

**Chapter Three**

The Environment and Culture of Organizations

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### Learning Objectives

*After studying this chapter, you should be able to:*

1. Discuss the nature of the organizational environment and identify the environments of interest to most organizations.
2. Describe the components of the general and task environments and discuss their impact on organizations.
3. Identify the components of the internal environment and discuss their impact on organizations.
4. Discuss the importance and determinants of an organization's culture and how the culture can be managed.
5. Identify and describe how the environment affects organizations and how organizations adapt to their environment.
6. Describe the basic models of organizational effectiveness and provide contemporary examples of highly effective firms.

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### The Organization's Environment

- External Environment
  - **General environment:** everything outside an organization's boundaries—economic, legal, political, socio-cultural, international, and technical forces.
  - **Task environment:** specific groups and organizations that affect the firm.
- Internal Environment
  - Conditions and forces present and at work within an organization

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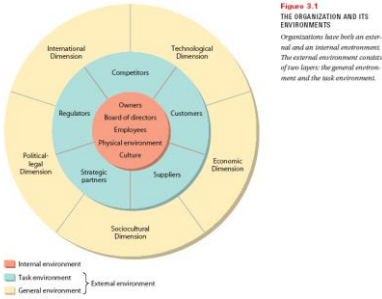
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**Figure 3.1: The Organization and Its Environments**



**Figure 3.1 THE ORGANIZATION AND ITS ENVIRONMENTS**  
Organizations have both an external and an internal environment. The external environment consists of five layers: the general environment and the task environment.

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## The External Environment

- The General Environment
  - The set of broad dimensions and forces in an organization's surroundings that create its overall context.

- Economic dimension
- Technological dimension
- Sociocultural dimension
- Political-legal dimension
- International dimension



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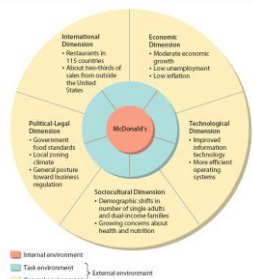
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**Figure 3.2: McDonald's General Environment**

**Figure 3.2 MCDONALD'S GENERAL ENVIRONMENT**  
The general environment of an organization consists of economic, technological, sociocultural, political, legal, and international dimensions. This figure clearly illustrates how these dimensions are relevant to managers at McDonald's.



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### Figure 3.3: McDonald's Task Environment

**Figure 3.3**  
**McDONALD'S TASK ENVIRONMENT**  
 An organization's task environment includes its competitors, customers, suppliers, strategic partners, and regulators. The figure clearly highlights how managers at McDonald's use the framework to identify and understand their key constituents.



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### The Internal Environment

- Conditions and stakeholder forces within an organization
  - Owners.
  - Board of directors
  - Employees
  - Physical work environment



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### How Environments Affect Organizations

- Change and Complexity
  - Environmental change occurs in two ways:
    - Degree to which change in environment is occurring
    - Degree of homogeneity or complexity of the environment
  - Uncertainty
    - A driving force that influences organizational decisions.

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## How Environments Affect Organizations (cont'd)

- Competitive Forces
  - Porter's Five Competitive Forces
    - Threat of new entrants into the market
    - Competitive rivalry among present competitors
    - Threat of substitute products
    - Power of buyers
    - Power of suppliers
- Environmental Turbulence
  - Unexpected changes and upheavals in the environment of an organization.



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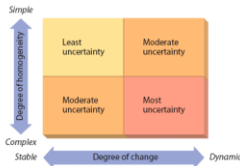
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## Figure 3.4: Environmental Change, Complexity, and Uncertainty



**Figure 3.4**  
ENVIRONMENTAL CHANGE, COMPLEXITY, AND UNCERTAINTY  
The degree of homogeneity and the degree of change combine to create uncertainty for organizations. For example, a simple and stable environment creates the least uncertainty, and a complex and dynamic environment creates the most uncertainty.  
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## Porter's Five Competitive Forces

- Threat of new entrants
  - Extent to and ease with which competitors can enter market.
- Competitive rivalry
  - Competitive rivalry between firms in an industry.
- Threat of substitute products
  - Extent to which alternative products/services may replace the need for existing products/services.
- Power of buyers
  - Extent to which buyers influence market rivals.
- Power of suppliers
  - Extent to which suppliers influence market rivals.



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### Figure 3.5: How Organizations Adapt to Their Environments



**Figure 3.5**  
**HOW ORGANIZATIONS ADAPT TO THEIR ENVIRONMENTS**  
 Organizations attempt to adapt to their environments. The most common methods are information management; strategic response; mergers, acquisitions, and alliances; organization design and flexibility; direct influence; and social responsibility.

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### How Organizations Adapt to Their Environments (cont'd)

- Information Management in Organizations
  - Boundary spanners
  - Environmental scanning
  - Information systems
- Strategic Response
  - Maintaining the status quo, altering the current strategy, or adopting a new strategy.
- Mergers, Acquisitions, Alliances
  - Firms combine (merge), purchase (acquisition), or form new venture partnerships or alliances with another firm.

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### How Organizations Respond to Their Environments (cont'd)

- Organizational Design and Flexibility
  - Adapting to environmental conditions by incorporating flexibility in its structural design.
    - Mechanistic firms operate best in stable environments.
    - Organic firms are best suited for dynamic environments.
- Direct Influence of the Environment
  - Attempting to change the nature of the competitive conditions in its environment to suit its needs.
  - Pursuing new or changed relationships with suppliers, customers, and regulators.

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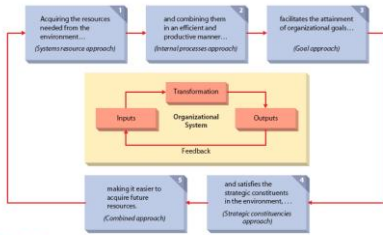
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### Figure 3.6: A Model of Organizational Effectiveness



**Figure 3.6**  
**A MODEL OF ORGANIZATIONAL EFFECTIVENESS**  
The systems resource, internal process, goal, and strategic constituency each focuses on a different aspect of organizational effectiveness. Thus they can be combined to create an overall integrative perspective on effectiveness.

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### Table 3.1: Examples of Admired and High-Performing Firms

#### Fortune's Most Admired Companies (2006)

1. General Electric
2. FedEx
3. Southwest Airlines
4. Procter & Gamble
5. Starbucks
6. Johnson & Johnson
7. Berkshire Hathaway
8. Dell Computer
9. Toyota Motors
10. Microsoft

#### BusinessWeek's Best Performing Companies (2006)

1. Apple Computer
2. Wal-Mart
3. Costco Rx
4. United Health Group
5. Schlumberger
6. Occidental Petroleum
7. Halliburton
8. GlaxoSmith
9. Amgen
10. Aetna

**Table 3.1**  
**EXAMPLES OF ADMIRABLE AND HIGH-PERFORMING FIRMS**

Source: "America's Most Admired Companies," *Fortune*, March 6, 2006, p. 65; "The Business Week 50," *BusinessWeek*, April 3, 2006, p. 65.

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### Key Terms

- internal environment
- external environment
- task environment
- economic dimension
- technological dimension
- sociocultural dimension
- political-legal dimension
- international dimension
- competitor
- customer
- supplier
- interest group
- strategic partners (strategic allies)
- owner
- board of directors
- organization culture
- uncertainty
- five competitive forces

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