Organizational Environments and Cultures

Chapter 3

CHAPTER OUTLINE

STUDENT RESOURCES

ThomsonNOW On the Job and Biz Flix video applications, concept tutorial, and concept exercise

Xtra! Five exhibit worksheets, author FAQs, quiz, Management News, and the video clips from the chapter with exercises

Web (http://williams.swlearning.com) Quiz, PowerPoint slides, and glossary terms for this chapter

Wendy's International Headquarters, Dublin, Ohio.[1] After viewing the movie *Super Size Me*, you think to yourself, "Thank goodness this movie was not about Wendy's." *Super Size Me* tells the story of filmmaker Morgan Spurlock who ate only McDonald's food for a month. During that time, he ate every item on the menu at least once and ate super-sized items only when asked. The results? Eating 5,000 calories per day, Spurlock gained 25 pounds, increased his cholesterol from a healthy 160 to an unhealthy 230, and developed liver problems that later subsided after he lost weight.

With 66 percent of Americans overweight, obesity is—no pun intended—at epic proportions, and that could affect Wendy's in terms of lawsuits, regulation, and complaints from public interest groups. You are aware that a group of obese teenagers sued McDonald's, claiming its food had made them fat. Though a judge threw the case out, your corporate attorneys have warned that Wendy's could be a target and that the cost of defending the company could easily exceed several million dollars per case, and that's only if you win. Meanwhile, the Food and Drug Administration has been pressuring restaurants to voluntarily provide complete nutritional information on their menus. One of your competitors, the Ruby Tuesday restaurant chain, now lists the calories, fat grams, net carbs, and fiber for each item on its menu. But, you're not sure you want your customers looking at nutritional information right before they order. Would they still order a Wendy's Classic Double® combo with burger, medium drink, and Biggie® fries, moments after reading that these items add up to a monstrous 1,320 calories and 63 grams of fat, but only 8 grams of fiber? Likewise, advocacy groups like the Center for Science in the Public Interest want fast-food restaurants to stop using partially hydrogenated vegetable oil to cook french fries and other fried foods because the unhealthy trans fats in the oil significantly raise levels of LDL, the "bad" cholesterol. The problem, however, is that it costs $7 more to fill a fast-food fryer with trans fat-free oil. And that oil doesn't last as long at the 350 degree cooking temperature, so it has to be replaced more often. Consequently, it would cost a Wendy's restaurant $19,000 per year to get rid of trans fats in its fried foods Another problem is that fries cooked in trans fat-free oils are soggier and less tasty.

What Would You Do?

So, the question is what to do? Should Wendy's pay attention to health food activists and attempt to forestall potential government regulations mandating healthier food by focusing healthier, lower calorie menu items as its competititor Subway is doing? At Subway, a six-inch roast beef sandwich with lettuce, tomatoes, onions, green peppers, pickles, olives, and fat-free honey mustard sauce contains just 320 calories and 5 grams of fat. Furthermore, Subway associates itself with the American Heart Association Heart Walks, and its advertising spokesperson, Jared Fogle, is famous for having lost 250 pounds by eating at Subway twice a day. Or should Wendy's pay attention to what its customers traditionally want—the fast food, not healthy food? After all, the list of "healthy" fast-food items that have not sold well is very long: McDonald's Lite Mac, McLean Deluxe, and McSalad Shakers; Wendy's Light Menu; Burger King's low-sodium pickles and veggie burger; and Taco Bell's Border Lights. Furthermore, since Hardee's introduced its Monster Thickburger, a 1,420-calorie sandwich with 107 grams of fat that comedian Jay Leno quipped "actually comes in a little cardboard box shaped like a coffin," same-store sales have jumped 6 percent. Finally, Wendy's still faces potential lawsuits from customers claiming that it was responsible for their obesity and poor health. What, if anything, should Wendy's do to protect itself against those lawsuits? **If you were in charge at Wendy's, what would you do?**

STUDY TIPS

Create your own diagram of the business environment and compare it to the example in the chapter. Read a selection of articles in the business press and list the environmental factors at play in each of the articles.

Wherever Wendy's top managers look, they see changes and forces outside the company that threaten their ability to continue to make Wendy's a successful business. This chapter examines the internal and external forces that affect companies. We begin by explaining how the changes in external organizational environments affect companies. Next, we examine the two kinds of external organizational environments: the general environment that affects all organizations and the specific environment unique to each company. Then, we learn how managers make sense of their changing general and specific environments. The chapter finishes with a discussion of internal organizational environments by focusing on organizational culture.

External Environments

external environments
All events outside a company that have the potential to influence or affect it.

External environments are the forces and events outside a company that have the potential to influence or affect it. Ask any adults what their favorite afterschool snack was, and they'll tell you "milk and cookies." But that's not true today, as overall cookie sales, including Oreos and Chips Ahoy, have dropped for three straight years. Several trends in cookie companies' external environments are behind this decline. As part of the fight against obesity, parents and school systems are replacing cookies with healthier alternatives, such as fruits and vegetables. Consequently, the Vista, California, school district stopped buying 28,000 chocolate chip cookies *per month* for its students. Also, thanks to microwaves, nobody bakes any more. Fifteen minutes to bake a batch of cookies seems an eternity. Indeed, the Quaker Oats annual baking contest attracts only half the entries it did a decade ago. Trying to reverse the decline, Kraft Foods has developed the Vanilla Oreo, which has no unhealthy trans fats, and small, prewrapped 100-calorie packages of Oreos and Chips Ahoy thin crisp cookies. Can the "cookie" be saved? Mike Senackerib of Kraft says, "I absolutely think we can revive the category." It's not a positive sign, however that for the last nine years, Elmo, and not the Cookie Monster, has been the most popular character on the children's show *Sesame Street*.[2]

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

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

1 CHANGING ENVIRONMENTS

Let's examine the three basic characteristics of changing external environments: **1.1 environmental change, 1.2 environmental complexity, 1.3 resource scarcity,** and **1.4 the uncertainty that environmental change, complexity, and resource scarcity can create for organizational managers.**

1.1 Environmental Change

environmental change
The rate at which a company's general and specific environments change.

stable environment
An environment in which the rate of change is slow.

Environmental change is the rate at which a company's general and specific environments change. In **stable environments**, the rate of environmental change is slow. For instance, except for more efficient ovens, bread is baked, wrapped, and delivered fresh to stores each day much as it was decades ago. And although some new breads have become popular, the white and wheat breads that customers bought 20 years ago are still today's best sellers. So, after two decades of consistent double-digit growth, Natural Ovens, which makes preservative-free breads, spent $10 million to build a second baking facility. Soon after it was built, however, sales unexpectedly dropped. Said owner Paul Stitt, "We couldn't figure out what was going on because we have been accustomed, on average, to having a 15 percent sales growth in each of the the last 25 years." What happened? Thanks to the popularity of the Atkins diet plan, which advocates restricting carbohydrates, nationwide bread sales dropped for the first time in decades. Fortunately, the company adjusted to the first major change in its business in years by developing a very-difficult-to-bake low-carb bread, whose sales have increased from 1,200 to 60,000 loaves a week. Ironically, says Stitt, "We have a higher profit margin on our low-carb breads than on most of our other breads."[3]

In contrast to Natural Ovens, which is in a stable environment, EA Sports competes in one of the most dynamic external environments—video games. In **dynamic environments**, the rate of environmental change is fast. EA Sports' best-selling products are sports games like Madden NFL (football), NBA Live (basketball), NHL Hockey, Tiger Woods PGA Tour (golf), and FIFA Soccer. EA Sports' business environment is dynamic because gaming technology changes so quickly. The company's first product was designed for the Atari 800, one of the earliest computers designed to play computer games. The Atari 800, however, was soon replaced by the more powerful Commodore 64, which was then replaced by the Commodore Amiga, followed by the 8-bit Nintendo, the 16-bit Sega Genesis, the 32-bit and 64-bit Segas, Nintendos, Sony PlayStations, desktop computers, and now the Sony PlayStation2, the Nintendo Gamecube, and Microsoft's Xbox. With development costs exceeding $10 million per game and marketing costs running as high as $15 million for some games, if EA sports develops unpopular games or guesses wrong and develops games for computer game boxes that will soon become obsolete, it could join the dozens of game companies that have already closed their doors.[4]

dynamic environment
An environment in which the rate of change is fast.

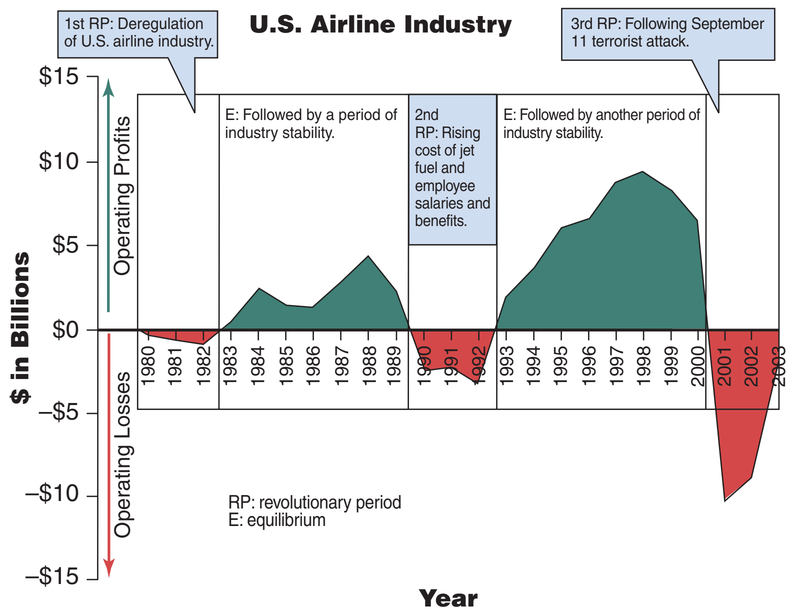
Although you might think that a company's external environment would be *either* stable *or* dynamic, research suggests that companies often experience both. According to **punctuated equilibrium theory**, companies go through long, simple periods of stability (equilibrium), followed by short, complex periods of dynamic, fundamental change (revolutionary periods), finishing with a return to stability (new equilibrium).[5]

punctuated equilibrium theory
A theory that holds that companies go through long, simple periods of stability (equilibrium), followed by short periods of dynamic, fundamental change (revolution), and ending with a return to stability (new equilibrium).

Exhibit 3.1 shows one example of punctuated equilibrium—the U.S. airline industry. Three times in the last 30 years, the U.S. airline industry has experienced revolutionary periods. The first, from mid-1979 to mid-1982, occurred immediately after airline deregulation in 1978. Prior to deregulation, the federal government controlled where airlines could fly, when they could fly, and the number of flights they could have on a particular route. After deregulation, these choices were left to the airlines. The large financial losses during this period clearly indicate that the airlines had trouble adjusting to the intense competition that occurred after deregulation. By mid-1982, however, profits returned to the industry and held steady until mid-1989.

Then, after experiencing record growth and profits, U.S. airlines lost billions of dollars between 1989 and 1993 as the industry went through dramatic changes. Key expenses, including jet fuel and employee salaries, which had held steady for years, suddenly increased. Furthermore, revenues, which had grown steadily year after year, suddenly dropped because of dramatic changes in the airlines' customer base. Business travelers, who typically pay full-priced fares, comprised more than half of all passengers during the 1980s. But now the largest customer base was leisure travelers who, unlike business travelers, wanted the cheapest flights they could get.[6] With expenses suddenly up and revenues suddenly down, the airlines responded to these changes in their business environment by laying off 5 to 10 percent of their workers, canceling orders for new planes, and getting rid of routes that were not profitable. Starting in 1993

Exhibit 3.1
Punctuated Equilibrium: U.S. Airline Profits since 1979



Source: "Annual Revenues and Earnings: U.S. Airlines—All Services," *Air Transport Association*, [Online] available at http://www.airlines.org/econ/d.aspx?nid=1034, 15 January 2005.

and lasting till 1998, these changes helped profits return even stronger. The industry began to stabilize, if not flourish, just as punctuated equilibrium theory predicts.[7]

The third revolutionary period for the U.S. airline industry began with the terrorist attacks of September 11, 2001, in which planes were used as missiles to bring down the World Trade Center towers and damage the Pentagon. The immediate effect was a 20 percent drop in scheduled flights, a 40 percent drop in passengers, and losses so large that the U.S. government approved a $15 billion bailout to keep the airlines in business. Heightened airport security also affected airports, the airlines themselves, and airline customers. By 2005, United Airlines, U.S. Airways, Delta, and American Airlines had laid off an average of 25 percent of their workers to cut costs after losing a combined $20 billion.[8] We can only hope that by the time you read this, the airline industry has moved through this revolutionary period of change back to a more stable period of equilibrium.

1.2 Environmental Complexity

environmental complexity The number of external factors in the environment that affect organizations.

simple environment An environment with few environmental factors.

complex environment An environment with many environmental factors.

Environmental complexity is the number of external factors in the environment that affect organizations. **Simple environments** have few environmental factors, whereas **complex environments** have many environmental factors. For example, the dairy industry has a relatively simple external environment. Except for advances in processing and automatic milking machines, which were made years ago, milk is produced the same way today as it was 100 years ago. And, while food manufacturers introduce dozens of new dairy-based products each year, U.S. milk production has grown a meager 1.25 percent per year over the last decade. In short, producing milk is a highly competitive, but simple business that has experienced few changes.[9]

By contrast, in recent years, breakfast cereal companies like Kellogg's have found themselves in a more complex environment in which three significant changes have occurred. The first is that these companies now face more competition.[10] Twenty years ago, Kellogg's competed against just a few cereal companies, such as General Mills and Post. Today, Kellogg's competes against those companies, plus a dozen more private-label store brands (IGA, Good

Value, etc.) and health food brands (Healthy Valley and Kashi). Furthermore, with more people eating breakfast on the run, a much smaller percentage of people eat cereal for breakfast. Consumer Jeannie Hutosky, of Grand Rapids, Michigan, where Kellogg is headquartered, says, "My husband likes Kellogg cereals. But he tends to eat granola bars and bagels on the way to work."[11] Indeed, sales of breakfast and snack bars now total $1.5 billion a year.[12]

The second significant change in the cereal industry has been price cuts. For years, Kellogg's made gross profits of 50 percent on a box of cereal. In other words, it cost Kellogg's only $2.50 to make a $5.00 box of cereal. Yet, with profits that high, private-label store brands could still make a profit of $1.00 per box by slashing the price to $3.50 per box of cereal.

The third significant change has been the entrance of Wal-Mart into the grocery business. Wal-Mart, much more than other national grocery chains, relies on cheaper private-label store brands like its own Sam's Choice soft drinks and Ol' Roy dog food. Consumers like these products because they cost substantially less than brand-name products. So, as Wal-Mart aggressively expanded into the grocery business and pushed its cheaper, private-label cereals, Kellogg's saw its market share drop even more. Together, these changes have made Kellogg's external environment much more complex than it used to be.[13]

resource scarcity
The degree to which an organization's external environment has an abundance or scarcity of critical organizational resources.

1.3 Resource Scarcity

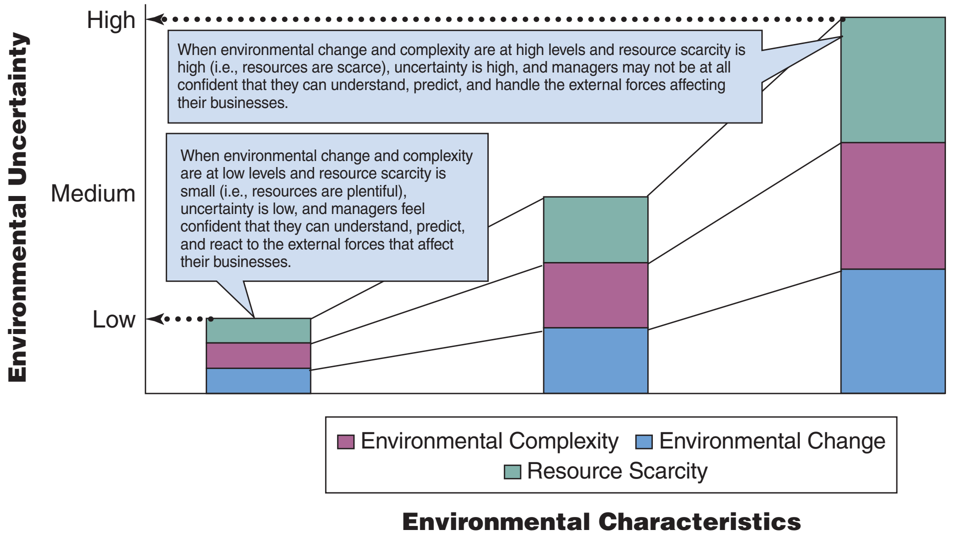
The third characteristic of external environments is resource scarcity. **Resource scarcity** is the degree to which an organization's external environment has an abundance or scarcity of critical organizational resources.

For example, the primary reason that flat-screen, LCD (liquid crystal display) televisions with lifelike pictures are six times more expensive per inch than regular TVs, two times more expensive than rear projection TVs, and 25 percent more expensive than plasma TVs is that there aren't enough LCD screen factories to meet demand. Without more factories, LCD TV prices will remain high. At $2 billion to $3 billion each, LCD factories are the scarce resource in this industry. LCD factories are expensive to build because, like computer chips, LCD flat screens must be made in superclean environments. Furthermore, the manufacturing process is complex and difficult to manage because the liquid crystal, which can be ruined by just one speck of dust, must be poured onto glass in a layer thinner than a piece of paper. Another problem is that most factories produce LCD glass panels that are only 43 inches by 49 inches. Each of these panels can be cut into one dozen 17-inch LCD screens for computer monitors, but just two 30-inch LCD screens for TVs. Only Sharp has a factory that can produce 59-by-71-inch LCD glass panels that can be cut into as many as eight 32-inch or six 37-inch screens for TVs.[14] To address these shortages, LCD manufacturers plan to build 12

There is general concern over the scarcity of natural resources, so companies like Weyerhauser have to work extra hard to correct the misperception that they are "using up" valuable resources. In fact, through careful planning and good management, Weyerhauser is able to both guarantee its lumber resources and be a good environmental steward.

COURTESY OF WEYERHAEUSER COMPANY

Exhibit 3.2
Environmental Change, Environmental Complexity, and Resource Scarcity



new factories in the next two years at a total cost of between $15 billion and $20 billion.

1.4 Uncertainty

uncertainty The extent to which managers can understand or predict which environmental changes and trends will affect their businesses.

As Exhibit 3.2 shows, environmental change, environmental complexity, and resource scarcity affect environmental **uncertainty**, which is how well managers can understand or predict the external changes and trends affecting their businesses. Starting at the left side of the figure, environmental uncertainty is lowest when environmental change and environmental complexity are at low levels and resource scarcity is small (i.e., resources are plentiful). In these environments, managers feel confident that they can understand, predict, and react to the external forces that affect their businesses. By contrast, the right side of the figure indicates that environmental uncertainty is highest when environmental change and complexity are extensive and resource scarcity is a problem. In these environments, managers may not be at all confident that they can understand, predict, and handle the external forces affecting their businesses.

Review 1: Changing Environments

Environmental change, complexity, and resource scarcity are the basic components of external environments. Environmental change is the rate at which conditions or events affecting a business change. Environmental complexity is the number of external factors in an external environment. Resource scarcity is the scarcity or abundance of resources available in the external environment. The greater the rate of environmental change, environmental complexity, and resource scarcity, the less confident managers are that they can understand, predict, and effectively react to the trends affecting their businesses. According to punctuated equilibrium theory, companies experience periods of stability followed by short periods of dynamic, fundamental change, followed by a return to periods of stability.

2 GENERAL ENVIRONMENT

general environment The economic, technological, sociocultural, and political trends that indirectly affect all organizations.

As Exhibit 3.3 shows, two kinds of external environments influence organizations: the general environment and the specific environment. The **general environment** consists of the economy and the technological, sociocultural, and political/legal trends that indirectly affect *all* organizations. Changes in any sector of the general environment eventually affect most organizations. For example, when

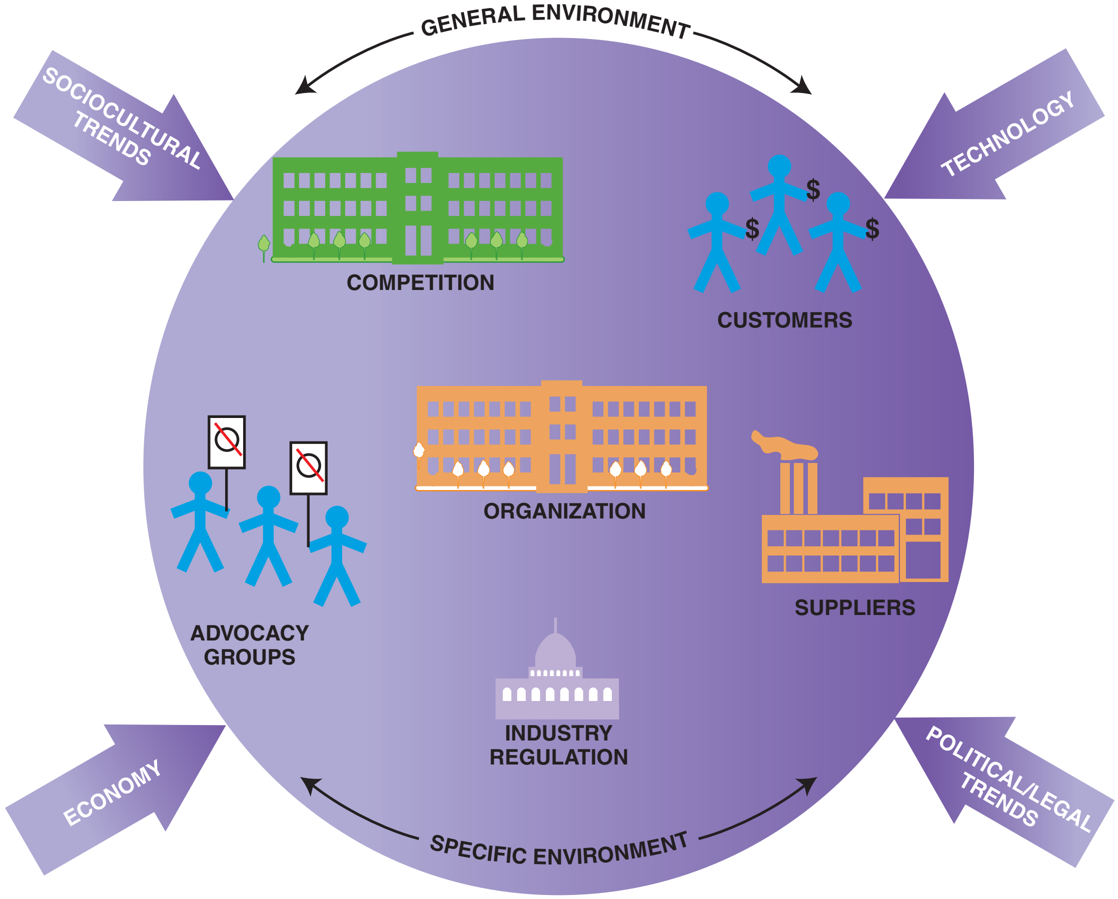


Exhibit 3.3
General and Specific Environments

the Federal Reserve lowers its prime lending rate, most businesses benefit because banks and credit card companies often lower the interest rates they charge for loans. Consumers, who can then borrow money more cheaply, will borrow more to buy homes, cars, refrigerators, and plasma or LCD large-screen TVs. By contrast, each organization also has a **specific environment** that is unique to that firm's industry and directly affects the way it conducts day-to-day business. For example, when the cost of coffee beans increased dramatically, Starbucks increased its prices, as did Kraft Foods, the maker of Maxwell House coffee.[15] But, because that change came from the specific environment for this industry and not the general environment (which influences all businesses), only coffee-related businesses were affected. The specific environment, which will be discussed in detail in Section 3 of this chapter, includes customers, competitors, suppliers, industry regulation, and advocacy groups.

specific environment
The customers, competitors, suppliers, industry regulations, and advocacy groups that are unique to an industry and directly affect how a company does business.

Let's take a closer look at the four components of the general environment: **2.1 the economy,** and **2.2 the technological, 2.3 sociocultural,** and **2.4 political/legal trends that indirectly affect all organizations.**

2.1 Economy

The current state of a country's economy affects most organizations operating in it. In general, in a growing economy, more people are working and therefore have relatively more money to spend. More products are bought and sold than in a static or shrinking economy. Though an individual firm's sales will not necessarily increase, a growing economy does provide an environment favorable to business growth. In contrast, in a shrinking economy, consumers have less money to spend, and relatively fewer products are bought and sold. Thus, a shrinking economy makes growth for individual businesses more difficult.

Because the economy influences basic business decisions, such as whether to hire more employees, expand production, or take out loans to purchase equipment, managers scan their economic environments for signs of change. Unfortunately, the economic statistics that managers rely on when making these decisions are notoriously poor predictors of *future* economic activity. A manager who decides to hire 10 more employees because economic data suggest future growth could very well have to lay off those newly hired workers when the economic growth does not occur. In fact, a famous economic study found that at the beginning of a business quarter (a period of only three months), even the best economic forecasters could not accurately predict whether economic activity would grow or shrink in that same quarter![16]

business confidence indices
Indices that show managers' level of confidence about future business growth.

Because economic statistics can be poor predictors, some managers try to predict future economic activity by keeping track of business confidence. **Business confidence indices** show how confident actual managers are about future business growth. For example, the *Fortune* Business Confidence Index is a monthly survey of chief financial officers at large *Fortune* 1000 firms.[17] Another widely cited measure is the U.S. Chamber of Commerce Business Confidence Index, which asks 7,000 small business owners to express their optimism (or pessimism) about future business sales and prospects. Managers often prefer business confidence indices to economic statistics because they know that other managers make business decisions that are in line with their expectations concerning the economy's future. So, if the *Fortune* or U.S. Chamber of Commerce Business Confidence Indices are dropping, a manager would think hard about hiring new employees, increasing production, or taking out additional loans to expand the business.

2.2 Technological Component

technology
The knowledge, tools, and techniques used to transform input into output.

Technology is the knowledge, tools, and techniques used to transform inputs (raw materials, information, etc.) into outputs (products and services). For example, the knowledge of authors, editors, and artists (technology) and the use of equipment like computers and printing presses (also technology) transformed paper, ink, and glue (raw material inputs) into this book (the finished product). In the case of a service company such as an airline, the technology consists of equipment, including airplanes, repair tools, and computers, and the knowledge of mechanics, ticketers, and flight crews. The output is the service of transporting people from one place to another.

Changes in technology can help companies provide better products or produce their products more efficiently. For example, advances in surgical techniques and imaging equipment have made open-heart surgery much faster and safer in recent years. While technological changes can benefit a business, they can also threaten it. For example, now that more than 400 million songs can be downloaded *for free* at Kazaa.com alone (the largest music file swapping Web site), it's no surprise that sales of music CDs have dropped 25 percent over the last four years, though sales of blank CDs are up 40 percent.[18] British college student Dave Watson says, "You'd be hard-pressed to find a group of students who've never downloaded music. You can't stop them, as long as it's free."[19] How extensive is this technological threat to the music industry? When a *Wired* magazine reporter logged on to Kazaa on a quiet Monday morning, he found at least a hundred copies of each song on the Billboard 100 and 13 of the 15 songs on Mariah Carey's new CD, which hadn't even been released to the public.[20] Companies must embrace new technology and find effective ways to use it to improve their products and services or decrease costs. If they don't, they will lose out to those that do. Chapter 7, on organizational change and innovation, provides a more in-depth discussion of how technology affects a company's competitive advantage.

2.3 Sociocultural Component

The sociocultural component of the general environment refers to the demographic characteristics and general behavior, attitudes, and beliefs of people in a particular society. Sociocultural changes and trends influence organizations in two important ways.

First, changing demographic characteristics, such as the number of people with particular skills or the growth or decline in particular population segments (single or married; old or young; men or women; Caucasians, Hispanics, African Americans, or Asian Americans, etc.), affect how companies run their businesses. For example, as Exhibit 3.4 shows, married women with children are much more likely to work today than four decades ago. In 1960, only 18.6 percent of women with children under 6 years old and 39 percent of women with children between the ages of 6 and 17 worked. In 2003, those percentages had risen to 59.8 percent and 77 percent, respectively. Today, with traffic congestion creating longer commutes and both parents working longer hours, employees are much more likely to value products and services that allow them to recapture free time with their families. Priscilla La Barbera, a marketing professor at New York University, believes that there's been a "societal shift" in the way people view their free time. She says, "People are beginning to realize that their time has real value."[21] Companies such as CDW (Computer Discount Warehouse) in Vernon, Illinois, help their employees by providing a service that picks up their dry cleaning at their desks.[22] At First Command Financial Planning in Fort Worth, Texas, employees can borrow movies for two nights of home viewing and drop off shoes for free shining and their cars for free washing.[23] Circles, an organization that provides employee concierge services for 50 companies, helps employees find more free time by planning their vacations or running their errands.[24]

Second, sociocultural changes in behavior, attitudes, and beliefs also affect the demand for a business's products and services. Because more women with

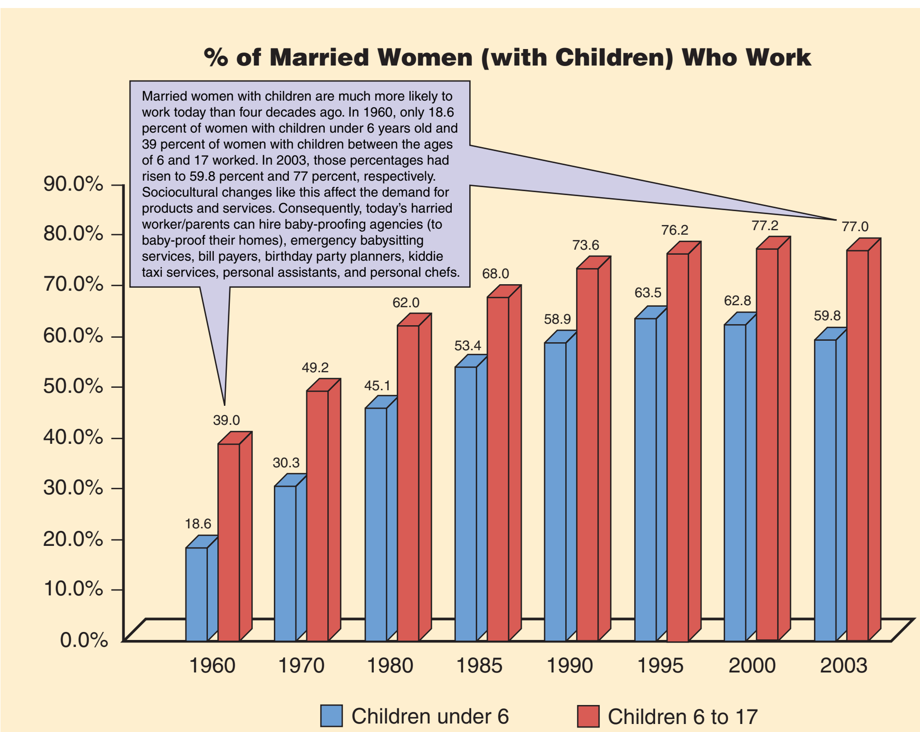


Exhibit 3.4
Demographics: Percentage of Married Women (with Children) Who Work

Sources: U.S. Census Bureau, *Statistical Abstract of the United States, 1999, 2001,* and *2004-2005*. (Washington, D.C.: U.S. Government Printing Office, 1999, 2001, and 2004), "Employment Status of Women by Marital Status and Presence and Age of Children: 1960 to 1998," Table No. 631; "Employment Status of Women by Marital Status and Presence and Age of Children: 1970 to 2003," Table No. 579.

children are in the workforce, families are deliberately selective about how they spend their free time. Two mothers from Sacramento were tired of running around town trying to find unique supplies for their children's birthday parties (and finding only Barney, Barbie, and Disney characters), so they started Original Party Box, a service that sends out a box full of everything you need for a kid's birthday party: invitations, ribbons, plates, napkins, confetti, games, prizes, goodie bags, and even a cake pan. Instead of driving from store to store, parents can spend their time decorating the house and baking.[25] Today's harried worker/parents may have more than one child to shuttle back and forth between karate, soccer, ballet, and art classes. Services like Original Party Box let parents extract more value from their increasingly limited free time, which is a result of the sociocultural changes associated with a much higher percentage of women in the workplace.

2.4 Political/Legal Component

The political/legal component of the general environment includes the legislation, regulations, and court decisions that govern and regulate business behavior. In recent years, new laws and regulations have imposed additional responsibilities on companies. Unfortunately, many managers are unaware of these new responsibilities. For example, under the 1991 Civil Rights Act (**http://www.eeoc.gov/policy/cra91.html**), if an employee is sexually harassed by anyone at work (a supervisor, a coworker, or even a customer), the company—not just the harasser—is potentially liable for damages, attorneys' fees, and back pay.[26] Under the Family and Medical Leave Act (**http://www.dol.gov/esa/whd/fmla/**), employees who have been on the job one year are guaranteed 12 weeks of unpaid leave per year to tend to their own illnesses or to their elderly parents, a newborn baby, or a newly adopted child. Employees are guaranteed the same job, pay, and benefits when they return to work.[27]

Many managers are also unaware of the potential legal risks associated with traditional managerial decisions like recruiting, hiring, and firing employees. Increasingly, businesses and managers are being sued for negligent hiring and supervision, defamation, invasion of privacy, emotional distress, fraud, and misrepresentation during employee recruitment.[28] More than 24,000 suits for wrongful termination (unfairly firing employees) are filed each year.[29] In fact, wrongful termination lawsuits increased by 77 percent in the last decade and now account for 13 percent of all lawsuits against companies.[30] One in four employers is eventually sued for wrongful termination. Employers lose 70 percent of these cases, and on average, the former employee is awarded $500,000 or more.[31]

Companies also face potential legal risks from customer-initiated lawsuits. For example, under product liability law, manufacturers can be liable for products made decades ago. Also, the law, as it is now written, does not consider whether manufactured products have been properly maintained and used. For instance, a Texas jury awarded $37 million in damages against Goodyear Tire Company after concluding that one of its tires caused a traffic death. The tire to which the jury attributed the death was nine years old, nearly twice the normal four- to five-year "life span" of most tires, and had been patched four times (once incorrectly).[32] Still, the jury required Goodyear Tire to pay $37 million in damages. Why? Under product liability law, plaintiffs only have to demonstrate that they were injured by the manufacturer's product. In turn, under the concept of "strict liability," the burden of proof is shifted to the company, which must prove that the product was safe.[33] Thus, once injuries have been shown, the company is assumed guilty until it proves its innocence. Today, jury verdicts in product liability cases cost companies an average of $6.8 million per case.[34]

Not everyone agrees that companies face severe legal risks. Indeed, many believe that the government should do more to regulate and restrict business behavior and that it should be easier for average citizens to sue dishonest or negligent corporations. From a managerial perspective, the best medicine against legal risk is prevention. As a manager, it is your responsibility to educate yourself about the laws, regulations, and potential lawsuits that could affect your business. Failure to do so may put you and your company at risk of sizable penalties, fines, or legal charges.

Review 2: General Environment

The general environment consists of economic, technological, sociocultural, and political/legal events and trends that affect all organizations. Because the economy influences basic business decisions, managers often use economic statistics and business confidence indices to predict future economic activity. Changes in technology, which is used to transform inputs into outputs, can be a benefit or a threat to a business. Sociocultural trends, like changing demographic characteristics, affect how companies run their businesses. Similarly, sociocultural changes in behavior, attitudes, and beliefs affect the demand for a business's products and services. Court decisions and new federal and state laws have imposed much greater political/legal responsibilities on companies. The best way to manage legal responsibilities is to educate managers and employees about laws and regulations and potential lawsuits that could affect a business.

3 SPECIFIC ENVIRONMENT

As you just learned, changes in any sector of the general environment (economy, technological, sociocultural, and political/legal) eventually affect most organizations. By contrast, each organization also has a specific environment that is unique to that firm's industry and directly affects the way it conducts day-to-day business. For example, if customers decide to use another product, or a competitor cuts prices 10 percent, or a supplier can't deliver raw materials, or federal regulators mandate reductions in industry pollutants, or environmental groups accuse your company of selling unsafe products, the impact from the specific environment on your business is immediate.

Let's examine how the **3.1 customer, 3.2 competitor, 3.3 supplier, 3.4 industry regulation,** and **3.5 advocacy group components of the specific environment affect businesses.**

3.1 Customer Component

Customers purchase products and services. Companies cannot exist without customer support. Therefore, monitoring customers' changing wants and needs is critical to business success. There are two basic strategies for monitoring customers: reactive and proactive.

Reactive customer monitoring is identifying and addressing customer trends and problems after they occur. One reactive strategy is to identify customer concerns by listening closely to customer complaints. This strategy involves not only listening to complaints, but also responding to them in a way that indicates the company is attending closely to customer concerns. For example, companies that respond quickly to customer letters of complaint are viewed much more favorably than companies that are slow to respond or never respond.[35] In particular, studies have shown that when a company's follow-up letter thanks the customer for writing, offers a sincere, specific response to the complaint (i.e., not a form letter, but an explanation of how the problem will be handled), and contains a small gift, coupons, or a refund to make up for the problem, customers are much more likely to purchase products or services again from that company.[36] By contrast, companies that don't respond promptly to customer complaints are likely to find customer rants and tirades posted publicly on places like **http://www.planetfeedback.com**. Customers hope that posting complaints on these sites will force someone to address their problems. It worked for Lena West. The day after she posted a complaint against Budget Rent-a-Car, she received an email containing an apology and a promise to solve her problem.[37]

Proactive monitoring of customers means identifying and addressing customer needs, trends, and issues *before* they occur. For example, over the next few years more stores that sell toys will offer electronic gift cards—not gift certificates, but gift cards—that are preprogrammed with a dollar amount and are "swiped" like credit cards. With kids' bedrooms stuffed with toys, savvy retailers have noticed that parents and grandparents would rather give gift cards, so they don't have to worry about getting the wrong toy or a toy that the kids already have.[38] Another example of proactive monitoring is the fast-food industry's use of multibranding, in which two or more food chains share space under the same roof. Multibranding brings in more customers by giving them more choice. Yum! Brands, which often pairs Taco Bell with Kentucky Fried Chicken, finds that sales are one-third higher in multibrand restaurants than in traditional single-brand restaurants.[39]

3.2 Competitor Component

competitors
Companies in the same industry that sell similar products or services to customers.

Competitors are companies in the same industry that sell similar products or services to customers. General Motors, Ford, and DaimlerChrysler all compete for automobile customers. NBC, ABC, CBS, and Fox compete for TV viewers' attention. And McDonald's, Burger King, and Wendy's compete for fast-food customers' dollars. Often the difference between business success and failure comes down to whether your company is doing a better job of satisfying customer wants and needs than the competition. Consequently, companies need to keep close track of what their competitors are doing. To do this, managers perform a **competitive analysis**, which involves deciding who your competitors are, anticipating competitors' moves, and determining competitors' strengths and weaknesses.

competitive analysis
A process for monitoring the competition that involves identifying competitors, anticipating their moves, and determining their strengths and weaknesses.

Surprisingly, managers often do a poor job of identifying potential competitors because they tend to focus on only two or three well-known competitors with similar goals and resources.[40] For example, Coke and Pepsi undoubtedly spend more time keeping track of each other than they spend on Dr. Pepper or Snapple. Xerox, which touts itself as "the document company," meaning copiers, printers, fax machines, and scanners, focused on its largest competitors in the copying business, Canon and Ricoh. By doing so, however, it ignored Hewlett-Packard's inkjet printers and lost billions in sales in the small office, home office (SOHO) market. When the popularity of inkjet printers exploded over the last 10 years, HP's highly profitable printer division grew until it is now larger than *all* of Xerox.[41]

Another mistake managers may make when analyzing the competition is to underestimate potential competitors' capabilities. When this happens, managers don't take the steps they should to continue to improve their products or services. The result can be significant decreases in both market share and profits. For nearly a decade, traditional phone companies ignored the threat to their business from VOIP (voice over Internet protocol), that is, the ability to make telephone calls over the Internet. Early on, software products like Cool Talk, Internet Phone, and Web Phone made it possible to make inexpensive long-distance phone calls on the Internet. All you needed was an Internet service provider; a computer with a sound card, speakers, and a microphone; and Internet phone software. The sound quality was only as good as AM radio, but people who were used to poor-quality sound on their cell phones didn't care because the calls were so much cheaper.[42]

Today, because phone companies were slow to adopt VOIP capabilties themselves, they're facing a rash of new, unexpected VOIP competitors, all of which plan to slash prices and take market share using high-speed Internet service connections to people's homes. For example, Comcast, a cable TV provider that also provides high-speed Internet service, plans to roll out Internet phone service to 40 million U.S. homes over the next two years.[43] In Hong Kong, City Telecom, which has built a fiber optic network throughout the province, charges only $38 a month for phone service, high-speed Internet, *and* cable TV (delivered over fiber optic cables).[44] Most U.S. consumers pay four to five times that much per month for the same services. Vonage, **http://www.vonage.com**, an Internet phone company, charges just $24.95 per month (maybe less by the time you read this) for unlimited calls in the United States and Canada. Its international long-distance charges are typically no more than three to six cents per minute. How much of a threat is Internet phone service to traditional phone companies today? Jeff Pulver, CEO of Pulver.com, which owns Free World Dialup, an Internet phone company, says, "Within the next 10 years, it's quite possible that 50 percent or more of voice traffic will take place off the traditional public telephone network and run on the Internet wireless or other systems."[45]

suppliers
Companies that provide material, human, financial, and informational resources to other companies.

supplier dependence
The degree to which a company relies on a supplier because of the importance of the supplier's product to the company and the difficulty of finding other sources of that product.

3.3 Supplier Component

Suppliers are companies that provide material, human, financial, and informational resources to other companies. U.S. Steel buys iron ore from suppliers to make steel products. When IBM sells a mainframe computer, it also provides support staff, engineers, and other technical consultants to the company that bought the computer. If you're shopping for desks, chairs, and office supplies, chances are Office Depot will be glad to help your business open a revolving charge account to pay for your purchases. Or, when a clothing manufacturer has spent $100,000 to purchase new high-pressure "water drills" to be used to cut shirt and pants patterns to precise sizes, the water drill manufacturer will, as part of the purchase, agree to train workers to use the machinery.

A key factor influencing the relationship between companies and their suppliers is how dependent they are on each other.[46] **Supplier dependence** is the degree to which a company relies on a supplier because of the importance of the supplier's product to the company and the difficulty of finding other sources of that product. Supplier dependence is very strong in the diamond business, given that De Beers Consolidated Mines provides 66 percent of the wholesale diamonds in the world. De Beers has dominated the diamond industry for more than a century, controlling the supply, price, and quality of the best diamonds on the market. The company's 125 customers, or "sightholders," as they're known in the industry, are summoned to De Beers' London office 10 times a year and given a shoebox of diamonds that they have to buy. If they refuse, they lose the opportunity to purchase any more diamonds. DeBeers has started a Supplier of Choice

DIAMOND INFORMATION CENTER

Historically, the diamond industry was structured like a pyramid, with myriad small and medium businesses forming a broad base to support the larger companies, like De Beers. Those businesses focused mostly on diamond cutting and wholesaling and were unable to meet De Beers requirements for developing and implement new marketing and advertising campaigns, like the one shown here.

(SoC) program that requires sightholders to pay more of the marketing, advertising, and branding costs for De Beers diamonds. SoC sightholders sign two-year contracts that spell out their responsibilities to develop marketing plans and advertising initiatives and to adhere to ethical guidelines. Just two-thirds of De Beers sightholders, however, qualified as SoCs. The one-third who didn't qualify as SoCs are no longer permitted to sell De Beers diamonds and must now get their diamonds from less prestigous diamond suppliers.[47]

buyer dependence
The degree to which a supplier relies on a buyer because of the importance of that buyer to the supplier's sales and the difficulty of finding other buyers for its products.

Buyer dependence is the degree to which a supplier relies on a buyer because of the importance of that buyer to the supplier's sales and the difficulty of finding other buyers of its products. For example, Superior Industries International, which makes car wheels, gets 85 percent of its $840 million in sales from Ford and General Motors. When the two auto makers demanded that Superior match the low prices that Chinese wheel suppliers were offering, it had little choice. Superior's president Steve Borick said that the ultimatum was presented very simply. "This is the price we are getting [from Chinese suppliers] for this product. You either match that, or we'll take our business to them." Said Borick, "It's that black and white. Close the [cost] gap [of 20 to 40 percent] no matter how" you do it.[48]

opportunistic behavior
A transaction in which one party in the relationship benefits at the expense of the other.

relationship behavior
Mutually beneficial, long-term exchanges between buyers and suppliers.

As the De Beers and Superior Industries examples show, a high degree of buyer or seller dependence can lead to **opportunistic behavior**, in which one party benefits at the expense of the other. Though opportunistic behavior between buyers and suppliers will never be completely eliminated, many companies believe that both buyers and suppliers can benefit by improving the buyer-supplier relationship.[49] In contrast to opportunistic behavior, **relationship behavior** focuses on establishing a mutually beneficial, long-term relationship between buyers and suppliers.[50] For example, Toyota is well known for developing positive long-term relationships with its key suppliers. Donald Esmond, who runs Toyota's U.S. division, says, "I think what they [i.e., suppliers] appreciate . . . is we don't go in and say, 'Reduce the costs by 6 percent; if you don't, somebody else is going to get the business.' We go in and say we want to come in and help you [figure out] where you can save costs so we can reduce our overall price. So it's a different approach."[51]

3.4 Industry Regulation Component

industry regulation
Regulations and rules that govern the business practices and procedures of specific industries, businesses, and professions.

Whereas the political/legal component of the general environment affects all businesses, the **industry regulation** component consists of regulations and rules that govern the practices and procedures of specific industries, businesses, and professions. For example, if your neighbor decides to make a little extra money selling homemade baked goods and sells you two apple pies, your neighbor could be fined. In most states, it is illegal to sell food from your home. State regulations typically require a food business to obtain a license and a state certificate of inspection that indicates that the food is stored properly; insects have not infested the premises; ovens are state approved; electrical wiring, lighting, and smoke detectors are up to code; and so on.[52] Likewise, the auto industry is subject to CAFE (Corporate Average Fuel Economy) regulations that require cars and sports utility vehicles to average 27.5 and 20.5 miles, respectively, per gallon.[53]

Regulatory agencies affect businesses by creating and enforcing rules and regulations to protect consumers, workers, or society as a whole. For example, the U.S. Department of Agriculture and the Food and Drug Administration regulate the safety of seafood (and meat and poultry) through the science-based Hazard Analysis and Critical Control Points (HACCP) program. Seafood processors are required to identify hazards (toxins, chemicals, pesticides, and decomposition) that could cause the fish they process to be unsafe. They must also establish critical control points to control hazards both inside and outside their fish-processing plants and then establish monitoring, corrective action, and verification procedures to certify that the fish they process is safe to consume.[54]

The nearly 100 federal agencies and regulatory commissions can affect almost any kind of business. Exhibit 3.5 lists some of the most influential federal agencies and commissions, as well as their responsibilities and their Web sites. Overall, the number and cost of federal regulations has nearly tripled in the last 25 years. Today, for every $1 the federal government spends creating regulations, businesses spend $45 to comply with them.[55] In addition to federal regulations, businesses are also subject to state, county, and city regulations. Complying with all of these regulations costs businesses an estimated $189 billion per year or $1,700 per employee.[56] Surveys indicate that managers rank dealing with government regulation as one of the most demanding and frustrating parts of their jobs.[57]

3.5 Advocacy Groups

Advocacy groups are groups of concerned citizens who band together to try to influence the business practices of specific industries, businesses, and professions. The members of a group generally share the same point of view on a particular issue. For example, environmental advocacy groups might try to get manufacturers to reduce smokestack pollution emissions. Unlike the industry regulation component of the specific environment, advocacy groups cannot force organizations to change their practices. Nevertheless, they can use a number of techniques to try to influence companies: public communications, media advocacy, and product boycotts.

The **public communications** approach relies on *voluntary* participation by the news media and the advertising industry to send out an advocacy group's message. For example, a public service campaign to encourage people to quit smoking ran the following ads in newspapers and magazines throughout Europe: a photo showing the foot of a young person with a toe tag (indicating the person was dead), with the caption, "Smokers die younger"; a picture showing clean lungs next to brown and black stained lungs, with the caption, "Smoking causes fatal lung cancer"; and, photo of a baby in an intensive care unit hooked up to a respirator, with the caption, "Smoking when pregnant harms your baby."[59]

Media advocacy is much more aggressive than the public communications approach. A **media advocacy** approach typically involves framing issues as public issues (affecting everyone); exposing questionable, exploitative, or unethical practices; and obtaining media coverage by buying media time or creating controversy that is likely to receive extensive news coverage. PETA (People for the Ethical Treatment of Animals), which has offices in Virginia, England, Italy, and Germany, uses controversial publicity stunts and advertisements to try to change the behavior of large organizations, fashion designers, medical researchers, and anyone else it believes is hurting or mistreating animals. PETA's cofounder and president Ingrid Newkirk says, "People now know that if they do something ghastly to an animal, they can't necessarily get away with it. When we started, nobody knew what animal rights meant. . . . Now, it's an issue." PETA protesters have stripped naked in front of the White House in front of a banner saying, "I'd rather go naked than wear fur." From PETA's perspective, any animal-based product is bad. In one of its latest protests, PETA distributed 2,000 blood-covered, knife-holding, "evil Colonel Sanders" bobblehead dolls to news organizations and KFC restaurants. PETA spokesman

DOING THE RIGHT THING

DEALING WITH GIFTS AND SUPPLIERS

In hopes of getting a buyer's business or getting more business, suppliers sometimes offer buyers trips to exotic locations, dinners at expensive restaurants, or expensive gifts. Excessive gift giving and receiving creates a conflict of interest between what's best for the company (purchasing items of the best quality and cost) and what's personally best for the buyer who receives the gifts. Follow these general guidelines to avoid conflicts of interest:

- Remember that there is no such thing as a free lunch.
- Make sure that business meals and entertainment (parties, outings, sporting events) have a valid business purpose and that the buyer and the supplier take turns paying for or hosting them.
- Don't accept gifts worth more than $25 in value. If you are offered a gift worth more than $25, report it to your manager who can decide whether it is appropriate to keep the gift.
- Never accept cash or cash equivalents, such as gift certificates.
- Don't accept discounts on goods and services, unless they are generally available to others.
- Don't accept offers of stock in suppliers' companies.
- Don't allow personal friendships with suppliers to influence buying decisions. [58]

advocacy groups
Groups of concerned citizens who band together to try to influence the business practices of specific industries, businesses, and professions.

public communications
An advocacy group tactic that relies on voluntary participation by the news media and the advertising industry to get an advocacy group's message out.

media advocacy
An advocacy group tactic that involves framing issues as public issues; exposing questionable, exploitative, or unethical practices; and forcing media coverage by buying media time or creating controversy that is likely to receive extensive news coverage.

Federal Agency	Regulatory Responsibilities
Consumer Product Safety Commission **http://www.cpsc.gov/**	Reduces risk of injuries and deaths associated with consumer products, sets product safety standards, enforces product recalls, and provides consumer education
Department of Labor **http://www.dol.gov**	Collects employment statistics and administers labor laws concerning safe working conditions, minimum hourly wages and overtime pay, employment discrimination, and unemployment insurance
Environmental Protection Agency **http://www.epa.gov/**	Reduces and controls pollution through research, monitoring, standard setting, and enforcement activities
Equal Employment Opportunity Commission **http://www.eeoc.gov/**	Promotes fair hiring and promotion practices
Federal Communications Commission **http://www.fcc.gov/**	Regulates interstate and international communications by radio, television, wire, satellite, and cable
Federal Reserve System **http://www.federalreserve.gov/**	As nation's central bank, controls interest rates and money supply, and monitors the U.S. banking system to produce a growing economy with stable prices
Federal Trade Commission **http://www.ftc.gov/**	Restricts unfair methods of business competition and misleading advertising, and enforces consumer protection laws
Food and Drug Administration **http://www.fda.gov/**	Protects nation's health by making sure food, drugs, and cosmetics are safe
National Labor Relations Board **http://www.nlrb.gov/**	Monitors union elections and stops companies from engaging in unfair labor practices
Occupational Safety and Health Administration **http://www.osha.gov/**	Saves lives, prevents injuries, and protects the health of workers
Securities and Exchange Commission **http://www.sec.gov/**	Protects investors in the bond and stock markets, guarantees access to information on publicly traded securities, and regulates firms that sell securities or give investment advice

Exhibit 3.5
Federal Regulatory Agencies and Commissions

Joe Hinkle says, "We'd like them to stop breeding and drugging chickens so that they grow so big that they actually cripple under their own bulk." KFC issued this response: "PETA has disparaged our brand and misrepresented the truth about our responsible industry-leading animal welfare standards. KFC is committed to the humane treatment of chickens."[60]

product boycott
An advocacy group tactic that involves protesting a company's actions by convincing consumers not to purchase its product or service.

A **product boycott** is a tactic in which an advocacy group actively tries to convince consumers not to purchase a company's product or service. The advocacy group Ecopledge.com has signed up 150,000 college students online, all of whom have agreed to boycott organizations that don't respond to their demands. Ecopledge.com, which gives each company one year to make changes and then calls for a boycott, has had success in getting Staples, the office product superstore, to agree not to sell products from endangered forests and to make sure that 30 percent of the paper products it sells are recycled.[61] It also convinced Dell, Inc. to recycle the old electronic and computer equipment of customers who buy new products from Dell.[62] Ecopledge.com is now trying to get the Hertz rental car company to purchase small, gas-efficient cars so that the average fuel economy of its rental fleet will be 40 miles per gallon by 2012.[63]

Review 3: Specific Environment

The specific environment is made up of five components: customers, competitors, suppliers, industry regulation, and advocacy groups. Companies can monitor customers' needs by identifying customer problems after they occur or by anticipating problems before they occur. Because they tend to focus on well-known competitors, managers often underestimate their competition or do a poor job of identifying future competitors. Suppliers and buyers are very dependent on each other, and that dependence sometimes leads to opportunistic behavior, in which one benefits at the expense of the other. Regulatory agencies affect businesses by creating rules and then enforcing them. Overall, the level of industry regulation has nearly tripled in the last 25 years. Advocacy groups cannot regulate organizations' practices. Nevertheless, through public communications, media advocacy, and product boycotts, they try to convince companies to change their practices.

4 MAKING SENSE OF CHANGING ENVIRONMENTS

In Chapter 1, you learned that managers are responsible for making sense of their business environments. As our discussions of the general and specific environments have indicated, however, making sense of business environments is not an easy task. Because external environments can be dynamic, confusing, and complex, managers use a three-step process to make sense of the changes in their external environments:

4.1 environmental scanning, 4.2 interpreting environmental factors, and **4.3 acting on threats and opportunities**

4.1 Environmental Scanning

environmental scanning
Searching the environment for important events or issues that might affect an organization.

Environmental scanning is searching the environment for important events or issues that might affect an organization. Managers scan the environment to stay up-to-date on important factors in their industry. For example, with one out of every four new car buyers purchasing highly profitable sports utility vehicles (SUVs), auto executives haven't paid much attention to environmental groups' complaints about SUVs' extremely poor gas mileage. Now, however, with market research showing that current SUV owners are unhappy with their vehicles' poor gas mileage, especially as gas prices increase, and that potential car buyers in their teens and 20s are beginning to express strong disapproval of SUVs as well, auto executives are beginning to pay attention—because their sales and profits could be affected. James Schroer, DaimlerChrysler's executive vice president for sales and marketing, says that the increasingly negative view of SUVs is "a big deal, and it's real."[64]

Managers also scan their environments to reduce uncertainty. Faced with the responsibility of developing the marketing campaigns that sell their companies' most important products, the chief marketing officers (CMOs) of the world's best organizations willingly pay $50,000 a year to join the "Marketing 50," an exclusive group of CMOs who meet several times a year to exchange ideas and pick each others' brains. Richard Smith, founder of the group, says, "It's a noncompetitive group with just one executive from a particular industry, so they have a chance to get ideas they can use that their competitors may not know about and also try to figure out some of their common problems." Michael Linton, Best Buy's CMO, believes the "Marketing 50" is fantastic for finding out what other companies and CMOs are doing (i.e., reducing uncertainty). He says, "It's impossible for any one company to know about every new tool, so hearing what is working for others helps."[65]

Organizational strategies also affect environmental scanning. In other words, managers pay close attention to trends and events that are directly related to their company's ability to compete in the marketplace.[66] And by keeping their eyes and ears open, managers sometimes come across important information by accident. For example, Gary Costley, an employee at Kellogg's, was pulling into the parking lot at work when he noticed a crane on the loading dock of the General Foods' Post cereal plant across the street. He could see that the crane was unloading a special machine made by a German company for manufacturing cereal. This caught his attention because Kellogg's was having trouble getting a similar machine from a French manufacturer to work. So he went to a store, purchased a camera and film, and stood across the street taking pictures. A Post employee yelled, "Hey, you can't do that." Costley responded, "I'm standing on a public street taking photos. You shouldn't unload your machines in plain sight." The pictures helped convince Kellogg's management to buy the German machines, rather than spending more time and money trying to make the French machines work.[67]

Finally, environmental scanning is important because it contributes to organizational performance. Environmental scanning helps managers detect environmental changes and problems before they become organizational crises.[68] Furthermore, companies whose CEOs do more environmental scanning have higher profits.[69] CEOs in better-performing firms scan their firm's environments more frequently and scan more key factors in their environments in more depth and detail than do CEOs in poorer-performing firms.[70]

4.2 Interpreting Environmental Factors

After scanning, managers determine what environmental events and issues mean to the organization. Typically, managers view environmental events and issues as either threats or opportunities. When managers interpret environmental events as threats, they take steps to protect the company from further harm. For example, now that Internet phone service (i.e, VOIP) has emerged as a threat, traditional phone companies have responded by announcing billion-dollar plans to expand their fiber optic networks so that they can offer phone (using VOIP), Internet service, and TV packages, just like those the cable and satellite companies offer. However, the phone companies, such as Southwestern Bell, are finding that they are far behind the cable companies, which spent $65 billion over the last five years upgrading their digital networks. Industry analyst Glenn Greenberg says, "The telephone companies are way behind the curve."[71]

By contrast, when managers interpret environmental events as opportunities, they consider strategic alternatives for taking advantage of those events to improve company performance. For example, ESPN, the sports television channel, sees an opportunity in the cell phone business. With Sprint providing the phone service, "ESPN Mobile" plans to tap into the market of hard-core sports fans who want instant access to sports scores and headlines—and even video—via their cell phones. Although some scores and headlines are already available through most cell phones, the information is hard to access; typically, getting it takes multiple clicks through the cell phone menu. By contrast, ESPN Mobile will provide much more sports information to its subscribers, and it will do so by providing scores, scrolling headlines (moving from right to left), and video on the phone's primary screen. ESPN vice president John Skipper says, "Our feeling is that there will be some more avid sports fans who want sports more up front [on their phones]. Getting the sports scores requires a little work on your average phone right now."[72]

4.3 Acting on Threats and Opportunities

After scanning for information on environmental events and issues, and interpreting them as threats or opportunities, managers have to decide how to respond to these environmental factors. Deciding what to do under conditions of uncertainty is difficult, however. Managers are never completely confident that they have all the information they need or that they correctly understand the information they have.

cognitive maps
Graphic depictions of how managers believe environmental factors relate to possible organizational actions.

Because it is impossible to comprehend all the factors and changes, managers rely on simplified models of external environments called "cognitive maps." **Cognitive maps** summarize the perceived relationships between environmental factors and possible organizational actions. For example, the cognitive map shown in Exhibit 3.6 represents a small clothing store owner's interpretation of

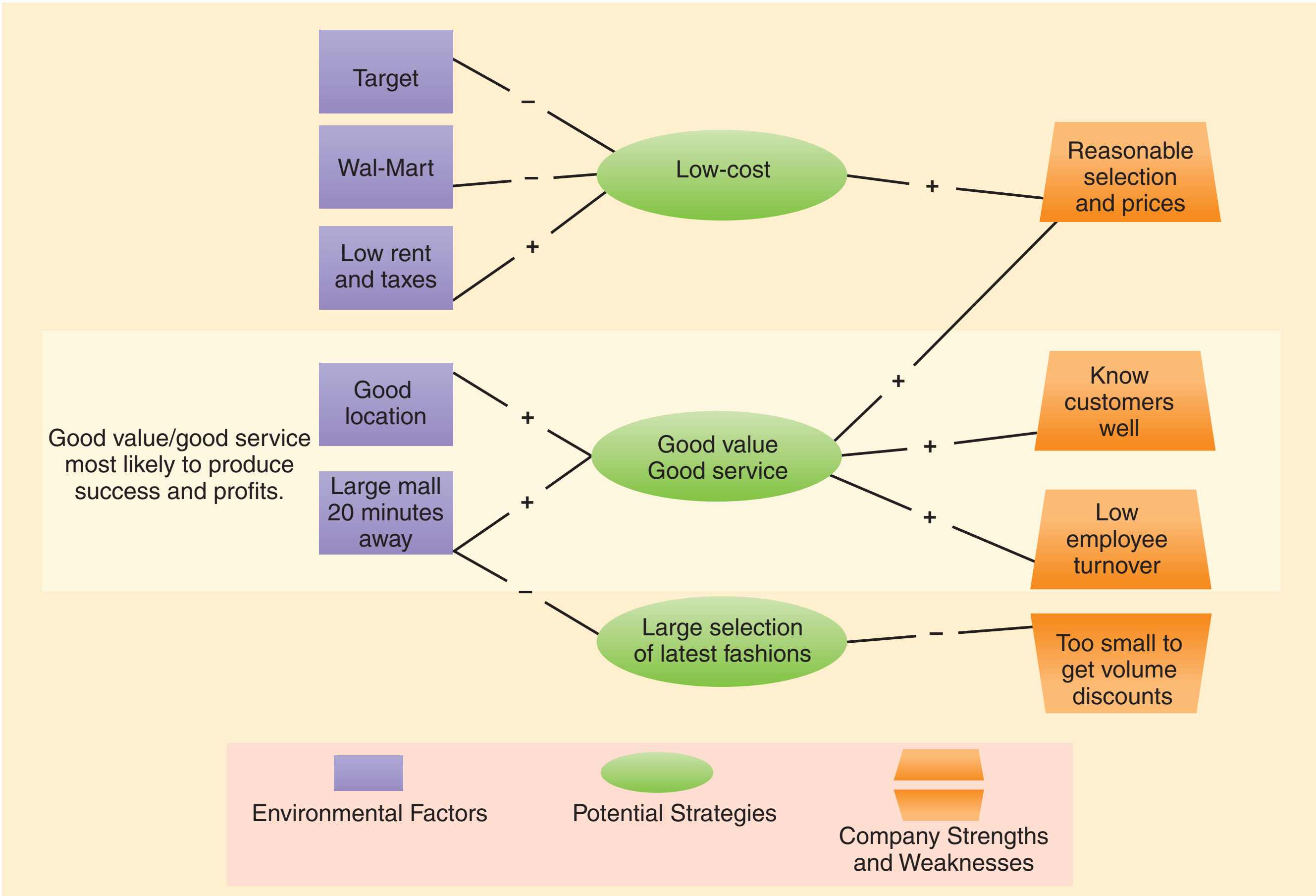


Exhibit 3.6
Cognitive Maps

her business environment. The map shows three kinds of variables. The first variables, shown as rectangles, are environmental factors, such as a Wal-Mart or a large mall 20 minutes away. The second, shown in ovals, are potential actions that the store owner might take, such as a low-cost strategy; a good value, good service strategy; or a large selection of the latest fashions strategy. The third, shown as trapezoids, are company strengths, such as low employee turnover, and weaknesses, such as small size.

The plus and minus signs on the map indicate whether the manager believes there is a positive or negative relationship between variables. For example, the manager believes that a low-cost strategy won't work because Wal-Mart and Target are nearby. Offering a large selection of the latest fashions would not work either—not with the small size of the store and that large nearby mall. However, the manager believes that a good value, good service strategy would lead to success and profits because of the store's low employee turnover, good knowledge of customers, reasonable selection of clothes at reasonable prices, and good location.

In the end, managers must complete all three steps—environmental scanning, interpreting environmental factors, and acting on threats and opportunities—to make sense of changing external environments. Environmental scanning helps managers more accurately interpret their environments and take actions that improve company performance. Through scanning, managers keep tabs on what competitors are doing, identify market trends, and stay alert to current events that affect their company's operations. Armed with the environmental information they have gathered, managers can then minimize the impact of threats and turn opportunities into increased profits.

Review 4: Making Sense of Changing Environments

Managers use a three-step process to make sense of external environments: environmental scanning, interpreting information, and acting on it. Managers scan their environments based on their organizational strategies, their need for up-to-date information, and their need to reduce uncertainty. When managers identify environmental events as threats, they take steps to protect the company from harm. When managers identify environmental events as opportunities, they formulate alternatives for taking advantage of them to improve company performance. Using cognitive maps can help managers visually summarize the relationships between environmental factors and the actions they might take to deal with them.

Internal Environments

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

External environments are *external* trends and events that have the potential to affect companies. By contrast, the **internal environment** consists of the trends and events *within* an organization that affect the management, employees, and organizational culture. For example, consider the internal environment at SAS, the leading provider of statistical software. Unlike most software companies that expect employees to work 12- to 14-hour days, SAS closes its offices at 6 P.M. every evening. Employees also receive unlimited sick days each year. And to encourage employees to spend time with their families, there's an on-site day-care facility, the company cafeteria has plenty of highchairs and baby seats, and the company even has a seven-hour workday. Plus, every Wednesday, the company passes out M&M chocolate candies, plain and peanut, to all employees—a total of more than 22.5 tons of M&Ms per year. SAS senior vice president Jim Davis says, "We are firm believers that happy employees equal happy customers."[73]

Internal environments are important because they affect what people think, feel, and do at work. Given SAS's internal environment, it shouldn't surprise you to learn that almost no one quits. In a typical software company, 25 percent of the work force quits each year to take another job. At SAS, only 4 percent leave.[74] Jeff Chambers, SAS's vice president of human resources, says, "We have always had a commitment to investing in and cultivating meaningful, long-term relationships with our employees and clients. This has led to unusually low turnover in both populations and is at the core of our 28 years of sustained profitability and success."[75]

organizational culture The values, beliefs, and attitudes shared by organizational members.

Comments such as these reflect the key component in internal environments, organizational culture. More specifically, **organizational culture** is the set of key values, beliefs, and attitudes shared by organizational members.

After reading the next section, you should be able to

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

5 ORGANIZATIONAL CULTURES: CREATION, SUCCESS, AND CHANGE

Let's take a closer look at 5.1 **how organizational cultures are created and maintained,** 5.2 **the characteristics of successful organizational cultures,** and 5.3 **how companies can accomplish the difficult task of changing organizational cultures.**

5.1 Creation and Maintenance of Organizational Cultures

A primary source of organizational culture is the company founder. Founders like Thomas J. Watson (IBM), Sam Walton (Wal-Mart), and Bill Gates

(Microsoft) create organizations in their own images and imprint them with their beliefs, attitudes, and values. For example, Thomas J. Watson, Sr., proclaimed that IBM's three basic beliefs were the pursuit of excellence, customer service, and showing "respect for the individual," meaning company employees. Microsoft employees share founder Bill Gates's determination to stay ahead of software competitors. Says a Microsoft vice president, "No matter how good your product, you are only 18 months away from failure."[76]

Though company founders are instrumental in the creation of organizational cultures, eventually founders retire, die, or choose to leave their companies. When the founders are gone, how are their values, attitudes, and beliefs sustained in the organizational culture? Answer: stories and heroes.

Organizational members tell **organizational stories** to make sense of organizational events and changes and to emphasize culturally consistent assumptions, decisions, and actions.[77] At Wal-Mart, stories abound about founder Sam Walton's thriftiness as he strove to make Wal-Mart the low-cost retailer that it is today.

organizational stories
Stories told by organizational members to make sense of organizational events and changes and to emphasize culturally consistent assumptions, decisions, and actions.

In those days, we would go on buying trips with Sam, and we'd all stay, as much as we could, in one room or two. I remember one time in Chicago when we stayed eight of us to a room. And the room wasn't very big to begin with. You might say we were on a pretty restricted budget. (Gary Reinboth, one of Wal-Mart's first store managers)[78]

Today, Sam Walton's thriftiness still permeates Wal-Mart. Everyone, including top executives and the CEO, flies coach rather than business or first class. When traveling on business, it's still the norm to share rooms (though two to a room, not eight!) at inexpensive hotels like Motel 6 and Super 8 instead of more expensive Holiday Inns. Likewise, for business travel, Wal-Mart will reimburse only up to $15 per meal, which is half to one-third the reimbursement rate at similar-sized companies (remember, Wal-Mart is one of the largest companies in the world). At one of its annual meetings, CEO Lee Scott reinforced Sam Walton's beliefs by exhorting Wal-Mart employees to bring back and use the free pencils and pens from their travels. Most people in the audience didn't think he was kidding.[79]

organizational heroes
People celebrated for their qualities and achievements within an organization.

A second way in which organizational culture is sustained is by recognizing and celebrating heroes. By definition, **organizational heroes** are organizational people admired for their qualities and achievements within the organization. Bowa Builders is a full-service construction company in Virginia. When it was renovating a large auto dealership, its carpet subcontractor mistakenly scheduled the new carpet to be delivered two weeks *after* it was to be installed. Rather than allow construction to be delayed, a Bowa employee kept the project on schedule by immediately reordering the carpet, flying to the carpet manufacturer's factory, renting a truck, and then driving the carpet back to the auto dealership, all within 48 hours of learning about the problem. CEO and company cofounder Larry Weinberg says this story is told and retold within Bowa Builders as an example of heroic customer service. Moreover, the car dealership was so delighted with this extraordinary service that it has referred $10 million to $12 million in new business to Bowa Builders.[80]

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Bowa Builders has no shortage of organizational heroes, in part because management supports employees' efforts to go to extraordinary lengths to please customers. Every Friday, managers bring lunch to workers on the job site.

5.2 Successful Organizational Cultures

Preliminary research shows that organizational culture is related to organizational success. As shown in Exhibit 3.7, cultures based on adaptability, involvement, a clear vision, and consistency can help companies achieve higher sales growth, return on assets, profits, quality, and employee satisfaction.[81]

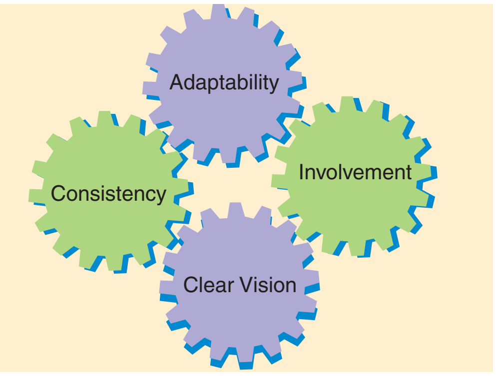
Adaptability is the ability to notice and respond to changes in the organization's environment. Cultures need to reinforce important values and behaviors, but a culture becomes dysfunctional if it prevents change, and one of the surest ways to do that is to discourage open discussion and disagreement. Organizational psychologist Kathleen Miller began working with a company that recognized the need to change its nonadaptive culture. However, she didn't realize how dysfunctional the culture was until she tried to start an honest discussion about the company's problems at one of her first meetings. The top managers simply would not speak up. They were so afraid to disagree with each other that they wrote their comments and questions anonymously on note cards and had them read aloud to the rest of the group.[82]

In cultures that promote higher levels of *employee involvement* in decision making, employees feel a greater sense of ownership and responsibility. Employee invlovement has been a hallmark of Genencor since its creation as a joint venture between Genentech and Corning in 1982. Genencor designs its human resources programs by regularly polling employees about which benefits they enjoy and which they would like the company to offer. Most dramatically, when Genencor built its headquarters, it gave its employees a say in the design. Scientists requested that the labs be along the building's exterior so they could receive natural light. "I've worked in labs without windows," says staff scientist Fiona Harding, "and seeing the sun makes the time spent in the lab much more pleasant." For everyone else, the building features a "main street," where employees congregate to collaborate and interact throughout the day. CEO Jean-Jacques Bienaime believes that these employee-driven design features lead to a more stimulating workplace. "If you want employees to be productive, you have to create a nurturing environment and let them be creative," he says. Such a commitment to employee involvement in decision making is definitely paying off for the company. Its turnover rate was less than 4 percent (the national industry average is 18.5 percent), and its employees generate approximately $60,000 more revenue per employee than its largest competitor, Novozymes.[83]

company vision
A company's purpose or reason for existing.

A **company's vision** is its purpose or reason for existing. In organizational cultures with a clear organizational vision, the organization's strategic purpose and direction are apparent to everyone in the company. When managers are uncertain about their business environments, the vision helps guide the discussions, decisions, and behavior of the people in the company. At F. H. Faulding & Company, an Australia-based provider of health-care products and services doing business in 70 countries, the vision is "delivering innovative and valued solutions in health care."[84] This vision lets employees know why the company is in business (to deliver health-care solutions) and the values that really matter (innovative and valued solutions). To give its employees even more guidance, Faulding has clearly defined each of the key words in the vision statement. For example, "delivering" means targeting quality drugs, products, and services to the right place at the right time while concentrating on a global perspective. Likewise, "solutions" is defined as being focused, timely, and profitable by making quality products and services that satisfy customers' and partners' needs.

Exhibit 3.7
Successful Organizational Cultures



Source: D. R. Denison & A. K. Mishra, "Toward a Theory of Organizational Culture and Effectiveness, *Organization Science* 6 (1995): 204-223.

Specific vision statements strengthen organizational cultures by letting everyone know why the company is in business, what really matters (i.e., values), and how those values can be used to guide daily actions and behaviors.[85] Commenting on the value of Faulding's vision statement, Donna Martin, the senior vice president of human resources, says, "A vision has to be more than a set of target revenue or profit numbers to meet. It has to be elevating, inspiring, with a strong emphasis on the future. A vision has to be a compelling and crystal-clear statement about where the organization is heading."[86] You will learn more about vision statements in Chapter 5 on planning and decision making.

Finally, in **consistent organizational cultures**, the company actively defines and teaches organizational values, beliefs, and attitudes. McDonald's helps preserve its history and culture each year by having its executives work in its restaurants to celebrate founder Ray Kroc's birthday. According to Kroc, this is to remind McDonald's executives that "if it's below [their] dignity to mop floors, clean toilets, and roll up [their] sleeves, then [they] are not going to succeed: [Their] attitude is wrong." McDonald's also has an exhibit called "Talk to Ray," in which, thanks to messages videotaped before his death, anyone can "ask" Ray questions about McDonald's values and history.[87]

consistent organizational cultures When a company actively defines and teaches organizational values, beliefs, and attitudes.

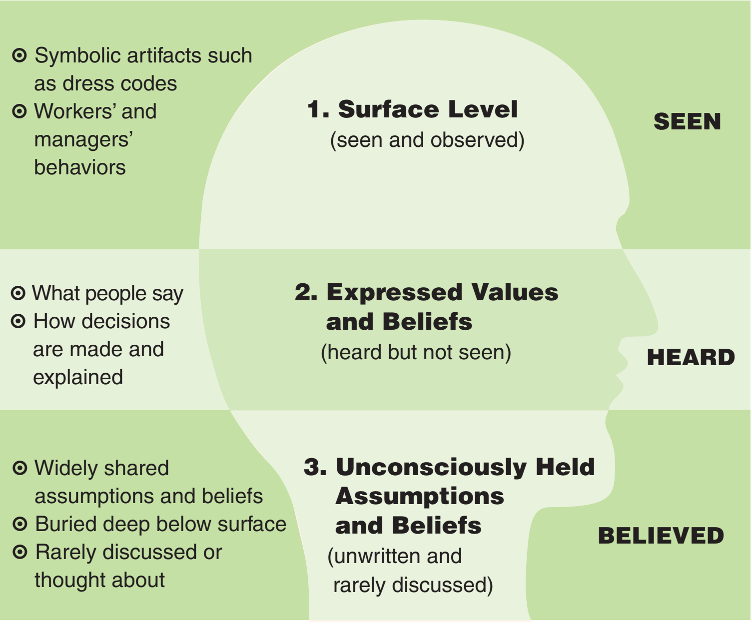
Consistent organizational cultures are also called *strong cultures* because the core beliefs are widely shared and strongly held. Indeed, everyone who has ever worked at McDonald's has been taught its four core values: quality, service, cleanliness, and value.[88] Studies show that companies with consistent or strong corporate cultures typically outperform those with inconsistent or weak cultures most of the time.[89] Why? The reason is that when core beliefs are widely shared and strongly held, it is easy for everyone to figure out what to do or not do to achieve organizational goals.

Having a consistent or strong organizational culture doesn't guarantee good company performance, however. Indeed, McDonald's saw its sales and profits decline before turning its performance around in the last few years. When core beliefs are widely shared and strongly held, it is very difficult to bring about change. Consequently, companies with strong cultures tend to perform poorly when they need to adapt to dramatic changes in their external environments Their consistency sometimes prevents them from adapting to those changes.[90]

5.3 Changing Organizational Cultures

As shown in Exhibit 3.8, organizational cultures exist on three levels.[91] First, on the surface level, are the reflections of an organization's culture that can be seen and observed, such as symbolic artifacts (e.g., dress codes and office layouts), and workers' and managers' behaviors. Next, just below the surface, are the values and beliefs expressed by people in the company. You can't see these values and beliefs, but they become clear if you listen carefully to what people say and to how decisions are made or explained. Finally, unconsciously held assumptions and beliefs are buried deep below the surface. These are the unwritten views and rules that are so strongly held and so widely shared that they are rarely discussed or even thought about unless someone attempts to change them or unknowingly violates them. When it comes to changing cultures, it can be

Exhibit 3.8
Three Levels of Organizational Culture



very difficult to change unconscious assumptions and beliefs held deep below the surface. Instead, managers should focus on the parts of the organizational culture they can control; these include observable surface-level items, such as workers' behaviors and symbolic artifacts, and expressed values and beliefs, which can be influenced through employee selection. Let's see how these can be used to change organizational cultures.

behavioral addition
The process of having managers and employees perform new behaviors that are central to and symbolic of the new organizational culture that a company wants to create.

behavioral substitution
The process of having managers and employees perform new behaviors central to the "new" organizational culture in place of behaviors that were central to the "old" organizational culture.

One way of changing a corporate culture is to use behavioral addition or behavioral substitution to establish new patterns of behavior among managers and employees. **Behavioral addition** is the process of having managers and employees perform a new behavior, while **behavioral substitution** is having managers and employees perform a new behavior in place of another behavior. The key in both instances is to choose behaviors that are central to and symbolic of the "old" culture you're changing and the "new" culture that you want to create. One of the key behavioral changes at Continental Airlines in the last decade is that the airline has significantly increased its on-time arrivals.[92] Under the "late-arrival culture," a flight attendant would be more worried about leaving the gate with the right number of meals on the plane than leaving on time. According to then CEO Gordon Bethune, the attendant would say to the flight caterer, "I don't care. I am not going without the 20 meals. That's your problem." Then the caterer would have to get the missing meals, and the flight would be 20 minutes late. Once Continental started rewarding its flight attendants and other employees for on-time arrivals and departures, behavior began to change (see Chapter 7 for a more detailed explanation of this change process at Continental). According to Bethune, now, under the "on-time arrival culture," the flight attendant would say to the caterer who didn't provide enough meals, "Hey, don't you do this to me again." The attendant would then close the plane's door and leave the gate on time by "finding some investment bankers in the back who will trade food for booze." According to Bethune, "That's how she gets paid. That's how behavior changes: We become collective winners and give things customers' value."[93]

visible artifacts
Visible signs of an organization's culture, such as the office design and layout, company dress code, and company benefits and perks, like stock options, personal parking spaces, or the private company dining room.

Another way in which managers can begin to change corporate culture is to change the **visible artifacts** of their old culture, such as the office design and layout, company dress code, and recipients (or nonrecipients) of company benefits and perks like stock options, personal parking spaces, or the private company dining room. When Peter Giller became the CEO of International Power PLC, a British power company, he took dramatic steps to make the slow-moving company culture much more entrepreneurial. The most visible changes he made were to *not* take a company car, a multimillion dollar insurance policy (a standard perk for CEOs), or a salary. Although Giller receives a $6,500 check each month to cover living expenses, he's otherwise paid entirely in company stock. Whereas most CEOs are guaranteed millions in pay and benefits, Giller won't earn CEO-type money unless International Power's growth and profits lead to substantial increases in the company's stock price. Giller also changed the culture by switching from traditional offices to open offices, where people work side-by-side together at long tables. He also closed the company's plush chairman's suite, turning it into an employee coffee bar and transforming its private terrace into an outdoor area for company barbecues and receptions.[94]

Cultures can also be changed by hiring and selecting people with values and beliefs consistent with the company's desired culture. *Selection* is the process of gathering information about job applicants to decide who should be offered a job. As discussed in Chapter 11 on human resources, most selection instruments measure whether job applicants have the knowledge, skills, and abilities needed to succeed in their jobs. Today, however, companies are increasingly testing job applicants to determine how the fit with the company's desired culture (i.e., values and beliefs). Management consultant Ram Charan says, "A poor job match is not only harmful to the individual but also to the company."[95] At Bristol-Myers, people who didn't fit the culture tended to leave.

According to Ben Dowell, who runs Bristol-Myers's Center for Leadership Development, "What came through was, those who left were uncomfortable in our culture or violated some core area of our value system."[96] The first step in hiring people who have values consistent with the desired culture is to define and describe that culture. Bristol-Myers hired an organizational psychologist who spent four months interviewing senior managers. He concluded that Bristol-Myers had a team-driven culture that focused on research and development, which meant that it valued self-motivated, intellectually curious people.

The second step is to ensure that applicants fit with the culture by using selection tests, instruments, and exercises to measure these values and beliefs in job applicants. (See Chapter 11 for a complete review of applicant and managerial selection.) At Southwest Airlines, humor and a good attitude are two of the most important requirements in its new hires. Chairman and former CEO Herb Kelleher says, "What's important is that a customer should get off the airplane feeling: 'I didn't just get from A to B. I had one of the most pleasant experiences I ever had and I'll be back for that reason.'"[97] For instance, on a flight from Houston to Dallas, a flight attendant addresses passengers over the speaker system, saying, "Could y'all lean in a little toward the center aisle, please?" Met with confused looks from passengers, he continues, "Just a bit, please. That's it. No, the other way, sir. Thanks. You see, the pilot has to pull out of this space here, and he needs to be able to check the rearview mirrors." On another Southwest plane, Yvonne Masters jokingly introduced her fellow flight attendants as her "former husband and his new girlfriend."[98] Southwest passenger Mark Rafferty said his favorite Southwest flight attendant joke was when "they told everyone on the plane's left side, toward the terminal, to put their faces in the window and smile so our competitors can see what a full flight looks like."[99] Corny, yes, but the humor is exactly what Southwest and its customers want, and the airline gets it by hiring people consistent with its hard-working, fun-loving culture. Says Kelleher, "We draft great attitudes. If you don't have a good attitude, we don't want you, no matter how skilled you are. We can change skill level through training. We can't change attitude."[100]

Corporate cultures are very difficult to change. Consequently, there is no guarantee that any one approach—changing visible cultural artifacts, using behavioral substitution, or hiring people with values consistent with a company's desired culture—will change a company's organizational culture. The best results are obtained by combining these methods. Together, these are some of the best tools managers have for changing culture because they send the clear message to managers and employees that "the accepted way of doing things" has changed.

Review 5: Organizational Cultures: Creation, Success, and Change

Organizational culture is the set of key values, beliefs, and attitudes shared by organizational members. Organizational cultures are often created by company founders and then sustained through the telling of organizational stories and the celebration of organizational heroes. Adaptable cultures that promote employee involvement, make clear the organization's strategic purpose and direction, and actively define and teach organizational values and beliefs can help companies achieve higher sales growth, return on assets, profits, quality, and employee satisfaction. Organizational cultures exist on three levels: the surface level, where cultural artifacts and behaviors can be observed; just below the surface, where values and beliefs are expressed; and deep below the surface, where unconsciously held assumptions and beliefs exist. Managers can begin to change company cultures by focusing on the top two levels and by using behavioral substitution and behavioral addition, changing visible artifacts, and selecting job applicants with values and beliefs consistent with the desired company culture.

Key Terms

Concept Check

1. Describe the three basic characteristics of changing external environments.
2. How do the characteristics of changing environments affect uncertainty?
3. What is the difference between the general and specific business environments?
4. List the components of the general business environment.
5. How do the elements of the specific business environment affect businesses?
6. Describe the three-step process that managers use to make sense of changing environments.
7. How are organizational cultures created and maintained?
8. What are the characteristics of successful organizational cultures?
9. Identify the three levels of organizational culture and give examples of each.
10. How can managers change organizational cultures?

Self-Assessment

CHECK YOUR TOLERANCE FOR AMBIGUITY

Think of the difference between playing chess (where you can see all the pieces and anticipate attacks and plan counterattacks) and playing poker (where no one knows anyone else's hand, and you have to make guesses based on your interpretation of opponents' betting patterns). In chess, there is little ambiguity, whereas in poker there is tremendous ambiguity. Although many people liken business to a game of chess, probably because of the strategic aspects of the game, business is actually more like poker. The business environment is complex and uncertain, and managers never *really* know all the cards the opposition is holding. Managers must learn to adapt to environmental shifts and new developments—sometimes on a daily basis. For some managers, however, this can be a challenging task because everyone has a different comfort level when it comes to ambiguity. For some, not knowing all the details can be a source of significant stress, whereas for others uncertainty can be energizing.

As a manager, you will need to develop an appropriate tolerance for ambiguity. For example, being stressed out every time interest rates change can be counterproductive, but completely ignoring the economic environment can be detrimental to your company's performance. On page 614 of the Self-Assessment Appendix, you will find a 22-question survey designed to help you get a sense of your tolerance for ambiguity.

Management Decision

ENVIRONMENTAL ROLLER COASTER

It couldn't be a better day to be at Cedar Point amusement park. It's mid-September, sunny, and 75 degrees, and there's no one waiting in any of the queue lines. Passing by the Millennium Force roller coaster, you stop to get a slurpie and then sit down at a nearby picnic table to start thinking about the annual environmental scan.

Since joining the management team of Cedar Point, a large regional amusement park located in Sandusky, Ohio, you've done this exercise 10 times. Each time, it is more difficult because the environment keeps changing, but doing the environmental assessment has kept Cedar Point viable. You think to yourself "We've just finished a tight season, but we managed to come out ahead. We are facing some big shifts, though both in the general business environment and in the amusement industry, so we need to build a plan to meet those environmental challenges."

Pausing for a moment, you stare at the coaster's 80-degree drop. Your mind dives just as steeply into a flurry of issues: shifts toward year-round schooling; trends in the insurance industry; new forms of entertainment; new competition; the effect of changing demographics on your attendance and your work force; higher gasoline prices; and the impact of the economy in general. You've been able to increase the price of admission year after year, but how long can you continue to do that? Your straw makes a loud noise as you finish your slurpie.

"I guess that means it's time to head back to the office and figure out what trends are going to affect the park and how."

Questions

1. Consider the issues this Cedar Point manager is examining as part of this exercise. What other issues do you think he should examine?
2. Create a list of issues addressing each of the environmental factors discussed in the chapter (economy, technology, political/legal, sociocultural, customer, competitor, supplier, industry regulation). For each item on your list, explain how Cedar Point will face the challenges posed by that factor in its environment.
3. Based on the solutions you generated in question 2, how uncertain is the amusement park industry? Why do you think as you do? (Think about the environmental change, complexity, and resources of the amusement park industry. You may wish to use Exhibit 3.2 as a guide.)

Management Team Decision

DOG DAY BLUES

One of the reasons you accepted a management position at MicroTek several years ago was the company's laid-back culture.[101] A loose organizational structure enables employees to move freely between projects, and the open office space encourages informal encounters and generates a feeling of teamwork. And among the very generous corporate perks is a policy allowing employees to bring their pets to work. It is not uncommon to see a small animal sitting in an employee's inbox drinking from a hamster lick. Several employees bring their dogs, large and small, to the office.

As the company has grown, thanks in part to its informal culture, more and more people are taking advantage of the pet policy, and problems are arising. Food is swiped from desks, animals are rooting through trash bins, and dogs are marking territory on the partitions that surround their owners' desks. Visiting customers often try to mask startled (at best) or disapproving (at worst) looks when they tour your facility for the first time—and even the second and third times. During a recent breakfast meeting, when a board member refused to share her bagel with the CFO's dog, the dog relieved itself on her briefcase. At least one employee has complained of allergic reactions due to the high levels of pet dander in the office air, but rather than change the policy, you installed a high-power air cleaner.

Despite the challenges, you have resisted changing the pet policy because it symbolizes both the company's relaxed culture and MicroTek's commitment to its employees' work-life balance. This afternoon, however, you were notified by the federal Occupational Safety and Health Administration (OSHA) that your office does not meet the required indoor air quality standards. Apparently, the cleaner you installed can't handle all the pet dander. To meet the standards, you'll need an even more powerful air cleaner that costs between $100,000 and $200,000. That would be a significant investment in the pet policy! And who knows if it would solve the allergy problem. Is the policy worth the cost?

In 2003, only 5,000 offices participated in "Bring Your Pet to Work Day," but in 2004, that number rose to 10,000. Companies bigger than MicroTek have figured out how to make pet policies work: IAMS Pet Food, Replacements Ltd., the world's largest supplier of old and new china; Netscape; and Touchstone Television, to name a few. A quarter of Burton Snowboards' 230 employees brings their dogs to work every day! Anecdotal evidence from those companies indicates that pets can spur creativity and lower occupational stress. You ask yourself, "How committed am I to the pet policy?" In other words, is the pet policy just trendy (or avant-garde), or does it say something deeper about your company?

For this Management Team Decision, assemble three or four students to act as the management team for MicroTek. Include both pet owners and people without pets to avoid any bias. Before you begin the exercise, have each team member privately write down answers to each of the questions. By sharing your individual responses, you may be able to have a more varied and rounded discussion.

Questions

1. Do you buy the expensive air cleaner or eliminate the pet policy? Why or why not?
2. If you choose to stop allowing animals at the office, what effect, if any, do you think the change will have on the company's culture?
3. Can you think of a way to allow people to bring pets to work without upgrading the air cleaner or running afoul of OSHA?

Develop Your Career Potential

DEALING WITH THE PRESS

In this age of 24-hour cable news channels, tabloid news shows, and aggressive local and national news reporters intent on exposing corporate wrongdoing, one of the most important skills for a manager to learn is how to deal effectively with the press.[102] Test your ability to deal effectively with the press by putting yourself in the following situations. To make the situation more realistic, read each scenario and then give yourself two minutes to write a response to each question.

Fatty Restaurant Food Contributes to Heart Attacks

Today, in the nation's capital, a public-interest group held a press conference to release the results of a study that found that the food sold in most Chinese restaurants is high in fat. The group claims that the most popular Chinese dishes, including orange chicken, pork fried rice, and Hunan beef, contain nearly as much fat as the food you get from fast-food chains like McDonald's, Wendy's, and Burger King. (Much of it is fried or is covered with heavy sauces.) Furthermore, the group says that customers who hope to keep their cholesterol and blood pressure low by eating Chinese food are fooling themselves.

A TV reporter from Channel 5 called you at Ping's Garden, your Szechuan-style Chinese restaurant, to get your response to this study. When he and the camera crew arrived, he asked you the following questions:

1. "A new study released today claims that food sold in Chinese restaurants is on average nearly as fattening as that sold at fast-food restaurants. How healthy is the food that you serve at Ping's?"
2. "Get the camera in close here [camera closes in to get the shot] because I want the audience at home to see that you don't provide any information on your menu about calories, calories from fat, or cholesterol. Without this information [camera pulls back to get a picture of you and the reporter], how can your customers know whether the food that you serve is healthy for them?"
3. "These new studies were based on lunches and dinners sampled from Chinese restaurants across the nation. A local company, Huntington Labs, has agreed to test foods from local restaurants so that we can provide accurate information to our viewers. Would you agree to let us sample the main dishes in your restaurant to test the level of calories, calories from fat, and cholesterol? Furthermore, can we take the cameras into your restaurant so that we can get your customers' reactions to these studies?"

Take Two

Biz Flix
Brazil

Set somewhere in the twentieth century, the retro-futuristic world of *Brazil* is a gritty, urban cesspool patched over with cosmetic surgery and "designer ducts for your discriminating taste." Automation pervades every facet of life from the toaster and coffee machine to doorways, but paperwork, inefficiency, and mechanical failures are the rule. *Brazil* stars Jonathan Pryce in the role of Sam, a low-level bureaucrat whose primary interests in life are his vivid dream fantasies to the tune of "Brazil," a 1940s big-band hit. In this scene, Sam is starting a new job and is being assigned an office and employee identification number.

What to Watch for and Ask Yourself

1. Describe the culture at Sam's new employer.
2. How easy would it be to change the culture at Sam's new company?
3. In which kind of business environment do you think the culture at Sam's employer is able to operate most successfully?

Management Workplace
Boston Duck Tours

After a bus tour of the United States that passed through Memphis, Andy Wilson was inspired to create a unique tourism company in Boston. Even though he had a great idea, enlisted the aid of a consultant to prepare a solid business plan, and cultivated a source for the technology he needed, Andy still faced challenges in the external environment. Nonetheless, he persevered and created Boston Duck Tours, the number one tourist attraction in the state of Massachusetts.

What to Watch for and Ask Yourself

1. What components of the external business environment does Andy Wilson mention in the video?
2. How would you characterize Andy's relationship with Bob McDowell?
3. Outline the external environment of Boston Duck Tours.
4. How would you describe the culture of Boston Duck Tours?