit Union from a culture crippled by policy into a place where employees are empowered to meet customer needs. Dykstra replaced the 1,000 page employee manual with four core values which define the company’s direction and culture. Now all decisions are measured against these values. Employees send stories to Dykstra of coworkers going the extra mile for customers, and the best ones are rewarded each month.