

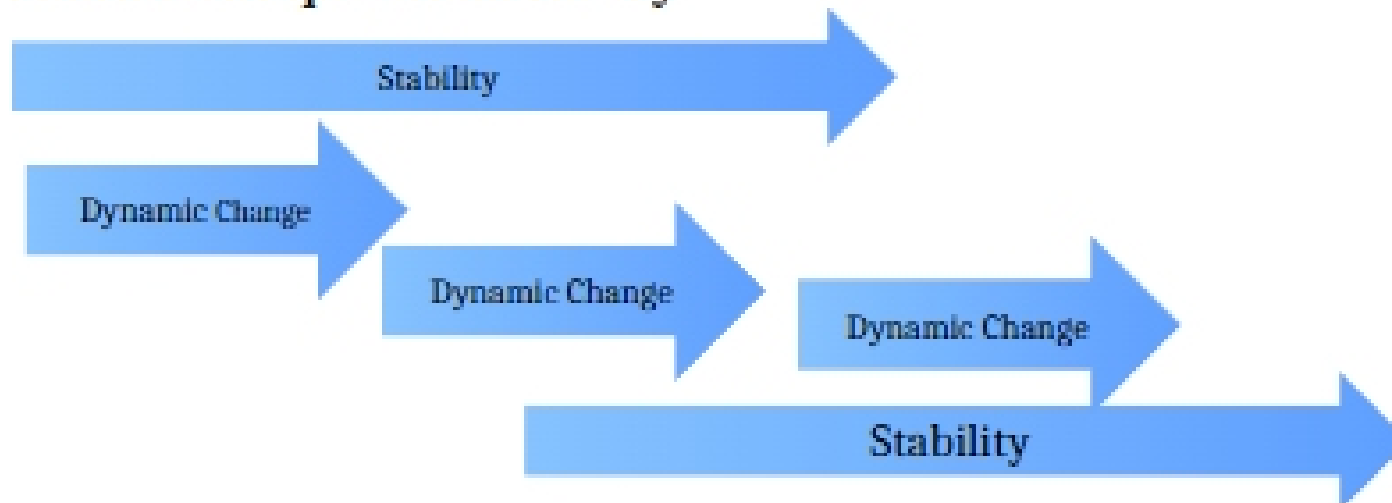
Chapter 2: Organizational Environments and Culture

External Environments and Changes

External environment: the forces and events outside a company that have the potential to influence or affect it.

- Environmental Change
 - The rate at which a company's general and specific environment changes
 - Stable environment
 - The rate environmental changes is slow
 - Dynamic environment
 - The rate the environment change is fast.
 - Punctuated equilibrium theory
 - Companies go through long periods of stability (equilibrium) during which incremental changes occur, followed by short, complex periods of dynamic, fundamental change (revolutionary periods), finished with a return to stability (new equilibrium)
- Environmental Complexity
 - The number and the intensity of external factors in the environment that affect organizations
 - Simple environment
 - Have few environmental factors,
 - Complex environment
 - Have many environmental factors
- Resource Scarcity
 - The abundance or shortage of critical organizational resources in an organization's external environment
- Uncertainty
 - Affected by environmental change, environmental complexity, and resource scarcity
 - How well managers can understand or predict the external changes and trends affecting their businesses

Punctuated Equilibrium Theory



General Environment

Consists of the economy and the technological, sociocultural, and political/legal trend that indirectly affect *all* organizations.

- Changes in any sector of the general environment eventually affect most organizations
 - Specific Environment:
 - The customers, competitors, suppliers, industry regulations, and advisory groups that are unique to an industry and directly affect how a company does business
- Economy
 - A growing economy provides a favorable environment for business growth
 - A growing economy, more people are working and wages are growing, and consumers have relatively more money to spend.
 - More products are bought and sold in a growing economy than in a static or shrinking economy
 - Growing economy provides an environment favorable for business growth
 - A shrinking economy, consumers have less money to spend and relatively fewer products are bought and sold
 - Shrinking economy makes growth for businesses more difficult
 - Influences basic business decisions, such as whether to hire more employees, expand production, or take out a loan to purchase equipment; managers scan their economic environments for signs of significant change.
 - Unfortunately, the economic statistics that manager rely on when making decisions are notoriously poor predictors of *future* economic activity
 - Business Confidence indices
 - Shows how confident managers are about future business growth
 - Managers often prefer business
- Technological Component
 - Technology
 - The knowledge, tools, and techniques used to transform input (raw material, information, etc.) into outputs (products and service)
 - Change in technology can help companies provide better products or produce their products more efficiently
 - Small shops can now accept credit cards through a card reader on a smartphone (square)
- Sociocultural Component
 - The demographic characteristics, general behavior, attitudes, and beliefs of people in a particular society.

- Changes and trends influence organizations in two important ways.
- Demographic
 - Number of people with particular skills or growth or decline in particular population segments (marital status, age, gender, ethnicity), affected how companies staff their businesses.
- Sociocultural changes
 - Behaviors, attitudes, and beliefs also affect the demand for a business's products and service
 - Increased acceptance of gay marriage has changed many industries
- Political/Legal Component
 - The general environment includes the legislation, regulations, and court decisions that govern and regulate business behavior
 - New laws and regulations continue to impose additional responsibilities on companies.
 - Many managers are unaware of these new responsibilities on companies.
 - Increasingly, businesses and managers are being sued for negligent hiring and supervision, defamation, invasion of privacy, emotional distress, fraud, and misrepresentation during employee recruitment.
 - 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 and negligent corporations.

Specific Environment

- Customers
 - Consumers purchase products and services
 - Companies cannot exist without customer support
 - Monitoring customers' changing wants and needs is critical to business success
 - Reactive Customer Monitoring
 - Involves identifying and addressing customer trends and problems after they occur
 - Listen closely to customer complaints and respond to customer concerns
 - Companies that respond quickly to customer complaints are viewed much more favorably than companies that are slow to respond or never respond.
 - Proactive Monitoring
 - Identifying and addressing customer needs, trends, and issue *before* they occur.