

CHAPTER 2

The Environments of Organizations and Managers

CHAPTER SUMMARY

Chapter 2 is devoted to the environment and culture of organizations. It begins with a description of the organization's external and internal environments. Then the ethical and social environments are discussed. A discussion of the international environment follows. Finally, organizational culture is described.

LEARNING OUTCOMES

After studying this chapter, students should be able to:

1. Discuss the nature of an organization's environments and identify the components of its general, task, and internal environments.
2. Describe the ethical and social environment of management, including individual ethics, the concept of social responsibility, and how organizations can manage social responsibility.
3. Discuss the international environment of management, including trends in international business, levels of international business activities, and the context of international business.
4. Describe the importance and determinants of an organization's culture, as well as how organizational culture can be managed.

MANAGEMENT IN ACTION

The Canary in Starbucks' Coal Mine

The opening vignette discusses the sustainability efforts of Starbucks. In recent years, the company has taken greater strides in incorporating sustainability practices into its operations. Some of the sustainability goals that Starbucks has set include cutting in-store water consumption by 25 percent, recycling the disposable cups that its beverages are sold in, attaining LEED (Leadership in Energy & Environmental Design) certification for all new and renovated stores, and buying "ethically sourced" coffee from producers.

Management Update: Starbucks' website (www.starbucks.com) contains a section on its social responsibility efforts where you can find in-depth information on the various sustainability goals the company has set and the progress it has made so far. As of 2016, 99 percent of the coffee it buys is ethically sourced, and the company is the largest builder of green stores in its sector, accounting for 20 percent of LEED-certified retail projects globally.

LECTURE OUTLINE

I. The Organization's Environments

The **external environment** is everything outside an organization that might affect it and contains the general environment and the task environment. The **general environment** consists of broad dimensions and forces in an organization's surroundings that determines its overall context, while the **task environment** is the specific organizations or groups that have a direct impact on a firm.

The **internal environment** consists of conditions and forces within the organization.

Teaching Tip: Stress the fact that an organization's boundaries are not always clear and precise. As a result, it may not always be clear whether a particular individual or group is part of an organization or part of its environment.

Discussion Starter: Ask students whether they think alumni, campus recruiters, and bookstores are part of the university organization or part of its environment.

A. The General Environment

The general environment of a business has three dimensions: economic, technological, and political–legal.

1. The Economic Dimension

The **economic dimension** includes the overall health of the economic system in which the organization operates, which is related to inflation, interest rates, unemployment, and so on.

Extra Example: Note how economic conditions have affected your college or university. Specific points can be made regarding state revenues, alumni contributions, government grants, and endowment earnings.

2. The Technological Dimension

The **technological dimension** refers to the methods available for converting resources into products or services.

Extra Example: Note that many businesses have been negatively affected by technology. For example, due to the rise in popularity of streaming video and video-on-demand, many video rental stores, such as Blockbuster, have had to close their physical locations.

3. The Political–Legal Dimension

The **political-legal dimension** refers to government regulation of business and the relationship between business and government.

Extra Example: Since 2008, the government has imposed over \$800 billion in regulatory costs on businesses.

B. The Task Environment

The task environment of a business includes competitors, customers, suppliers, strategic partners, and regulators.

Group Exercise: Divide into small groups and have each group develop a diagram similar to Figure 2.1 for an organization in a different task environment. Good examples include Google, IBM, ExxonMobil, and UPS.

1. Competitors

Competitors consist of other organizations that compete for the same resources.

Discussion Starter: Ask students to identify competitors of your college or university.

2. Customers

Customers are those who pay money to acquire an organization's products or services.

Discussion Starter: Ask students to identify the customers of your college or university. Should parents of students be included if they are financing their child's education?

3. Suppliers

Suppliers include organizations that provide resources for other organizations.

Discussion Starter: Ask students to identify various suppliers that your college or university might use.

4. Regulators

Regulators have the potential to control, regulate, or influence an organization's policies and practices.

- a. **Regulatory agencies** are created by the government to protect the public from certain business practices or to protect organizations from one another. Examples include the Environmental Protection Agency (EPA) and the Food and Drug Administration (FDA).

Extra Example: Point out to students the various regulatory agencies that most directly affect your college or university (e.g., state coordinating boards, etc.).

- b. **Interest groups** are groups organized by their members to attempt to influence organizations. Examples include Mothers Against Drunk Driving (MADD) and the National Rifle Association (NRA).

Extra Example: AARP (formerly the American Association of Retired Persons) is an interest group for members 50 and older. It has nearly 38 million members, making it one of the most powerful interest groups in the country. It has influenced legislation on many issues, including Social Security reform and government policy on medical research.

5. Strategic Partners

Strategic partners (also called *strategic allies*) occur when two or more companies work together in joint ventures or other partnerships.

Extra Example: Microsoft Corporation has formed alliances with many other organizations, including hardware manufacturers, small software development firms, TV and appliance makers, automakers, cell phone and long distance providers, Internet service providers, and universities. The firm hopes to gain access to customers, resources, and information through its joint ventures.

C. The Internal Environment

The internal environment of a business consists of the owners, board of directors, employees, and physical work environment.

1. Owners

Owners are whoever can claim property rights to an organization. Owners can be a single individual who establishes and owns a small business, partners who jointly own the business, individual investors who buy stock in a corporation, or other organizations.

Teaching Tip: Point out again the "fuzziness" that may exist regarding boundaries. For example, although this book treats owners as part of the internal environment, it could also be argued that owners are part of the external environment as well.

Teaching Tip: Stress to students the significance of institutional owners and investors in corporations today. Such owners and investors can exert enormous power over a corporation.

2. Board of Directors

A **board of directors**, elected by stockholders, is responsible for corporate governance and charged with overseeing the management of the firm to ensure that it is being run in a way that best serves the stockholders' interests.

Group Exercise: Assign groups of students to a company and have them identify the members who serve on its board of directors. Are the members likely to provide an effective oversight in protecting stockholders' interests? Why or why not?

3. Employees

- a. Employees are another significant element of the internal environment.
- b. The composition of the workforce is changing, employees are asking for increased job participation and ownership, and organizations are increasingly relying on temporary workers.

Global Connection: Note that Japanese firms used to offer guaranteed lifetime employment. In recent years, however, this practice has been abandoned by many Japanese firms.

4. Physical Work Environment

- a. A firm's physical work environment—where facilities are located and how they are furnished and arranged—is also important.
- b. Employee safety and health regulations have caused many organizations to pay more attention to their internal environment.

Extra Example: Clif Bar's headquarters in Emeryville, California, is housed in what used to be a World War II manufacturing facility. The warehouse was redesigned by replacing the manufacturing lines with an open office layout. The headquarters also features a kitchen, a gym, a café, a hair salon, on-site child care, and a theater.

II. The Ethical and Social Environment of Management

A. Individual Ethics in Organizations

Ethics are an individual's personal beliefs regarding right and wrong behavior. **Ethical behavior** is behavior that conforms to generally accepted social norms. **Unethical behavior** is behavior that does not conform to generally accepted social norms.

Discussion Starter: A debate that has plagued some business programs is the extent to which colleges can teach ethics. Some experts believe that ethics can indeed be taught, whereas other experts believe that ethics are formed much earlier and thus cannot be taught to people as they get older. Ask students for their opinions.

Discussion Starter: Ask students if they can identify personal examples or events that shaped their ethics or the ethics of someone they know.

1. Managerial Ethics

Managerial ethics are standards of behavior that guide individual managers in their work.

- a. One important area of managerial ethics is the treatment of employees by the organization. This includes hiring and firing, wages and working conditions, and employee privacy and respect.
- b. Numerous ethical issues stem from how employees treat the organization, especially in regard to conflicts of interest, secrecy and confidentiality, and honesty.

- c. Managerial ethics comes into play in the relationship between the firm and its employees with customers, competitors, stockholders, suppliers, dealers, and unions. The behaviors between the organization and these agents that may be subject to ethical ambiguity include advertising and promotions, financial disclosures, ordering and purchasing, shipping and solicitations, and bargaining and negotiation.

Discussion Starter: Ask students to provide examples in which an organization they worked for treated them or others in an ethical or an unethical fashion.

Teaching Tip: Note that as organizations enter a period of cutbacks and downsizing, the potential for unethical treatment of employees tends to increase.

Extra Example: Many recent ethical concerns focus on financial disclosure and transparency. Whereas companies that consistently met their profitability targets were considered to be the most desirable investments, today the business practices and reporting methods used to reach those targets are under heavy scrutiny. Enron, WorldCom, and Tyco are all examples of well-known companies that were caught using fraudulent financial reporting.

2. Managing Ethical Behavior

Effective management of ethical behavior includes the following:

- a. Top managers should set ethical standards for the organization.
- b. Committees can investigate possible unethical activities internally.
- c. Employees can attend training sessions to learn to act more ethically when faced with certain situations.
- d. A **code of ethics** is a formal, written statement of the values and ethical standards that guide the firm's actions.

Teaching Tip: If your school has a code of ethical conduct for students, it might be interesting to discuss it here. Note, for example, the similarities and differences that might exist between a university code and a business code.

Extra Example: Firms that use codes of ethics include Motorola, The Coca-Cola Company, and Texas Instruments.

Group Exercise: Ask students to identify common themes and ideas that are likely to be reflected in all corporate codes of ethics.

B. Emerging Ethical Issues

A number of ethical issues are receiving widespread attention today.

1. Ethical Leadership

- a. A challenge for CEOs is to display ethical leadership and to establish an ethical culture for the entire organization.
- b. The **Sarbanes-Oxley Act of 2002** requires CEOs to vouch personally for the truthfulness and fairness of their firm's financial disclosures and imposes tough new measures to deter and punish corporate and accounting fraud and corruption.

2. Corporate Governance

Corporate governance is another area with many ethical concerns. Boards of directors are under increased pressure to provide effective oversight.

3. Ethics and Information Technology

Information technology poses new ethical issues in the area of privacy.

C. Social Responsibility in Organizations

Social responsibility is the set of obligations that an organization has to protect and enhance the societal context in which it functions.

Extra Example: One firm that has an exemplary record of social responsibility is Target. Each year, Target gives 5 percent of its profits to communities it does business in. This adds up to more than \$4 million each week.

Global Connection: The Nielsen Global Survey on Corporate Social Responsibility showed that 55 percent of global online consumers across 60 countries are willing to pay more for products and services provided by companies that are committed to social responsibility.

1. Arguments for Social Responsibility
 - a. Businesses create problems and should therefore help solve them.
 - b. Corporations are citizens in our society too and should not avoid their obligations as citizens.
 - c. Businesses often have the resources to help solve social problems.
 - d. Businesses should be partners in society, along with the government and the general population.

Discussion Starter: Ask students to identify specific examples of how socially responsible behavior has had a positive impact.

2. Arguments against Social Responsibility
 - a. Businesses have the responsibility to focus on making a profit for their owners.
 - b. Involvement in social programs gives businesses too much power.
 - c. There is a potential for conflicts of interest.
 - d. Organizations lack the expertise to manage social programs.

Discussion Starter: Ask students to identify examples of how socially responsible behavior may have negative effects.

D. Managing Social Responsibility

Organizations should view social responsibility as a major challenge that requires careful planning, decision making, consideration, and evaluation. They may accomplish this through both formal and informal dimensions of managing social responsibility.

1. Formal Organizational Dimensions
 - a. **Legal compliance** is the extent to which the organization complies with local, state, federal, and international laws.

Discussion Starter: Ask students whether they believe tobacco will ever be outlawed. Ask their thoughts on whether or not it should be banned.

Teaching Tip: Describe how your local community regulates business through its own zoning procedures. If relevant, describe a recent controversial zoning decision.

Teaching Tip: Emphasize the point that an organization's approach to social responsibility may be inconsistent and/or contradictory.

- b. **Ethical compliance** is the extent to which the firm and its members follow ethical standards of behavior.

Teaching Tip: Point out to students that, with the escalating diversity of viewpoints on ethical standards, organizations have increased difficulty in demonstrating ethical compliance. Every industry, from energy to bioengineering to education, is swamped with a complex and thorny set of ethical issues today.

- c. **Philanthropic giving** occurs through the awarding of funds or gifts to charities or other worthy causes.

Global Connection: As noted, international businesses have become frequent contributors in different countries where they do business. For example, in 2016, JPMorgan Chase gave more than \$200 million to nonprofit organizations across the United States and in 40 other countries. More than 50,000 of its employees provided 325,000 hours of volunteer service in local communities around the globe.

- 2. Informal Organizational Dimensions
 - a. Informal organizational dimensions, including the culture and leadership practices of an organization, can define the social responsibility stance adopted by the organization and its members.
 - b. **Whistle-blowing** occurs when an employee discloses illegal or unethical conduct by others within the organization.

Discussion Starter: Solicit student opinions regarding whistle-blowing. In particular, ask how many of them would, in fact, “blow the whistle” themselves if it meant the possible loss of a job.

Extra Example: Sherron Watkins, an Enron accounting manager, was a whistle-blower for some of the firm’s unethical and illegal practices. Her actions were instrumental in uncovering the alleged extensive fraud occurring at that firm.

III. The International Environment of Management

A. Trends in International Business

- 1. After World War II, businesses in war-torn countries had to rebuild from scratch. Many U.S. companies profited greatly during this era; however, many also grew somewhat complacent.
- 2. U.S. firms are no longer isolated from global competition or the global market, and many are finding that international operations are an increasingly important element of their sales and profits.
- 3. Virtually all businesses today must be concerned with international competition.

Extra Example: Based on sales revenues, only three of the world’s 10 largest businesses are U.S. firms (Walmart, ExxonMobil, and Apple). Three are European, three are Chinese, and one is Japanese.

Group Exercise: Have students generate a list of the 10 products they use most frequently. Then have them research the national origin of the companies that make them.

B. Levels of International Business Activity

Firms can choose various levels of international business activity as they seek to gain a competitive advantage in other countries. The general levels are exporting and importing, licensing, strategic alliances, and direct investment.

- 1. Exporting and Importing
 - Importing or exporting (or both) is usually the first type of international business in which a firm gets involved.
 - a. **Exporting** is making the product in the firm’s domestic marketplace and selling it in another country.

- b. **Importing** means a good, service, or capital is brought into the home country from abroad.

Teaching Tip: Stress that the difference in exporting versus importing is point of view. When Rolex markets its watches and ships them to U.S. jewelers, Rolex is exporting, but the stores that buy the watches for sale in the United States are importing them.

Teaching Tip: Although the U.S. steel industry has declined greatly since the 1970s, today it is experiencing a revival by importing raw steel from Brazil and other makers and transforming it into value-added customized products for American manufacturers.

- 2. Licensing
Licensing is an arrangement whereby one company allows another to use its brand name, trademark, technology, patent, copyright, or other assets in exchange for a royalty based on sales. Franchising is a special form of licensing.

Extra Example: Some of the most successful global franchisers include 7-Eleven, Subway, and RE/MAX (Real Estate Maximums).

- 3. Strategic Alliances
A **strategic alliance** occurs when two or more firms jointly cooperate for mutual gain. A **joint venture** is a special type of strategic alliance in which the partners actually share ownership of a new enterprise.

Extra Example: One of the most successful strategic alliances is Cereal Partners Worldwide, between General Mills and Nestlé. The firms entered into the partnership to compete with Kellogg, which dominated European markets. General Mills contributes its cereal names and technology, while Nestlé adds its recognized consumer brand name and handles distribution.

- 4. Direct Investment
Direct investment occurs when a firm headquartered in one country builds or purchases operating facilities or subsidiaries in a foreign country. **Maquiladoras** are light assembly plants built in northern Mexico close to the U.S. border. These plants receive tax breaks from the Mexican government, and the area is populated with workers willing to work for low wages.

Global Connection: The passage of the North American Free Trade Agreement has increased the importance of maquiladoras to firms doing business in Mexico.

Extra Example: Disneyland Paris represents a combination of direct investment and strategic alliance. Disney contributed a portion of the park's construction costs from its own sources and oversaw construction of the park, while a French firm contributed the remainder of the investment capital. Disney shares both profits and losses with its European partner.

Teaching Tip: Emphasize the fact that large firms use multiple methods of managing international business. For example, Toyota ships cars made in Japan to the United States (exporting), contracts with Microsoft to use Microsoft's connected car technologies (licensing), is working with BMW to develop the new Suprz sports car (strategic alliance), and owns several manufacturing plants in other countries (direct investment).

Teaching Tip: Use Table 2.1 to compare the advantages and disadvantages of the four levels of international business activity.

C. The Context of International Business

1. The Cultural Environment

The cultural environment can create challenges for managers, when the countries in which a firm is manufacturing or selling a product or service have different cultures. Religious beliefs, time and schedules, and language can all pose problems for managers in a foreign country.

Discussion Starter: Ask students to predict which products made in the United States are most and least likely to be successful abroad.

Discussion Starter: Ask students which countries in Europe and Asia they have visited. Then ask how similar or different each was from the United States.

Discussion Starter: Ask students to think of common business practices in the United States that might seem odd or unusual in a foreign country. If you have any international students in class, you might ask them about business practices in their home countries that would seem odd or unusual in the United States.

2. Controls on International Trade

A government can impose a variety of controls on international trade to protect its country.

- a. A **tariff** is a tax collected on goods shipped across national boundaries.
- b. A **quota** is a limit on the number or value of goods that can be traded.
- c. **Export restraint agreements** are agreements that convince other governments to voluntarily limit the volume or value of goods exported to or imported from a particular country.

Extra Example: Perhaps the most famous example of an export restraint agreement occurred in the 1980s between the United States and Japan. In 1981, to help the American auto industry out of a recession, Japanese automakers agreed to limit the number of cars exported to the United States. The agreement allowed only 1.68 million Japanese cars into the United States each year. The cap was raised to 1.85 million cars in 1984, and to 2.30 million cars in 1985, before the agreement was terminated altogether in 1994.

- d. “Buy national” legislation gives preference to domestic producers through content or price restrictions.

Teaching Tip: The stiff trade barriers employed by the government of Japan continue to be a point of contention between that country and the United States. U.S. firms argue that there are so many trade barriers in place in Japan that it results in unfair competition for them.

3. Economic Communities

Economic communities are sets of countries that have agreed to significantly reduce or eliminate trade barriers among its member nations.

- a. **The European Union, or EU**, is the first and most important international market system.
- b. The **North American Free Trade Agreement (NAFTA)** is an agreement between Canada, Mexico, and the United States to promote trade with one another.

Discussion Starter: Ask students whether they think the North American Free Trade Agreement has helped or hurt the U.S. economy.

4. The Role of the GATT and WTO

The **General Agreement on Trade and Tariffs (GATT)** and the **World Trade Organization (WTO)** both play significant roles in regulating international trade.

- a. GATT, first ratified in 1948, is an attempt to reduce trade barriers. One of its provisions, the *most favored national (MFN)* principle, specifies that a member country must extend equal treatment to all nations that sign the agreement.
- b. The WTO was begun in 1995 as a replacement for GATT. The WTO works to promote trade, reduce trade barriers, and resolve international trade disputes.

IV. The Organization's Culture

Organizational culture is the set of values, beliefs, behaviors, customs, and attitudes that helps the members of the organization understand what it stands for, how it does things, and what it considers important.

Extra Example: Some experts would use the extent to which investors and other experts admire a company as an indication of its effectiveness. Each year *Fortune* conducts a survey of the most admired companies in the world. Apple, Amazon.com, Starbucks, and Berkshire Hathaway were at the top of the list in 2017.

Discussion Starter: Ask students to discuss the culture that exists in your college or university.

A. The Importance of Organizational Culture

A strong organizational culture can shape the firm's overall effectiveness and long-term success and help employees to be more productive.

Extra Example: Firms with strong cultures include the Walt Disney Company, 3M, The Coca-Cola Company, UPS, and IBM.

B. Determinants of Organizational Culture

Culture develops over a long period of time. It often starts with the organization's founder; however, corporate success and shared experiences also shape culture.

Extra Example: Dell Inc.'s founder and CEO Michael Dell has made a strong imprint on the company's culture, which expresses the youthful enthusiasm and focus on efficiency of its leader.

C. Managing Organizational Culture

In order to manage corporate culture, managers must first understand the current culture.

1. If the culture is one that is in the best interest of the firm, managers can reward behavior that is consistent with the existing culture in order to enforce it.
2. If the culture needs to be changed, managers must know what it is they want the culture to be and then take actions that will help to change the culture into the type management wants.

Cross-Reference: Note that we discuss change in Chapter 7.

END-OF-CHAPTER

Questions for Review

1. Identify and discuss each major dimension of the general environment and the task environment.

The general environment consists of three dimensions: economic, technological, and political–legal. The economic dimension is the overall health and vitality of the economic system in which the organization operates and includes factors such as inflation, interest rates, and unemployment. The technological dimension is made up of the methods available for converting resources into

products or services. The political–legal dimension consists of government regulation of business and the relationship between business and government.

Competitors, customers, suppliers, regulators, and strategic allies comprise the task environment. Competitors are firms that are competing for resources, and customers are those that purchase the firm’s products. Suppliers include organizations that supply resources to the firm. Regulators control, legislate, or influence an organization’s policies and practices and include regulatory agencies and interest groups. Strategic allies are partners with the firm in joint ventures.

2. Do organizations have ethics? Why or why not?

As defined here, organizations do not have ethics—only individuals have ethics. However, the ethical norms and climate that exist within an organization can significantly affect the organization.

3. What are the arguments for and against social responsibility on the part of businesses? In your opinion, which set of arguments is more compelling?

Arguments for social responsibility include: (a) organizations create problems and should be responsible for solving them; (b) corporations are citizens in our society, too, and should not avoid their obligations as citizens; (c) many large businesses have surplus revenues that could be used to help solve social problems; and (d) businesses are partners in our society, along with the government and the general population. Arguments against social responsibility include: (a) businesses should simply focus on making a profit; (b) involvement with social programs would give businesses too much power; (c) there is the potential for conflicts of interest; and (d) businesses lack the expertise to understand how to assess and make decisions about worthy social programs.

4. Describe the basic levels of international business involvement. Why might a firm use more than one level at the same time?

There are four levels of international business activity: exporting and importing, licensing, strategic alliances, and direct investment. (1) Exporting involves making a product in the firm’s domestic marketplace and selling it in another country, while importing involves bringing a good, service, or capital into the home country from abroad. (2) Licensing is an arrangement whereby one company allows another company to use its brand name, trademark, technology, patent, copyright, or other assets in exchange for a royalty based on sales. (3) A strategic alliance is a cooperative arrangement between two or more firms for mutual gain. (4) Direct investment occurs when a firm headquartered in one country builds or purchases operating facilities or subsidiaries in a different country from the one where it has its headquarters.

Many organizations use more than one level at the same time. This is done in order to adapt to the needs of different countries or regions, or to implement different strategies for different countries.

5. Describe various barriers to international trade. Why do such barriers exist?

The cultural environment and controls on international trade (tariffs, quotas, export restraint agreements, and “buy national” laws) are areas of challenge for international managers. They exist for a variety of reasons, including the interests of the host government in protecting home businesses and simply the differences across countries.

Questions for Analysis

1. Can you think of dimensions of the task environment that are not discussed in this chapter? Indicate their linkages to those that are discussed.

Students' responses will vary, but one environmental dimension that was not discussed in the text was climate and weather. The climate and weather may have a great impact on the farming industry. A late frost in Florida may hurt the orange crop, or a drought in the Midwest may be responsible for poor grain yields. For the downhill skiing industry, sustained low temperatures and snow are prerequisites, so climate in this instance may dictate the location of the industry. Climate and weather are also important to surgeons specializing in skin cancer and orthopedic surgeons who specialize in broken limbs.

2. What is the relationship between the law and ethical behavior? Can a behavior be ethical but illegal at the same time?

The law mandates or prohibits certain behaviors, with relatively little flexibility or subjectivity. Ethics suggests desired behaviors, but is equally concerned with the intention and reasons behind a behavior as with the behavior itself. Ethics is based on standards that are flexible and subjective.

Individuals or organizations can act in what they feel is an ethical manner while also breaking the law. For example, some individuals try to block abortion clinics in an effort to stop actions that they believe are harmful. In their eyes, these actions are ethical, but to the police, who may arrest them for trespassing, the actions are illegal. In the news today are stories about pharmaceutical companies in China, Africa, and India that illegally produce patented drugs, which they feel is an ethical necessity to stop the spread of contagious diseases in countries where drugs produced in the United States are prohibitively expensive.

3. What is your opinion of whistle-blowing? If you were aware of criminal activity in your organization but knew that reporting it would probably cost you your job, what would you do?

Answers will vary. Some will say that it is their duty to society to report criminal activities, whereas others may feel it is their duty to protect the organization and not report criminal activity. Still others will feel that their primary responsibility is to themselves or their families, which would require them to protect their jobs.

4. What industries do you think will feel the greatest impact of international business in the future? Will some industries remain relatively unaffected by globalization? If so, which ones? If not, explain why not.

International industries generally involve mass-produced consumer or industrial products such as automobiles, electronics, steel, chemicals, and so forth. In contrast, industries that would experience high costs for shipping or manufacturing goods in distant locations are somewhat sheltered from the effects of globalization, as are industries where local tastes and needs are very different from global tastes. Examples would include restaurants, home builders, and plant nurseries. However, you can point out to students that consumer preferences are becoming more global, with more Americans buying imported chocolates and more Latin Americans buying Nikes, for example.

5. What is the culture of your college, university, or place of employment? How clear is it? What are its most positive and its most negative characteristics?

Students should recognize that all organizations have a culture, but they may differ in their perceptions of the existence of a culture and what that culture is. Generally, a majority will agree on a "party," "athletics," "research," or "scholarly" culture. Words such as these will be used to describe the culture to outsiders. You can remind students that every culture has its positive and negative characteristics, encouraging them to think more deeply about culture's effects.

Experiential Exercise

Assessing Organizational Culture

a. Purpose

The purpose of this activity is to help students improve their skills in observing and interpreting organizational culture.

b. Format

This exercise has both an individual and a class/small group component. Individually, students are to observe clues to organizational behavior at their school, college, or university and use those observations to describe the organization's core values. They are then to discuss their findings with the class or in small groups.

c. Interpretation

Discuss why differences in facts and interpretations among the students occurred. For example, if there are differences in fact, perhaps the student observed different groups. If there is an agreement in facts but interpretations differ, have students explore their differing perspectives.

Building Effective Communication Skills

a. Exercise Overview

This exercise assigns students the difficult—but realistic—task of persuading a superior that his or her ideas may be inadequate. The task requires students to justify the need to gather more information about the customer segment of the environment.

b. Format

This exercise is best done outside of class by individual students, and it requires about 20–30 minutes.

c. Exercise Task

1. With this background in mind, compose a written proposal for your boss, outlining your position. Be sure to emphasize your fundamental concern—that the marketing department must understand the needs of each customer segment better in order to provide products that meet those needs. Consider ways to persuade your boss to change his mind. (*Hint:* Telling him bluntly that he is wrong is unlikely to be effective.)

Students' answers will focus on the importance of understanding the specific needs of various groups of consumers. Students are likely to describe the importance of consumers to the firm, the necessity of obtaining accurate and specific feedback, and the likely negative consequences if consumer feedback is not obtained. The challenge for students will be to present their position in a forceful yet tactful way.

2. On the basis of what you wrote in response to Exercise Task 1, do you think your boss will change his mind? If yes, what will persuade him to change his mind? If no, what other actions could you take in a further effort to have your ideas adopted by the firm?

Students' answers will vary. They will see that persuasion requires tact as well as strong logical arguments. For additional actions, students might suggest an appeal to a superior, gathering the feedback anyway without informing the boss, or simply

dropping the idea. For each of these actions, ask students to consider what would happen then. For example, how would their boss respond to finding out that he had been deceived?

Skills Self-Assessment Instrument

Global Awareness

Note: This skills exercise is located in MindTap®.

a. Purpose

This self-assessment is designed to help students determine their readiness to respond to managing in a global context through assessing their knowledge of cultural differences among countries.

b. Format

Students should respond individually to the items in this self-assessment using the scale provided.

c. Scoring and Interpretation

All of the statements are true. Thus, a perfect score would be 40. The closer a student's score is to that, the more he or she understands the global context of organizational environments. The closer the score is to 10 (the minimum possible score), the less the student knows and the less prepared the student is for managing in a global context. Students should be encouraged to improve their knowledge for any area in which they had a low score.

On the Job Video

Mike Boyle Strength & Conditioning: Behavior

Note: This video case is located in MindTap®.

1. Describe the culture at Mike Boyle Strength & Conditioning.

Culture determines the organization's "feel." A strong and clear culture can play an important role in the competitiveness of a business. Mike Boyle's culture stresses customer care. Employees are expected to care about the people they are training and to meet their needs. Mike calls this "social support." Employees are not on the job to get rich.

2. As the founder, how does Mike Boyle determine the organization's culture?

An organization's culture develops and blossoms over a long period of time. Its starting point is often the organization's founder. Mike Boyle's influence is felt throughout the organization. His strong values about having a "life-changing business" with a "direct and rapid response to customers" are transmitted to all employees. For example, Anna, the personal trainer and wellness coordinator, carries out Mike's values by working with athletes, mothers, and older clients to help them feel better. Tailoring a program to each customer is an integral part of the culture, as set forth by Mike. The shared experiences between Mike Boyle, Anna, and Marco serve to strengthen the culture and transmit it to new employees.

3. Which aspect of the task environment is the most important at Mike Boyle's fitness center?

The task environment includes competitors, customers, suppliers, strategic partners, and regulators. Managers, like Mike Boyle, can identify environmental factors of specific interest to the organization, rather than deal with the more abstract dimensions of the general environment.

Clearly, customers are the most important part of the task environment at Mike Boyle's business. He distinguishes himself from competitors by saying that the basis of most gyms is "how many memberships can we sell to people who never show up." Mike has a "polar opposite business model"; his goal is to sell a limited number of memberships to people who will be at the gym frequently.

Barcelona Restaurant Group: The Evolution of Management Thinking

Note: This video case is located in MindTap®.

1. In what ways does Barcelona's management approach reflect historical developments in management thinking?

Leaders at Barcelona draw inspiration from multiple perspectives of management history. Barcelona's management approach is consistent with the Theory Y view that emerged from the human relations movement. (Employees are viewed as capable and willing to work.) In keeping with the behavioral management perspective, Barcelona embraces employee empowerment and rejects autocratic-styled micromanagement. The company also rejects systematized universal work processes that were characteristic of scientific management and the classical management era. In keeping with the developments in contemporary management, owner Andy Pforzheimer wants employees to create a personalized dining experience by applying their individual skills and personalities. Finally, Barcelona places strong emphasis on high quality and customer satisfaction.

2. In what ways does Barcelona's management approach run counter to contemporary developments in management thinking?

While some contemporary management approaches place heavy emphasis on the happiness of workers, Barcelona Restaurant Group adopts an unapologetic focus on customers. In the video, Barcelona CEO Andy Pforzheimer argues that some management trends "fetishize the relationship with the employee," and he offers a straight-talking counter-perspective: "We're here for the customer experience and everything else is secondary to that. If it makes the manager's life miserable, I don't care; if it makes the waiter's life miserable, I don't care; makes the chef miserable, I don't care; makes me miserable, I don't care—our job is to have a bad time so that other people can have a good time. It's nice when it's not mutually exclusive, but sometimes it is."

3. What aspects of restaurant work are especially challenging to wait staff, and how does Barcelona's approach to management help employees overcome the downsides of the job?

In the video, Andy Pforzheimer identifies the challenging aspects of restaurant life: "It is work sometimes to smile. It is work to have somebody yelling at you because they weren't seated fast enough or their steak was cooked wrong, and you must pat them on the back and say, 'You know, it was our fault, I'll do everything I can'—yeah, that's work, and it's not always fun." Barcelona's leadership team believes such challenging aspects of restaurant work can be managed best when employees are given significant responsibility over the restaurant and its success. New hires learn at the outset that the restaurant is their responsibility, and if the place does well, the members of the wait staff get all the credit.

Dish CEO Ergen: I'm Easy to Work with for High Achievers

Note: This video case is located in MindTap®.

1. At the beginning of the video, Charlie Ergen speaks of uncertainty on the part of stockholders and employees. Which parts of the external environment, task or general, creates most of this uncertainty? Does uncertainty arise from both parts of the external environments?

While all dimensions of the task and general external environment likely affects the company, most of the uncertainty Mr. Ergen speaks of involves the technological dimension of the general environment and includes advancements in a specific industry, as well as in society. Advances in technology drive competition and help innovative companies gain market share. If companies fail to adapt to technological shifts, they face decline. Mr. Ergen cites the uncertainty of the industry to affect both stockholders and employees. The uncertainty faced by employees becomes a factor of the labor market in the task environment. The company needs employees with the necessary skills, but also those who are self-motivators with low risk sensitivity. This specificity is likely to narrow the applicant pool of employees with a good “fit” for the company. The customer in the task environment also adds to uncertainty. Customer viewing habits are changing, and Dish must adapt or get beat out by competitors.

2. When Mr. Ergen is discussing the internal culture at Dish Network, is he talking more about the surface level of the culture or about the deeper values and shared understandings of the culture?

Mr. Ergen seems to be referring more to the deeper values and shared understandings of the culture. He mentions there is no training program, so people have to be self-motivated to achieve. The level of uncertainty in the industry means employees must not be averse to a certain risk level. Mr. Ergen mentions there are people who started in the call center who are executives now and later he mentions the company launched over twenty satellites and initially they did not even know how to spell ‘satellite.’ While these stories are part of the surface level of the culture, they add to the deeper level self-starter mentality of the culture at Dish Network. The statement from Mr. Ergen about how the company has high expectations from their employees and if you are not used to having high expectations placed on you, you most likely will not be comfortable at Dish Network. This reflects deeper values and a shared understanding within the company’s culture.

3. Cultures share formal and informal practices, espoused values and norms, and assumptions. Which of these factors does Charlie Ergen mention in the video?"

Formal practices that influence culture include compensation strategies, training and development programs. Mr. Ergen mentions that some employees have higher pay if they are more important to the company. He also mentions the lack of training when coming into the company. Informal practices could include such things as promoting upward communication and the sharing of ideas, employees helping each other, or employees of different ranks eating lunch together. Mr. Ergen mentions that since the future is so uncertain in this industry, it takes a bit of trust in your management. This would indicate some open communication and sharing of ideas as the future unfolds. Artifacts are myths and stories told about the company, such as Mr. Ergen saying they did not know how to spell satellite but they have launched over 20 of them now. Espoused values and norms are those explicitly stated by the organization. Mr. Ergen says if you just ‘want a job’ you will probably not be happy there, but if you have high expectations, this is the place for you. Enacted values and norms are those that employees exhibit based on their observations of what actually goes on in the organization. Employees should observe the fast-paced, future-looking nature of the industry for guidance. The assumptions are the high expectations of all employees. You must be a high achiever to be happy at Dish Network.

MANAGEMENT AT WORK

Harley Invades Africa

This case discusses Harley-Davidson's presence in South Africa and its targeting of the middle-class black population of South Africa. Harley is targeting the African middle class because they are the fastest-growing middle class in the world. However, although their spending power has increased more than 100 percent in less than 20 years, most of the African middle class is still too poor to afford a Harley-Davidson. Still, the company has high expectations for the African middle-class market. The company feels that Harley's image appeals to the aspirations of middle-class African consumers—namely, aspirations of upward social mobility.

Case Questions

1. According to Harley-Davidson's Africa country manager, Celine Gruizinga, "No one who comes here is going to make a quick buck. It's no small feat." It's a type of commitment that takes decades." Let's say that you're the CEO of a publicly owned U.S. company that manufactures fashion footwear. You're interested in getting involved in the sub-Saharan Africa market, which will eventually total 1.1 billion middle-class consumers—50 years from now. You need to decide which sort of globalization strategy would work best for you: *exporting*, *licensing*, *joint venture* (or some other form of *strategic alliance*), or *direct investment*. Generally speaking—and given Gruizinga's warning—what are the pros and cons of each option?

With exporting, the products and goods will still be made in the United States, so this eliminates the need to build new manufacturing facilities and hire plant employees. However, there are other things that need to be considered in this situation. With exporting comes the need to deal with government officials for the country where business is being conducted to monitor and ensure that the required revenue earnings to manage the various programs are being met. Also, transportation needs to be considered, including keeping up with documentation and licensing procedures. The biggest consideration when exporting is that it eliminates the possibility of jobs in the country that is on the receiving end of the imported product. Even though the African middle class is the fastest-growing middle class in the world, that equals a US\$2–\$20 in per diem spending power. Depending on the price point, this might work well for the industry; however, by not developing jobs in sub-Saharan Africa, increased spending power will happen, but at a slower rate. Thus, not creating jobs won't make the situation any better.

Licensing within sub-Saharan Africa gives the right to product and/or sell products in that country, which saves money with respect to needing manufacturing facilities or employees for that market. But on the downside, the company takes on all risks and still must ensure that facilities in the United States can handle the manufacturing of the goods and manage all supply chain linkages to ensure proper delivery to the consumer. This is something that the African market can benefit from because they would typically receive a specific royalty amount per unit that is produced or sold. This looks like the better option because it saves money and puts money back into the sub-Saharan Africa market, potentially increasing customers' per diem spending power and allowing the company to sell more products. It's a win-win situation.

A joint venture will allow the company to access the sub-Saharan Africa market more economically and effectively. However, partnering brings on a new set of risks, such as marketplace development concerns, economic downturns, regulatory uncertainties, and technology issues. Also, in any joint venture, you are fusing two types of management that may or may not share the same philosophies when it comes to debt and resolving problems, as well as the potential of the partner company becoming your competitor (unless there is a noncompete agreement in place).

Direct investment would involve the company building a plant and hiring employees within sub-Saharan Africa. This can be good for them because it can bring technology, jobs, business opportunities, and skill sets to that area. On the downside, if the product is manufactured within

that area, it can create competition for existing companies, which could ultimately reverse the pros of this and cause other companies to lose customers and maybe business relationships, which wouldn't help the overall economic state of the market.

- As it happens, Celine Gruizinga is also Harley's first-ever female country manager. She's also an avid Harley rider. The company is targeting women buyers in sub-Saharan Africa, who already account for 26 percent of Harley riders in a region where the company reports "a significant increase in the number of both white and black women riders." Interestingly, Harley is also targeting women in the United States. What kinds of marketing appeals might Harley make to female consumers in both markets? What kinds of appeals will probably have to be distinctive for each market? Why do you think women are more interested in buying Harleys?

Students' answers will vary. When looking at marketing appeals, women are an extremely powerful buying force, responsible for most of the household purchases. When marketing to women, companies must keep in mind that women are multiminded; in other words, women deal with the family, work, personal responsibilities, etc. The marketing strategy must be concise, provide consistent reinforcement of the message, and ultimately resonate with women. A Harley is something that can help women to "escape" from all the different balls that they are juggling and have time just for them, a true rarity for the average woman. The marketing message should be directed to all walks of life and still incorporate that same message of freedom and a way to unwind from the everyday workload.

- Nigeria has the largest economy in Africa. It's oil rich, and the economy is growing rapidly, driven by agriculture, telecommunications, and services. The banking sector is strong. Unfortunately, Nigeria is also a serious security risk. How should Harley-Davidson proceed with any plans to do business in Nigeria? ("Cautiously" is a good answer, but try to be more thorough in analyzing the situation.)

Any plans to do business in Nigeria should be approached very cautiously, and many students may offer the opinion that this is something that shouldn't be done. With all the pros of Nigeria's economy, there are currently ethical and religious tensions, the energy production and distribution capacities are insufficient, and there is known corruption within the business climate, which further aggravates unemployment and underemployment and causes the overall business ethics of diligence, honesty, and integrity to become heavily eroded. The risks likely outweigh the pros in this case.

YOU MAKE THE CALL

The Canary in Starbucks' Coal Mine

- The term *sustainability* refers generally to the maintenance and preservation of systems and processes. At what types of systems and processes are Starbucks' sustainability efforts directed?
Starbucks is directing its attention at the supply chain, requiring sustainable growing practices. Starbucks is also concentrating on its operations, using less water and building new stores using LEED certification. Starbucks is also concerned with post-production waste, aiming at customer recycling programs.
- In what ways might Starbucks' sustainability efforts be affected by events in each dimension of its general *external environment*—*economic, technological, sociocultural, political–legal, and international*?

Starbucks is a luxury item and one of the first items cut from personal budgets when money is tight. An economic downturn could lead to lower sales. Less demand would mean less investment in the coffee-growing communities that Starbucks supports. The technological environment may

improve Starbucks' ability to conserve water and other resources. Improved conservation methods could mean Starbucks meets its goals sooner. The sociocultural aspect of the general environment looks good for Starbucks. Raised awareness of global conservation means the company's message of sustainability should set well with customers. The political–legal environment could help or hinder Starbucks. The United States has many government initiatives and tax breaks for businesses who wish to conserve. Instability in the coffee-growing countries could hinder efforts. The international aspect could have ramifications if they cause unrest in supplier countries.

2. In what ways might each group in Starbucks' *task environment*—*competitors, customers, suppliers, strategic partners, and regulators*—be involved in its sustainability efforts? Be sure to include *competitors* in your answer. List each group in order of its importance to Starbucks' sustainability efforts; explain your ranking.

Students' answers may vary. One possible ranking is suppliers, strategic partners, customers, competitors, and regulators. Suppliers seem the most imperative for meeting sustainability efforts as Starbucks' goal is ethically sourcing 100 percent of its coffee. Strategic partners are next as they certify such ethical sourcing. Starbucks is counting on customers to voluntarily recycle used cups. They are also counting on customers to care enough about sustainability to choose them over competitors. Competitors may play a unique role in either joining Starbucks' sustainability efforts or ignoring them. For instance, the higher the demand for ethically grown coffee, the better for the overall growing environment. Competitors who use ethically grown coffee are direct competitors as the amount of ethically grown coffee is limited. Regulators uphold accountability and offer legitimacy to Starbucks' sustainability claims.

3. According to Ben Packard, "One of the strengths of Starbucks' culture is treating the people and places where our products come from and are served in a better way. Not delivering on that vision and mission would be a problem in the culture of this company." Why is the management of its *culture* important to the success of the company's sustainability efforts? In what ways can Starbucks work to ensure that the values reflected in its sustainability commitment are embraced by members of the organization?

Culture determines the "feel" of the organization. Starbucks wants customers and other shareholders to think of sustainability when they envision the company. Since sustainability is a relatively new concept for Starbucks, management must manage the culture carefully. One way for Starbucks to underlie its sustainability commitment is bringing outsiders in at top management positions. These managers should have a proven track record of incorporating sustainability measures into operations.