Management Leading and Collaborating in a Competitive World 12th edition Bateman Solutions Manual

SKU: 9781259546945-SOLUTIONS

chapter 2

The External and Internal Environments

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LEARNING OBJECTIVES

1 **Describe how environmental forces influence organizations and how organizations can influence their environments.**

2 **Distinguish between the macroenvironment and the competitive environment.**

3 **Explain why managers and organizations should pay attention to economic and social developments.**

4 **Identify elements of the competitive environment.**

5 **Summarize how organizations respond to environmental uncertainty.**

6 **Define elements of an organization's culture.**

7 **Discuss how an organization's culture and climate affect its response to its external environment.**

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KEY STUDENT QUESTIONS

The two questions that come up most often for this chapter are:

?

1. ***"Can you explain the difference between the macroenvironment and the task environment?" (Or request to explain a particular element of either environment.)***
2. ***"As a manager, what should I do to respond to a changing environment?"***

Fortunately, the text has tools to help you deal with both of these questions more effectively.

- The first question is best addressed with examples, and students often find it useful to go through an example or two for a specific company. Start by discussing the high tech industry, using the information in the text and the "Management Connection" section called "Apple's Rocky Relationships." Next, ask students to name a company with which they are familiar, and have them identify examples of each of the different environmental factors for that organization. If your students can't think of an organization, try using something with which they are likely to be familiar, such as Kaiser Permanente (a large national HMO.) A completed example appears below in the instructions for Experiential Exercise 2.1, "External Environment Analysis".

- The second question is best addressed by having students work together to complete the concluding case study "Wild Water Gets Soaked." The brainstorming activity that students complete for the third discussion question on the case also serves as an excellent introduction to Chapter 3 - Decision Making.

- "Now, create a plan for Wild Water. In your plan, describe what changes the organization needs to make to its culture to meet the upcoming challenges in the external environment. Then describe steps that Wild Water can take to compete successfully against the new amusement park. How can the Salernos keep their loyal customers happy while attracting new ones?"

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CLASS ROADMAP

Management in Action

Can Mark Zuckerberg Help Facebook Reach the Next Level by Outmaneuvering the Competition and Refocusing on Its Developers?

One of the most dramatic business stories of the past decade has been how Mark Zuckerberg created a social-networking website that helped transform how people use the Internet. Facebook, along with other popular social-media sites, converted consumers of media content into creators of that content, and it vastly widened the scope of what information people share about themselves.

Some observers expected that Facebook would continue to be primarily a force that changes the online environment and social communities. However, other signs point to the possibility that change is beginning to outpace the company. Today Facebook's managers are trying to keep up with the race to mobile devices even as Facebook users are looking around for the latest hot new thing to do online.

Introduction

LO 1: Describe how environmental forces influence organizations, and how organizations can influence their environments

A. Organizations are ***open systems*** (Figure 2.1)

1. Receive raw materials, services, and financial, human, and information resources from the environment, called ***inputs***
2. ***Transform*** resources into finished goods and services
3. Send ***outputs*** back into the environment

B. External Environment Influences

1. When resources change, environment influences the organization
2. When outputs differ, organization influences the environment
3. The organization operates in a competitive environment.

E.G.

Use Example 2.1 – Environment Influences here

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I. THE MACROENVIRONMENT

1. Macroenvironment is defined by the most general elements in the external environment that can potentially influence strategic decisions

LO 2: Distinguish between the macroenvironment and the competitive environment

A. The Economy (Exhibit 2.3)

a. The economic environment dramatically affects companies' ability to function effectively and influences their strategic choices.
b. Interest and inflation rates affect the availability and cost of capital, the ability to expand, prices, costs, and consumer demand for products.
c. Unemployment rates affect labor availability and the wages the firm must pass, as well as product demand.

B. Technology

a. Technological advances create new products. As technology evolves, new industries, markets, and competitive niches develop.
b. New technologies provide new production techniques. Sophisticated robots perform jobs without suffering fatigue.
c. New technologies also provide new ways to manage and communicate. Computerized management information systems (MIS) make information available when needed.

C. Laws and Regulations

1. U.S. government policies both impose strategic constraints and provide opportunities.

2. Government can affect business opportunities through tax laws, economic policies, and international trade rulings.

3. *Regulators* are specific government organizations in a firm's environment.

4. Regulatory agencies have the power to investigate company practices and take legal actions to ensure compliance with the laws are:

   i. Securities & Exchange Commission (SEC)
   ii. Occupational Safety and Health Administration (OSHA)
   iii. Food & Drug Administration (FDA)
   iv. Federal Aviation Administration (FAA)
   v. Equal Employment Opportunity Commission (EEOC)
   vi. National Labor Relations Board (NLRB)
   vii. Office of Federal Contract Compliance Programs (OFCCP)
   viii. Environmental Protection Agency (EPA)

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E.G.

Use Example 2.2 – Laws and Regulations here

D. Demographics

a. ***Demographics*** measures of various characteristics of the people comprising groups or other social units.
b. Work groups, organizations, countries, markets, or societies can be described statistically by referring to their members' age, gender, family size, income, education, occupation, and so forth.

Multiple Generations at Work

In order to address pending labor shortages over the next decade, organizations will need to find ways to retain and fully use the talents of their experienced, older workers while competing for qualified entry-level workers. There are many reasons why organizations will want to hire or retain seasoned employees. Experienced employees can coach younger employees, maintain relationships with key customers, or fill in during busy seasons. Research suggests that many of older employees are willing to work past the traditional retirement age of 65; one reason being a lack of pensions and adequate savings will make retirement unaffordable for many of today's Baby Boomers.

LO 3: Explain why managers and organizations should attend to economic and social developments

E. Social Issues

a. Societal trends regarding how people think and behave have major implications for management of the labor force, corporate social actions, and strategic decisions about products and markets.
b. Companies have introduced more supportive policies, including family leave, flexible working hours, and childcare assistance.

F. Sustainability and the Natural Environment

a. Prominent issues in today's press pertain to natural resources.
b. The protection of the natural environment is important to managerial decisions.

II. THE COMPETITIVE ENVIRONMENT

LO 4: Identify elements of the competitive environment

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A. Competitors

a. As a first step in understanding their competitive environment, organizations must identify their competitors, which may include:
   i. small domestic firms
   ii. overseas firms
   iii. new domestic companies exploring new markets
   iv. strong regional competitors
   v. unusual entries, such as Internet shopping
b. The next step is to analyze how they compete.

B. New Entrants

a. ***Barriers to entry*** are conditions that prevent new companies from entering an industry.
b. Some major barriers to entry are government policy, capital requirements, brand identification, cost disadvantages, and distribution channels.

C. Substitutes and Complements (Exhibit 2.5)

a. Technological advances and economic efficiencies are among the ways that firms can develop substitutes for existing products.

D. Suppliers

a. Suppliers provide the resources needed for production and may come in the form of people, raw materials, information, and financial capital.
b. Suppliers can raise their prices or provide poor quality goods and services.
c. Labor unions can go on strike or demand higher wages.
d. Workers may produce defective work.

E. Customers

a. Customers purchase the products or services the organization offers.
b. ***Final consumers*** are those who purchase products in their finished form.
c. ***Intermediate consumers*** are customers who purchase raw materials or wholesale products before selling them to final customers.
   i. Customer service means giving customers what they want or need, the way they want it, the first time.
   ii. Actions and attitudes that mean excellent customer service include:
      a.) Speed of filling and delivering normal orders.
      b.) Willingness to meet emergency needs.
      c.) Merchandise delivered in good condition.
      d.) Readiness to take back defective goods and re-supply quickly.
      e.) Availability of installation and repair services and parts.
      f.) Service charges (that is, whether services are “free” or priced separately).

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Management in Action –
Progress Report

Facebook's seemingly dominant position among social media is under constant challenge. Increasingly, Facebook is competing to provide services that overlap with other leading players—Amazon, Apple, and Google. To gain an edge, Facebook relies heavily on the data it collects from its users.

• *Are Amazon, Apple, and Google competitors in Facebook's competitive environment or sellers of complements? Explain.*

The case describes these companies as offering some similar and some complementary services. Students may have different opinions but should demonstrate that they understand the meaning of competing and complementary products. For example, Google dominates search, while Facebook is launching search tools; Amazon suggests products to buy, and Facebook suggests gifts to buy when a user congratulates a friend; Apple sells entertainment, and using Facebook (especially to view friends' pictures, videos, and so on) is a form of entertainment.

• *Facebook has two major kinds of customers: the users of its site and the advertisers on its site. What challenges does Facebook face from Google in serving each customer group?*

In serving the users of its site, Facebook is challenged by Google's offering of an alternative social-media site, Google+. In serving advertisers, both companies want to promise these customers the most value for their ad spending. For example, Google might point out to advertisers that someone searching for information about cars is more likely to be shopping for cars than someone commenting about cars on Facebook; Facebook might say the conversation about cars will do more to influence a purchase decision.

Teaching Tip:

Have students review and give feedback on each others' responses to the pre-class assignment (Experiential Exercise 2.1) at this point in the lecture. The best way to do this is in pairs. Each student reads the other's paper, and then both students talk about environmental factors that have been misclassified, and other environmental factors that could be added. Students should correct their own papers before turning them in, and if possible, students should get feedback from the professor or teaching assistant about both the paper and the corrections.

III. ENVIRONMENTAL ANALYSIS

LO 5: Summarize how organizations respond to environmental uncertainty

a. Developments outside the organization can have a profound impact on the way managers operate.
b. Example: if little is known about customer likes and dislikes, organizations will have a difficult time designing new products, scheduling production, or developing market plans.
c. ***Environmental uncertainty*** means that managers do not have enough information about the environment to understand or predict the future.
d. Uncertainty arises from two related factors:
    1. Environmental *complexity*, or the number of issues to which a manager must attend, as well as their interconnectedness.
    2. *Dynamism*, or the degree of discontinuous change that occurs within the industry.

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A. Environmental scanning

a. A process that involves searching out information that is unavailable to most people and sorting through that information in order to interpret what is important and what is not.
b. ***Competitive intelligence*** is the information necessary to decide how best to manage in the competitive environment they have identified. (Exhibit 2.6)

E.G.

Use Example 2.3 – Environmental Complexity here

B. Scenario Development

a. ***Scenario*** is a narrative that describes a particular set of future conditions.
b. *Best-case scenario*--events occur that are favorable to the firm.
c. *Worst-case scenario*--events are all unfavorable.
d. Scenario development helps managers develop contingency plans for what they might do given different outcomes.

E.G.

Use Example 2.4 – Competitive Intelligence here

C. Forecasting

a. Used to predict exactly how some variable or variables will change in the future.
b. The best advice for using forecasts might include the following:
   1. Use multiple forecasts
   2. Accuracy decreases the farther into the future you are trying to predict.
   3. Forecasts are no better than the data used to construct them
   4. Use simple forecasts
   5. Important events often are surprises and represent a departure from predictions

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Teaching Tip:

Ask students to imagine different scenarios that might impact your school, and to develop contingency plans that might address those scenarios. This can either be done as a discussion question with the entire class, or students can work in groups to answer the question, and report back. For example, a possible scenario might center around a population boom or bust. In a population boom, universities might respond by setting up satellite campuses, whereas in a bust, universities might look for additional students by setting up international programs and/or programs targeted to meet the needs of working professionals.

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D. Benchmarking

a. ***Benchmarking*** is the process of comparing the organization's practices and technologies with those of other companies.
b. Benchmarking means identifying the best-in-class performance by a company in a given area.

IV. RESPONDING TO THE ENVIRONMENT

A. Changing the Environment You Are In

1. ***Strategic maneuvering*** is the organization's conscious efforts to change the boundaries of its task environment. It can take four basic forms:
   a. ***Domain selection*** is the entrance by a company into another suitable market or industry.
   b. ***Diversification*** occurs when a firm invests in different types of businesses or products, or when it expands geographically to reduce its dependence on a single market or technology.
   c. A ***merger or acquisition*** takes place when two or more firms combine, or one firm buys another, to form a single company.
   d. ***Divestiture*** occurs when a company sells one or more businesses.
2. ***Prospectors*** are companies that continuously change the boundaries of their task environments by seeking new products and markets, diversifying and merging, or acquiring new enterprises.
3. ***Defenders*** are companies that stay within a more limited, stable product domain

---

E.G.

Use Example 2.5 Independent Strategies here

B. Influencing your environment

1. ***Independent strategies*** are strategies that an organization acting on its own uses to change some aspect of its current environment. (Exhibit 2.7)
2. ***Cooperative strategies*** are strategies used by two or more organizations working together to manage the external environment. (Exhibit 2.8)

1. Adapting to the Environment: Changing Yourself

1. Four different approaches that organizations can take in adapting to environmental uncertainty are: (Exhibit 2.9)
   a. Decentralized bureaucratic (stable, complex environment)

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b. Centralized bureaucratic (stable, simple environment)
c. Decentralized organic (dynamic, complex environment)
d. Centralized organic (dynamic, simple environment)

2. Adapting at the boundaries.
a. ***Buffering*** is creating supplies of excess resources in case of unpredictable needs.
b. ***Smoothing*** is leveling normal fluctuations at the boundaries of the environment.

3. Adapting at the core.

a. ***Flexible process*** allows for adaptation in the technical core to meet the varied and changing demands of customers.

E.G.

Use Example 2.6 Corporate Culture here

C. Choosing a Response Approach

1. Three general considerations help guide management's response to the environment.
   a. Change appropriate elements of the environment.
   b. Choose responses that focus on pertinent elements of the environment.
   c. Choose responses that offer the most benefit at the lowest cost.

V. THE INTERNAL ENVIRONMENT OF ORGANIZATIONS: CULTURE AND CLIMATE

LO 6: Define elements of an organization's culture

A. ***Organization culture*** is the set of important assumptions about the organization and its goals and practices that members of the company share.
1. Strong cultures
   a. Everyone understands and believes in firm's goals, priorities, and practices.
   b. An advantage if appropriate behaviors are supported.
2. Weak cultures
   a. Different people hold different values
   b. Confusion about corporate goals
   c. Not clear what principles should guide decisions

LO 7: Discuss how an organization's culture affects its response to its external environment

B. Diagnosing Culture

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1. Culture can be diagnosed through the following:
    a. Corporate mission statements and official goals. (Exhibit 2.9)
    b. Business practices.
    c. Symbols, rites, and ceremonies.
    d. The stories people tell.
2. Four types of organizational culture (Exhibit 2.10)
    a. Group culture - flexible, internal focus
    b. Hierarchical structure - controlling, internal focus
    c. Rational culture - controlling, external focus
    d. Adhocracy - flexible, external focus

C. Managing Culture

1. Espouse lofty ideals and visions for the company
2. Give constant attention to mundane, daily details
3. CEO's need to embody the vision of the company

D. Organizational Climate

Management in Action –
Onward
During the recent Facebook–sponsored F8 conference for developers, Mark Zuckerberg made it clear that Facebook will be developing tools for developers to grow and make more revenue from their apps on the social networking site. In turn, this goal will "make users happier and marketers smarter, so business owners will be able to more easily reach large audiences."
• *How well do you think Facebook has been responding to its fast-changing environment? Identify risks it is taking that could negatively impact its future growth.*
Facebook is responding well to its fast-changing environment by offering concepts such as the FBStart program and mobile applications. However, targeted ad placement may pose a risk as users may protest at having advertisers using their information to target them for specific ads. We have already seen these privacy concerns brought up with other organizations.
• *How can Mark Zuckerberg strengthen Facebook's culture to help the company fulfill its missions?*
Methods by which managers can reinforce Facebook's culture include espousing a vision for Facebook that continues the company's mission and values, setting an example of adhering to those values, communicating concern for those values, and rewarding employees for acting on those values. Elements of Facebook's culture should be evident in the company's celebrations, the types of employees hired, and the content of employee orientation and training.

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BOTTOM LINE

p. 47: Does low-cost mean low-quality? Why or why not?
Not necessarily. Efforts to save money can improve processes—for example, simplifying a process in a way that reduces errors along with costs. It can involve reducing waste. It can involve locating in parts of the world where equally skilled people accept lower rates of pay. Of course, cost cutting can also involve using inferior material or untrained labor, so decisions about saving money should be made with concern for the organization's overall strategy.

p. 47: What are some technologies that have given managers fast access to information?
Two obvious answers are the Internet and portable computers such as laptops. Students may also be familiar with other information technologies, such as wireless computing, databases, and decision-support systems.

p. 51: In which of these areas would you say PepsiCo tried to create a competitive advantage? (If you aren't sure, come back to this question after you've studied this section.)
PepsiCo sought to innovate by creating snacks that are more healthful, which could also be seen as competing in terms of quality. It has spent less than Coca-Cola on advertising, which is in a sense a low-cost strategy that PepsiCo has tried to move away from.

p. 53: Would cost be a bigger barrier for someone who opens a new bicycle shop or a developer of mobile game apps? Why?
Cost would be a bigger barrier for a mobile game app, because a tremendous investment in research is required to develop a competitive product. In contrast, once the software for a mobile app has been written, producing many copies is simple and fast, and the app can be distributed readily by offering downloads online, even if the app developer doesn't have much shelf space in stores.

p. 55: To meet this requirement, what qualities would a company need in its employees?
A company that can manufacture customized products quickly will need employees who are themselves flexible—skilled in performing more than one process and willing to make adjustments to satisfy customers. The company would especially benefit from employees who are able to understand work processes and think creatively about how to adapt them to meet customer needs efficiently.

p. 57: Name a company that has delivered good customer service to you.
Answers will vary. This is a chance for students to think about what "service" means in concrete, practical terms.

p. 65: What might "flexible processes" mean for a fast-food restaurant? For an auto company?
For a fast-food restaurant, a flexible process is any part of food production that enables the restaurant to customize its offerings, such as a selection of cheeses and condiments on sandwiches or special decorations for a children's party in the restaurant. For an auto company, flexible processes would likely entail building cars with various options selected by customers, such as colors, entertainment systems, engine sizes, and so on.

p. 71: To be aligned with its environment, what values should an organic grocery store chain company have?
Answers will vary. Examples might be a high value placed on sustainable practices, strategies for managing waste, and monitoring of suppliers to make sure they are implementing sound farming practices.

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SOCIAL ENTERPRISE

Terracycle Wants to Eliminate All Waste

1. To what extent do you agree with Szaky that organizations can be profitable while making a positive impact on the environment and society?

   You can surely be profitable while making a positive impact on the environment and society. These two concepts are not mutually exclusive. For example, Terracycle converts its waste to products that can be sold by Walmart and other large retailers. It is important to pursue a triple bottom line strategy in order to make a profit and still make a positive impact on the environment.

2. Can you envision a world that doesn't produce waste? If so, what changes would need to be made before that could happen?

   There would need to be a lot of new procedures put into place in order to do this; however, it would be following the Terracycle approach of always converting waste to another product – just on a much larger scale. Countries would need to invest in such a conversion infrastructure. These investments would be slightly offset by the savings in waste management, but such expenditures would be quite costly and not all nations may follow such a "green" route.

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LECTURETTES

LECTURETTE 2.1

Operations and Human Resources: IBM's Workforce Management Initiative

As the book explains, one way in which an organization can manage its competitive environment is through becoming a globally integrated enterprise. IBM has adopted a human capital management approach to better utilize its talented workforce. Considering labor as an input and IBM products as an output, the company launched its Workforce Management Initiative (WMI) to capture and effectively leverage every employee's skill set and training. All of IBM's approximately 330,000 employees are captured in this database. Having this database allows managers to search for employee talent within the company---around the world---rather than having to look outside to recruit talent and fill current needs. The company estimates that this initiative has saved over $500 million. In addition to saving the company money, applying this supply chain approach allows the company to estimate its talent capacity for future anticipated needs as well, and to train individuals in a proactive fashion. In 2007, the IBM Institute for Business Value published seven keys to succeed in a globally integrated world of business, written by Eric Lesser, Tim Ringo, and Andrea Blumberg. The seven principles are:

1. Understanding the demographics and capabilities of the workforce.
2. Predicting the future labor supply and demand.
3. Utilizing social networks to increase visibility and application of knowledge across the organization.
4. Enabling individuals to perform work regardless of location.
5. Facilitating collaboration across traditional organizational boundaries.
6. Driving the rapid development of skills and capabilities to meet changing business conditions.
7. Evaluating employee performance and providing appropriate feedback.

Sources:
http://intelligententerprise.informationweek.com/showArticle.jhtml;jsessionid=FRFIJGEA3BMIXQE1GHPSKHWATMY32JVN?articleID=175002433 (accessed on December 22, 2009)

http://www.shrm.org/Education/hreducation/Documents/Boudreau_IBM%20Case%20Study%20with%20Teaching%20Notes_FINAL.pdf (accessed on July 29, 2015)

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DISCUSSION QUESTIONS

1. **This chapter's opening quote by Peter Drucker said, "The essence of a business is outside itself." What do you think this means? Do you agree?**

Students may ask: What is meant by the word "essence?" It has a number of meanings. However, according to the dictionary, it means "that which makes something what it is." It is important to remember that the purpose of a successful business is to get customers and to retain customers.

Using the definition above, Drucker's statement can be interpreted to mean that it is the outside environments that determine the nature of business. This can be illustrated through the use of an example. A new automobile manufacturer entering the U.S. market is faced with three large domestic companies and a number of well-established foreign firms. The newcomer's strategy has to take this external environment into consideration. This can be contrasted with a new company entering a business in which the competition is limited to three or four small firms.

However, one can argue that even though the external environments can have a dramatic impact on a business, it is still management's responsibility to develop a strategy to enable the organization to grow and prosper.

2. **What are the most important forces in the macroenvironment facing companies today?**

In order to answer this question, the student probably needs to recognize that different companies operate in different industries and a critical macroenvironment force facing one company may be a minor factor for another. Three examples are given below:

Economy. The economy is always a factor. A booming economy may allow a new business to grow and prosper while a depressed economy would cause it to fail. Some businesses do very well in booming economies whereas others (notably the entertainment industry) seem to flourish during times when the economy is weak.

Technology. Consider the impact of rapidly changing technology on the computer industry. Most of the early innovators are no longer in business, and many of the current leaders might not survive another dramatic change in technology. And yet, in other industries (such as candy making), the technology has been unchanged for many years.

Political/legal. This factor is having a major impact on the television/telephone/computer interface. Political efforts to increase competition in the cable television industry will probably be a major factor for many years to come.

Students should be able to identify industries in which each of the forces in the macroenvironment is playing a major role or, at least, have done so in the past.

3. **What are the main differences between the macroenvironment and the competitive environment?**

The macroenvironment consists of the major forces (international, economic, social and natural, demographic, technological, and political/legal) which affect all businesses to some degree.

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While the competitive environment is also part of the external environment, it is viewed separately from the macroenvironment in that it focuses on the competitive forces that are specific to each business.

4. **What kinds of changes do companies make in response to environmental uncertainty?**

Organizations may adapt to the environment by altering their work structures and work processes in order to reduce uncertainty. When uncertainty arises due to environmental complexity, many organizations adopt more decentralized decision-making structures. This allows people with the most direct knowledge of a particular product or operation to make important decisions rather than a centralized unit that may be more removed from the daily business activities.

When uncertainty arises due to changes in the environment, many organizations adopt more flexible structures. When technologies, customers, and competitors change rapidly, a highly rigid, bureaucratized organization is less able to respond effectively, thus responsiveness and innovation become priorities

Organizations can adapt to uncertainty by buffering at both the input and output sides of their boundaries. They may do this by hiring temporary workers during rush periods on the input side, and by maintaining adequate inventory in order to manage a rush of orders on the output side. Organizations may also adapt at their core by establishing flexible processes such as mass customization which allows an organization to produce large quantities at low cost, yet still offer individual customization.

5. **We outlined several proactive responses organization can make to the environment. What examples have you seen recently of an organization responding effectively to its environment? Did the effectiveness of the response depend upon whether the organization was facing a threat or an opportunity?**

A number of proactive responses to the environment are identified in the text:

Independent strategies: The firm acts on its own to change some aspect of the current environment through competitive aggression, competitive pacification, public relations, voluntary action, legal action, or political action.

Cooperative strategies: The firm collaborates with another organization to either reduce their costs and risks or increase their power relative to the environment.

Strategic maneuvering: The firm attempts to change the boundaries of its competitive environment through domain selection (entering new markets with limited competition or regulation), diversification (investing in different types of business), mergers and acquisitions, or divestiture.

Challenge students to identify firms that are adopting each of these strategies and whether or not they are doing so in response to a threat or an opportunity.

6. **Select two organizations that you are interested in. Research information about the firms or talk with an employee if possible. What types of cultures do they have? Write a paragraph that describes each culture.**

EXAMPLE: "Company X seems to really care about their new employees. The employee I spoke to told me that the company actively encourages employees to move from job to job within

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the organization - that sounded great to me. In addition, I found out that people have a lot of flexibility to work on their terms - for example, being in the office at 9am doesn't matter as much as whether or not you get the job done. To me, this company looks like it has a group culture."

7. **When you were visiting colleges to decide where to attend, were there cultural differences in the campuses that made a difference in your choice? How did these differences impact your decision on which college to attend?**

Student responses to this question will differ widely, but if they understand the concept of culture, they should talk about the "feeling" a place has - organized, productive, friendly, etc. If students have visited several college campuses, they should definitely be able to talk about difference in culture for each campus. For example, in California, one might have perceive USC as being very sports-oriented, Occidental as being very arts-oriented and exclusive, UCSD as a school that produced "renaissance people", CalTech as being a place for brains and geeks, and San Diego State as a party school. Note that all of these perceptions of culture have value judgments attached to them, and they may or may not be accurate.

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EXPERIENTIAL EXERCISES

EXERCISE 2.1: EXTERNAL ENVIRONMENT ANALYSIS

Objective: To give students the experience of performing an analysis of a company's external environment.

Responses to the external environment questions will vary depending on the companies and industries the students discuss.

Suggested Responses to Discussion Questions

1. **What has the company done to adapt to its environment?**

   Using the music industry as an example, explain how in order adapt to the environment, music companies are taking over more of the supply chain, manufacturing their own CDs and managing their own music clubs. They are making deals with on-line music distributors to sell individual songs. They are also increasing their on-line marketing efforts, as in letting AOL offer its customers music video and song samples.

2. **How does the company attempt to influence its environment?**

   Continuing with the music industry example, students might indicate that in order to influence the environment, music companies pay slotting fees to retailers to gain shelf space, and pay fees to ensure play time on radio stations. They heavily market new releases. They are aggressively seeking to enforce copyright laws forbidding illegal copying - their success in shutting down Napster is an example of that. They are also enlisting the artists themselves in an effort to educate and influence the public on the illegal copying issue. In the U.S., they are also asking the government to pressure China to reduce the widespread music piracy in that country.

EXERCISE 2.2 - CORPORATE CULTURE PREFERENCE SCALE

Objectives

- To expose students to different types of corporate cultures.
- To help students identify the kind of organization in which they would most like to work.
- To help students see how classroom cultures can differ along the same lines as corporate cultures.

Case Discussion Questions:

1. **Review the four types of corporate cultures outlined in the exercise. Working in small groups, give examples of classes you have taken that correspond to each of the different types of corporate culture dimensions.**

   Student responses will vary, but in general, you can expect to see the following differences across different types of classrooms:

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Control Culture - These classes have professors that are firmly in charge of the class and they let students know it. Typically, professors in a control culture will take roll, have large amounts of homework (which may or may not be meaningful to the students), and will give difficult tests that may or may not be related to the work done previously in class. Control culture classes often place a lot of emphasis on memorization as a learning tool.

Performance Culture - These classes have professors that are interested in learning and who foster a learning environment with their students. Class assignments are typically relevant and give students new skills, and although tests may be difficult, they are clearly related to what has been presented in class. Students often describe these classes as challenging, but fair and interesting. In a performance culture, the primary emphasis is on learning and growth.

Relationship Culture - These classes have professors that become 'friends' with students. Students feel that their opinions count, that their voices are heard, and that they contribute to learning, along with the professor.

Responsive Culture - This class is constantly changing to keep up with the latest changes in the field. It may be taught online or it may evolve as students bring in additional information.

2. **How do you know what kind of culture a class has? What do you look for that tells you how the class is going to be?**

Again, student responses will vary, but students are likely to talk about professor behavior (business practices), the class syllabus (corporate mission statement and official goals), ritualized behaviors such as distributing paperwork and taking roll (symbol, rites, and ceremonies), and student reviews of the class (the stories people tell.)

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CONCLUDING CASE

Tata Motors: From Cheap to Awesome?

Case Summary:

This case reveals how important it is to organizations of all sizes to be prepared and ready to change both marketing and manufacturing strategies. When Tata introduced the Nano, it stated that the car would be sold for $2,000 to $2,500, but it was later found out that this price could not be sustained. Moreover, there were numerous safety issues with the car. This led to a change in the features of the Nano, and the entire pricing model, in order to stay competitive with competitors such as Suzuki.

Chapter Topics Related to the Case:

- Discuss how environmental forces impact organizations
- Describe the purpose of an environmental analysis
- Discuss how organizations like the Tata operation can conduct environmental analyses
- Discuss how organizations such as Tata change culture

Case Discussion Questions:

1. **Which barriers to entry contributed most to Tata Motors lack of success with the original Nano?**
   Tata Motors suffered from a cost analysis mistake in the way it priced its model. It was not able to enter the market in a competitive fashion against Suzuki. There was also an issue with the brand as there were numerous safety issues reported.

2. **Which macroenvironment factors did Tata Motors consider when adjusting the marketing and manufacturing strategies to achieve success with the more recent Twist and LX models?**
   Tato focused on technology and demographics in revamping the Nano. It focused on young urban customers instead of first time rural buyers. There were also technological upgrades such as power steering, Bluetooth connectivity and other enhanced interior and exterior features.

3. **To what degree of you believe Tata Motors will succeed in delivering a successful low cost vehicle to consumers in India and other developing economies?**
   The new focus on a different set of demographics, as well as technological advances, puts Tata Motors in good shape for competing with companies like Suzuki. The car is a bit more expensive, but the market focus is a bit different, and there are some advancements that may justify the higher price. The buying power of this demographic is a bit more, and the technological advancements are what this set of demographics also demands.

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EXAMPLES

Example 2.1 – Environment Influences: In August of 2013, Jeff Bezos, Amazon founder and CEO, purchased the Washington Post. The newspaper industry has been suffering over the past decade due to customers increasingly relying on the Internet for news coverage. The Post's newspaper division's revenue declined by 44% in the preceding six years. Some are optimistic, while others remain skeptical about Bezos' ability to turn the newspaper or its industry around. Bezos stated, "I don't want to imply that I have a worked out plan. This will be unchartered terrain, and it will require experimentation."[1]

Example 2.2 – Laws and Regulations: The macroenvironment is composed of international, legal and political, economic, technological and social forces that influence strategic decisions. Many of these factors affect a manager's ability to function effectively and influence their strategic choices – interest and inflation rates, unemployment rates, rising energy costs, rising health care costs and changes in the value of the dollar to name a few. In Malaysia when the cost of doing business is artificially inflated, the customer bears the charge without any real gain in value. One such example was The Private Healthcare Facilities and Services Act (1998) and Regulations (2006). This act stipulate higher charges by private medical practitioners to which must be added the cost of registration.[2]

Example 2.3 – Environmental Complexity: Recently, more and more Americans are becoming aware of the environment - specifically the air that they breathe. With concerns about global warming and pollution at an all-time high, people want to be sure that they and their companies are acting in environmentally responsible ways. Americans spend 90% of their time indoors and much of that at work. According to the EPA, air pollution is up to five times worse inside than outside. Harsh cleaning chemicals contribute to the problem. Approximately 37 million Americans suffer from chemical sensitivity, leading to increased absenteeism and health costs. Managers who promote the use of eco-cleaners, which do not evaporate harmful materials into the air, can reduce their costs, make the workplace safer for their workers, and improve their reputation as part of the "green movement".[3]

Example 2.4 – Competitive Intelligence: Faced with declining customer-service ratings and prices higher than competitors, Michael Dell recently resumed the role of chief executive at the company he founded. His initial steps to be more competitive focused on eliminating redundancies throughout the business. He began by eliminating eight senior executives, suspending bonuses and providing limited discretionary awards to exceptional performers. Dell urged employees to work quickly to turnaround the company. He said "There is no luxury of time. The competitors are fierce." [4]

Example 2.5 – Independent Strategies: As global warming is threatening the viability of Aspen's famed ski resort, companies there are responding by becoming pioneers in corporate environmentalism. Aspen uses biodiesel fuel in its bulldozer-sized snowcats, uses a speck of dust to seed artificial snowflake which consumes less water and energy, vehicle shop is partly heated with used motor oil, Coke machines run on motion sensors, toilets have two different flush settings—half flush and full flush, and resorts add $2 a day to the bill of every hotel guest donating

[1] Farhi, Paul. "Washington Post to be sold to Jeff Bezos, the founder of Amazon." *The Washington Post,* August 5, 2013. Retrieved from http://articles.washingtonpost.com/2013-08-05/national/41085661_1_washington-post-co-jeff-bezos-graham
[2] Singh, Beldev. "Keep cost of doing business low." *New Straits Times (Malaysia)*. August 21, 2006, pg. 25.
[3] Boulden, Jennifer. "The air in there." *Fast Company*, September 2007, Iss. 118, pg. 64.
[4] *Techweb Newswire*. "Dell suspends bonuses, streamlines management." February 5, 2007

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it to the Aspen Valley Land Trust to preserve open space. Aspen managers must complete an environmental impact assessment for each request for capital spending. Auden Schendler, Aspen's director of environmental affairs, wants "Aspen to be a thought leader – not just to be doing it, but talking about how we do it."[5]
This is a good example of both the public relations and voluntary action approaches to changing the environment. (Table 2.4)

Example 2.6 – Corporate Culture: Tony Hsieh, CEO of shoe retailer, Zappos, is passionate about corporate culture, "The original idea was to add a little fun." Now companies around the world are attempting to model Zappos' renowned corporate culture and customer service model. Zappos employees are given the freedom to decide how best to satisfy their cutomers, whether that means staying on phone calls for hours at a time, sending flowers, or even redirecting a customer to a rival website with a better price. Hsieh observes, "They may only call once in their life, but that is our chance to wow them."[6]

[5] Fishman, Charles. "Degree of difficulty." *Fast Company*, February 2007, Issue 112, pg. 94
[6] Palmeri, Christopher. "Zappos retails its culture." *Bloomberg Businessweek.* December 2009. Retrieved from http://www.businessweek.com/magazine/content/10_02/b4162057120453.htm

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SUPPLEMENTAL FEATURES

Please see the following additional materials in Connect.

CHAPTER VIDEO

- **Opportunity International**

For over 25 years, Opportunity International has provided microloans to help impoverished people in underdeveloped nations improve their lives and work their way out of poverty. Opportunity International recognizes that poverty is multidimensional, and relies on principles of microeconomics to foster economic development. As just one example, Opportunity International was involved in helping an individual begin a small mushroom farming and production business that began as a way to feed one family but expands to affect over 100 local individuals trained as the business grows and becomes more sustainable. Opportunity International is effective at growing a free market economy. The key to successful economies is freedom and the result is the opportunity for all to have a better life. Opportunity International is in the midst of an effort to expand in Africa and benefit 100 million working families on that continent.

MANAGER'S HOT SEAT (MHS)

There are no Manager's Hot Seat clips for this chapter

SELF-ASSESSMENT

- **Corporate Culture Preference Scale**

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The External and Internal Environments

Chapter Two

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Quote

"The essence of a business is outside itself."

Peter Drucker

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Learning Objectives

LO 1 Describe how environmental forces influence organizations and how organizations can influence their environments.

LO 2 Distinguish between the macroenvironment and the competitive environment.

LO 3 Explain why managers and organizations should attend to economic and social developments.

LO 4 Identify elements of the competitive environment.

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Learning Objectives (cont.)

LO 5 Summarize how organizations respond to environmental uncertainty.

LO 6 Define elements of an organization's culture.

LO 7 Discuss how an organization's culture and climate affects its response to its external environment.

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Open Systems

Organizations that are affected by, and that affect, their environment.

Inputs- Goods and services organizations take in and use to create products or services.

Outputs- The products and services organizations create.

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Open-System Perspective of an Organization

Exhibit 2.1

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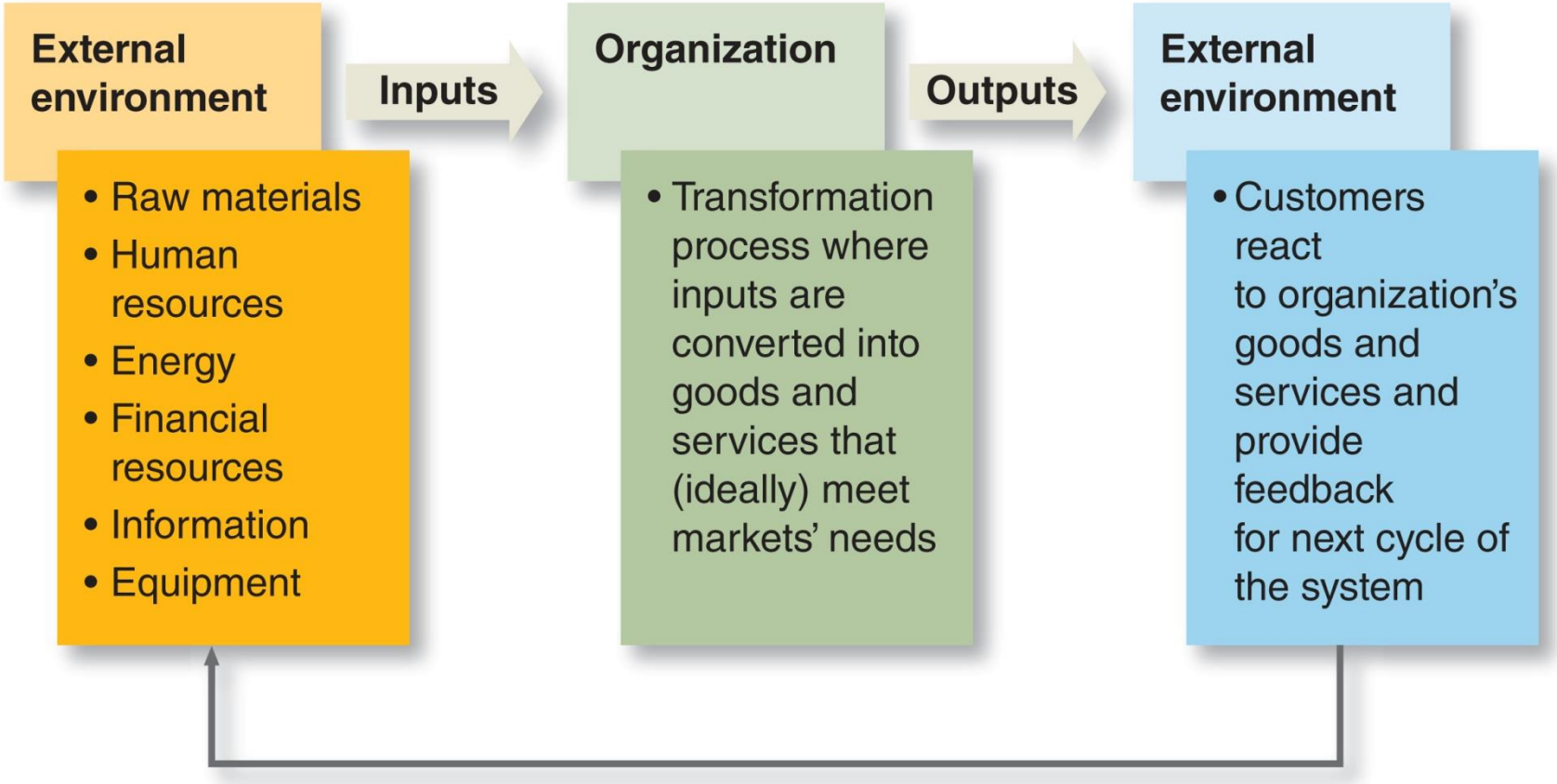

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Open Systems

- **External environment**
  - All relevant forces outside a firm's boundaries, such as competitors, customers, the government, and the economy.
  - **Competitive environment**
    - The immediate environment surrounding a firm; includes suppliers, customers, rivals, and the like.
  - **Macroenvironment**
    - The general environment; includes governments, economic conditions, and other fundamental factors that generally affect all organizations.

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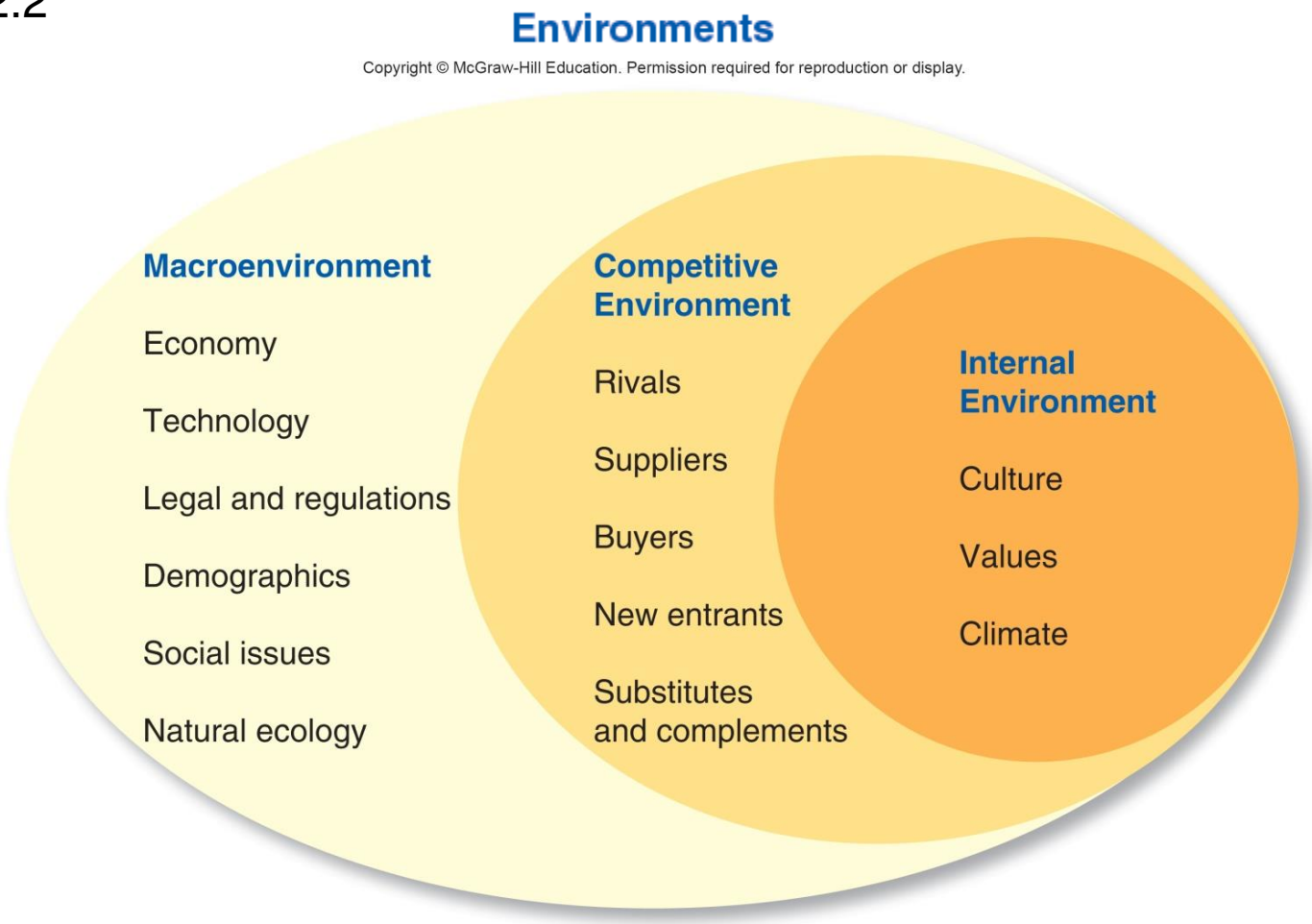
The External and Internal Environments

Exhibit 2.2



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The Economy

The economic environment dramatically affects managers' ability to function effectively and influences their strategic choices.

Interest and inflation rates affect the availability and cost of capital, growth opportunities, prices, costs, and consumer demand for products.

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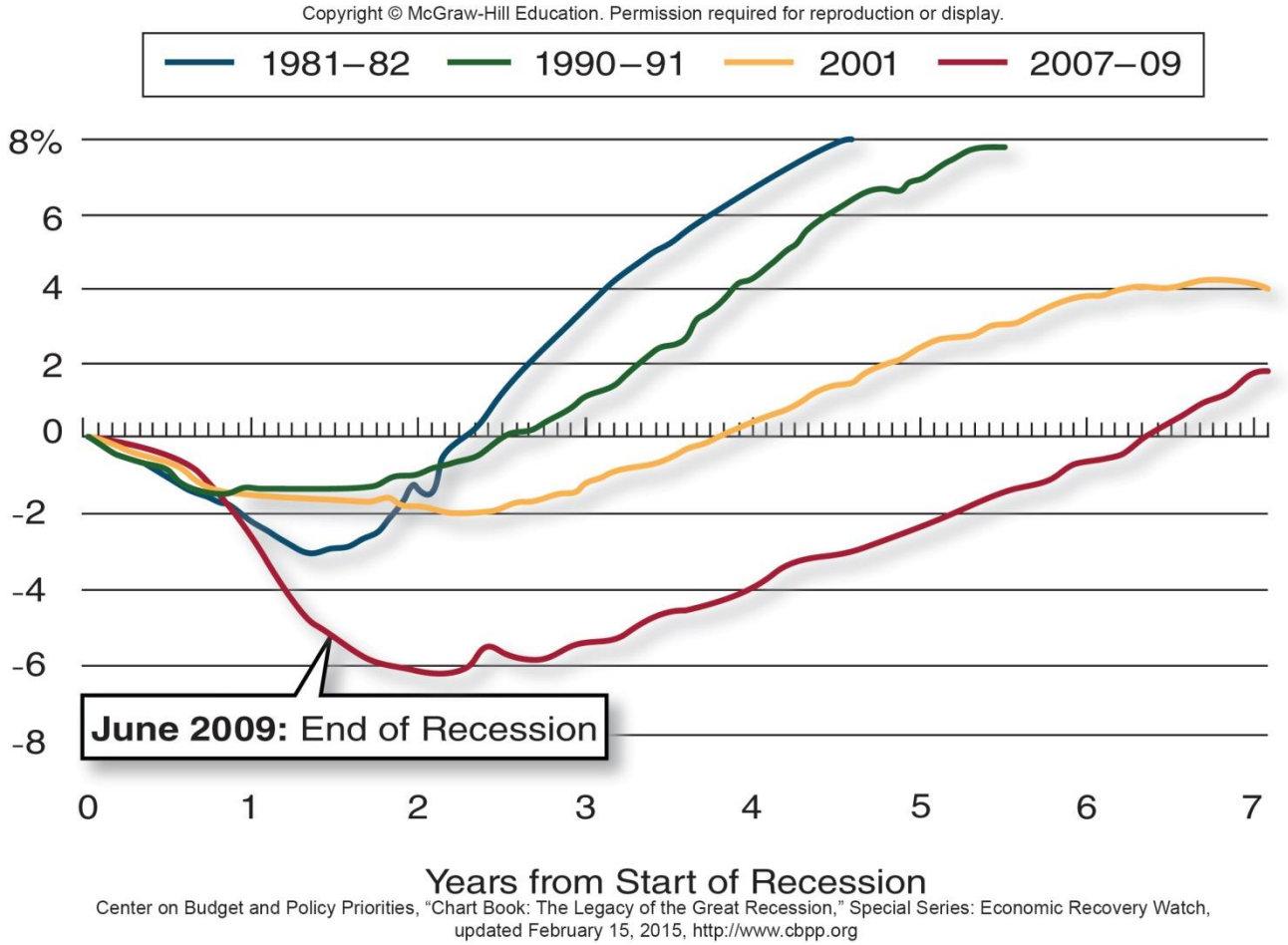
Percent Change in Nonfarm Payroll Employment since Start of Each Recession

Exhibit 2.3



Center on Budget and Policy Priorities, "Chart Book: The Legacy of the Great Recession," Special Series: Economic Recovery Watch, updated February 15, 2015, http://www.cbpp.org

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The Economy

In publicly held companies, managers may feel required to meet Wall Street's earnings expectations.

Managers may focus on short-term results at the expense of long-term success.

Some managers may be tempted to engage in unethical or unlawful behavior that misleads investors.

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Technology

- Technological advances create new products, advanced production techniques, and better ways of managing and communicating.
- As technology evolves, new industries, markets, and competitive niches develop.

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Laws and Regulations

Regulators include agencies such as:

- Occupational Safety and Health Administration (OSHA).
- Interstate Commerce Commission (ICC).
- Federal Aviation Administration (FAA).
- Equal Employment Opportunity Commission (EEOC).
- National Labor Relations Board (NLRB).

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Demographics

- **Demographics**
  - Measures of various characteristics of the people who make up groups or other social units.
- **Trends**
  - Growth of the labor force.
  - Increasing education and skill levels.
  - Immigration.
  - Increased numbers of women in the workforce.
  - Increasingly diverse workforce.

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Social Issues

Societal trends regarding how people think and behave have major implications for management of the labor force, corporate social actions, and strategic decisions about products and markets.

Family leave, domestic partner benefits, flexible working hours, and child care assistance.

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Social Enterprise
Terracycle Wants to Eliminate All Waste

- Tom Szaky, founder and CEO of Terracycle, is on a mission to “find waste and turn it into something useful, at a profit.”
- Since its founding in 2001 as a college dormitory room start up, Terracycle has prevented 2.5 billion pieces of waste from entering landfills.

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Social Enterprise Questions
Terracycle Wants to Eliminate All Waste

- To what extent do you agree with Szaky that organizations can be profitable while making a positive impact on the environment and society?
- Can you envision a world that doesn't produce waste? If so, what changes would need to be made before that could happen?

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The Competitive Environment

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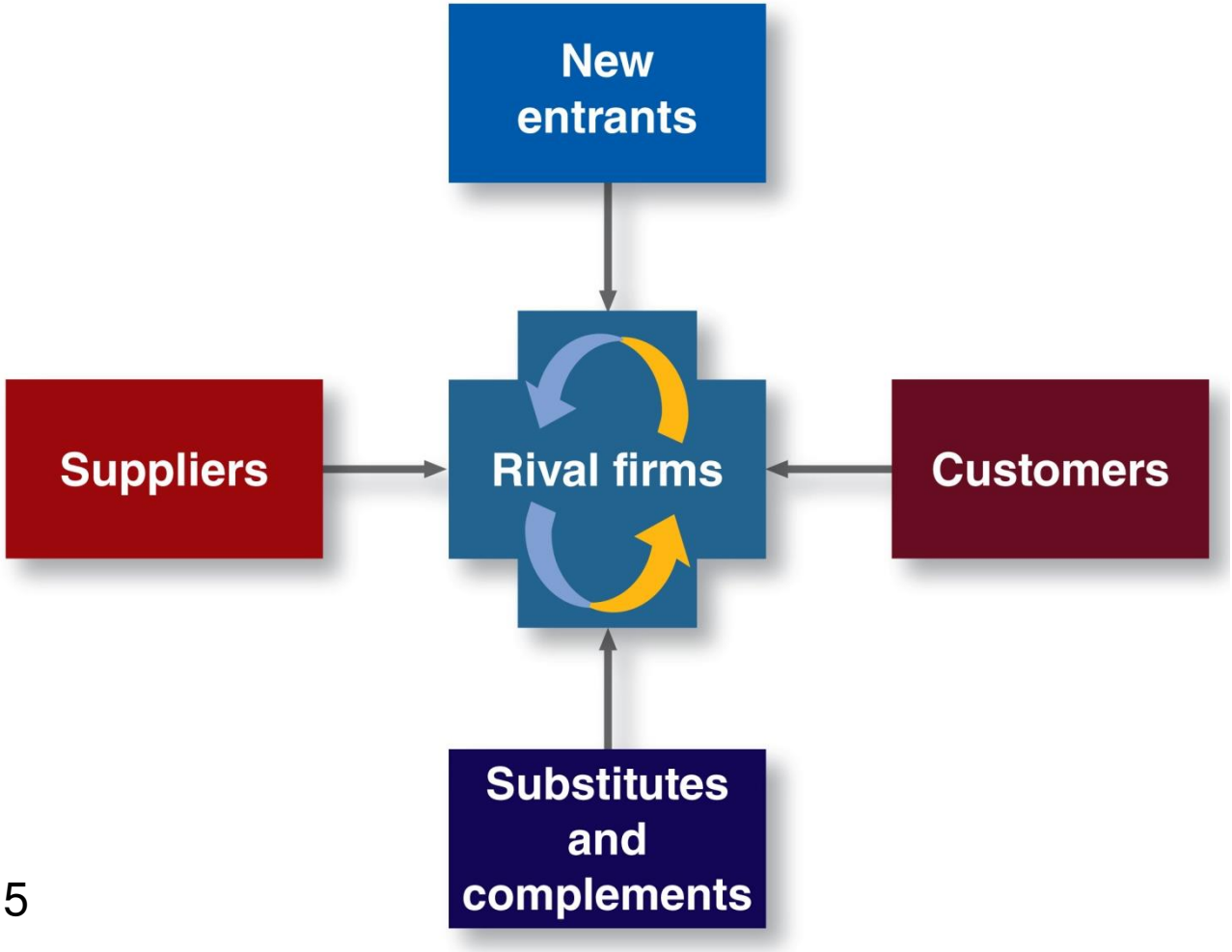

Exhibit 2.5

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Competitors

Competition is most intense when:

- There are many direct competitors.
- Industry growth is slow.
- Product/service is not easily differentiated.

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New Entrants

Barriers to entry

- Conditions that prevent new companies from entering an industry.
- Government policy, capital requirements, brand identification, cost disadvantages, and distribution channels.

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Substitutes and Complements

- **Substitutes** -alternative products or services.
- **Complements**- products or services that increase purchases of other products.

Exhibit 2.6

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If the Product Is . . .	The Substitute Might Be . . .
Chipotle burrito bowl	Subway sandwich
Dell laptop computer	iPad tablet computer
Face-to-face course	Online course
SanDisk USB flash drive	CrashPlan online backup service
If the Product Is . . .	**The Complement Might Be . . .**
Starbucks coffee	Starbucks Coffee Cake
Netflix streaming video	Orville Redenbacher's popcorn
Evernote app	Evernote scanner
Apartment rental	IKEA furniture

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Question

_____ costs are fixed costs buyer face if they change suppliers.

A. Exchange
B. Lever
C. Switching
D. Transfer

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Suppliers

- **Suppliers**
  - Provide resources or inputs needed for production.
- **Switching costs**
  - Fixed costs buyer face if they change suppliers.
- **Supply chain management**
  - Managing the acquisition of materials, their transformation into products, and the distribution of products to customers.

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Environmental Uncertainty

Environmental uncertainty

- Lack of information needed to understand or predict the future.

Environmental complexity

- The number of issues that must be attended to as well as the interconnectedness of these issues.

Environmental dynamism

- The degree of discontinuous change that occurs within an industry.

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Environmental Analysis

Environmental scanning

- Searching for information that is unavailable to most, sorting that information and interpreting what is important.

Competitive intelligence

- Information that helps managers determine how to compete better.

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Environmental Analysis

- **Scenario development**
  - A narrative that describes a set of future conditions.
  - Best-case, worst-case.
- **Forecasting**
  - Method for predicting how variables will change the future.

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Question

What is the process of comparing an organization's practices and technologies with those of other companies?

A. Comparative technology
B. Benchmarking
C. Process synchronization
D. Process asynchronization

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Environmental Analysis

- **Benchmarking**
  - The process of comparing an organization's practices and technologies with those of other companies.

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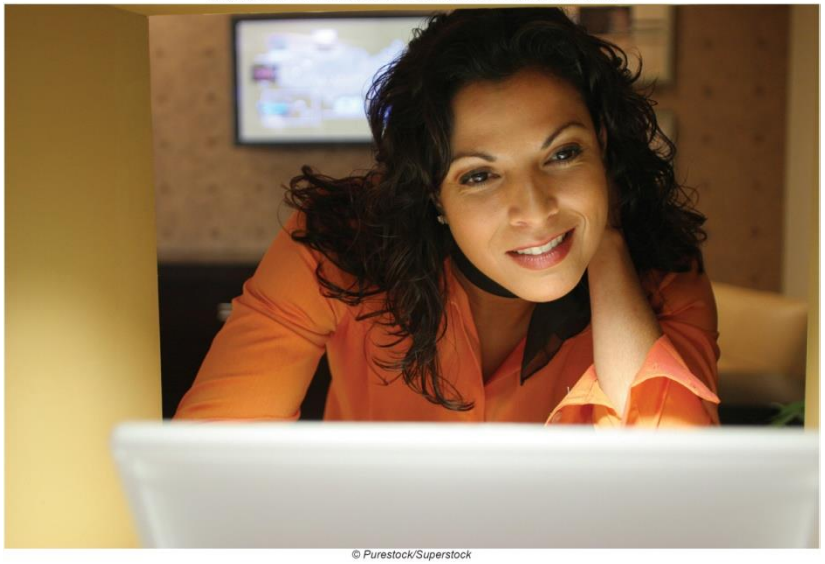

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Changing the Environment You are In

- **Strategic maneuvering**
  - An organization's conscious efforts to change the boundaries of its task environment.
- **Domain selection**
  - Entrance to a new market or industry with an existing expertise.
- **Diversification**
  - Occurs when a firm invests in a different product, business, or geographic area.

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Changing the Environment You are In

Mergers

- One or more companies combine with another.

Acquisitions

- One firm buys another.

Divestiture

- A firm sells one or more businesses.

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Changing the Environment You are In

Prospectors

- Continuously change the boundaries of their task environment by seeking new products and markets, diversifying and merging, or acquiring new enterprises.

Defenders

- Stay within a stable product domain as a strategic maneuver.

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Influencing Your Environment

- **Independent strategies**
  - Strategies that an organization acting on its own uses to change some aspect of its current environment.
- **Cooperative strategies**
  - Strategies used by two or more organizations working together to manage the external environment.

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Independent Action

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Environmental Factor	Unattractive	Attractive
Competitors	Many; low industry growth; equal size; commodity	Few; high industry growth; unequal size; differentiated
Threat of entry	High threat; few entry barriers	Low threat; many entry barriers
Substitutes	Many	Few
Suppliers	Few; high bargaining power	Many; low bargaining power
Customers	Few; high bargaining power	Many; low bargaining power

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Cooperative Action

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Strategy	Definition	Examples
Contraction	Negotiation of an agreement between the organization and another group to exchange goods, services, information, patents, and so on	Contractual marketing systems
Cooptation	Absorbing new elements into the organization's leadership structure to avert threats to its stability or existence	Consumer and labor representatives and bankers on boards of directors
Coalition	Two or more groups that coalesce and act jointly with respect to some set of issues for some period of time	Industry associations; political initiatives of the Business Roundtable and the U.S. Chamber of Commerce

Reprinted from *Journal of Marketing*, published by the American Marketing Association. C. Zeithaml and V. Zeithaml, "Environmental Management: Revising the Marketing Perspective," Spring 1984

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Adapting to the Environment

- **Buffering**
  - Creating supplies of excess resources in case of unpredictable needs.
- **Smoothing**
  - Leveling normal fluctuations at the boundaries of the environment.

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Organization Culture

The set of important assumptions about the organization and its goals and practices that members of the company share.

In strong cultures, the majority of people within the organization agree on organizational goals.

In weak cultures, different people hold different values and there is confusion about corporate goals.

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Competing Values Model of Culture

Exhibit 2.13

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Adapted from Kim S. Cameron and Robert E. Quinn, *Diagnosing and Changing Organizational Culture*, 3rd ed.(San Francis

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Management in Action - Onward
Can Mark Zuckerberg Help Facebook Reach the Next Level?

- During a recent Facebook–sponsored conference for developers, Mark Zuckerberg made it clear that Facebook will be producing tools for developers to grow and make more revenue from their apps on the social networking site.
- In turn, this goal will "make users happier and marketers smarter, so business owners will be able to more easily reach large audiences."

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Management in Action - Questions

Can Mark Zuckerberg Help Facebook Reach the Next Level?

- How well do you think Facebook has been responding to its fast-changing environment? Identify risks it is taking that could negatively impact its future growth.
- How can Mark Zuckerberg strengthen Facebook's culture to help the company fulfill its mission?

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