CHAPTER 2
Understanding internal and external environments

LEARNING OBJECTIVES

These will include:

- Explain the concept of mega-environment and outline its major elements.

- Distinguish between the concepts of task environment and mega-environment and describe major task-environment elements.

- Contrast the population ecology and resource dependence views of the organisation–environment interface.

- Explain how environmental uncertainty and bounty impact on organisations.

- Describe the major methods that organisations use to manage their environments.

- Explain the nature of organisational culture and its major manifestations.

- Contrast entrepreneurial and administrative cultures as means of promoting innovation.

- Explain how organisational cultures can be changed.

Note 1: Mega Environment/
Task Environment:
Mega and task environments
are drawn on separate slides
that also fit together as one to
facilitate student
comprehension. See Figure 2.1.

**TEXT REFERENCE
Figure 2.1 The internal and
external environments of the
organisation.** See page 39 of
the text.

**TEXT REFERENCE
Figure 2.2 Elements of the
mega- environment of the
Xerox Corporation.** See page
40 of the text.

Teaching Idea:
Ask a local businessperson to
talk about tracking competitors'
actions. A fast-food restaurant
or bank are examples of
competitive services.

Teaching Idea:
Find information in business
periodicals on assessing
external environment.

Enrichment Module:
'Managing Environmental
Impacts in an International
Context'.

Striving for excellence—Changing cultures—a profile of Steve McCarthy provides an example of a change in organisational culture at Adshel. In an initial survey employees had given feedback on perceived gaps in the organisational culture. These issues could be addressed, behaviour and systems changed, and the result was a better work environment and better business results.

Types of External Environments

A. *The mega-environment*, or general environment, is the segment of the external environment reflecting the broad conditions and trends in societies within which an organisation operates.

   1. *The technological element* is the part of the mega-environment reflecting the current state of knowledge regarding the production of products and services.
      - Research indicates technology tends to evolve through periods of incremental change punctuated by technological breakthroughs that either enhance or destroy the competence of firms in an industry.

   2. *The economic element* is the part of the mega-environment encompassing systems of producing, distributing, and consuming wealth.
      - In a capitalist economy, economic activity is governed by market forces and the means of production are privately owned by individuals, either directly or through corporations.
      - In a socialist economy, the means of production are owned by the state and economic activity is coordinated by plan.
      - In practice, countries tend to have hybrid economies, incorporating elements of capitalism and socialism.
      - Organisations are influenced by a variety of economic conditions over which   they have little control, such as inflation and interest rates.

   3. *The legal-political element* is the part of the mega-environment that includes the legal and governmental systems within which an organisation must function.
      - Organisations must operate within the general legal framework of the countries in which they do business.
      - Organisations are currently being subjected to an increase in lawsuits filed by customers and employees.
      - The political issues affecting organisations include those which influence the extent of government regulation.

   4. *The sociocultural element* is the element of the mega-environment including the attitudes, values, norms, beliefs, behaviour, and associated demographic trends characteristic of a given geographical area.
      - The sociocultural element is of particular importance to multinational corporations.
      - Current changes include the delay of marriage to a later age, the emergence of the single head of household, the aging of the baby-boomer group, and increasing influence of minorities.

- Sociocultural trends result in important shifts in product demand.

> In India where the cow is regarded as a sacred animal, McDonald's has opened its first beef-free restaurants where its burgers are made of 100 per cent lamb. (Internet source: mcspotlight.org, *The Guardian* (UK), 12 April 1996.)

5. *The international element* is the mega-environment element, which includes developments in countries outside an organisation's home country with the potential of having an impact on the organisation.
   - Fluctuations of the dollar against foreign currencies influence an organisation's ability to compete in international markets.

> A decline from 95 to 115 yen to the dollar results in huge savings for Japan's auto makers. Previously when the yen was near 80, US auto makers enjoyed a $3000 premium per car as compared with their Japanese competitors. With the weaker yen, Japan now enjoys the cost advantage. As a result of the increased income, Japan's auto makers will be investing more into research and development. To compensate for the weaker yen, Japanese auto makers are decreasing their prices 1.1 per cent, while US auto makers are increasing their car prices 2.8 per cent. (*Business Week*, 11 November 1996, p. 54.)

- Free trade agreements offer vast possibilities for long-term market growth within the free-trade region.
- New global competitors can gain a significant share of the domestic market.

B. *The task environment* is the external environment segment made up of specific outside elements with which an organisation interfaces in the course of conducting its business.

1. The task environment depends on products and services the organisation offers and locations where it conducts business.

2. An organisation's *customers and clients* are those individuals and organisations purchasing its products and/or services.

3. An organisation's *competitors* are other organisations either offering or with a high potential of offering rival products or services.

   - Organisations must keep abreast of who their competitors are and what they are doing.

> Japan Airlines (JAL) is facing competitive pressure both

Teaching Idea:
Have students research how prominent companies that are experiencing difficulties (Apple, IBM, Kmart, and GM) are adversely affected and aided by various aspects of their task environments.

TEXT REFERENCE
Figure 2.3 Elements of the task environment of the Xerox Corporation. See page 43 of the text.

TEXT REFERENCE
Table 2.1 Australian labour force by birthplace 2006/07. See page 44 of the text.

Note 2: Population Ecology Model: An illustration of the three stages of the model includes the

suggestion that when environmental conditions shift, some successful organisational forms become obsolete.

- Ways to track what competitors are doing include obtaining information from commercial databases, specialty trade publications, news clippings from local newspapers, help-wanted ads, published market research reports, trade shows, advertisements, and personal contacts. (See 'Managerial Skills for the Twenty-First Century' discussion.)

4. An organisation's *suppliers* are those organisations and individuals that supply the resources (such as raw materials, products or services) the organisation needs to conduct its operations.

5. An organisation's *labour supply* consists of individuals who are potentially employable by the organisation.

6. Various *government agencies* provide services and monitor compliance with laws and regulations at local, state and national levels.

II. Analysing Environmental Conditions

A. The population ecology model and resource dependence models are two alternative ways of analysing environmental conditions.

1. The *population ecology model* (also known as the natural selection model) is a view of the organisation-environment interface that focuses on populations or groups of organisations and argues environmental factors cause organisations with appropriate characteristics to survive and others to fail.

2. The *resource dependence model* is a view of the organisation-environment interface that highlights organisational dependence on the environment for resources and argues organisations try to manipulate the environment to reduce that dependence.

- Organisations try to be as independent as they can by controlling as many of their critical resources as possible or developing alternative ones.
- Managers do have strategic choices, or options, and these choices impact on organisational success and influence the nature of the environment.

Teaching Idea:
Find information in business periodicals on assessing the external environment.

> Japan Airlines (JAL), faced with problems of soaring fuel prices and increased competitive pressures, is looking to cut $1.8 billion in costs by 1998. JAL plans to reduce its payroll by 5,000. To reduce dependence on Japan's oil companies that charge high prices, JAL is buying some oil directly from the Singapore suppliers at a 10 per cent saving. It also plans to use a facility at Xiamen, China, for refurbishing its fleet where the savings would be more than 80 per cent per plane compared to refurbishing in Japan. (*Business Week*, 28 October 1996, p. 62.)

3. The population ecology model stresses the fact that some environmental factors are uncontrollable. The resource dependence model emphasises that there are reasons for managers to try to monitor, understand, and influence environmental elements.

B. Characteristics of the environment may constitute objective reality but managers are more likely to take action on the environment as they see it, i.e. as a subjective reality.

1. *Environmental uncertainty* is a condition of the environment in which future conditions affecting an organisation cannot be accurately assessed and predicted.
   - *Environmental complexity* refers to the number of elements in an organisation's environment and their degree of similarity.
   - *Environmental dynamism* refers to the rate and predictability of change in elements of an organisation's environment, ranging from slow and stable to fast and unstable.
   - *Environmental uncertainty* is a function of complexity and dynamism.

2. *Environmental bounty*, or capacity, is the extent to which the environment can support sustained growth and stability.
   - Bounty can range from relatively rich to relatively lean environments.
   - When organisations operate in rich environments, they can build up internal resources to get them through lean times.

III. Managing Environmental Elements

A. The adaptation approach involves changing internal operations and activities to make the organisation more compatible with its environment.

1. The use of *buffering* involves stockpiling inputs into or outputs from a production or service process to cope with market fluctuations.
   - Buffering inputs are used when it is difficult to line up reliable sources of inputs, e.g. supplies.
   - Buffering outputs involves maintaining inventories of finished goods when fluctuations of demand cannot be met efficiently.

2. *Smoothing*, through price cuts etc., involves taking actions to reduce the impact of predictable market fluctuations.

3. *Forecasting* is the systematic effort to estimate future conditions.

4. *Rationing* is limiting access to a product or service in high demand, e.g. university classes in popular majors, popular models of cars, etc.

B. The favourability influence approach involves attempting to alter environmental elements to make them more compatible with organisational needs.

1. *Advertising* is use of communications media to gain favourable publicity for particular products and services. Public relations is the use of communications media and related activities to create a favourable overall impression of an organisation among the public.

2. *Boundary spanning* is creating organisational roles that interface with important environmental elements.
   • Boundary spanners may serve an information processing function by collecting data, processing it, and transmitting information to management.
   • Boundary spanners may serve an external representation function by presenting information about the organisation to those outside.

3. *Recruiting* is a way of attracting job candidates meeting organisational needs.

4. *Negotiating contracts* **is** the seeking of favourable agreements on matters of importance to the organisation.

5. *Co-opting* is the process of absorbing key members of important environmental elements into the leadership or policy-making structure of an organisation.

6. A *strategic alliance* is an arrangement whereby two or more independent organisations form a cooperative partnership to gain some mutual strategic advantage.
   • Often strategic alliances involve *joint ventures,* which is an agreement between two or more organisations to produce a product or service through a jointly owned enterprise.
   • Many joint ventures fail; as many as 7 out of 10 according to independent studies.

Fast food giant McDonald's entered the Indian market by investing in two 50:50 joint ventures with individual entrepreneurs in Bombay and Delhi, India, who started operations with one outlet in each city. (Internet source: mcspotlight.org, *The Times of India*, March 27, 1996.)

7. *Trade associations* are organisations composed of individuals or firms with common business concerns.
   • The organisations may include manufacturers, distributors, importers, brokers, and retailers of a product or group of products. Examples include the Metal Trades Industry Association.

8. The use of *political activity* involves attempts by organisations to enhance their competitive situation by influencing legislation and/or behaviour of government regulatory agencies.

D. *Domain* shifts are changes in the mix of products and services offered so an organisation can interface with more favourable environmental elements.

1. A company may move entirely out of a current product, service, or geographic area into a more favourable domain.

2. A company may expand current domains through diversification, expansion of products and services offered.

IV. The Internal Environment: Organisational Culture

A. Organisational culture is a system of shared values, assumptions, beliefs, and norms uniting members of an organisation.

1. The organisational culture concept is important because shared values and beliefs affect individual behaviour, which in turn affects organisational effectiveness.

2. Strong founders may have a major impact on the culture of fledgling organisations.
3. The likely impact of culture on an organisation's effectiveness depends on the culture's direction, pervasiveness, and strength.
   - *Direction* is the degree to which a culture supports, rather than interferes with, reaching organisational goals.
   - *Pervasiveness* is the extent to which a culture is widespread among members, as opposed to being unevenly distributed.
   - *Strength* is the degree to which members accept values and other aspects of a culture.

B. The phenomenon of organisational culture is not directly observable but must be inferred from its concrete manifestations.

1. A *symbol* is an object, act, event, or quality serving as a vehicle for conveying meaning.

2. A *story* is a narrative based on true events, which sometimes (but not always) may be embellished to highlight the intended value.

3. A *rite* is a relatively elaborate, dramatic, planned set of activities intended to convey cultural values to participants and, usually, an audience. A *ceremonial* is a system of rites performed in conjunction with a single occasion or event.

C. Cultures have been classified in a number of ways.

1. *Strong versus weak,* where strong is characterised by a clear and explicit set of principles, values and behavioural norms in managing their business.

2. *Unhealthy cultures* have highly politicised internal

environments.

Cultures can range from entrepreneurial to administrative (Stevenson and Gumpert, 1985). Mounting evidence indicates that successful organisations foster an adaptive entrepreneurial culture:

1. Entrepreneurial organisations tend to have cultures where members view growth and change as desirable and believe they can affect the competitive environment to their advantage.
   - Strategic orientation: driven by perceptions of opportunity.
   - Commitment to seize opportunities: revolutionary change within short period.
   - Commitment of resources: many stages, with minimal exposure at each.
   - Control of resources: use of freelance help and rental of required resources.
   - Management structure: few levels, with emphasis on informal communication patterns.

2. Bureaucratic organisations are more likely to have members who prefer the status quo and have little faith in their ability to influence the competitive environment.
   - Strategic orientation: driven by controlled resources.
   - Commitment to seize opportunities: evolutionary change over long period.
   - Commitment of resources: a single stage, with complete commitment based on one decision.
   - Control of resources: employment or ownership of required resources.
   - Management structure: many levels, with emphasis on communication through formal hierarchy.
   - Operator, engineering and executive cultures reflect the fact that not all organisations respond well to the need for innovation and will find that efforts to make significant changes to the organisation are unsuccessful. Schein (1996) argued the difference in cultures of management could in part be responsible and he identified three main types of management culture: operator culture, engineering culture, and executive culture.
   - Operator assumes any organisation action is ultimately the action of people. Success of the enterprise, therefore, depends on people's knowledge, skill, learning ability and commitment.
   - Engineering assumes engineers (product and system designers) are stimulated by puzzles and problems; are pragmatic perfectionists preferring "people free" solutions.
   - Executive culture is "the set of tacit assumptions that CEOs and their immediate subordinates share worldwide".

3. Cultures are difficult to change. A five-stage model of cultural change has been proposed by Ralph H. Kilmann
   - Surfacing actual norms involves having organisation members list the actual norms they believe currently influence their attitudes and actions.
   - Articulating new directions involves a discussion of the

organisation's current direction and the behaviour necessary for organisational success.

- Establishing new norms is the development of a list of new norms with a positive impact on organisational effectiveness.
- Identifying culture gaps involves identifying areas where there is a major difference between actual norms and those positively influencing organisational effectiveness.
- Closing culture gaps entails agreeing on new norms and designing means of reinforcing them.

4. Despite the inherent difficulties, a number of top managers have been successful in encouraging specific cultural changes that they believe are critical to organisation success. In doing so, they typically:
   - Convince organisational members that a crisis has occurred or is likely to occur.
   - Communicate a vision of a new direction or strategy.
   - Motivate others to take leadership in implementing the new direction and required cultural changes.

LEARNING OBJECTIVES REVISITED

1. **Explain the concept of mega-environment and outline its major elements.**
    The task environment is the set of forces that affect an organisation's ability to obtain inputs and dispose of its outputs.
    *   Suppliers are the individuals and organisations that provide the input resources that an organisation needs to produce goods and services.
    *   Distributors are organisations that help other organisations sell their goods or services to customers.
    *   Customers are individuals and groups that buy goods and services that an organisation produces.
    *   Competitors are organisations that produce goods and services that are similar to a particular organisation's goods and services.
    *   Each stage in the industry life cycle is associated with particular forces in the task environment.
    *   Efficient managers must understand the way forces in the task environment change as a result of changes in the industry environment.

2. **Distinguish between the concepts of task environment and mega-environment and describe major task environment elements.**
    The general environment is the wide-ranging economic, technological, sociocultural, demographic, political and legal and global forces that affect the organisation and its task environment.
    *   Economic forces, such as interest rates, inflation, unemployment, and economic growth, affect the general health and well-being of a nation.
    *   Technological forces are the outcomes of changes in the technology that managers use to design, produce, or distribute goods and services.
    *   Sociocultural forces are pressures emanating from the social structure of a country or from the national culture.
    *   Demographic forces are the outcomes of changes in, or changing attitudes toward, the characteristics of a population, such as age, gender, ethnic origin, race, sexual orientation, and social class.
    *   Global forces are the outcomes of changes in international relationships, changes in nations' economic, political and legal systems, and changes in technology.

3. **Contrast the population ecology and resource dependence views of the organisation–environment interface.**
    The population ecology and the resource dependency models are two alternative ways of analysing environmental conditions. The population ecology model (also known as the natural selection model) is a view of the organisation–environment interface focusing on populations or groups of organisations and arguing that environmental factors cause the survival or failure of organisations. The resource dependence model is a view of the organisation–environment interface highlighting organisational dependence on the environment for resources and arguing organisations attempt to manipulate the environment to reduce dependence. The population ecology model stresses some environmental factors are uncontrollable. The resource dependence model emphasises reasons for managers to try to monitor, understand, and possibly influence environmental elements.

4. **Explain how environmental uncertainty and bounty impact on organisations.**
    *   Managers can meet environmental changes by practising boundary spanning—interacting with groups outside the organisations to obtain information from the task and general environments.
    *   Boundary spanning activities seek ways not only to respond to forces in the external environment, but also to directly influence and manage the perceptions of stakeholders.
    *   Managers also represent and protect the organisation.
    *   Scanning and monitoring the environment is an important boundary-spanning activity.
    *   The boundary-spanning manager interprets what the information means and then practises gate-keeping.
    *   It is important for organisations to develop alliances and agreements with other organisations around the world.

- Managers can also function as the agents of change.

5. **Describe the major methods that organisations use to manage their environments.**
   - To analyse the importance of opportunities and threats in the organisational environment, managers can:
     - List the number and relative strength of the forces that affect their organisations the most.
     - Analyse the way changes may result in opportunities or threats for their organisations.
     - Draw up a plan indicating how to take advantage of those opportunities or counter those threats.
   - Managers can counter threats in the task environment by reducing the potential impact of forces in that environment.
   - Another way to respond to a changing organisational environment is to increase the complexity of the organisation's structure.
   - Managers can also meet these changes by practising boundary spanning.

6. **Explain the nature of organisational culture and its major manifestations.**
   - Organisational culture is a system of shared values, assumptions, beliefs, and norms uniting members of an organisation.
   - The organisational culture concept is important because shared values and beliefs affect individual behaviour, which in turn affects organisational effectiveness. Strong founders may have a major impact on the culture of fledgling organisations. The likely impact of culture on an organisation's effectiveness depends on the culture's direction, pervasiveness, and strength.

7. **Contrast entrepreneurial and administrative cultures as means of promoting innovation.**
   Entrepreneurial organisations tend to have cultures in which members view growth and change as desirable and also believe that they can affect the competitive environment to their advantage. Bureaucratic organisations are more likely to have members who prefer the status quo and have little faith in their ability to influence the competitive environment.

8. **Explain how organisational cultures can be changed.**
   - Surfacing actual norms involves having organisation members list the actual norms they believe currently influence their attitudes and actions.
   - Articulating new directions involves a discussion of the organisation's current direction and the behaviour necessary for organisational success.
   - Establishing new norms is the development of a list of new norms with a positive impact on organisational effectiveness.
   - Identifying culture gaps involves identifying areas where there is a major difference between actual norms and those positively influencing organisational effectiveness.
   - Closing culture gaps entails agreeing on new norms and designing means of reinforcing them.

ENRICHMENT MODULE
MANAGING ENVIRONMENTAL IMPACTS IN AN INTERNATIONAL CONTEXT
Helen Deresky

Any manager in a foreign subsidiary must expect and understand the differences in the individual and group behaviour of indigenous people in the organisation as a result of cultural variables as well as prevailing national variables. Typically, these variables are intricately intertwined and inseparable in their effects on organisational systems. They affect the individual's motivation and expectations regarding work, group relations and work processes, and ultimately affect the outcomes.

An example of the combined effects of national culture variables on work is the opening of McDonald's in Moscow, which was widely reported in the news media. Much training was necessary to get local employees to serve Bolshoi Maks with good service and a smile.

Locals are accustomed to bad food and sour service. This results from a commonly found cultural norm, often described as 'Russians don't work'. This norm is caught up in a vicious cycle of cause and effect. A stalled central planning system is so disorganised that low productivity results. Because of this low productivity, there are few goods to buy, so there is no motivation to work for rubles that cannot buy anything.

It is clear from the McDonald's experience in Moscow, and many other examples around the world, that cultural differences in beliefs, values and attitudes can greatly affect organisational processes, and the differences are particularly noticeable when we attempt to impose our own values and systems on that society. Management functions that are typically affected are planning and scheduling, negotiating, motivating and the design of reward systems, and staffing practices. Differential approaches to these organisational functions and processes must be taken to reflect the cultural and national variables that influence people's attitudes to work, time, materialism, individualism, and change. These, in turn, produce dramatic differences in the level of motivation, commitment, ethics, loyalty, and individual and group productivity in a particular country. It is important, therefore, for management to develop cultural sensitivity or 'cultural savvy' to enhance effective implementation of strategy.

Striving for excellence
Changing cultures—a profile of Steve McCarthy

Answer 1:   The key challenges students should be able to identify are that at the beginning some management processes and behaviours of some of the management team were not very constructive. A comprehensive survey of employees showed a gap in conception and idea of organisational culture. One example given was the former remuneration system for sales people consisting largely of individual commissions.

Answer 2:   After becoming aware of the need to change the organisational culture, the company had to have a look at systems, processes and behaviours. Breaking down data to the individual office level helped employees in focusing on their specific issues. Removing the door of a notorious door-closing manager while he was away made him understand that this behaviour was not acceptable. Changing the remuneration system was necessary to encourage behaviour around teamwork and train, develop and mentor staff.

Answer 3:   Elements of how to make organisational change measurable are to get reliable data on what the culture actually is. Then to have a top-down approach with the commitment of CEO and senior managers in creating a positive working environment in the long run. This can be achieved by focusing more on behaviour than the abstract culture. Asking employees will lead to valuable feedback. This can improve relationships in the company, eventually leading to better business results.

Crunch time: What would you do?
Pumpkin Patch

Answer 1:   Students should identify a range of answers Sally dealt with — she targeted an area of the clothing market that was not adequately catered for; she focused on issues of quality, colour, style, price and durability and also established a brand that is easily recognisable and represents a certain quality in both service and product.

Answer 2:   To remain competitive the company has had to respond to a wide range of factors — both internal and external. Changing demographics, customer demands, technology, focus on quality and service, branding, consultative management and an emphasis on business are demonstrated in this case.

Success in small business
All things chocolate

Answer 1:   Students should identify Lindy's key success factors — being passionate about people, animals and chocolate and being aware of that; starting as a hobby and then step-by-step turning it into a company; stepping up from workshop to factory, branding the company and the products, enlarging the product range and providing exclusive product for RSPCA for fundraising purposes. Lindy would end up owning her own shop, employing several staff with disabilities and would win an award for it.

Answer 2:   Students should discuss why each step shown in answer 1 can be seen as an overcome challenge.

Answer 3:   Students should find answers according to their own research.

Answer 1:   India is a different culture that requires a great deal of patience and modifying how some aspects of manufacturing and supply are handled. The difficulties Lee has encountered (language and communications problems, corruption, religious and cultural differences, and delivery delays) are indicative of the types of problems that any organisation doing business offshore might face.

Answer 2:   India offers a large cheap labour force in comparison with Australia and enables products to reach the market and customers at a reasonable price.

Answer 3:   Their internet exercise should allow students to develop their research skills in identifying key features various countries have to offer as well as the costs involved. The key result from this research should be that students should identify that organisations must plan for problems and deal with them well as this is the difference between success and failure. Each business will need to weigh up the pros and cons of making such a move.

Answer 4:   The answer will vary according to students' own research.

Chapter 3's discussion focuses on increasing student awareness of the impact of the external environment on managerial decision making. In particular, their awareness of the current environment should be emphasised. Many students may be unprepared for this discussion, and it is advisable for the instructor to be prepared to provide current environmental data. In discussion, try to use data/facts to 'paint a picture' of the environment. Emphasise the changing nature of environments and the need for frequent reassessment.

1. Outline the major elements forming the mega-environment. Identify an important trend in each element influencing the organisation in which you or some family member works.

The mega-environment, or general environment, is the segment of the external environment reflecting the broad conditions and trends in the societies within which an organisation operates. The technological element is the part of the mega-environment reflecting the current state of knowledge regarding the production of products and services. The economic element is the part of the mega-environment encompassing the systems of producing, distributing, and consuming wealth. The legal-political element is the part of the mega-environment including the legal and governmental systems within which an organisation must function. The sociocultural element is the element of the mega-environment including the attitudes, values, norms, beliefs, behaviours, and associated demographic trends characteristic of a given geographic area. The international element is the element of the mega-environment including developments in countries outside an organisation's home country with the potential of influencing the organisation.

2. Identify major elements that make up the typical task environment of an organisation. Use these elements to develop an outline of the task environment of a firm in which you or a family member works.

The task environment is the segment of the external environment comprising the specific outside elements with which an organisation interfaces in the course of conducting its business. The task environment depends on the products and services the organisation offers and locations in which it conducts business. An organisation's customers and clients are persons and organisations purchasing its products and services. An organisation's competitors are other organisations offering, or with a high potential for offering, rival products or services. An organisation's suppliers are organisations and individuals supplying resources (such as raw materials, products, or services) the organisation needs to conduct its operations. An organisation's labour supply consists of persons who are potential employees of the organisation. Various government agencies provide services and monitor compliance with laws and regulations at local, state and federal levels.

3. Contrast the population ecology and resource dependence views of the organisation–environment interface. Identify a situation where environmental change caused an organisation to fail. What possible actions, if any, might management have taken to avoid the firm's demise?

The population ecology and the resource dependency models are two alternative ways of analysing environmental conditions. The population ecology model (also known as the natural selection model) is a view of the organisation–environment interface focusing on populations or groups of organisations and arguing that environmental factors cause the survival or failure of organisations. The resource dependence model is a view of the organisation–environment interface highlighting organisational dependence on the environment for resources and arguing

organisations attempt to manipulate the environment to reduce dependence. The population ecology model stresses some environmental factors are uncontrollable. The resource dependence model emphasises reasons for managers to try to monitor, understand, and possibly influence environmental elements.

4. Explain how environmental uncertainty affects organisations. How would you assess environmental uncertainty for R.M. Williams, the Australian clothing maker?

Environmental uncertainty is a condition of the environment in which future conditions affecting an organisation cannot be accurately assessed and predicted. Environmental complexity refers to the number of elements in an organisation's environment and their degree of similarity. Environmental dynamism refers to the rate and predictability of change in elements of an organisation's environment, ranging from slow and stable to fast and unstable. Environmental uncertainty can be assessed as a function of complexity and dynamism.

5. Describe how environmental bounty influences organisations. How would you assess environmental bounty for R.M. Williams?

Environmental bounty, or capacity, is the extent to which the environment can support sustained growth and stability. Bounty can range from relatively rich to relatively lean environments. When organisations operate in rich environments, they may be able to build up internal resources to get them through lean times.

6. Outline the major methods used to help organisations adapt to environmental elements. For each, give an example based on a familiar organisation.

The adaptation approach involves changing internal operations and activities to make the organisation more compatible with its environment. The use of buffering involves stockpiling either inputs into, or outputs from, a production or service process to cope with market fluctuations. Smoothing, through price cuts etc., involves actions aimed at reducing the impact of predictable market fluctuations. Forecasting is the systematic effort to estimate future conditions. Rationing is limiting access to a product or service that is in high demand, e.g. university classes in popular majors and popular models of cars. The adaptation approach involves changing internal operations and activities to make the organisation more compatible with its environment.

7. Enumerate the major methods used to help organisations influence their environments favourably. For five of these, give an example based on a familiar organisation.

The favourability influence approach involves attempting to alter environmental elements to make them more compatible with the organisation's needs. Advertising is use of communications media to gain favourable publicity for particular products and services. Public relations is the use of communications media and related activities to create a favourable overall impression of the organisation among the public. Boundary spanning is creating roles within the organisation interfacing with important elements in the environment. Recruiting is a way of attracting job candidates meeting organisational needs. Co-opting is the process of absorbing key members of important environmental elements into the leadership or policy-making structure of an organisation. A joint venture is an agreement between two or more organisations arranging to produce a product or service jointly. Trade associations are organisations of individuals or firms with common business concerns. The use of political activity involves attempts by organisations to enhance their competitive situation by influencing legislation and the behaviour of government regulatory agencies.

8. Explain how domain shifts can help organisations cope with their environments. Give an example of an organisation that has made a major domain shift. Was the shift beneficial? Why, or why not?

Domain shifts are changes in the mix of products and services offered so an organisation will interface with more favourable environmental elements. A company may move entirely out of one product, service, or geographic area into a more favourable one. A company may expand current domains through diversification, which is the expansion of products and services offered.

9. Explain organisational culture and list its principal manifestations. Give an example of each, indicating the culture at your university or college. Briefly describe your perception of the culture at your university or college.

Organisational culture is a system of shared values, assumptions, beliefs, and norms, uniting members of an organisation. The phenomenon of organisational culture is unobservable but must be inferred from concrete manifestations. A symbol is an object, act, event, or quality, which serves as a vehicle for conveying meaning. A story is a narrative based on true events, which may (but not always) be embellished to highlight the intended value. A rite is a relatively elaborate, dramatic, planned set of activities intended to convey cultural values to participants and, usually to an audience. A ceremonial is a system of rites performed in conjunction with a single occasion or event.

10.   Refer to the example of Company A and Company B on page 85 ('Importance of culture: An example of two companies in the same industry') and explain the difference between the cultures in the two companies and their impact on performance.

Company A has a corporate culture with focus on high performance, empowerment of employees and teamwork. Company B, on the other hand, has no formal management systems or training. They lack open communication leading to unattended and eventually critical mistakes. The result is that Company A is ten times more profitable than Company B.

11.   What are the different culture types? What kind of culture you would like to promote in your organisation? Why?

The literature generally agrees that a stronger culture, in which organisational members share an understanding of the values and goals of the organisation, will be more cohesive, more efficient, and better able to adapt to changing needs.

Schein (1996) identified three main types of management culture: operator culture, engineering culture, and executive culture. The operator culture assumes any organisation action is ultimately the action of people. Success of the enterprise, therefore, depends on people's knowledge, skills, learning ability and commitment. The engineering culture, in contrast, assumes engineers (product and system designers) are stimulated by puzzles and problems and that they are pragmatic perfectionists who prefer "people free" solutions. The executive culture is "the set of tacit assumptions that CEOs and their immediate subordinates share worldwide".

12. Explain the difference between an entrepreneurial and an administrative culture.

To be classified as entrepreneurial, an organisation has to have a culture that allows it to be entrepreneurial — one that incorporates both the desire to change and the belief that it can influence its environment. Administrative is the opposite and is characterised as bureaucratic and lethargic.

SOLUTIONS TO CRITICAL THINKNG QUESTIONS

Note that these questions have no one correct answer and in many cases seek your views and opinions. In thinking about the issues raised below draw on your reading, work experience and knowledge of different organisations. Try to look at both the macro and micro picture in thinking about these questions.

Answer 1: In a recent article, Ruthven (2003) reviews the dramatic rise of small and medium-sized businesses in Australia that are taking advantage of innovation and outsourcing. In a brief review, he identifies the checks and balances driving this move.

1. What are some of the advantages and disadvantages for the aspiring Australian entrepreneurial organisation today?

2. Where do new products and industries come from?

3. While Ruthven finds that all enterprises tend to be winners at present, he suggests that small to medium-sized businesses are winning the most. Why is this?

4. How does a small or medium-sized enterprise manage to expand rapidly and then remain successful?

As Ruthven concludes, the Australia Fast 100 demonstrates most of the winning characteristics and are 'in a pack of their own'.
(Material relevant to questions 1 to 4 may be found in Ruthven, P. 2003, "Fast and furious business", *Business Review Weekly*, Australia, 23 October, p. 50.)
While Geert Hofstede's assertion that national cultures differ along five dimensions is well known, less well known are his writings on the universal fact of inequality in every society. In his 1997 book, *Cultures and Organization: Software of the Mind*, Hofstede reasserts the five dimensions as the degree of integration of individuals within groups; differences in the social roles of women versus men; ways of dealing with inequality; degree of tolerance for the unknown; and the trade-off between long-term and short-term gratification of needs. However, he also adds that a key feature of the difference between organisational and national culture is the fact that organisational cultures are more manageable and actually have the ability to bridge national cultures.

5. Given Hofstede's five dimensions, what are some of the problems they create and how are these manifested?

 (Material relevant to question 5 may be found in Hofstede G. 1997, *Cultures and Organization: Software of the Mind*, McGraw-Hill, New York.)

What do individuals within an organisation actually experience as 'company culture'? Recent research has discovered a 'yawning gap between top management's view of what the company culture looks like and how employees actually experience it' (Jayne 2003, p. 43).

6. Why is this happening?

7. The problem of saying one thing and doing another is age old. How do we close the gap between the sort of organisation we apparently want and the one we get?

8. The research also raises an important issue of definition. What is a constructive culture and how is it measured?

(Material relevant to questions 6 to 8 may be found in Jayne, V. 2003, "The executive disconnect", *New Zealand Management*, September, pp.43–5.)

MANAGEMENT EXERCISES

EXERCISE 1

MANAGEMENT EXERCISE: ASSESSING A SKI-SHOP ENVIRONMENT

Overview

Two students have an opportunity to take over management of a ski shop that has been only marginally profitable. The shop has problems, such as inadequate inventory management, low sales from October to April, and poor relations with the local government. Students are asked to first outline the major elements in the ski shop's task environment and then prepare a proposal indicating how they would attempt to better manage the environmental impacts on the ski shop.

Objectives

To give students practice in environmental analysis.
To give students practice in applying the approaches to managing environmental impacts.

Suggested time schedule

Introduce exercise and form groups	5 minutes
Group activities:	
Outline task environment of ski shop	10 minutes
Propose better management of environmental impacts	15 minutes
Class discussion	20 minutes
Total:	50 minutes

Operating Suggestions

This exercise can be run with two-person groups but also allows for additional group members, who are friends helping with advice. In actuality, three–to-five-person groups will probably work best in terms of generating ideas and then allowing each group some opportunity to communicate its conclusions.

Visual aids will help keep students focused on the task and will also help demonstrate the connection between the exercise and material in the chapter. During the task environment section, you may wish to use Figure 3.1. During the managing environmental impacts section, Table 3.2 may be useful.

During the class discussion, you may want one group to present its task environment analysis and other groups to discuss how and why their analyses differed. To limit repetition during class discussion of the proposals for better management of the ski shop's environment, list recommendations on the board.

Solutions

1. The major elements of the task environment include:

Customers and clients Although the ski shop is marginally profitable, it appears to be missing a large proportion of its customer base. Potential customers include the 20,000 students on campus and many of the residents of the college town who are also avid skiers. Little is done to attract customers.

Government agencies Relations with the local government agencies are not positive. This has been a major factor in not being able to expand the parking lot. Also, it may have alienated potential customers. Since this is a relatively small town, news travels fast, at least in the inner circles of the government. Relationships with the state and federal agencies with which the shop must interact are unknown, but presumably are not problematic at this point.

Labour supply Not much mention of labour supply difficulties. There likely are many potential student workers available. May be more difficult to attract workers who are capable of repairing and maintaining ski equipment, should the ski shop decide to introduce that service.

Competitors Competition at the moment appears to be the various ski lodges in the area. There are rumours that another ski shop may open. Given the current state of the ski shop, this would seem to be a plausible rumour.

Suppliers There seems to be a problem with supplies. The shop habitually runs out of ski clothing and equipment, then hastily ordered merchandise arrives late.

2. Proposal to better manage the environmental impacts

Students should use the approaches to managing environmental impacts, which are summarised in Table 3.2 in the text, to prepare their proposal.

Adaptation
Buffering or stockpiling supplies may help, if reliable suppliers cannot be found. However, it would seem better to attempt to develop realistic sales projections and then work with suppliers to forge a more flexible arrangement for obtaining supplies if sales are better or worse than projections.

Smoothing to reduce market fluctuations may be feasible. Perhaps coupons and sales early in the season would help to smooth out demands and enable the shop to get a better handle on its supply situation. This approach may also help with the low business cycle from October to May.

Forecasting is definitely needed here. The fact that the shop habitually runs out of stock suggests that the shop does not have a good handle on demand patterns.

Rationing, which involves limiting access to products or services that are in high demand, does not appear to be a very desirable solution in this situation. However, it may be better than carrying excess inventory that may not be sold until the next season, if ever. A better supply arrangement should be devised to help avoid this approach.

Favourability influence

Advertising and public relations would be good steps for the ski shop. They need to be more visible with potential customers and to build better relationships. These methods could help. Some ideas might be ads in the local and college papers, running a ski festival, holding special promotions during orientation week, sponsoring a local marathon for charity, etc.

Boundary spanning is definitely needed here. There is a need to both collect and disseminate information. Perhaps the two students contemplating taking over the business could attempt to perform this role, since they are both students at the university. Hiring people who could help in this capacity would be important. Surveys and focus groups also could be used here to collect potential customer perceptions/needs.

Recruiting may be needed to obtain better sales people (perhaps people well connected on campus or in town) and to perhaps attract someone who could repair and maintain equipment.

Negotiating contracts can be used to obtain better arrangements with suppliers. Perhaps some type of just-in-time arrangement could be devised. May also be useful to negotiate for more parking spaces in return for putting up a new sign. The students will also want to carefully negotiate the conditions under which they would take over the management of the ski shop. They would not want to build up the business and then have the present owners fire them. They will need a legal contract to cover the situation.

Co-opting, absorbing key members of important environmental elements into the leadership and policy making may not be feasible at this point for the small shop. Perhaps this method could be used to make a decision about what type of sign would be beneficial, assuming something must be done about the current sign.

Joint ventures generally may not be a good idea at this point because of the need to concentrate on basics.

Trade associations may be useful to obtain information about what others are doing to be successful. May also be able to tie into public relations efforts.

Political activity may be useful as a means of influencing the local officials. Perhaps the ski shop could join the local Chamber of Commerce with a goal of getting to know some of the high level government officials that attend.

Domain shift A change in the mix of products and services offered may be in order here. For example, it may be useful to expand into repairing and maintaining ski equipment. Renting skis, if they do not already do so may also be beneficial, since ski resorts often rent poor equipment at high prices. Explore the possibility of becoming a ski and swim shop—that would expand into an area which would produce sales during the slow summer season.

EXERCISE 2

SELF-ASSESSMENT EXERCISE: CORPORATE CULTURE PREFERENCE SCALE

Overview

This exercise allows students to think about different issues in managing an organisation and reflect on their preference and the type of culture they would prefer to

work within in an organisation. This exercise is based on Figure 3.5 Organisation opportunity matrix and the characteristics of entrepreneurial versus administrative cultures indicated in Table 3.3.

Objective

To assess the students' preferences for entrepreneurial versus administrative culture.

Suggested Time Schedule

Introduction	5 minutes
Response to statements	10 minutes
Scoring	5 minutes
Score explanation	5 minutes
Class discussion	10 minutes
Total	35 minutes

SUPPLEMENTARY EXERCISE 1: SHORT INTERACTIVE

CLASSIFYING ENVIRONMENTAL FORCES

Assume you are a manager of a small but growing software firm that specialises in spreadsheets. Please classify the elements listed below for your firm. For each item, indicate whether it is an element of the mega-environment ('M') or the task environment ('T'). Then, please indicate the specific category within the respective type of environment (e.g. technological, competitor, etc.) (It may be useful to remind students that the mega-environment involves broad general trends.)

M	**Technological**	An important new advanced computer chip is being developed by major chip manufacturers. It will revolutionise how software must be designed.
T	**Competitors**	Lotus announces a new Lotus 1-2-3 upgrade.
M	**International**	Increase in availability of personal computers worldwide opens global software markets.
T	**Customer**	General Motors places a large order for your software.
T	**Labour supply**	Layoffs at several local software firms make it much easier to recruit software engineers.
M	**Legal–political**	The Supreme Court makes a decision affecting the ability to copyright software.
T	**Government agency**	The ATO notifies you that they plan to audit your corporate income tax return for the last year.
M	**Sociocultural**	Aging baby-boomers provide a potential market for retirement planning spreadsheets.
M	**Economics**	The economy pulls out of the recession.

SUPPLEMENTARY EXERCISE 2: EXPERIENTIAL

IDENTIFYING THE EXTERNAL ENVIRONMENT

Objectives

To identify the elements in the task environment that significantly affect your college or university.
To learn how to identify important elements of an organisation's task environment.

Experience

1. Working alone, you will speculate on the most important task environmental forces that you believe most affect your college or university both positively and negatively.
2. You will then investigate the ways in which these forces influence your university or college.
3. You will write a one-page report that identifies the results of your findings.
4. You will share your findings with a group and discover the findings of other students in your class.

Material

Writing materials, the text and library periodicals.

Procedure 1

Based on the discussion in the text, choose two external environmental forces from the task environment you believe either positively or negatively affect your college or university. You should decide upon your own external environmental forces, but consider elements such as funding sources, external governance, community support, accrediting agencies, parents, geographic characteristics, technological changes affecting various disciplines and external research activity.

Procedure 2

On your own, look through back issues of the Union Newspaper, the local newspaper, or other library sources to verify that your proposed external environmental forces exist and to determine the nature of their effects.

Procedure 3

Write a one-page report on your findings, to be turned in to your lecturer or tutor.

Procedure 4

Meet with four or five other class members, share your findings, and listen to the findings of the other students. Be prepared to discuss your findings with the entire class in a class discussion session.

Group Questions

1. What are the major task environmental effects the class was able to identify?
2. What form did these effects take, and specifically how did they affect your university?
3. How does the university appear to deal with the task environmental effects you have identified?

4. What could your college or university do to deal with these effects more effectively?

Conclusion

After reviewing all your individual reports, the lecturer or tutor will give you feedback about the accuracy with which you identified and analysed task environmental effects.

Reinforcement
What did I learn from this experience? How will I use this knowledge in the future?

Teaching Notes
Operating Suggestions

In this exercise, students will have a chance to identify forces within the task environment that affect the college or university. To begin, students should sit alone and think about what sorts of external forces have a major impact on the university, and then identify and write down two major forces in the task environment. Then each student should work on their own, perusing periodicals that cover the news of your university to find information about those affecting forces. Students will then hand in a one-page report on the subject. After the paper has been turned in for evaluation, students can discuss their findings in groups of four or five and prepare for a general class discussion.

Timing for the exercise should approximate the following:
    10 minutes to develop a list of environmental forces (on own)
    1 hour library research time (outside class)
    Each student writes a report (time varies)
    30 minutes to summarise group findings (in or outside class)
    30 minutes for in-class discussion

Discussion

As a result of this exercise, students should gain an understanding of the existence of external forces in the task environment, and the effects of these forces upon the organisation. Since it is not uncommon for managers to underestimate the importance and effects of the environment, this exercise should be a healthy eye-opener for students. In your discussion, you should attempt to see how broadly the various elements of the task environment have been identified, and perhaps keep a list on the board of all that have been identified. The final list should be very revealing in terms of the complexity of the environmental effects on the college or university, as well as the way each environment affects the institution. If the conclusion of the discussion is used to make parallels to other institutions and businesses, the students will begin to understand the reasoning behind the contingency approaches to management that are discussed.

SUPPLEMENTARY INTERNET EXERCISE

The need for managers to be able to keep up with a world of constant change features as an underlying theme of much of this chapter. For many organisations, this need is most dramatically evident today in moves to internet-based business and the world of e-commerce.

Log onto the following website for a different perspective on the management challenge of this move in terms of the concepts of brakes and accelerators:
http://web.hec.ca/cicma/en/communications/articles/CMAmagmt_avril02_ecommerce.pdf

1. What is the difference between brakes and accelerators and inhibitors and inductors?
2. How do these terms relate to e-commerce as discussed in this article?
3. How does the nature of the product an organisation produces affect e-commerce potential?