

**Lesson 4.12**

**ANALYZING ORGANIZATIONAL ENVIRONMENT AND UNDERSTANDING ORGANIZATIONAL CULTURE**

This lecture discusses the components and complexities of an organization's culture and the external /internal environment and how these may constrain managers. Managers are also responsible for improving stakeholder involvement in decisions making and actions taking. Managers must be aware that organizational culture and organizational environments will influence both the way an organization is managed as well as its effectiveness. How can an understanding of organizational culture and the external environment help the manager? Let us learn.

**THE ENVIRONMENT:**

The impact of the external environment on a manager's actions and behaviors cannot be overemphasized. There are forces in the environment that play a major role in shaping managers' endeavors.

The **environment** is defined as outside institutions and forces outside the organization that potentially affect an organization's performance.

**Types of Environment:**

- 1) **External Environment**
- 2) **Internal Environment**

**External Environment**

**'Major forces outside the organization with potential to influence significantly a product or service's likely success is called its external environment.'**

**Types of external environments:**

The insights derived from systems theory have helped to highlight the importance of a managed interaction between an organization and its external environment. Two major divisions have been made in the external environment:

- 1) **The Mega Environment**
- 2) **The Task Environment**

**The Mega Environment**

The **mega-environment**, or general environment as it is sometimes called, is that segment of the **external environment** that reflects the broad conditions and trends in the societies within which an organization operates.

**Major Elements of the Mega Environment**

1. The **technological element** of the mega-environment reflects the current state of knowledge regarding the production of products and services.
  - a. Technology is a particular state of knowledge. It is not "things." A computer, for instance, is an artifact or an example of technology and is not technology itself.
  - b. Research indicates that technology tends to evolve through periods of incremental change punctuated by technological breakthroughs that either

- enhance or destroy the competence of firms in an industry.
- c. Numerous publications (such as Business Week, Forbes, etc.) and on-line services (such as LEXIS/NEXIS) provide information regarding technological and other environmental elements.
2. The **economic element** of the mega-environment encompasses the systems of producing, distributing, and consuming wealth.
    - a. In a **capitalist economy**, economic activity is governed by market forces and the means of production are privately owned by individuals, either directly or through corporations.
    - b. In a **socialist economy**, the means of production are owned by the state and economic activity is coordinated by state plan.
    - c. In practice, countries tend to have hybrid economies, incorporating elements of capitalism and socialism.
    - d. Organizations are influenced in any given economic system by a variety of economic conditions over which they have little control, such as inflation and interest rates.
  3. The **legal-political element** of the mega-environment includes the legal and governmental systems within which an organization must function.
    - a. Organizations must operate within the general legal framework of the countries in which they do business.
    - b. Organizations are subject to an increase in lawsuits filed by customers or employees.
    - c. The political issues which affect organizations include those which influence the extent of government regulation.
  4. The **socio-cultural element** of the mega-environment includes the attitudes, values, norms, beliefs, behaviors, and associated demographic trends that are characteristic of a given geographic area.
    - a. The socio-cultural element is of particular importance to multinational Corporations.
    - b. Socio-cultural trends can result in important shifts in demand for products.
  5. The **international element** of the mega-environment includes the developments in countries outside an organization's home country that have the potential impact to the organization. International factors far beyond the direct influence of a particular organization can have profound effects on its ability to operate successfully.
    - a. Fluctuations of the dollar against foreign currencies influence the ability of an organization to compete in international markets.
    - b. Free-trade agreement, such as the NAFTA, GATT can affect an organization either positively or negatively.

### **The Task Environment**

The **task environment** is that segment of the external environment made up of specific outside elements (usually organizations) with which an organization interfaces in the course of conducting its business. The task environment depends on the products and services the organization offers and the locations where it conducts business. The organization may be more successful in affecting its task environment than it is its mega-environment.

**Elements of the Task Environment:**

1. An organization's **customers and clients** are those individuals and organizations that purchase its products and/or services. It is becoming increasingly important to stay in touch with customers' needs.
2. An organization's **competitors** are other organizations that either offers of have a high potential of offering rival products or services.
  - a. Organization needs to keep abreast of who their competitors are and what they are doing.
  - b. Ways to track what competitors are doing include obtaining information from commercial data bases, specialty trade publications, news clippings from local newspaper, help-wanted ads, published market research reports, business reports, trade shows, public filings, advertisements, and personal contacts.
3. An organization's **suppliers** are those individual organizations that supply the resources (such as raw materials, products, or services) the organization needs to conduct its operations.
4. An organization's **labor supply** consists of those individuals who are potentially employable by the organization.
  - a. Organization may have to shift their location if labor supplies dry up in some areas and increase in others.
5. Various **government agencies** provide services and monitor compliance with laws and regulations at local (e.g., consumer affairs), state or regional (e.g., health department), and national (e.g., CBR) levels.

**Organization's Relationships with Stakeholders:**

1. Stakeholders are any constituencies in the organization's external environment that are affected by, or have a vested interest in, the organization's decisions and actions
2. Stakeholder relationship management is important for two reasons:
  - a. It can lead to improved predictability of environmental changes, more successful innovation, greater degrees of trust, and greater organizational flexibility to reduce the impact of change.
  - b. It is the "right" thing to do, because organizations are dependent on external stakeholders as sources of inputs and outlets for outputs and should be considered when making and implementing decisions.
3. Stakeholder relationships are managed using four steps:
  - a. Identify external stakeholders
  - b. Determine the specific interests of each stakeholder group
  - c. Decide how critical these interests are to the organization
  - d. Determine what specific approach managers should use to manage each relationship.

**THE ORGANIZATION'S CULTURE:**

Just as individuals have a personality, so, too, do organizations. We refer to an organization's personality as its culture.

**Organizational culture** is a system of shared meaning and beliefs within an organization that determines, in large degree, how employees act. This definition implies several things.

1. Culture is a perception that exists in the organization, not in the individual.
2. Organizational culture is a descriptive term. It describes rather than evaluates.
3. Seven dimensions of an organization's culture have been proposed:
  - a. Innovation and risk taking (the degree to which employees are encouraged to be innovative and take risks)

- b. Attention to detail (the degree to which employees are expected to exhibit precision, analysis, and attention to detail)
- c. Outcome orientation (the degree to which managers focus on results or outcomes rather than on the techniques and processes used to achieve those outcomes)
- d. People orientation (the degree to which management decisions take into consideration the effect on people within the organization)
- e. Team orientation (the degree to which work activities are organized around teams rather than individuals)
- f. Aggressiveness (the degree to which people are aggressive and competitive rather than easygoing and cooperative)
- g. Stability (the degree to which organizational activities emphasize maintaining the status quo in contrast to growth)

**Employees “learn” an organization’s culture in different ways.**

1. Organizational stories are one way that employees learn the culture. These stories typically involve a narrative of significant events or people.
2. Rituals are repetitive sequences of activities that express and reinforce the key values of the organization, what goals are most important, which people are important.