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Stephen P. Robbins Mary Coulter

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> What's Ahead

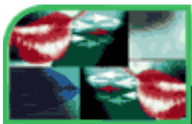
A Manager's Dilemma

One of the most beautiful cities in North America has to be Vancouver, British Columbia. The city is surrounded by jagged mountain peaks, sandy beaches, and sparkling English Bay. Vancouver's multiethnic population of over 543,000 people resides in 23 distinct communities. Catherine Deslauriers, the city of Vancouver's staff and organizational development coordinator, is focused on training the city's managers to be more accountable for the quality of city services and ultimately to increase citizen satisfaction.[1] Deslauriers's job is made more challenging by the fact that the city's "product" is always on public display.

Deslauriers accepted this job in January 2000. Part of her job duties involves designing and delivering training programs for city employees. Prior to her arrival, the city's various training programs had consisted of ongoing classes in a number of areas including leadership and change management. Even though individual training sessions received positive participant feedback, they had not been well planned and integrated across all business units. As Deslauriers soon discovered, each business unit in the city had its own culture. She explained, "How fire and rescue workers think and operate is quite different from those in engineering and public works." However, employee training is only part of what Deslauriers does.

One of her other major job responsibilities as outlined by Vancouver's City Council includes improving public involvement in city decisions and actions. Although it may sound like the residents of Vancouver aren't actively involved in city issues, that's not the case. Over a period of three years in the 1990s, more than 20,000 residents participated in developing a vision for the city's future. Vancouver's citizens care about the quality of services provided by the city. How can Deslauriers use what she knows about stakeholder relationship management to help her effectively and efficiently fulfill this mandate by City Council to improve public involvement? Put yourself in her position.

What Would You Do?



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Catherine Deslauriers recognizes the roles that both internal organizational culture and external environment play in making her organization—the city of Vancouver—successful. She also recognizes the challenges facing the organization in trying to manage both its internal culture and external environment. But how much actual impact does a manager such as Deslauriers have on an organization's success or failure? In the following section, we explore this important question.

> The Manager: Omnipotent or Symbolic?

The dominant view in management theory and society in general is that managers are directly responsible for an organization's success or failure. We'll call this perspective the omnipotent view of management. In contrast, some observers have argued that much of an organization's success or failure is due to forces outside management's control. In other words, external forces, not management, determine outcomes. This perspective has been labeled the symbolic view of management. Let's look more closely at each of these perspectives so we can try to clarify just how much credit or blame managers should receive for their organization's performance.

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Take a closer look at the concepts and issues you've been reading about.

The Omnipotent View

In Chapter 1, we discussed the importance of managers and management to organizations. This view reflects a dominant assumption in management theory: The quality of an organization's managers determines the quality of the organization itself. It's assumed that differences in an organization's effectiveness or efficiency are due to the decisions and actions of its managers. Good managers anticipate change, exploit opportunities, correct poor performance, and lead their organizations toward their objectives, which even may be changed if necessary. When profits are up, management takes the credit and rewards itself with bonuses, stock options, and the like. When profits are down, the board of directors often replaces top management in the belief that "new blood" will bring improved results. For instance, it only took nine months for the board of directors at Lands' End, the catalog retailer, to replace its top manager when its operating income declined and holiday sales fell far short of expectations.

The view of managers as omnipotent is consistent with the stereotypical picture of the take-charge business executive who can overcome any obstacle in carrying out the organization's objectives. This omnipotent view, of course, isn't limited to business organizations. We can also use it to help explain the high turnover among college and professional sports coaches, who can be considered the "managers" of their teams. Coaches who lose more games than they win are seen as ineffective. They are fired and replaced by new coaches who, it is hoped, will correct the inadequate performance.

In the omnipotent view, when organizations perform poorly, someone has to be held accountable regardless of the reasons why, and in our society, that "someone" is the manager. Of course, when things go well, we need someone to praise. So managers also get the credit—even if they had little to do with achieving positive outcomes.

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Is the success or failure of an organization ultimately due to the actions of its managers?

The Symbolic View

Winn-Dixie Stores operates 1,188 grocery stores across a 14-state southern region. When the company decided to close 10 percent of its stores and cut 11,000 jobs in April 2000, competitors such as Kroger found its business volume and revenues increasing. Was the increase in sales for Kroger the result of managers' decisions and actions, or was it beyond the control of the organizations' managers? The symbolic view would suggest that the positive performance wasn't due to anything that the managers did but instead was due to forces beyond their control.

The symbolic view says that a manager's ability to affect outcomes is influenced and constrained by external factors.[2] In this view, it's unreasonable to expect managers to significantly affect an organization's performance. Instead, an organization's results are influenced by factors outside the control of management. These factors include the economy, market (customer) changes, governmental policies, competitors' actions, conditions in the particular industry, control over proprietary technology, and decisions made by previous managers.

According to the symbolic view, managers have a limited effect on organizational outcomes.[3] A manager's roles are seen as creating meaning out of randomness, confusion, and ambiguity or trying to innovate and adapt. Managers symbolize control and influence by developing plans, making decisions, and engaging in other managerial activities. They do so for the benefit of stockholders, customers, employees, and the public. However, according to this view, the actual part that managers play in organizational success or failure is minimal.

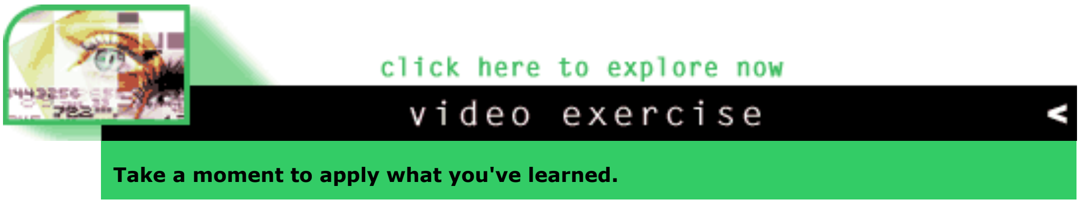
ABC's managers were quite surprised at the sensational, almost overnight, success of the network television program "Who Wants to Be a Millionaire?" But how much impact did those managers really have on the show's success? Was the popularity of the show due to anything the managers did or was it just a reflection of the fickle tastes of television audiences? The symbolic view would say that this outcome was due to forces beyond managers' control.

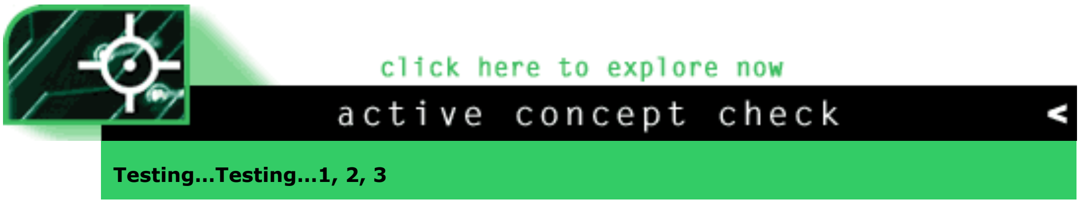
Reality Suggests a Synthesis

In reality, managers are neither helpless nor all-powerful. Internal constraints that restrict a manager's decision options exist within every organization. These internal constraints arise from the organization's culture. In addition, external constraints come from the organization's environment.

Exhibit 3.1 shows managers as operating within the constraints imposed by the organization's culture and environment. Yet, despite these constraints, managers are not powerless. They can still influence an organization's performance. In the remainder of this chapter, we'll discuss organizational culture and environment as constraints. However, as we'll see in other chapters, these constraints don't mean that a manager's hands are tied. As Catherine Deslauriers in our chapter-opening dilemma recognizes, managers may be able to change and influence their culture and environment and, thus, expand their area of discretion as they plan, organize, lead, and control.

Exhibit 3.1 **Parameters of Managerial Discretion**





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Chapter 3

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> The Organization's Culture

We know that every person has a unique personality. An individual's personality is a set of relatively permanent and stable traits. Our personality influences the way we act and interact with others. When we describe someone as warm, open, relaxed, or conservative, we're describing personality traits. An organization, too, has a personality, which we call its culture.

What is Organizational Culture?

What is organizational culture? It's a system of shared meaning and beliefs held by organizational members that determines, in large degree, how they act. It represents a common perception held by the organization's members. Just as tribal cultures have rules and taboos that dictate how members will act toward each other and outsiders, organizations have cultures that govern how its members should behave. In every organization, there are systems or patterns of values, symbols, rituals, myths, and practices that have evolved over time.[4] These shared values determine to a large degree what employees see and how they respond to their world.[5] When confronted with problems or work issues, the organizational culture—the "way we do things around here"—influences what employees can do and how they conceptualize, define, analyze, and resolve issues.

Our definition of culture implies several things. First, culture is a perception. Individuals perceive the organizational culture on the basis of what they see, hear, or experience within the organization. Second, even though individuals may have different backgrounds or work at different organizational levels, they tend to describe the organization's culture in similar terms. That is the shared aspect of culture. Finally, organizational culture is a descriptive term. It's concerned with how members perceive the organization, not with whether they like it. It describes rather than evaluates.

Research suggests that there are seven dimensions that capture the essence of an organization's culture.[6] These dimensions are described in Exhibit 3.2. As you can see, each of these characteristics exists on a continuum from low to high. Appraising an organization on these seven dimensions gives a composite picture of the organization's culture. In many organizations, one of these cultural dimensions often rises above the others and essentially shapes the organization's personality and the way organizational members do their work. For instance, at Sony Corporation the focus is on product innovation. The company "lives and breathes" new-product development (outcome orientation), and employees' work decisions, behaviors, and actions support that goal. In contrast, Southwest Airlines has made its employees a central part of its culture (people orientation). Exhibit 3.3 demonstrates how these dimensions can be mixed to create significantly different organizations.

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Does every organization have a culture?

Exhibit 3.2	Dimensions of Organizational Culture

Organization A

This organization is a manufacturing firm. Managers are expected to fully document all decisions, and "good managers" are those who can provide detailed data to support their recommendations. Creative decisions that incur significant change or risk are not encouraged. Because managers of failed projects are openly criticized and penalized, managers try not to implement ideas that deviate much from the status quo. One lower-level manager quoted an often-used phrase in the company: "If it ain't broke, don't fix it."

Employees are required to follow extensive rules and regulations in this firm. Managers supervise employees closely to ensure that there are no deviations. Management is concerned with high productivity, regardless of the impact on employee morale or turnover.

Work activities are designed around individuals. There are distinct departments and lines of authority, and employees are expected to minimize formal contact with other employees outside their functional area or line of command. Performance evaluations and rewards emphasize individual effort, although seniority tends to be the primary factor in the determination of pay raises and promotions.

Organization B

This organization is also a manufacturing firm. Here, however, management encourages and rewards risk taking and change. Decisions based on intuition are valued as much as those that are well rationalized. Management prides itself on its history of experimenting with new technologies and its success in regularly introducing innovative products. Managers or employees who have a good idea are encouraged to "run with it," and failures are treated as "learning experiences." The company prides itself on being market driven and rapidly responsive to the changing needs of its customers.

There are few rules and regulations for employees to follow, and supervision is loose because management believes that its employees are hardworking and trustworthy. Management is concerned with high productivity but believes that this comes through treating its people right. The company is proud of its reputation as being a good place to work.

Job activities are designed around work teams, and team members are encouraged to interact with people across functions and authority levels. Employees talk positively about the competition between teams. Individuals and teams have goals, and bonuses are based on achievement of outcomes. Employees are given considerable autonomy in choosing the means by which the goals are attained.

Exhibit 3.3 **Contrasting Organizational Cultures**

Strong Versus Weak Cultures

Although all organizations have cultures, not all cultures have an equal impact on employees' behaviors and actions. Strong cultures—cultures in which the key values are deeply held and widely shared—have a greater influence on employees than do weak cultures. The more that employees accept the organization's key values and the greater their commitment to those values, the stronger the culture is.

Whether an organization's culture is strong, weak, or somewhere in between depends on factors such as the size of the organization, how long it has been around, how much turnover there has been among employees, and the intensity with which the culture was originated. Some organizations do not make clear what is important and what is not; this lack of clarity is a characteristic of weak cultures. In such organizations, culture is unlikely to greatly influence managers. Most organizations, however, have moderate to strong cultures. There is relatively high agreement on what's important, what defines "good" employee behavior, what it takes to get ahead, and so forth. In fact, one study of organizational culture found that employees in organizations with strong cultures were more committed to their organization than were employees in organizations with weak cultures. The organizations with strong cultures also used their recruitment efforts and socialization practices to build employee commitment.[7] And an increasing body of evidence suggests that strong cultures are associated with high organizational performance.[8] What are the implications for the way managers manage? As an organization's culture becomes stronger, it has an increasing impact on what managers do.[9]

Testing...Testing...1, 2, 3

The Source of Culture

An organization's current customs, traditions, and general way of doing things are largely due to what it has done before and the degree of success it has had with those endeavors. The original source of an organization's culture usually reflects the vision or mission of the organization's founders. Because the founders had the original idea, they also may have biases on how to carry out the idea. Their focus might be on aggressiveness or it might be on treating employees as family. The founders establish the early culture by projecting an image of what the organization should be. They're not constrained by previous customs or approaches. And the small size of most new organizations helps the founders instill their vision in all organizational members.

Let's look at an example of how an individual can have an enormous influence on shaping his or her organization's culture. Yvon Chouinard, the founder of the outdoor gear company Patagonia, Inc., was an avid "extreme adventurer." He approached the business in a laid-back, casual manner. For instance, he hired employees not on the basis of any specific business skills but because he had climbed, fished, or surfed with them. Employees were friends, and work was treated as something fun to do. In a speech Chouinard gave a few years ago, he is said to have uttered the timeless line, "Let my people go surfing!" Although the company (now called Lost Arrow) has more than 1,000 employees and revenues of over $182 million (2000), its culture still reflects Chouinard's values and philosophy. To keep employees happy, it offers child care and yoga classes at work and donates 1 percent of its sales to green causes. And if the surf is good, employees are free to go enjoy it!

What's the right organizational culture for you?

How Employees Learn Culture

Culture is transmitted to employees in a number of ways. The most significant are stories, rituals, symbols, and language.

Stories

Organizational "stories" typically contain a narrative of significant events or people including such things as the organization's founders, rule breaking, reactions to past mistakes, and so forth.[10] For instance, managers at Nike feel that stories told about the company's past help shape the future. Whenever possible, corporate "storytellers" (senior executives) explain the company's heritage and tell stories that celebrate people getting things done. These stories provide prime examples that people can learn from.[11] To help employees learn the culture, organizational stories anchor the present in the past, provide explanations and legitimacy for current practices, and exemplify what is important to the organization.[12]

Rituals

Corporate rituals are repetitive sequences of activities that express and reinforce the values of the organization, what goals are most important, and which people are important and which ones are expendable.[13] One of the best-known corporate rituals is Mary Kay Cosmetics' annual meeting for its sales representatives.[14] Looking like a cross between a circus and a Miss America pageant, the awards ceremony takes place in a large auditorium, on a stage in front of a large, cheering audience, with all the participants dressed in glamorous evening clothes. Salespeople are rewarded for their success in achieving sales goals with an array of flashy gifts including gold and diamond pins, furs, and pink Cadillacs. This "show" acts as a motivator by publicly acknowledging outstanding sales performance. In addition, the ritual aspect reinforces founder Mary Kay's determination and optimism, which enabled her to overcome personal hardships, found her own company, and achieve material success. It conveys to her salespeople that reaching their sales goals is important and that, through hard work and encouragement, they too can achieve success. Your second author had the experience of being on a flight out of Dallas one year with a planeload of Mary Kay sales representatives headed home from the annual awards meeting. Their contagious enthusiasm and excitement made it obvious that this annual "ritual" played a significant role in establishing desired levels of motivation and behavioral expectations, which, after all, is what an organization's culture should do.

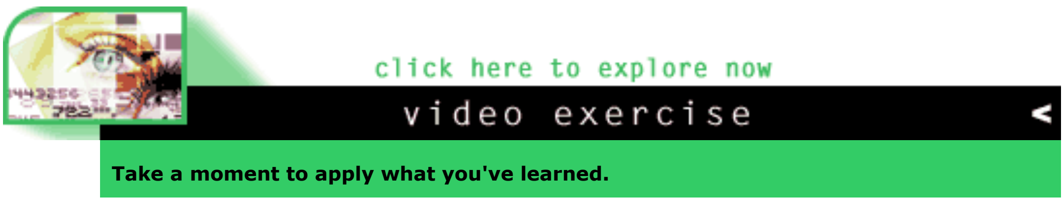
Material Symbols

When you walk into different businesses, do you get a "feel" for the place—formal, casual, fun, serious, and so forth? These feelings you get demonstrate the power of material symbols in creating an organization's personality. The layout of an organization's facilities, how employees dress, the types of automobiles top executives are provided, and the availability of corporate aircraft are examples of material symbols. Others include the size of offices, the elegance of furnishings, executive "perks" (extra "goodies" provided to managers such as health club memberships, use of company-owned resort facilities, and so forth), the existence of employee lounges or on-site dining facilities, and reserved parking spaces for certain employees. These material symbols convey to employees who is important, the degree of equality desired by top management, and the kinds of behavior (for example, risk taking, conservative, authoritarian, participative, individualistic, and so forth) that are expected and appropriate.

Language

Many organizations and units within organizations use language as a way to identify members of a culture. By learning this language, members attest to their acceptance of the culture and their willingness to help to preserve it. For instance, Microsoft, the software company, has its own unique vocabulary: work judo (the art of deflecting a work assignment to someone else without making it appear that you're avoiding it; eating your own dog food (a strategy of using your own software programs or products in the early stages as a way of testing them even if the process is disagreeable); flat food (goodies from the vending machine that can be slipped under the door to a colleague who's working feverishly on deadline); facemail (actually talking to someone face-to-face; considered by Microsoft employees a technologically backward means of communicating); death march (the countdown to shipping a new product); and so on.[15]

Over time, organizations often develop unique terms to describe equipment, key personnel, suppliers, customers, or products that are related to their business. New employees are frequently overwhelmed with acronyms and jargon that, after a short period of time, become a natural part of their language. Once learned, this language acts as a common denominator that unites members of a given culture.



How Culture Affects Managers

Because it constrains what they can and cannot do, an organization's culture is particularly relevant to managers. These constraints are rarely explicit. They're not written down. It's unlikely that they'll even be spoken. But they're there, and all managers quickly learn what to do and not to do in their organization. For instance, you won't find the following values written down anywhere, 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.

The link between values such as these and managerial behavior is fairly straightforward. 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 throughout the organization are unlikely to pursue programs that are innovative, risky, long term, or expansionary. For organizations that value and encourage workforce diversity, the and, thus, managers' decisions and actions should be supportive of diversity efforts. (See the "Managing Workforce Diversity" box for more information on creating an inclusive workplace.) In an organization whose culture conveys a basic distrust of employees, managers are more likely to use an authoritarian leadership style than a democratic one. Why? The culture establishes for managers what is appropriate behavior. For instance, at St. Luke's advertising agency in London, a culture shaped by the value placed on freedom of expression, a lack of coercion and fear, and a determination to make work fun influences the way employees work and the way that managers plan, organize, lead, and control. The organization's culture is also reinforced by the office environment, which is open, versatile, and creative.[16]

An organization's culture, especially a strong one, constrains a manager's decision-making options in all management functions. As shown in Exhibit 3.4, the major areas of a manager's job are influenced by the culture in which he or she operates.

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

Exhibit 3.4 **Managerial Decisions Affected by Culture**

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What happens when a manager doesn't fit in with an organizational culture?

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> The Environment

Our discussion in Chapter 1 of an organization as an open system explained that an organization interacts with its environment as it takes in inputs and distributes outputs. Anyone who questions the impact of the external environment on managing should consider the following:

> The Cadillac Division of General Motors has watched its faithful buyers grow silver-haired. Its average new-car buyer is now over 60 years old. To counteract this demographic trend, the company's managers are looking at ways to attract a new generation of buyers.
>
> The year 2000 brought a harsh dose of reality to the booming stock market as the dramatic fall in the Nasdaq stock index affected the ability of companies, especially Internet companies, to raise additional capital. Some companies even canceled their initial public offerings (IPOs) of stock because of the dramatic decline in the stock market.

As these two examples show, there are forces in the environment that play a major role in shaping managers' actions. In this section, we'll identify some of the critical environmental forces that affect management and show how they constrain managerial discretion.

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video example <
Take a closer look at the concepts and issues you've been reading about.

Defining the External Environment

The term external environment refers to forces and institutions outside the organization that potentially can affect the organization's performance. The external environment is made up of two components, the specific environment and the general environment, as shown in Exhibit 3.5.

Exhibit 3.5	The External Environment

The Specific Environment

The specific environment includes those constituencies that have a direct and immediate impact on managers' decisions and actions and are directly relevant to the achievement of the organization's goals. Each organization's specific environment is unique and changes with conditions. For instance, Timex and Rolex both make watches, but their specific environments differ because they operate in distinctly different market niches. What constituencies make up the specific environment? The main ones are customers, suppliers, competitors, and pressure groups.

Customers

Organizations exist to meet the needs of customers. It's the customer or client who absorbs the organization's output. This is true even for governmental organizations. (Think back to our chapter opener.) They exist to provide services, and we're reminded, especially at election time, that we indicate by our votes how satisfied we are as customers.

Customers obviously represent potential uncertainty to an organization. Their tastes can change; they can become dissatisfied with the organization's product or service. Of course, some organizations face considerably more uncertainty as a result of their customers than do others. For example, what do you think of when you think of Club Med? Club Med's image was traditionally one of carefree singles having fun in the sun at exotic locales. Club Med found, however, that as their target customers married and had children, these same individuals were looking for family-oriented vacation resorts where they could bring the kids. Although Club Med responded to the changing demands of its customers by offering different types of vacation experiences, including family-oriented ones, the company found it hard to change its original image.

Suppliers

When you think of an organization's suppliers, you typically think in terms of organizations that provide materials and equipment. For Walt Disney World resorts in Florida, these include organizations that sell soft-drink syrups, computers, food, flowers and other nursery stock, concrete, and paper products. But the term suppliers also includes providers of financial and labor inputs. Stockholders, banks, insurance companies, pension funds, and other similar organizations are needed to ensure a continuous supply of money. Labor unions, colleges and universities, occupational associations, trade schools, and local labor markets are sources of employees. When the sources of employees dry up, it can constrain managers' decisions and actions. For example, a lack of qualified nurses, a problem plaguing the health care industry, is making it difficult for health care providers to fulfill demand and achieve objectives.

Managers seek to ensure a steady flow of needed inputs at the lowest price available. Because these inputs represent uncertainties—that is, their unavailability or delay can significantly reduce the organization's effectiveness—managers typically go to great efforts to ensure a steady, reliable flow. The application of e-business principles and methods is changing the way that organizations deal with suppliers. (The "Managing in an E-Business World" box looks at this issue as well as how e-business is affecting other external constituencies.)

Competitors

All organizations have one or more competitors. Although the U.S. Postal Service has a monopoly on mail service, it competes with FedEx, UPS, and other forms of communication such as the telephone, e-mail, and fax. Nike competes against Reebok, Adidas, and Fila among others. Coca-Cola competes against Pepsi and other soft-drink companies. Not-for-profit organizations such as the Metropolitan Museum of Art and Girl Scouts USA also compete for dollars, volunteers, and customers.

Managers cannot afford to ignore the competition. When they do, they pay dearly. For instance, until the 1980s, the three major broadcast networks—ABC, CBS, and NBC—virtually controlled what you watched on television. Now, with digital cable, DVD players and VCRs, and even the World Wide Web, customers have a much broader choice of what to watch. As technological capabilities continue to expand, the number of viewing options will provide even more competition for the broadcast networks. The Internet is also having an impact on whom an organization's competitors are because it has virtually eliminated the geographic boundaries. Through the power of Internet marketing, a small maple syrup maker in Vermont can compete with the likes of Pillsbury, Quaker Oats, and Smuckers.

These examples illustrate that competitors—in terms of pricing, new products developed, services offered, and the like—represent an environmental force that managers must monitor and to which they must be prepared to respond.

Pressure Groups

Managers must recognize the special-interest groups that attempt to influence the actions of organizations. For instance, PETA's (People for the Ethical Treatment of Animals) pressure on McDonald's Corporation over its handling of animals during the slaughter process led McDonald's to stop buying beef from one of its suppliers until it met McDonald's standards for processing cattle. And it would be an unusual week if we didn't read that environmental or human rights activists were picketing, boycotting, or threatening some organization in order to get managers to change some decision or action.

As social and political attitudes change, so too does the power of pressure groups. For example, through their persistent efforts, groups such as MADD (Mothers Against Drunk Driving) and SADD (Students Against Destructive Decisions) have not only managed to make changes in the alcoholic beverage and restaurant and bar industries but have also raised public awareness about the problem of drunk drivers.

The General Environment

The general environment includes the broad economic, political/legal, sociocultural, demographic, technological, and global conditions that may affect the organization. Changes in any of these areas usually do not have as large an impact as the specific environment has, but managers must consider these areas as they plan, organize, lead, and control.

Economic Conditions

Interest rates, inflation, changes in disposable income, stock market fluctuations, and the stage of the general business cycle are some of the economic factors in the general environment that can affect management practices in an organization. For example, many specialty retailers such as Ikea, The Limited, and Williams-Sonoma are acutely aware of the impact the level of consumer disposable income has on their sales. When consumers' incomes fall or when their confidence about job security declines, they will postpone purchasing anything that isn't a necessity. Even charitable organizations such as the United Way or the Muscular Dystrophy Association feel the impact of economic factors. During economic downturns, not only does the demand for their services increase but their contributions typically decrease.

Political/Legal Conditions

Federal, state, and local governments influence what organizations can and cannot do. Some federal legislation has significant implications. For example, the Americans with Disabilities Act of 1990 (ADA) was designed to make jobs and facilities more accessible to people with disabilities. Exhibit 3.6 lists other significant legislation affecting business firms.

Legislation	Purpose
Occupational Safety and Health Act of 1970	Requires employer to provide a working environment free from hazards to health
Consumer Product Safety Act of 1972	Sets standards on selected products; requires warning labels, and orders product recalls
Equal Employment Opportunity Act of 1972	Forbids discrimination in all areas of employer-employee relations
Employee Retirement Income Security Act of 1974	Enacted by Congress to protect an employee's right to his or her pension
Tax Reform Act of 1986	Provided for a major restructuring of the U.S. federal income tax rate system
Worker Adjustment and Retraining Notification Act of 1988	Requires employers with 100 or more employees to provide 60 days' notice before a facility closing or mass layoff
Americans with Disabilities Act of 1990	Prohibits employers from discriminating against individuals with physical or mental disabilities or the chronically ill; also requires organizations to reasonably accommodate these individuals

Civil Rights Act of 1991	Reaffirms and tightens prohibition of discrimination; permits individuals to sue for punitive damages in cases of intentional discrimination
Women's Business Development Act of 1991	Assists the development of small business concerns owned and controlled by women through a training program and a loan program that eases access to credit through the Small Business Administration (SBA) loan program
Family and Medical Leave Act of 1993	Grants 12 weeks of unpaid leave each year to employees for the birth or adoption of a child or the care of a spouse, child, or parent with a serious health condition; covers organizations with 50 or more employees
North American Free Trade Agreement of 1993	Created a free-trade zone between the United States, Canada, and Mexico
Child Safety Protection Act of 1994	Provides for labeling requirements on certain toys that contain parts or packaging that could harm children and requires manufacturers of such toys to report any serious accidents or deaths of children to the Consumer Product Safety Commission
General Agreement on Tariffs and Trade (GATT) of 1994	Provides for the lowering of tariffs globally by roughly 40%, extending intellectual property protection worldwide, and tightening rules on investment and trade in services
U.S. Economic Espionage Act of 1996	Makes theft or misappropriation of trade secrets a federal crime
Electronic Signatures in Global and National Commerce Act of 2000	Gives online contracts (those signed by computer) the same legal force as equivalent paper contracts

Exhibit 3.6 **Selected U.S. Legislation Affecting Business**

Organizations spend a great deal of time and money to meet governmental regulations, but the effects of these regulations go beyond time and money.[19] They also reduce managerial discretion by limiting the choices available to managers. Consider the decision to dismiss an employee.[20] Historically, employees were free to quit an organization at any time and employers had the right to fire an employee at any time with or without cause. Laws and court decisions, however, have put increasing limits on what employers may do. Employers are increasingly expected to deal with employees by following the principles of good faith and fair dealing. Employees who feel that they've been wrongfully discharged can take their case to court. Juries are increasingly deciding what is or is not "fair." This trend has made it more difficult for managers to fire poor performers or to dismiss employees for off-duty conduct.

Other aspects of the political/legal sector are political conditions and the general stability of a country in which an organization operates and the attitudes that elected governmental officials hold toward business. In the United States, for example, organizations have generally operated in a stable political environment. However, management is a global activity. Managers should attempt to forecast major political changes in countries in which they operate because these political conditions can influence decisions and actions.

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Sociocultural Conditions

Managers must adapt their practices to the changing expectations of the society in which they operate. As societal values, customs, and tastes change, managers must also change. For instance, as workers have begun seeking more balance to their lives, organizations have had to adjust by offering family leave policies, more flexible work hours and arrangements, and even on-site child care facilities. Other sociocultural changes in the United States that have been identified include the increasing fear of crime and violence; more acceptance of gambling and gaming activities; more emphasis on religion and spiritual activities; pursuit of healthy lifestyles; and acceptance of technology in our lives. Each of these trends may pose a potential constraint to managers' decisions and actions. If an organization does business in other countries, managers need to be familiar with those countries' values and cultures and manage in ways that recognize and embrace those specific sociocultural aspects.

Demographic Conditions

The demographic conditions encompass trends in the physical characteristics of a population such as gender, age, level of education, geographic location, income, family composition, and so forth—the type of information that the U.S. Census Bureau collects.

One particular population group that you may have heard a lot about is the "baby boomers." This group typically includes individuals who were born from 1946 to 1964. The reason you hear so much about the baby boomers is that there are so many of them. Through every life stage they've entered (going to elementary school, teenage years, climbing the career ladder, and now the middle-age years), they've had an enormous impact because of their sheer numbers. Other age cohorts besides boomers that have been identified include the Depression group (born 1912–1921); the World War II group (born 1922–1927); the Postwar group (born 1928–1945); the Generation X or "zoomers" group (born 1965–1977); and Generation Y or baby boomlet generation (born 1978–1994). This last group is predicted to be as large as, if not larger than, its boomer parents. And the latter-born of this age group have been described as the Digital or Net generation because of their immersion into and acceptance of computers and all things digital.[21] The members of this generation are thinking, learning, creating, shopping, and playing in fundamentally different ways that are likely to greatly impact organizations and managers.

Technological

In terms of the general environment, the most rapid changes during the past quarter-century have occurred in technology. We live in a time of continuous technological change. For instance, the human genetic code has been cracked. Just think of the implications of such an incredible breakthrough! Information gadgets are getting smaller and more powerful. We have automated offices, electronic meetings, robotic manufacturing, lasers, integrated circuits, faster and more powerful microprocessors, synthetic fuels, and entirely new models of doing business in an electronic age. Companies that capitalize on technology such as General Electric and Nokia prosper. In addition, many successful retailers such as Wal-Mart and The Limited use sophisticated inventory information systems to keep on top of current sales trends. Other organizations such as Prime Trucking Inc. with its on-board truck computers, American Airlines with its Sabre Reservation System, and Amazon.com use information as a competitive advantage and have adopted technologically advanced e-business systems to stay ahead of their competitors. Similarly, hospitals, universities, airports, police departments, and even military organizations that adapt to major technological advances have a competitive edge over those that do not. The whole area of technology is radically changing the fundamental ways that organizations are structured and the way that managers manage. We consider it so important that we've addressed technological issues and their impact on managers throughout several chapters.

Global

As we discussed in Chapter 2, globalization is one of the major factors affecting managers and organizations. Managers of both large and small organizations are challenged by an increasing number of global competitors and consumer markets as part of the external environment. We'll cover this component of the external environment in detail in the next chapter.

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How the Environment Affects Managers

Knowing what the various components of the environment are is important to managers. However, understanding how the environment affects managers is equally as important. The environment affects managers through the degree of environmental uncertainty that is present and through the various stakeholder relationships that exist between the organization and its external constituencies.

Assessing Environmental Uncertainty

Not all environments are the same. They differ by what we call their degree of environmental uncertainty, which is determined by two dimensions: degree of change and degree of complexity in an organization's environment. Environmental uncertainty can be described as shown in the matrix in Exhibit 3.7. Let's take a closer look at the two dimensions that comprise environmental uncertainty.

Degree of Complexity	Degree of Change: Stable	Degree of Change: 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 in continual process of change 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 in continual process of change High need for sophisticated knowledge of components

Exhibit 3.7 **Environmental Uncertainty Matrix**

The first of these dimensions is the degree of change. If the components in an organization's environment change frequently, we call it a dynamic environment. If change is minimal, we call it a stable one. A stable environment might be one in which there are no new competitors, no new technological breakthroughs by current competitors, little activity by pressure groups to influence the organization, and so forth. For instance, Zippo Manufacturing, best known for its Zippo lighters, faces a relatively stable environment. There are few competitors and little technological change. Probably the main environmental concern for the company is the declining trend in tobacco smokers, although the company's lighters have other uses and global markets remain attractive because tobacco use around the world is still strong.

In contrast, the Big Five of the music industry (Sony, Warner, BMG, EMI, and Universal) face a highly uncertain and unpredictable environment. Digital formats such as MP3 and music-swapping Internet services such as Napster Inc. are turning the recorded music industry upside down. Although the music companies have long earned revenues by selling physical commodities such as LP records, cassettes, CDs, and the like, the digital future represents chaos and uncertainty. This environment can definitely be described as dynamic.

What about rapid change that's predictable? Is that considered a dynamic environment? Bricks-and-mortar retail department stores provide a good example. They typically make one quarter to one third of their sales in December. The drop-off from December to January is significant. However, because the change is predictable, we don't consider the environment to be dynamic. When we talk about degree of change, we mean change that is unpredictable. If change can be accurately anticipated, it's not an uncertainty that managers must confront.

The other dimension of uncertainty describes the degree of environmental complexity. The degree of complexity refers to the number of components in an organization's environment and the extent of the knowledge that the organization has about those components. For example, Hasbro Toy Company, the second largest toy manufacturer (behind Mattel) has simplified its environment by acquiring many of its competitors such as Tiger Electronics, Wizards of the Coast, Kenner Toys, Parker Brothers, and Tonka Toys. The fewer competitors, customers, suppliers, government agencies, and so forth that an organization must deal with, the less complexity and, therefore, the less uncertainty there is in its environment.

Complexity is also measured in terms of the knowledge an organization needs to have about its environment. For instance, managers at the online brokerage E*Trade must know a great deal about their Internet service provider's operations if they want to ensure that their Web site is available, reliable, and secure for their stock-trading customers. On the other hand, managers of grocery stores have a minimal need for sophisticated knowledge about their suppliers.

How does the concept of environmental uncertainty influence managers? Looking again at Exhibit 3.7, each of the four cells represents different combinations of degree of complexity and degree of change. Cell 1 (an environment that is stable and simple) represents the lowest level of environmental uncertainty. Cell 4 (an environment that is dynamic and complex) is the highest. Not surprisingly, managers' influence on organizational outcomes is greatest in cell 1 and least in cell 4.

Because uncertainty is a threat to an organization's effectiveness, managers try to minimize it. Given a choice, managers would prefer to operate in environments such as those in cell 1. However, managers rarely have full control over that choice. In addition, most industries today are facing more dynamic change, making their environments more uncertain.

Stakeholder Relationship Management

What has made VH1 the TV channel for music-loving baby boomers? One reason is that VH1 President John Sykes knows the importance of building relationships with the organization's various external stakeholders: viewers, music celebrities, advertisers, affiliate TV stations, public service groups, and others. The nature of external stakeholder relationships is another way in which the environment influences managers. The more obvious and secure these relationships become, the more influence managers will have over organizational outcomes. In this section, we want to look at how we define these external stakeholder relationships, explain why managing external stakeholder relationships is important, and examine various ways of managing these relationships.

Who Are Stakeholders?

Stakeholders are any constituencies in the organization's external environment that are affected by the 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. For example, think of the groups that might be affected by the decisions and actions of Starbucks—coffee bean suppliers, employees, specialty coffee competitors, local communities, and so forth. Some of these stakeholders also may impact decisions and actions of Starbucks' managers. The idea that organizations have stakeholders is now widely accepted by both management academics and practicing managers.[22]

With what types of stakeholders might an organization have to deal? Exhibit 3.8 identifies some of the most common. Note that these stakeholders include internal and external groups. Why? Because both can affect what an organization does and how it operates. However, we're primarily interested in the external groups and their impact on managers' discretion in planning, organizing, leading, and controlling. This doesn't mean that the internal stakeholders aren't important, but we explain managing these relationships, primarily with organizational members (employees), throughout the rest of the book.

Exhibit 3.8 Organizational Stakeholders

Why Is Stakeholder Relationship Management Important?

Why should managers even care about managing stakeholder relationships?[23] One reason is that it can lead to other organizational outcomes such as improved predictability of environmental changes, more successful innovations, greater degrees of trust among stakeholders, and greater organizational flexibility to reduce the impact of change. But does it affect organizational performance? The answer is yes! Management researchers who have looked at this issue are finding that managers of high-performing companies tend to consider the interests of all major stakeholder groups as they make decisions.[24]

Another reason given for managing external stakeholder relationships is that it's the "right" thing to do. What does this mean? It means that an organization depends on these external groups as sources of inputs (resources) and as outlets for outputs (goods and services), and managers should consider their interests as they make decisions and take actions. We'll address this issue in more detail in Chapter 5 as we look at the concepts of managerial ethics and corporate social responsibility.

How Can These Relationships Be Managed?

There are four steps in managing external stakeholder relationships. The first step is identifying who the organization's stakeholders are. Which of the various external groups might be impacted by decisions that managers make and which external groups might influence those decisions? Those external groups that are likely to be influenced by and to influence organizational decisions are the organization's stakeholders. The second step is for managers to determine what particular interests or concerns these stakeholders might have—product quality, financial issues, safety of working conditions, environmental protection, and so forth. Next managers must decide how critical each stakeholder is to the organization's decisions and actions. In other words, how critical is it to consider this stakeholder's concerns as managers plan, organize, lead, and control? The very idea of a stakeholder—a group that has a "stake" in what the organization does—means that it is important. But some stakeholders are more critical to the organization's decisions and actions than others. For instance, a critical stakeholder of a publicly supported state university would be the state legislature because it controls how much budget money the university gets each year. On the other hand, the university's computer hardware and software suppliers are important but not critical. Once managers have determined these things, the final step is determining what specific approach they should use to manage the external stakeholder relationships. This decision depends on how critical the external stakeholder is to the organization and how uncertain the environment is.[25] The more critical the stakeholder and the more uncertain the environment, the more that managers need to rely on establishing explicit stakeholder partnerships. Exhibit 3.9 illustrates the various approaches to managing stakeholder relationships.

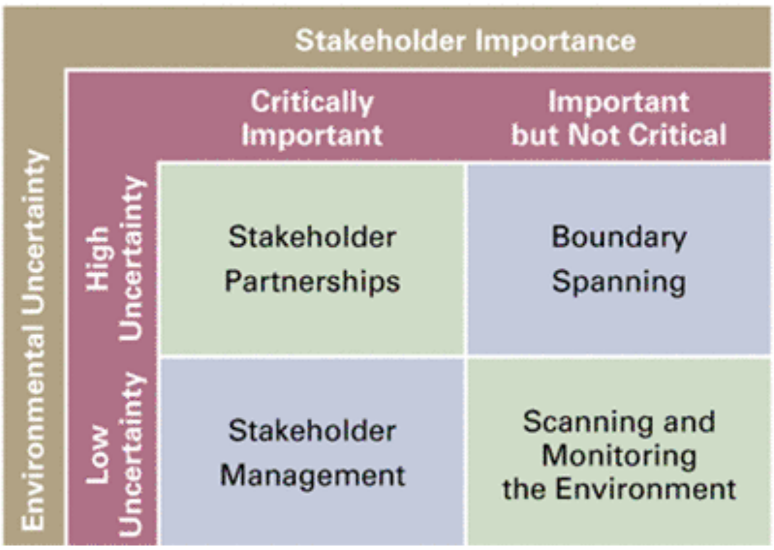


Exhibit 3.9 **Managing Stakeholder Relationships**

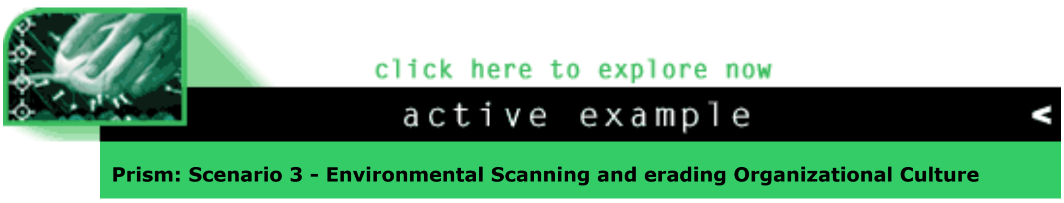
When external stakeholders are important but not critical and environmental uncertainty is low, managers usually rely on simply scanning and monitoring the environment for trends and forces that may be changing. In this situation, it's not necessary for managers to take specific actions to manage stakeholders. They just need to stay informed about what's happening with them, what concerns they might have, and whether these concerns are changing. (We'll discuss environmental scanning techniques in Chapter 9.)

When the stakeholder is important but not critical and environmental uncertainty is high, managers need to be more proactive in their efforts to manage the stakeholder relationships. They can do this by using boundary spanning, which involves interacting in more specific ways with various external stakeholders to gather and disseminate important information. In boundary spanning, organizational members move freely between the organization and external stakeholders. The boundaries of the organization become more flexible and permeable. Boundary spanners are often said to have their feet in multiple settings—that is, they span the organizational boundaries. For instance, individuals who interact day in and day out with external stakeholders as they do their jobs—such as a salesperson for Pfizer who interacts with doctors and health care professionals, a public relations manager who talks with newspaper and television reporters, a buyer at Target who works with clothing suppliers in Asia, an equipment installation specialist for GE Medical Systems who collaborates with a competitor in installing an expensive imaging machine for a hospital, and so forth—would establish closer and more explicit relationships with the various stakeholders. It's a step beyond just simply scanning and monitoring the environment because boundary spanners actively interact with stakeholders as they gather and disseminate information.

When the stakeholder is critical and environmental uncertainty is low, managers can use more direct stakeholder management efforts such as conducting customer marketing research, encouraging competition among suppliers, establishing governmental relations departments or lobbying efforts, initiating public relations connections with public pressure groups, and so forth. For instance, when Nike wanted to address the issue of the working conditions in its overseas factories, it worked with several stakeholders including customers, suppliers, government agencies, and public pressure groups to manage the situation.

Finally, when the stakeholder is critical and environmental uncertainty is high, managers should use stakeholder partnerships, which are proactive arrangements between an organization and a stakeholder to pursue common goals. These types of partnering activities allow organizations to build bridges—organization–supplier, organization–customer, organization–local communities, organization–competitor, and so forth—to their stakeholders. For instance, Compaq and IBM initiated a partnership to structure their data storage capabilities to work together. Together they're spending over $1 billion to achieve compatibility in their data storage devices. Stakeholder partnerships involve significant levels of commitment among the partners to be more interdependent rather than independent. This whole notion of stakeholder partnerships is the premise behind value chain management, which we'll discuss in detail in Chapter 19.

As we have seen, organizations are not self-contained or self-sufficient. They interact with and are influenced by their environment. Organizations depend on their environment as a source of inputs and as a recipient of their outputs. Many of the environmental forces—both specific and general—are dynamic and create considerable uncertainty for managers. The greater the environmental uncertainty an organization faces, the more the environment limits managers' options. However, through various approaches, managers are learning how to better manage those external relationships to minimize the constraints.



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Management (activebook), 7/e
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Chapter 3

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> Chapter Wrap-Up

You had a chance to voice your opinion about Catherine Deslauriers dilemma at the beginning of this chapter. Now listen as two managers share their views.

Ricardo Mendiola
Senior Community Liaison
Houston Department of Health and Human Services, Houston, Texas

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The key elements to successful stakeholder relationships between the community and the city are: cooperative objectives established by both; structured communication; focus on ways to enhance the relationship; strategies to effectively deliver services; regularly scheduled meetings; ongoing evaluation of services; and consideration of funding.

The long term success and vision of a city depends so much on its ability to establish and enhance a solid relationship between its community (stakeholders) and the city. By analyzing both the community and the city objectives, you can establish the City's approach and delivery of services.

I think it is essential that the city recognize the importance and value of the community and include them in the service delivery process. This makes the community feel that its stake in the service delivery process is recognized and valued.

Lynee Pauk
Laboratory Supervisor and Medical Technologist
St. John's Regional Health Center, Springfield, Missouri

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In any situation, it is important to first recognize the goal of what is to be done. The goal in this situation is to improve public involvement in Vancouver's city issues.

Second, it's important to identify problem(s) which hinder the goal from being met. In this case, Deslauriers has identified the isolation of the business units as a problem.

To resolve this, it would be helpful to establish stakeholder relationships between the business units and the community to encourage involvement. How could she accomplish this? She would need to identify the relevant stakeholders and pinpoint their concerns and interests. Once she had done this, Deslauriers would need to prioritize these concerns and then determine an effective approach to use in managing the stakeholder relationships which would depend on how critical the stakeholder is and how uncertain the environment is.

> end-of-chapter resources

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