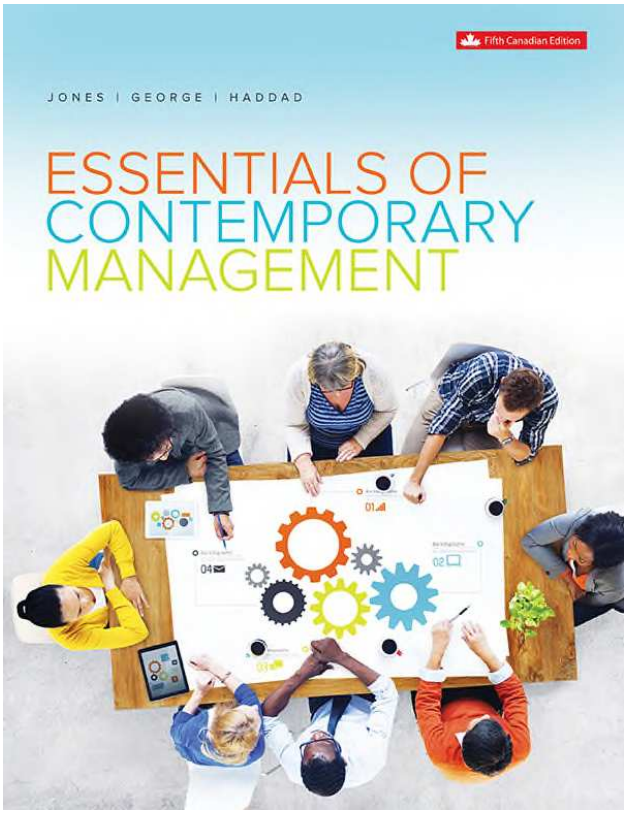
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CHAPTER TWO
MANAGING THE ORGANIZATIONAL ENVIRONMENT
INSTRUCTOR MANUAL



OVERVIEW OF THE CHAPTER

In this chapter, we explore the nature of the external forces—the forces and conditions that operate beyond an organization's boundaries but affect a manager's ability to acquire and utilize resources. The two levels of the external environment, often referred to as the specific and general components, create opportunities and threats managers must deal with and thus affect the way organizations plan, organize, lead, and control resources to achieve organizational goals. We discuss the ways that managers can adjust and respond to forces in the organization's environment to capitalize on opportunities and minimize threats. By the end of the chapter, you will understand the steps managers must take to ensure that organizations adequately address and appropriately respond to the external environment to meet the challenges they face in the global economy.

LEARNING OUTCOMES

LO1 Explain why the ability to perceive, interpret, and respond appropriately to the organizational environment is crucial for managerial success.

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LO2 Identify the main forces in an organization's external environment and the challenges these forces present to managers.

LO3 Explain the changes in the global economy that lead to opportunities and threats.

LO4 Explain the ways managers can minimize threats and uncertainty from forces in the external environment.

LO5 Evaluate the major challenges managers face in gaining a competitive advantage in the global economy

KEY TERMS

certainty
competitive advantage
competitors
Creating Shared Value
customers
demographic forces
distributors
economic forces
environmental change
external environment
free trade doctrine
general environment
global forces
global organizations
globalization
industry-specific or task environment
innovation
internal environment
national culture
organizational environment
political forces
potential competitors
social structure
socio-cultural forces
stakeholders
suppliers
tariff
technological forces
technology
uncertainty

Lecture Outline

Opening Case Questions from the text: Answer can be found on page 74 of the text.

Globalization: is the set of specific and general forces that work together to integrate and connect economic, political and social systems across countries, cultures, or geographic regions so that nations become increasingly interdependent and similar.

I. Explain why the ability to perceive, interpret, and respond appropriately to the organizational environment is crucial for managerial success.

1. The **organizational environment** is a set of forces and conditions, such as technology and competition, that are outside the organization's boundaries and have the potential to affect the way the organization operates and the way managers engage in planning and organizing.
2. The **internal environment**, consists of the forces operating within an organization and stemming from the organization's structure and culture.

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3. An organization's **external environment** can generally be divided into two major categories: the task environment and the general environment.
   a. The **task or industry-specific environment** is the set of forces that affect an organization's ability to obtain inputs and dispose of its outputs.
   b. The **general environment** is the wide-ranging economic, technological, sociocultural, demographic, political and legal, and global forces that affect the organization and its task environment.
   c. **Stakeholders** are persons, groups, and institutions directly affected by the activities and decisions of an organization.
4. Changes in the environment create opportunities for managers to strengthen their organizations. However, other changes pose a threat if organizations are unable to adapt.

II. Identify the main forces in an organization's external environment and the challenges these forces present to managers.

A. FORCES IN THE TASK OR INDUSTRY-SPECIFIC ENVIRONMENT

1. **Suppliers** are the individuals and organizations that provide the input resources that an organization needs to produce goods and services.
   a. In return, the supplier receives compensation for those goods and services.
   b. An important part of a manager's job is to ensure a reliable supply of input resources.
   c. Changes in the nature or types of any supplier result in forces that produce opportunities and threats to which managers must respond.
   d. Another supplier-related threat arises when suppliers' bargaining position is so strong that they can raise the prices of inputs they supply.
   e. Suppliers can make operations difficult by restricting access to important inputs.

2. **Distributors.**

Lecture Enhancer 2.2: See below

   a. **Distributors** are organizations that help other organizations sell their goods or services to customers.
   b. The changing nature of distributors and distribution methods can also bring opportunities and threats for managers.
   c. The power of a distributor may be weakened if there are many distribution options.
3. **Customers**.
   a. **Customers** are individuals and groups that buy goods and services that an organization produces.
   b. Changes in the number and types of customers or changes in customers' tastes and needs also result in opportunities and threats.
   c. An organization's success depends on its response to customers.

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4 **Competitors.**

a. **Competitors** are organizations that produce goods and services that are similar to a particular organization's goods and services.,

b. The rivalry between competitors is potentially the most threatening force that managers must deal with.

c. The potential for new competitors to enter a task environment is a function of barriers to entry.

i. **Barriers to entry** are factors that make it difficult and costly for an organization to enter a particular task environment.

ii. The higher the barriers to entry, the smaller the number of competitors.

d. Barriers to entry result from two sources:

i. **Economies of scale** are the cost advantages associated with large operations.

If organizations already in the task environment enjoy significant economies of scale, then their costs are lower. Newcomers find it expensive to enter the industry.

ii. **Brand loyalty** is a customers' preference for the products of organizations currently existing.

If established organizations enjoy significant brand loyalty, then a new entrant will find it difficult and costly to obtain market share.

Newcomers must bear huge advertising costs to build customer awareness.

iii. In some cases, **government regulations** function as a barrier to entry.

e. A high level of rivalry among competitors creates a task environment that is highly threatening and causes difficulty for managers trying to gain access to resources.

f. Not-for-profit organizations also have customers, suppliers, and competitors that influence and pressure managers.

B. FORCES IN THE GENERAL ENVIRONMENT

1. **General Environment** The political, economic, socio-cultural, technological, and international/global forces (PESTI) that affect an organization and its task environment. Forces in an organization's general environment have profound effects on its task environment.

a. Managers must constantly analyze forces in the general environment because these forces affect long-term decision making about how inputs will be acquired and how goods and services will be sold.

2. Political-Legal Forces.

a. **Political and legal forces** are outcomes of changes in laws and regulations.

b. Political processes shape a society's laws, which constrain the actions of organizations and managers, creating opportunities and threats.

c. Deregulation and privatization are examples of political and legal forces that can create challenges for organizations.

d. Successful managers carefully monitor changes in laws and regulations to take advantage of the opportunities and counter the threats they pose.

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e. The Competition Act of 1986 provides more legislation that affects how companies may operate. Under this Act, the Bureau of Competition Policy acts to maintain and encourage competition in Canada.

3. Economic Forces.
   a. **Economic forces**, such as interest rates, inflation, unemployment, and economic growth, affect the general health and well-being of a nation.
   b. Economic forces produce many opportunities and threats for managers.
   c. Low levels of unemployment and falling interest rates mean a change in the customer base.
   d. Worsening macroeconomic conditions pose a threat, because they limit managers' ability to gain access to needed resources.
   e. Poor economic conditions make the environment more complex and managers' jobs more difficult.
   f. Managers and workers alike may need to identify ways to acquire and utilize resources more efficiently.

4. Sociocultural forces

a.. **Sociocultural forces** are pressures emanating from the social structure of a country or from its national culture.

b. **Social structure** is the arrangement of relationships between individuals and groups within a society.

c. **National culture** is the set of values that a society considers important and the norms of behaviour that are approved or sanctioned in that society.

i. Society's social structure and national culture can also change over time. For example, in Canada, attitudes toward the role of women, love, sex, and marriage have changed in past decades. Throughout much of Eastern Europe, new values emphasizing individualism and entrepreneurship are replacing communist values based upon collectivism and obedience to the state.

d. **Demographic forces** are outcomes of changes in, or changing attitudes toward, the characteristics of a population, such as age, gender, ethnic origin, race, sexual orientation, and social class.

i.. Demographic forces present managers with opportunities and threats and can have major implications for organizations, such as the increase in the number of working women.

ii. Changes in the age distribution of a population affect organizations.

- The aging of the population is increasing opportunities for organizations that cater to older people.
- The aging of the population also has several implications for the workplace, such as the relative decline in the number of young people joining the workforce.

5. Technological Forces.
   a. **Technology** is the combination of skills and equipment that managers use in the design, production, and distribution of goods and services.

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b. **Technological forces** are the outcomes of changes in the technology that managers use to design, produce, or distribute goods and services.
c. Technological change can make established products obsolete overnight, but it can also create a host of new opportunities.
d. Managers must move quickly to respond to such changes if their organizations are to survive and prosper.
e. Changes in information technology are also changing the very nature of work itself.

Lecture Enhancer 2.1: "House Calls for Pets" See below

6. International/Global Forces.
   a. **Global or international forces** are outcomes of changes in international relationships, changes in nations economic, political, and legal systems, and changes in technology.
      i. An important global force affecting managers is the increasing economic integration of countries around the world.
      ii. Free trade agreements such as the North American Free Trade Agreement (NAFTA) and the agreements under the World Treaty Organization (WTO) and the growth of the European Union (EU) have led to a lowering of barriers between nations.
      iii. Falling trade barriers have created opportunities for organizations to sell goods and services in other countries.
      iv. Falling trade barriers also increase competition in the task environment.

III. **Explain The Changes In The Global Economy That Lead To Opportunities And Threats.**

1.. The Global Environment

a. The result of globalization is that nations and peoples become increasingly interdependent because the world's markets and businesses become increasingly interconnected.

b. The path of globalization is shaped by the ebb and flow of *capital*, that is, valuable, wealth-generating assets, as it moves through companies, countries, and world regions seeking its most highly-valued use. The four forms of capital that flow between countries are:

i. *human capital*: the flow of people around the world through immigration, migration, and emigration
ii. *financial capital*: the flow of money across world markets through overseas investment, credit, lending, and aid.
iii. *resource capital:* the flow of natural and semi-finished products between companies and countries such as metal, minerals, lumber, energy, food products, microprocessors, and auto parts

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iv. *political capital:* the flow of power and influence around the world using diplomacy, persuasion, aggression, and armed forces to protect access to the other forms of capital by a nation, world region, or political bloc

2. Declining Barriers to Trade and Investment
   a. During the 1920s and 1930s many countries erected formidable barriers to international trade and investment in the belief that this was the best way to promote their economic well-being.
      i. **tariff** A tax that a government imposes on goods imported into one country from another.
      ii. GATT and the rise of free trade doctrine. The **free-trade doctrine** predicts that if each country agrees to specialize in the production of the goods and services that it can produce most efficiently, this will make the best use of global capital resources and will result in lower prices

3. Declining Barriers of Distance and Culture
   a. Historically, barriers of distance and culture also closed the global environment and kept managers focused on their domestic market.
   b. Since the end of the Second World War, a continuing stream of advances in communications and transportation technology has worked to reduce the barriers of distance and culture that affected all global organizations
   c. teleconferencing allows transmission of vast amounts of information and make reliable, secure, and instantaneous communication possible around the world.
   d. The Internet and its millions of websites facilitate the development of global communications networks and media that are helping to create a worldwide culture above and beyond unique national cultures.

4. Effects of Free Trade on Managers
   a. A manager's job is more challenging in a dynamic global environment because of the increased intensity of competition that goes hand in hand with the lowering of barriers to trade and investment.
   b. The growth **of regional trade agreements** such as the European Free Trade Agreement (EFTA) and the North American Free Trade Agreement (NAFTA) presents opportunities and threats for managers and their organizations.

IV. Explain the ways managers can minimize threats and uncertainty from forces in the external environment.

A. MANAGING THE EXTERNAL ENVIRONMENT.

1. Forces in the Task and General Environments.
   a. To analyze the importance of opportunities and threats in the organizational environment, managers must measure:
      i. The level of complexity in the environment.
      ii. The rate at which the environment is changing.
   b. The complexity of the organizational environment is a function of the number and potential impact of forces in both the task and general environments.

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i. A force that seems likely to have a significant negative impact is a potential threat.

ii. A force likely to have a marginal impact poses little threat.

c. The larger an organization is, the greater is the number of environmental forces that managers must respond to.

d. **Environmental change** is the degree to which forces in the task and general environments change and evolve over time.

i. The consequences of change can be difficult to predict.

ii. Managers can attempt to forecast future conditions in the task environment, but cannot be sure that decisions made today will be appropriate in the future.

2. Reducing the Impact of Environmental Forces.

a. The CEO and top management's task is to devise strategies that take advantage of opportunities and counter threats.

b. Middle managers collect relevant information about the task environment.

c. First-line managers find ways to use resources more efficiently to hold down costs.

3. Managers as Agents of Change.

a. A significant amount of **environmental change** is the direct consequence of actions taken by managers within organizations.

b. An organization is an open system: It takes in inputs from the environment and converts them to goods that are sent back to the environment.

c. The choices managers make affect the environment in many ways.

d.. In a dynamic environment where conditions of **uncertainty** exist managers have a difficult time predicting the probably outcomes of a course of action.

e. The degree of **complexity** in the environment and the degree to which changes are occurring in the environment determine the level of uncertainty under which manager's act.

VI. Evaluate the major challenges managers face in gaining a competitive advantage in the global economy.

1. CHALLENGES FOR MANAGEMENT IN A GLOBAL ENVIRONMENT

a. The rise of **Global organizations**, those that operate in more than one country, presents a challenge for managers to build a competitive advantage, manage ethically and utilize the newest technology

b. **Creating Shared Value** are policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates.

2. Building a Competitive Advantage

A ***competitive advantage*** is the ability of one organization to outperform other organizations because it produces desired goods or services more efficiently and effectively than its competitors.

The four building blocks of competitive advantage are superior:

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a. efficiency- Organizations increase *efficiency* when they reduce the quantity of resources (i.e. people, raw materials) they use to produce goods and services.
b. quality- Increased pressure by global organizations has led to a thrust to improved quality through *total quality management or TQM*
c. innovation- ***Innovation*** is the process of creating new or improved goods and service that customers want or developing better ways to produce or provide goods and services.
d. responsiveness to customers- Because the competition for customers is intense the need for organizations to be *responsive to the needs of their customers* is vital. Employee empowerment with increased level of authority and decision making is a method to achieve high levels of customer service.

3. Maintaining Ethical and Socially Responsible Standards

a. Pressure for a manager to increase organizational performance exists at all levels and can be healthy as it creates the motivation to find more effective and efficient methods to perform planning, organizing, leading and controlling
    i. Too much pressure, however, can induce managers to behave unethically towards others
b. Social Responsibility centers on deciding what if any obligations a company has towards the people and groups affected by its activities such as employees, customers and its surrounding community. .

4. Utilizing new Information Systems and Technologies

a. New information technology (IT) has enabled and empowered individual employees and self-managed teams by providing them with more information and allowing for virtual interactions
    i. IT superiority is a potential competitive advantage.

LECTURE ENHANCERS

Lecture Enhancer 2.1

THE CHALLENGE OF DISTRIBUTION

Outside a corner candy stand in Shanghai, a 10-year-old girl folds a piece of Wrigley's Doublemint gum into her mouth—one of 400 million sticks that Wm. Wrigley Jr. Co. sells each year in China. To reach this blue plywood stand, the stick traveled a thousand miles by truck, rusting freighter, tricycle cart, and bicycle—and is still soft and sugar-dusted at the time it is sold. That's something of a wonder, given the daunting scale and obstacles in the world's largest developing country.

Western goods can now reach about 200 million of China's 1.2 billion people, more than double a few years ago. And many of those people are ready and willing to buy Western products. But in a land where roads are poor, rivers are jammed, and railways are clogged, delivering the goods isn't easy. "Distribution is the biggest problem" companies now face, says W.J. Du, head of Wrigley's China operations.

Finding reliable distributors—usually by word-of-mouth—is the first challenge, but seldom the last. Distributors are mainly state-owned and have little incentive, nor understanding, of how to position a brand. At Beijing's airport, for example, bags of Mars Inc. products lie jumbled and

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neglected in a dim display case alongside packages of dried mushrooms. Wrigley wants its gum consumed within eight months of manufacture. Otherwise, the gum dries out or the sugar bleeds through the packaging. Getting it to consumers before then is a logistical nightmare.

Each stick of Doublemint starts out, like all Wrigley's gum, as a large block of brown gum base. At a factory in Guangzhou, just north of Hong Kong, huge machines stir a mixture of gum, glycerine, and glucose into a heated goo. It's mixed with sugar and flavourings, stamped into sticks, packaged, and loaded on a truck. Shanghai is on China's coast, so Wrigley ships the gum by coastal freighter. Off the coast a marine patrol seizes the ship; besides 960,000 packs of gum, it turns out, the ship is loaded with smuggled cars. Wrigley waits nearly two months before the shipment is released—and frets the whole time about it aging.

In Shanghai's river port, the gum is loaded onto a truck—and runs another gauntlet of corruption. Wrigley-hired trucks are often stopped not only by bandits but by provincial police demanding exorbitant fees before they let the vehicles pass.

Once the gum gets into Shanghai, it leaves Wrigley's control. Each industry has its own distribution network, usually made up of firms spun off from China's state-owned trading companies and smaller private wholesalers.

Few distributors or wholesalers want to waste time delivering goods to customers. Most, like Wrigley wholesaler Chen Tuping, sit in their warehouses waiting for buyers to arrive. Mr. Chen's tiny stockroom, crammed with cardboard cartons of foreign-made goods, opens onto a muddy Shanghai lane lined with identical wholesalers. He keeps a few cases of Wrigley's gum stacked beside his desk and sells them to smaller whole sale-retail outlets, whose owners shop the lane. "The gum business is going great," he says with a smile.

That's largely thanks to Wrigley's legwork. Teams of Wrigley representatives walk the streets, talking to shop owners, handing out free Wrigley posters and plastic display stands. Among the targets is XuMeili, who runs a booth at the Beautiful & Rich Wholesale Market; after a successful sales call, she began to stock Wrigley's gum, which she fetches with a tricycle cart from Mr. Chen or one of his competitors. She also stocks competing products. Hanging in her booth is a foot-long mock-up box of Chiclets gum, delivered by Warner-Lambert Co. salesmen who are blitzing Shanghai.

Wrigley salesmen even visit small kiosks, like the blue plywood stand in Shanghai, run by a young woman who calls herself Little Yan. When stocks run low, she rides her bike the few blocks to Ms. Xu's booth to buy more gum or candy.

Wrigley's gum sells for about 22 cents a pack at the Shanghai kiosk. "The [profit] margin isn't great," says Wrigley's international business chief, Doug Barrie, in Chicago. But for now, he says, the company is content to build up market share. He adds: "We're a very patient company."

Lecture Enhancer 2.2

HOUSE CALLS FOR PETS

One change in our society in recent years has been the increasing attention people pay to their household pets. This, coupled with the aging of the population, has created a unique opportunity for veterinarians.

Veterinarian M. Christine Foster and her administrator, Michelle Ward, run Companion Paws, a mobile veterinary service. Pet owners can schedule appointments as early as 7:30 a.m. on some mornings and as late as 8 p.m. on most evenings.

"There are so many good standard practices in the area already… I wanted something that would serve a different need," Foster said. Her town house doubles as home and a base for the mobile operation. Outside sits a 24-foot customized blue and white Companion Paws van. The mobile veterinary unit is equipped to provide services ranging from routine dental care and shots to surgery. There is even a pharmacy, X-ray, and electrocardiogram equipment.

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Companion Paws is limited to small animals—mostly dogs and cats. Fees are comparable to those charged in regular veterinary offices, Foster said. There is a discount if Foster treats more than one animal during the same visit, and in some cases, neighbours have joined together to schedule appointments.

In a typical day Foster and Ward may visit a cat with "behaviour problems," give an insulin injection to a diabetic cat whose owner is out of town, remove the sutures from a dog that recently had surgery, or give annual vaccinations.

Foster, who worked at a Reston, Virginia veterinary clinic before striking out on her own, said that she always liked the idea of a house call practice but that until recently, the scope of such a service was too limited. Those limits were lifted when Foster's operation became the first mobile veterinary unit in Virginia to be licensed as a full service unit—meaning she can perform surgery on site.

Many of Foster's patients belong to owners who are too busy to make regular visits to a veterinary office. Others are elderly or disabled pet owners for whom getting around is difficult, if not impossible. Some simply have too many animals to make office visits practical. One of Foster's clients, for example, has nine dogs and three cats.

Foster said house calls also can benefit the animals—particularly those that are old or sickly. With a mobile service, pets can be cared for and pampered in the comfort of their own homes, she said.

FOCUS ON THE SOCIAL ECONOMY
The Winnipeg Purchasing Portal
1. Identify the opportunities and threats facing managers deciding to register with the SPP as a purchaser.
Answer:
The Social Purchasing Portal is an online community of suppliers, consumers and job seekers who connect through a network to utilize each other's services and promote sustainable community economic development in Winnipeg. The portal provides a platform for small business suppliers to connect with individual and corporate customers. It also provides employment for job seekers experiencing multiple barriers to employment. The newly employed people find meaning and self-worth through stable employment. Individuals, businesses, nonprofits, and governments register as purchasers and buy goods and services from registered suppliers that are locally owned small businesses, co-ops, and social enterprises. As purchasers, managers are looking for suppliers that are reliable and will not pose a threat to the profitability of their operations by increasing prices unreasonably. A benefit for managers using the Social Purchasing Portal is that they know that the inputs are made locally and that they are supporting local business people who care about community development. The risks encountered would be the same risks encountered whenever entering into a trading relationship. Both parties must trust that they honour their commitments to the transactions to the best of their ability at the agreed upon terms of trade. Purchasing through the social portal gives the added opportunity to foster community development and local resillency.

END OF CHAPTER CONTENT

SUMMARY AND REVIEW

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LEARNING OUTCOMES REVISITED

Learning Outcome 1: Explain why being able to perceive, interpret, and respond appropriately to the organizational environment is crucial for managers' success.

- The **organizational environment** is a set of forces outside the organization's boundaries that have the potential to affect the way the organization operates.
- Changes in the environment create opportunities for managers to strengthen their organizations.
- Other changes pose a threat if organizations are unable to adapt.

Learning Outcome 2: Identify the main forces in an organization's* task *and* general *environments and the challenges these forces present to managers.

- The task or industry-specific environment comprises the set of forces that affect an organization's ability to obtain inputs and dispose of its outputs.
- Suppliers are the individuals and organizations that provide the input resources that an organization needs to produce goods and services.
- Distributors are organizations that help other organizations sell their goods or services to customers.
- Customers are individuals and groups that buy the goods and services that an organization produces.
- Competitors are organizations that produce goods and services that are similar to a particular organization's goods and services.
- Efficient managers must understand the way forces in the task environment change as a result of changes in the industry environment.
- The general environment is the wide-ranging political and legal, economic, sociocultural (including demographic), technological, and international/global forces (PESTI) that affect the organization and its task environment.
- Political and legal, include the laws of the land and the legislation governing trade relations.
- Economic forces, such as interest rates, inflation, unemployment, and economic growth, affect the general health and well-being of a nation.
- Technological forces are the outcomes of changes in the technology that managers use to design, produce, or distribute goods and services.
- Sociocultural forces include consumer trends and include Demographic forces i.e., the outcomes of changes in, or changing attitudes toward, the characteristics of a population, such as age, gender, ethnic origin, race, sexual orientation, and social class.
- International/Global forces are the outcomes of changes in international relationships, changes in nations' economic, political and legal systems, and changes in technology.

Learning Outcome 3: Explain The Changes In The Global Economy That Lead To Opportunities And Threats.

- Globalization is the set of specific and general forces that work together to integrate and connect economic, political, and social systems across countries, cultures, or geographic regions so that nations become increasingly interdependent and similar.
- The process of globalization has been furthered by declining barriers to international trade and investment and declining barriers of distance and culture.
- Globalization has resulted in freer flows of capital in the pursuit of new markets and opportunities for wealth creation.

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Learning Outcome 4: Explain the ways managers can minimize threats and uncertainty from forces the external environment

- The CEO and top management's task is to devise strategies that take advantage of opportunities and counter threats.
- Middle managers collect relevant information about the task environment.
- First-line managers find ways to use resources more efficiently to hold down costs.
    - Sales and Service managers: Ensure customer satisfaction and brand loyalty
    - Research and Development: Deal with technological forces
    - Marketing and Strategy: Deal with pressures from competitors
    - Accounting and Finance: Handle economic forces
    - All levels and types of managers must analyze the rate of change in the environmental forces and the degree of complexity in the environment to be better able to predict, respond to and control the course of events.

Learning Outcome 5: Evaluate the major challenges managers face in gaining a competitive advantage in the global economy.

The rise of Global organizations, those that operate in more than one country, presents a challenge for managers to build a competitive advantage, create shared value, manage ethically and utilize the newest technology

- **Building a competitive advantage** is the ability of one organization to outperform other organizations because it produces desired goods or services more efficiently and effectively than its competitors.

The four building blocks of competitive advantage are superior:

1. Efficiency. Organizations increase *efficiency* when they reduce the quantity of resources (i.e. people, raw materials) they use to produce goods and services.
2. Quality. Increased pressure by global organizations has led to a thrust to improved quality through *total quality management or TQM*
3. Innovation. ***Innovation*** is the process of creating new or improved goods and service that customers want or developing better ways to produce or provide goods and services.
4. Responsiveness to customers. Employee empowerment with increased level of authority and decision making is a method to achieve high levels of customer service.

- **Creating Shared Value** means using processes and procedures that create economic as well as social value reconceiving products and markets to include underserved urban and rural areas, redefining productivity in the supply chain by viewing the prosperity of direct producers as a benefit, not a cost to business, and by investing in building clusters of development within the communities in which they locate.

- **Maintaining Ethical Standards-** Pressure for a manager to increase organizational performance exists at all levels and can be healthy as it creates the motivation to find more effective and efficient methods to perform planning, organizing, leading and controlling. Too much pressure, however, can induce managers to behave unethically towards others.

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- **Utilizing new Information Systems and Technologies-** New information technology (IT) has enabled and empowered individual employees and self-managed teams by providing them with more information and allowing for virtual interactions.

MANAGEMENT IN ACTION

TOPICS FOR DISCUSSION AND ACTION

LEVEL 1: Knowledge and Comprehension

1. *Identify and describe the forces found in an organization's task and general environments.*

Answer:

The text defines an organization's environment as the forces outside of its boundaries that have the potential to affect the way it operates. These forces change over time and thus present managers with opportunities and threats. The organization's environment includes the task environment and the general environment (some theorists include the internal environment as another kind of environment.) The task environment consists of forces from suppliers, distributors, customers, and competitors. The general environment refers to the wider economic, technological, sociocultural, demographic, legal-political, and global forces.

The forces in the task environment influences managers on an ongoing, daily basis because they affect an organization's ability to obtain inputs and dispose of its outputs.

Since suppliers provide input resources that the organization needs to produce goods and services, they are very critical to the success of the organization. Input resources include raw materials, component parts, employees, financing and funding. Suppliers are a threat to an organization when they are in a strong bargaining position and are capable of determining the availability of the necessary input resources. This is especially evident when they are the sole producers of the input resources needed by the organization and/or the resources they provide are crucial to the organization. The presence of low cost foreign suppliers provides both an opportunity and threat to an organization. They are an opportunity if the organization is able to purchase lower cost input resources from them which could result in higher profits or competitive pricing for the organization. They are a threat to the organization if the organization's competitors take advantage of the lower cost suppliers while they do not or are not able to due to union contracts that prohibit the use of foreign suppliers. This could result in competitors providing the same goods and services at lower prices resulting in a decline in sales for the organization that did not take advantage of lower cost foreign suppliers.

Change in the number and types of customers or changes in customers' tastes and needs result in opportunities and threats in the task environment. It is critical for an organization to identify the needs of their customers, the people who buy the goods and services that they produce, and respond to any changes in customer needs. If customers require a lower priced or higher quality product, it is essential for an organization to respond to this in order to keep their customers happy and continually buying their products.

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Competitors are other organizations that produce goods and services that are similar to a particular organization's goods and services. Since they are vying for the same customers, competitors are potentially the most threatening force that a manager must deal with. They provide a threat to organizations when they engage in price competition. If an organization is forced to lower their prices to compete with a competitor, this could result in lower profits which limits their ability to access further resources in the future. Besides existing competitors, potential competitors also provide a threat in the task environment. Potential competitors are those organizations that are not presently in a task environment but could be if they chose to be. The fewer competitors in an organization's task environment the lower the threat of competition. With fewer competitors, it is easier to obtain customers and keep prices high, which results in greater profits and success for the organization.

The general environment affects the way an organization operates. Managers must constantly analyze forces in the general environment because these forces affect long-term decision making and planning. Furthermore, these forces in an organization's general environment can have profound effects on an organization's task environment.

It is important to understand the forces in the task environment because they have the ability to pressure and influence managers on an ongoing, daily basis and have a significant impact on short-term decision making. These forces affect an organization's ability to obtain inputs and dispose of its outputs, which is critical to the success of any organization.

For example, it would be important for managers to understand the economic forces present in their general environment because they could affect their organization in both a positive and negative manner. Low levels of unemployment and falling interest rates provide opportunities for an organization. This could result in a change in their customer base since people have more money to spend on goods and services. A decline in the economy could result in a threat to the financial health of an organization. Declining economic conditions limit managers' ability to gain access to the resources their organizations need to survive. Furthermore, customers would have less money to spend on goods and services.

2. *Describe the implications that globalization has for managers.*

Answer:

Globalization is the set of specific and general forces that work together to integrate and connect economic, political, and social systems across countries, cultures, or geographic regions so that nations become increasingly interdependent and similar. The process of globalization has been furthered by declining barriers to international trade and investment and declining barriers of distance and culture. The implications for managers are enourmous. The path of globalization is shaped by the ebb and flow of capital (valuable wealth-generating assets) as it moves through companies, countries, and world regions seeking its most highly valued use—that is, the investment through which capital can earn the greatest returns (wealth). Managers, employees, and companies are motivated to try to profit or benefit by using their skills to make products customers around the world want to buy. A manager's job is more challenging in a dynamic global environment because of the increased intensity of competition that goes hand in hand with the lowering of barriers to trade and investment. The establishment of free-trade areas creates an opportunity for manufacturing organizations because it lets them reduce their costs. They can do this either by shifting production to the lowest-cost location within the free-trade area (for example, Canadian auto and textile companies shifting production to Mexico) or by serving the whole region from one location rather than establishing separate operations in each

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country. Some managers, however, view regional free-trade agreements as a threat because they expose a company based in one member country to increased competition from companies based in the other member countries. The more competitive environment NAFTA has brought about has increased both the opportunities that managers can take advantage of and the threats they must respond to in performing their jobs effectively.

A culturally diverse management team can be a source of strength for an organization participating in the global marketplace. Organizations that employ managers from a variety of cultural backgrounds are often better at appreciating the differences in national culture and tailoring their management systems and behaviour to accommodate those differences.

3. *Describe what each level of manager can do to reduce the impact of the forces in the organizational environment.*

Answer:

Managers must analyze the forces in the organizations environment to determine threats and opportunities. The nature of the opportunities and threats are affected by the degree of complexity in the environment and how quickly the rate of change is occurring. The CEO and top management's task is to devise strategies that take advantage of opportunities and counter threats. Middle managers collect relevant information about forces in the task environment to determine the complexity and rate of change. First-line managers find ways to use resources more efficiently to hold down costs.

LEVEL 2: Application and Analysis

1. *Ask the manager of an organization to discuss the types and strengths of forces in the organization's task environment. What are the current opportunities and threats resulting from competitors, customers and suppliers?*

Answer:

The text defines the task environment as consisting of forces from suppliers, distributors, customers, and competitors that pressure and influence managers on an ongoing, daily basis because they affect an organization's ability to obtain inputs and dispose of its outputs.

Since suppliers provide input resources that the organization needs to produce goods and services, they are very critical to the success of the organization. Input resources include raw materials, component parts, employees, financing and funding. Suppliers are a threat to an organization when they are in a strong bargaining position and are capable of determining the availability of the necessary input resources. This is especially evident when they are the sole producers of the input resources needed by the organization and/or the resources they provide are crucial to the organization. The presence of low cost foreign suppliers provides both an opportunity and threat to an organization. They are an opportunity if the organization is able to purchase lower cost input resources from them which could result in higher profits or competitive pricing for the organization. They are a threat to the organization if the organization's competitors take advantage of the lower cost suppliers while they do not or are not able to due to union contracts that prohibit the use of foreign suppliers. This could result in competitors providing the same goods and services at lower prices resulting in a decline in sales for the organization that did not take advantage of lower cost foreign suppliers.

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Competitors are other organizations that produce goods and services that are similar to a particular organization's goods and services. Since they are vying for the same customers, competitors are potentially the most threatening force that a manager must deal with. They provide a threat to organizations when they engage in price competition. If an organization is forced to lower their prices to compete with a competitor, this could result in lower profits which limits their ability to access further resources in the future. Besides existing competitors, potential competitors also provide a threat in the task environment. Potential competitors are those organizations that are not presently in a task environment but could be if they chose to be. The fewer competitors in an organization's task environment the lower the threat of competition. With fewer competitors, it is easier to obtain customers and keep prices high, which results in greater profits and success for the organization.

2. *Scan the environmental forces affecting local businesses by reading the business section of today's newspaper or listening to a business Podcast. Explain the impact of the forces on local business' ability to acquire and use resources.*

Answer:

Students can choose from many different free podcasts from iTunes such as:

- Business Week
- The Economist
- Financial Post Daily Podcast
- Harvard Business IdeaCast
- Knowledge@Wharton
- TIME Business Podcast
- Manager Tools

Click on Podcasts in the left-hand window in iTunes, then the Business category to access the full list of free Podcast subscriptions.

A variety of local conditions might affect organizations. In the task environment, the suppliers, distributors, customers, and competitors all may impact the organization. If the economy is experiencing a downturn, there may be fewer customers to buy one's product or service. If a supplier's employees are on strike, this may affect an organization's ability to get supplies in a timely fashion. In the general environment, demographic forces affect the supply of labour for an organization. Political and legal forces determine the ways that companies might be able to operate. For instance, the ban on smoking in restaurants and bars in Toronto affected the revenue of such operators.

6. Go to the library and gather information that allows you to compare and contrast the political, economic, demographic and cultural systems of the United States, Mexico and Canada. How might the similarities and differences affect the management of an enterprise like Wal-Mart, which does business in all three countries?

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Answer:
Students should use a variety of sources to access information. Books, magazines, and on-line resources can be used to find information on the similarities and differences between these countries. Magazines such as *Canadian Business* and *Report on Business* may be helpful for answering this question.)

LEVEL 3: Synthesis and Evaluation

7. Illustrate how each force in the organization's task and general environment can pose an opportunity and a threat for a manager of a Tim Horton's restaurant wishing to expand into the United States.

Answer:

Tim Horton's is a Canadian company in the food services industry, mainly selling breakfast, lunch and donuts and coffee. Suppliers are plentiful, however, Tim Horton's has been criticized for using non-recyclable coffee cups especially during its Roll up the Rim and Win contest, when sales and waste increase. A challenge for the company is find a reliable supplier of green cups. Maintaining customers brand loyalty as preferences for different types of foods increase will be a challenge to expand market share in Canada and the US. The company must make sure it does not discriminate against and ethnic group or older workers. As consumers become more environmentally conscious, they may pose a threat if Tim Horton's does not respond to this trend. There is not a fierce rivalry among competitors, such as Coffee Time and Dunkin Donuts thus this threat is minimized. Moreover, Tim Horton's can take advantage of economies of scale and has substantial brand loyalty, making it difficult for smaller operations to compete.

Expanding the sales into the US market would most likely be subject to risks and opportunities in the organizations' general environment as follows:
Economic Forces: expanding into the United States will mean generating revenue in US dollars which with the current valuation of the Canadian dollar being lower, would enhance revenues. Currency valuations could pose a threat or be a benefit to the company against the value of the US currency. **Technological Forces:** Advances in transportation technology have presented an opportunity by reducing costs of shipping. **Demographic Forces:** Although population trends in the US and Canada are similar with respect to aging baby boomers, differences may pose risks. Demand for coffee consumption might drop as people seek different and healthier alternatives to caffeine drinks. **Socio-cultural forces,** such as the trend toward eating healthier foods and reducing one's environmental footprint may pose a threat to Tim Horton's whose main products are doughnuts and Roll 'up the Rim coffee served in disposable packaging.

Political and Legal Forces: The franchise would have to research the laws and legislation that help or hinder its expansion into the US.

Global Forces: The company would have to research the trade barriers for expanding into the US the FTA and NAFTA to see what risks and opportunities are available. Providing Fair Trade coffee might pose an opportunity to capitalize on the increasing consumer demand for ethical and ecological global production.

8. Put yourself in the position of a first line manager of a retailer such as Giant Tiger. What suggestions would you make to your boss on how to use the four building blocks to gain a competitive advantage?

Answer:

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The four building blocks of competitive advantage are *achieve superior efficiency, quality, innovation, and responsiveness to customers.* Organizations can increase *efficiency* by reducing the resources they use to produce their goods or services. Organizations can increase the *quality* of the goods and services they produce by implementing monitoring and evaluating procedures to reduce the amount of defective products that transfer to the customer. Organizations can increase *innovation* by encouraging employees to think creatively to create new products or methods of completing tasks. Also, organizations need to take risks to follow through in implementing the best employee ideas. Organizations can increase *responsiveness to customers* by providing customer service to address the needs of the customer during and subsequent to their purchase.

A first line manager might suggest to the middle and top managers that using the four building blocks of competitive advantage is a way to successfully compete in the global economy. Obtaining competitive advantage is an important aspect of management today because organizations exist in a more global environment than ever before. Within most industries, organizations compete with other companies that are able to provide the same goods and services for less money because they utilize resources in other countries, such as human resources in third world or other low labour cost countries where workers are typically paid a third of what Canadian labourers receive. Top managers would need to source products from global suppliers to remain efficient and try to take advantage of economies of scale. Sourcing unique and different products that appeal to increasingly diverse target markets is a way to be responsive to customers. Superior inputs and resources, including an accessible, clean location and solid infrastructure create a quality shopping experience. New services such as internet customer service and purchasing, upgrading in-house dining facilities, child care facilities which enable parents to shop care-free are possible innovations a top manager of a retail store like Giant Tiger might consider.

9. *Which organization is likely to face the most complex task environment: a biotechnology company trying to develop a cure for cancer, or a large retailer like Hudson's Bay or Sears? Explain why this is the case with reference to each force in the organization's task environment.*

Answer:

A large retailer like Sears or Hudson's Bay's experiences a more complex task environment. This is exhibited primarily by two forces in the task environment. First, competition is not a very strong force for a biotechnology company, while it is extremely strong for a retailer that must compete against hundreds, even thousands of other retailers. There might be other labs trying to develop a cure for cancer; but even if they do discover one first, there will still be plenty more work to do. Second, tastes and needs of customers for a cure of cancer do not change rapidly. The tastes of the customers of a retail store change each season of every year.

SELF-REFLECTION EXERCISE

You are considering organizing an event to raise funds for a special cause (e.g., children living in poverty, breast cancer research, literacy, or something of your choice). Think about who you might invite to this event (i.e., your "customers"—those who will buy tickets to the event). What type of event might appeal to them? What suppliers might you approach for help in organizing the event? What legal issues might you face in setting up this event? After considering all these issues, how-difficult is the environment you face in holding this event?

(Answers will vary)

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SMALL GROUP BREAKOUT EXERCISE

Assume you and your teammates run a management consultancy company. Two of your clients, a multinational pharmaceutical company and a home construction company, are concerned about changing demographic trends in Canada. The population is aging because of declining birth rates, declining death rates, and the aging of the baby boom generation.

1. What might be some of the implications (opportunities and threats) of this demographic trend for your clients?

Answer: The aging population is an example of a demographic force in an organization's general environment. The aging of the population has increased many opportunities for organizations that provide goods and services to the older population.

The aging population will have a positive effect on the pharmaceutical industry. People are living longer due to advancements in the medical field in the form of cures for diseases and medications that alleviate the debilitating effects of old age. This results in a greater demand for prescription drugs and medical supplies, the output of the pharmaceutical industry. Furthermore, in order to effectively compete, pharmaceutical companies must spend a tremendous amount of money on research and development in order to remain competitive in their industry. The reward of inventing a much needed medication is a patent that prevents other companies from producing that medication for seventeen years. Since they are the sole producers of the medicine, in response to the demand for the product, they have the capabilities to charge high prices since they have no competition.

The home construction industry will see a change in the demands of their customers. Older customers who have already raised their families will be looking for homes and apartments with less square footage. They also require easier accessibility, such as single level, few steps and buildings equipped with elevators. The older population has more time to spend on socializing. They will have more interest in amenities such as clubhouses and swimming pools.

BUSINESS PLANNING EXERCISE

Note to Instructors: At the end of each chapter a business planning exercise will help students apply what they have learned to the exercise of writing a business plan. All the answers are based on the case of writing a business plan for a new restaurant.

After reading this chapter, you start to realize you have to analyze the forces in the organizational environment to-determine the impact of the opportunities and threats from the forces in the task and general environment for your business plan. This analysis will form an important part of the Profile of the Industry (Section 4, Appendix A).

Questions:

1. Who are your customers? Research the characteristics of your target market. For example, what is their demographic profile and size of population in your community (age, income, amount of disposable income spent on eating out, etc.)?
2. Who are your competitors? Research the numbers and the strengths and weaknesses of your competitors. What degree of threat do they pose?
3. Where will you obtain all the inputs you will need to run your business? For the restaurant example, who will supply the food, kitchen equipment, tables,-cutlery, etc.?
4. What kind of legal and political factors do you need to address? Which types of licences are needed, and where can you obtain them?

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5. Are there any significant socio-cultural forces in your community that might present an opportunity or a threat that should be discussed in your business plan?
6. Illustrate how the building blocks of competitive advantage could be used to help your restaurant--succeed.

Answers to questions listed above:

Note to Instructors: Student answers will vary depending on the community in which they decide to locate the venture.

1. Students should research the demographic trends in their community using sources like Statistics Canada (statcan.ca) and canadabusiness.ca to determine the characteristics of their target market. For example, if the target market is young families, what is the demographic profile and size of that population in the community in which they will locate the venture (numbers within the age-group, income, amount of disposable income spent on eating out, etc.)
2. Competitors can be found by using the Yellow Pages, reading trade magazines, visiting the websites of Associations, such as the Canadian Restaurant and Food Services Association (CRFA) *www.crfa.ca.*
3. Supplies should be sourced from wholesale companies. gdsourcing.com is good resource.
4. Business licenses and liquor licenses are the domain of the municipality in which the restaurant will be located.
5. Any forces in the general and task environments that pose a considerable opportunity and challenge or threat should be discussed in the student's business plan. For a socio-cultural example, if community in which they plan to locate the restaurant has a large population of Jews and Muslims, specializing in pork products does not make much strategic sense. Similarly, opening a very expensive gourmet dining room in a low-income neighbourhood would not be responsive to potential customer's needs in that community.
6. The success of a new restaurant will require a competitive advantage. This restaurant will need to provide food service more efficiently and effectively than its competitors if it is going to survive. The restaurant will need to achieve superior efficiency, quality, innovation, and responsiveness to customers.

   Middle managers can increase efficiency by finding suppliers who have competitive prices and who are flexible in their ordering processes. Management can also increase efficiency by effectively training kitchen staff and wait staff to perform at a high level.

   Quality in food and service will also help ensure the success of the restaurant. Wait staff should be encouraged to be friendly and professional, while kitchen staff should be encouraged to use high quality ingredients and methods for preparing food. The restaurant must be kept clean and attractive to provide a pleasant dining experience.

   In addition to providing quality food and service, employees should be empowered to be creative; to develop better ways of doing things. Weekly or biweekly staff meetings should make use of employee suggestions for promoting new menu items or increasing customer feedback.

   Responsiveness to customers is vital to service organizations such as restaurants. The success of the restaurant depends on the staff to provide quality food and service at reasonable cost. Employees should be empowered to do whatever it takes to satisfy customers and make their dining experiences pleasant.

MANAGING ETHICALLY EXERCISE

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You are a manager for a drug company that has developed a pill to cure river blindness, a common disease in Africa. It was a quick and easy solution, but there were no buyers because the people afflicted or who could be afflicted are too poor to buy the pills. Should you shelve the pills and wait until the market can pay the price? What other alternatives might you have?

(ANSWERS WILL VARY)

MANAGEMENT CHALLENGE EXERCISE

How to Enter the Copying Business

1. *Decide what you must know about (a) your future customers, (b) your future competitors, and (c) other critical forces in the task environment if you are to be successful.*

Answer: To enter the copy business in a college town we must know the needs of our customer, the student. We need to know where customers are located, since we should be easily accessible to them. We also need to know how much are they willing to pay for our services and what services could we must provide to entice them to patronize our business instead of our competitors'.
We need to know exactly who our competitors are, where are they located, and their hours of operation. We need to position ourselves so that we are more conveniently located than they. Since our primary competitor, Kinko's, is open 24 hours, we must follow suit in order to attract customers and meet their needs. Also, we need to know what services our competitors are providing and how much are they charging for them. We would not want to charge more than our competitors do.

Another critical group in our task environment is our suppliers. Our suppliers consist of the organizations from which we purchase our input resources. Our input resources include copy machines, paper, and other office supplies. In addition, our landlord and the utility companies provide us with essential resources. The prices that all of our suppliers charge for their goods and services are a critical factor, since they help to determine the prices we must charge our customers in order to make a profit.

2. *Evaluate the main barriers to entry into the copying business.*

Answer: Barriers to entry are the factors that make it very difficult and costly for an organization to enter a particular task environment or industry. Barriers to entry result from two main sources: economies of scale and brand loyalty. In the copying business, purchasing resources such as paper and copying supplies in bulk so that their price per unit is significantly lower creates economies of scale. Obtaining these resources in bulk should enable us to lower our costs so that we can increase our profits. However, in order to realize the benefits of bulk purchasing, we must first conduct a significant amount of business with our customers, so that we will be able to make use of large quantities of supplies in a short period of time. Our main competitor, Kinko's, has an advantage over us in that they already generate sales volume large enough to make purchasing in bulk practical, which helps them keep their prices low.

Another advantage that Kinko's has is brand loyalty. Because they have been in business a long time and are located throughout the country, our customers are quite familiar with their name and reputation. If customers are satisfied with the service they have received, they may remain loyal to Kinko's and see no reason to try us out.

3. *Based on this analysis, list some of the steps you will take to help your new copying business succeed.*

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Answer:
Some of the steps that we will take include:

- Conducting market research prior to opening to determine the needs of our customers.
- Ensuring that we secure a location that is conveniently located to our customers.
- As much as we can, purchase inventory in bulk in order to keep our prices competitive.
- Remain open 24 hours a day so that we will always be available for our customers.
- Advertise heavily on and around the campus.
- Offer specials and provide coupons designed to entice customers to give us a try.
- Hire experienced and highly motivated workers and provide extensive training to ensure top quality customer service.

MANAGEMENT PORTFOLIO PROJECT

Note to Instructors: There is a "Management Portfolio Project" exercise at the end of every chapter in this book. Students will choose one organization that they will track as they work through the chapters in the book. The answers to this exercise are based on the University as an example of an organization that the student, as a customer, interacts with on a regular basis.)

1. *Describe the main forces in the task environment that are affecting the organization.*

Answer:

The main forces in the task environment that affect the University are its suppliers, customers and competitors.

The faculty and staff of the University are its primary suppliers. They supply the necessary inputs that are needed in order to provide the service of a quality education to the customer (student.) The faculty and staff belong to a union, so that it is necessary for the University administration to negotiate a new contract every few years that is acceptable to both parties. Without professors and instructors the University would not be able to survive as an educational institution.

If you are a student, then you are the customer. The purpose and goal of this organization (the University) is to provide you with a high quality education. You determine whether the services that they provide are worthy of your money. By choosing the courses that you do you are providing a demand for those type of classes that the University must provide in order to maintain your business. You have the prerogative to obtain these services from thousands of other colleges and universities. Without students the University would not make any money.

Competition is an extremely powerful force in the task environment of a university. Professors (suppliers) and students (customers) may choose among many thousands of competing colleges and universities (with some limitations.) Therefore, the University must stay current with its resources and technology to remain competitive. For example today's students are interested in such aspects as the availability of computer, laboratory and research facilities; on-campus recruiting opportunities; and the percentage of students securing jobs soon after graduation.

2. *Describe the main forces in the general environment that are affecting the organization.*

Answer:

The main forces in the general environment of the University include the broader economic, technological, demographic and legal-political.

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The economy is a very powerful force to the University. When the economy is in a downturn, universities face an increase in graduate enrolment but a decrease in undergraduate enrolment. When the economy is in an upturn, universities experience an increase in undergraduate enrolment and a decrease in graduate enrolment. Additionally, during an upturn, employment opportunities increase at the university level. Since a good deal of expenses (i.e., salaries and operating costs) are fixed for the university, when enrolment decreases they might experience financial difficulty.

The technological force involves the need for the University to obtain and maintain advanced technology within their facilities. This involves updated computer systems as part of the administration of the University. An example would be on-line or telephone course registration. Advances in technology can provide a means of advertising and access to University resources. An example of this is found in the Internet. A University that does not have its own web site or provide Internet access for its students is behind the times and is not keeping competitive in their industry. Professors of the University must keep current in their research and teach their students the latest skills, techniques and knowledge in order for them to be marketable upon graduation. If this is not provided then graduating students are at a disadvantage which affects the University in a negative manner.

The demographic environment is constantly changing. Universities are attended by people of many different nationalities, races, religion and ages. In addition, students with physical and mental disabilities are now welcome (or should be) as part of the campus culture. An atmosphere of tolerance and acceptability is required in any organization, especially the University. Additional services and policies for those who speak different languages, celebrate different holidays, or require physical accommodation are needed and sometimes mandated.

Furthermore, Universities are filled with more non-traditional students than ever before. The non-traditional student includes those beginning or returning to their undergraduate education after the age of 25. These students have more responsibilities and commitments than most, younger students. They have families, full-time jobs, and mortgages to pay. To attract this increasing market of customers, Universities need to provide more courses at nights and on weekends along with more flexible programs to meet the needs of the non-traditional student.

Since many Universities receive funding from their provincial governments, the legal-political environment plays an important role in their general environment. The provinces determine how much money each university receives. This money is very important to the University and can even determine the salaries it pays to the professors (suppliers) and the tuition it charges the students (customers.) The University also relies on the province to fund capital projects such as building new classrooms, laboratories and athletic facilities.

3. *Try to determine whether the organization's task and general environment are relatively stable, or changing rapidly.*

Answer:

Currently the University's environment is changing rapidly. The University is constantly faced with funding issues, changes in the economy, competition for students and advances in technology. It is very important for the University to keep on top of these issues in order to remain competitive and successful.

4. *Explain how these environmental forces affect the job of an individual manager within this organization. How do they determine the opportunities and threats that its managers must confront?*

Answer:

Consider the Dean of the Business School as a manager in the University. An example of how environmental forces affect the Dean's job is apparent if we look at customers, a force in

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the task environment. The changing number and needs of students, the customers, are a strong force that the manager must deal with. When enrolment increases the manager must ensure that there are enough courses for the students to take and enough professors to teach those courses. Furthermore, if students are interested in International Business (in response to the larger global environment that they will face in the future), then the Dean must ensure that these courses are offered in order to remain competitive in the university environment.

5. How does the organization utilize the four building blocks of a competitive advantage?

Answer:

The four building blocks of a competitive advantage are: increasing efficiency, offering superior quality, being innovative and being responsive to customers. Students should comment on how each of these factors are used by their organization.

- **Increasing Efficiency**: reducing the quantity of resources; developing new technological solutions; inter-company collaboration.
- **Increasing Quality**: TQM, or total quality management.
- **Increasing Innovation**: encouragement through teamwork and team-control of certain designs and processes; rewards for risk-taking; developing a culture where 'failure' is not always a 'bad' sign.
- **Increasing Responsiveness to Customers**: training employees to be responsive to customers' needs; knowing the difference between *what* is being sold and *how* it is being sold.

VIDEO CASE

Rethinking Capitalism: An Interview with Michael Porter (16 min.)

1. What is the vicious cycle between business and society and how does Porter suggest we fix it?

Answer:

Porter suggests that business that pursues profits at the expense of society and local suppliers and consumers is a problem. Business as usual is not sustainable. Government regulation is not the answer. He argues there must be synergy between business and society in dealing with social issues.

The old thinking was that "what is good for business is good for society." Creating Shared Value (CSV) turns that on its head. CSV says that by creating societal value business can also create economic value by meeting fundamental human needs. CSV goes beyond Corporate Social Responsibility (CSR) to address vast social needs and problems. CSV create products that are good for consumers like Whole Foods who created economic success through differentiation. Companies do not have to trade-off between profits and social good. CSV goes beyond the volunteer program or giving money to random charitable purposes. It thinks about the whole value chain, the product and the location clusters of development. Fair Trade is a classic example of CSR: farmers are not getting enough from production and there should be a redistribution such that farmers get a bigger piece of the pie. CSV creates more value so the farmer gets rewarded from a larger pie. CSV can improve income of farmers by 200-300% by growing the whole business/value chain. It is in the self-interest of the company to purchase commodities differently, by promoting development at the local level and investing in community cluster development, not squeezing the supplier. CSV is about mobilizing the business itself, not just adding on a CSR department. He argues, business must rethink value chains, and

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dealing with suppliers, redesign products, location and development if it is to fix the problems we face today.

MANAGEMENT CASE

Turn Around at Sony

1. Evaluate how the forces in the organizational environment impacted Sony.

Answer:

Of the forces in the task and general environment affecting Sony, its competitors and technological change appear to have had a substantial impact. When Sony was on top of its game, it captured the market with innovative products like the Walkman and the Trinitron TV. Since the 2000s, competitors like Apple and Nokia superseded Sony's old-generation products with innovations such as smart phones and iPods. Sony used to be known for using its innovation and engineering prowess to create and market blockbuster new products. The company's ability to do so, in part, was because of its culture, called the 'Sony Way.' More recently, however, we have seen innovations by Sony's competitors make its products obsolete. One reason Sony has found it difficult to effectively respond to the competition is because its culture had changed with its success. Global forces and the impact of national culture can be seen in this case as forces affecting the performance of Sony.

2. How were the actions of management influenced by environmental change in this case?

Answer:

Sony's top managers made the decision to turn to a gaijin, or a non-Japanese, executive to lead their company and stop the rapid pace market decline. Sir Howard Stringer, a Welshman, who headed the company's North American division, was chosen as CEO. His goal is to make engineering, not management the focus once again at Sony. He faced some serious challenges accomplishing this in Japan, which has a national culture known for its collectivism, long term orientation, and for its distrust of gaijin or overseas values. He was replaced in 2012 by a Japanese national.

3. How did the new manager use the building blocks of a competitive advantage to try to turn around the operations at Sony?

Answer:

Stringer used the four building blocks in creating a competitive advantage by increasing efficiency in the one area that seemed sacrosanct to Japanese culture: he did away with the policy of lifetime employment and announced layoffs to reduce operating costs and budgets and speed up decision making. He emphasized quality by focusing on only those products with the best chance of success. He fostered innovation by getting back to the fundamentals of engineering, rather than focusing on the bloated hierarchy of management that had overtaken the company. The case illustrates how the responsiveness to customer needs was increased by revamping the company through cost-cutting measures that reduced the management hierarchy and sped up decision making.

END OF PART I: CONTINUING CASE

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CARROT TOPS: INTRODUCTION

Drawing on all segments of this case:

1. What kinds of activities does Mel have to consider in planning, organizing, leading, and controlling his enterprise?

Answer:
Mel is running a grocery store with the goal of serving the basic needs of the aging local population. **Planning** is the management function that involves setting goals and determining the best strategy to achieve them given the impact of environmental forces acting on the organization. The activities in planning include:

- Determine the vision (desired future state), mission (purpose) and goals (achievements)
- Determine the present state of the organization and the forces influencing it by conducting a SWOT and Porter's Five Forces Model.
- Adopt corporate, business , and functional-level plans and strategy to achieve desired state
- Enhance the strengths by building capacity of staff (training or new hires) to take advantage of opportunities and counter threats
- Allocate resources and responsibility
- Evaluate the success of the strategy

Organizing is designing jobs and coordinating functions to achieve organizational goals. Activities include:

- Determining a division of labour taking into account job design theory
- Group tasks into jobs that motivating for employees
- Group jobs into departments
- Determine the hierarchy of authority
- Develop integrating mechanisms to communicate goals and coordinate activities
- Implement hr planning principles
- Recruit, select, train, review, and compensate employees

Leading involves motivating and inspiring employees to work toward the vision of the organization. Activities include:

- Articulate a clear vision for the organization
- Clarify every individual's role in the organization and how they contribute to achieving organizational goals
- Create a total rewards strategy to motivate high performance
- Lead by example
- Foster an adaptive, innovative culture
- Break down resistance to change through employee empowerment and participation in strategic planning

Controlling is measuring and monitoring performance levels to ensure standards are being met. Activities include:

- Set acceptable standards for use of all resources
- Measure actual performance levels
- Compare performance with standards
- Evaluate the cause of any significant deviation
- Take corrective action

2. What sets of skills will Mel use when planning, organizing, leading, and controlling?

Answer:

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Managers at all three levels - top, middle and first-line- use all three sets of managerial skills: conceptual, human and technical, to varying degrees (See Figure 1.6). In planning, Mel uses conceptual skills- the ability to see the big picture and diagnose cause and effect. In organizing he uses all three skill sets fairly equally. He needs conceptual skills to determine the overall division of labour and whether the organization should be structured organically or mechanistically. He needs technical skills when designing jobs and conducting employee performance evaluations. He uses human skills in motivating and leading employees to perform well. In leading, Mel primarily use human skills. In Controlling, he draws heavily on technical skills to ensure that jobs are being performed at high levels and technology is running smoothly.

3. Identify an example of an activity that Mel could undertake that illustrates each of Mintzberg's managerial roles.

Answer:

Mintzberg identified 10 managerial roles under three broad categories. Acting in an **Interpersonal Role** i.e., in dealing with people, managers may act in three ways:

a. **Figurehead**: performing ceremonial and symbolic activities. Mel acted as a figurehead when he gave the green grocer award to this year's outstanding organic producer.
b. **Liaison**: networking with third parties. Mel could network with his suppliers and establish closer ties to the community by joining the local Business Association and Chamber of Commerce.
c. **Leader**: motivate, guide hire and fire staff. To motivate his staff, Mel could develop a total rewards strategy that includes both extrinsic compensation like pay for performance schemes and intrinsic rewards like a sense of achievement and satisfaction from doing the work itself. He acted as a leader when he hired Janet Kahn.

When managers process information, they do so in three **Informational roles:**

a. **Monito**r: gathering relevant information for the organization. When Mel scans the Green Grocer Association newsletter looking for recent industry trends, he is acting as a monitor.
b. **Disseminator:** Imparting /sharing information with staff/employees. If Mel finds some important information and discusses it with his staff at their next meeting, he is acting as a disseminator.
c. **Spokesperson**: making information about the organization public. Mel calls a press conference to announce home delivery service by Mel's General Store.

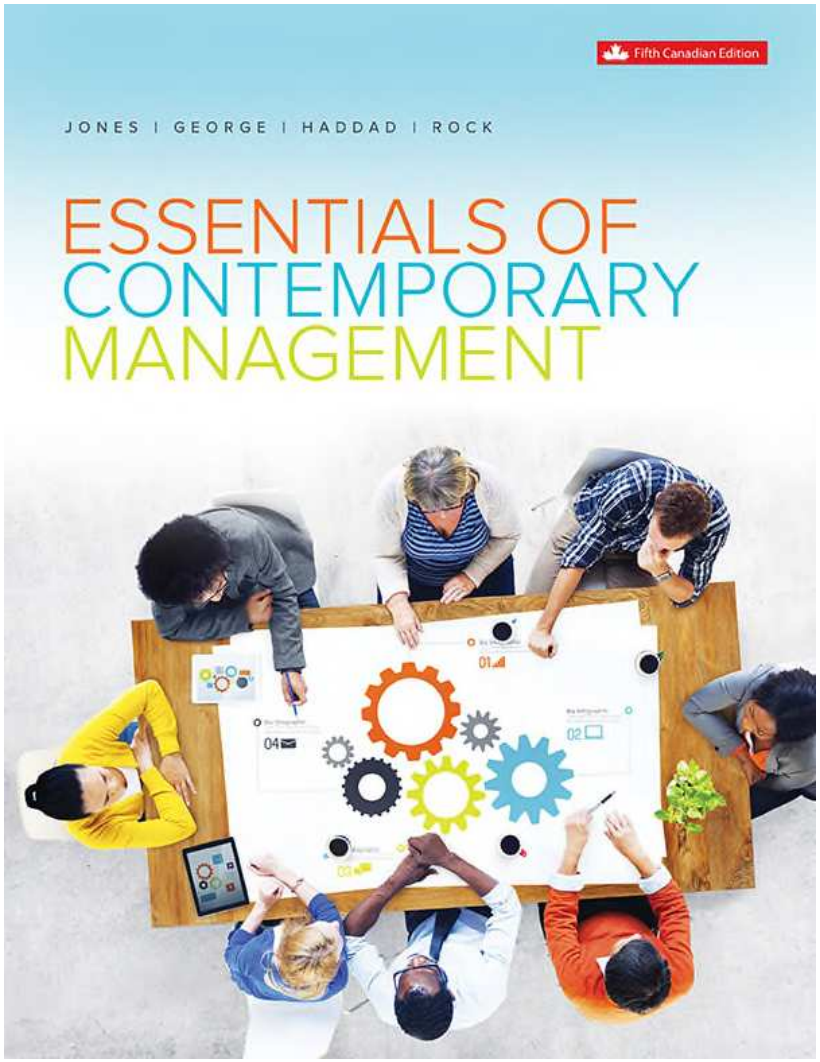
When managers make decisions, they act in four **Decisional Roles:**

a. **Entrepreneur:** decision to do something new, unique or innovative. Mel acted as an entrepreneur when he decided to take the risk and offer home delivery service.
b. **Resource allocator**: decision to distribute benefits and resources of the company. Mel acted as a resource allocator when he created a budget for Janet's delivery operation.
c. **Disturbance Handler**: managers make unanticipated, nonprogrammed decisions to deal with crises and unexpected events. An example might be that Mel decides to call the maintenance company that services the refrigeration unit after discovering the temperature was rising to unacceptable levels.
d. **Negotiator:** when managers make contracts with 3rd parties, they act as negotiators. Mel acts as a negotiator when he decides the terms of trade with his suppliers.

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Fifth Canadian Edition



Chapter 2

Managing the Organizational Environment

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Learning Outcomes

1. Explain why the ability to perceive, interpret, and respond appropriately to the organizational environment is crucial for managerial success.
2. Identify the main forces in an organization's external environment and the challenges these forces present to managers.
3. Explain the changes in the global economy that lead to opportunities and threats.
4. Explain the ways managers can minimize threats and uncertainty from forces in the external environment.
5. Evaluate the major challenges managers face in gaining a competitive advantage in the global economy.

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What is the Organizational Environment?

- Organizational Environment: the set of forces and conditions that can affect the way an organization operates.
  - Forces can change over time and are made up of **opportunities and threats**.
  - **Opportunities** are openings for managers to enhance revenues or open markets. Examples: new technology, markets or innovation.
  - **Threats** are issues that can harm an organization. Examples: recessions, political unrest or oil shortages.

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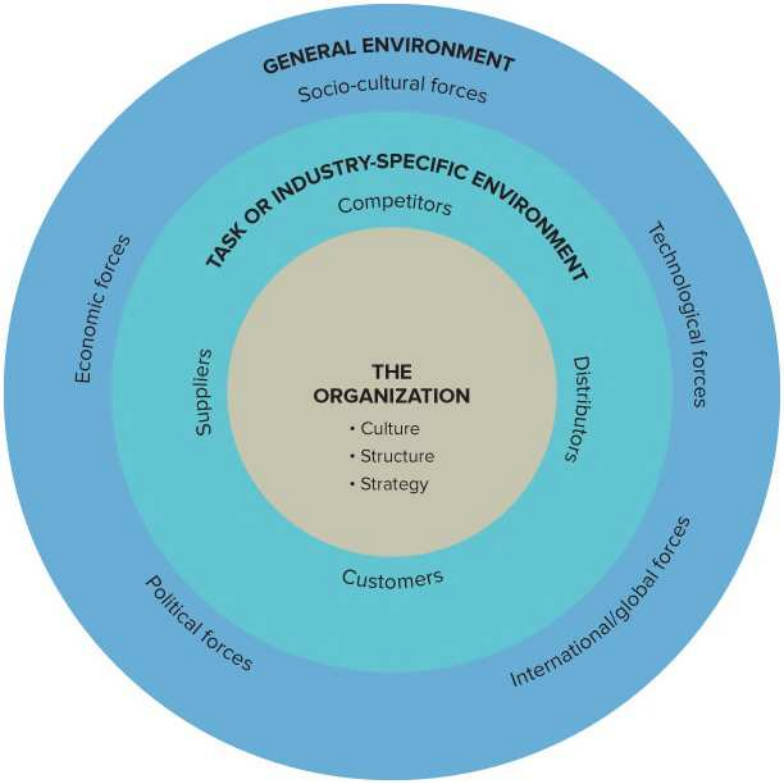
What is the Organizational Environment?

- The organizational environment is divided into two broad categories:
  - **Internal environment**
  - **External environment**
- **Stakeholders** are the people, groups and institutions that are affected by internal and external environments.

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Forces in the Organizational Environment



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The Task Environment

- **Task Environment:**
  - Immediate and direct impact on the organization.

- **Suppliers:**
  - Suppliers provide input resources (raw materials, labour)
  - Managers need reliable suppliers in a global economy - with a trend towards outsourcing this can be challenging.
  - Working with suppliers can be hard due to shortages, unions, and lack of substitutes.
  - Managers often prefer to have many, similar suppliers of each item.

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The Task Environment

- **Distributors:** organizations that help others to sell goods or services to customers.
  - For many years, Apple Computer refused to let others sell its computers, which meant that customers had to buy directly from Apple.
  - Some distributors (i.e. Chapters) have strong bargaining power. They can threaten not to carry your product.

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The Task Environment

- **Customers**: individuals and groups that buy the goods and services an organization produces.
  - Usually, there are several groups of customers.
  - Example: Dell Canada - business, home, and government buyers.

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The Task Environment

- **Competitors:** organizations that produce goods or services that are similar to a particular organization's goods or services.
  - Rivalry between competitors is a serious force facing managers.
  - High levels of rivalry often means lower prices.
  - **Potential competitors –** have the resources to enter

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The General Environment

- Consists of the wide range of broader forces including: political, economic, socio-cultural, technological, and international
  - Managers usually cannot impact or control these.
  - Managers have to constantly analyze the forces impacting the general environment in order to manage effectively.

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The General Environment

- **Political and legal forces** are outcomes of changes in laws and regulations.
  - Laws constrain the operations of organizations and managers, creating both opportunities and threats.
  - Today, there is increasing deregulation of many public sector organizations.
  - A trend towards privatization presents challenges for organizations.
  - Employee Safety and Health / Environmental protection

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The General Environment

- **Economic forces** include interest rate changes, unemployment rates, economic growth, and other forces that affect the national economy and the general health and well-being of a national organization.
  - When there is a strong economy, people have more money to spend on goods and services.

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The General Environment

- **Socio-cultural forces** are pressures coming from the social structure of a country or society or from the national culture.
  - The **social structure** refers to the arrangement of individuals or groups in a society.
  - **National culture** refers to the set of values that a society considers important /the norms of behaviour that are acceptable in society.

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The General Environment

- **Social structure** and **national culture** not only differ across societies but also change within societies over time.
  - Differences among national cultures have important implications for managers.
  - Management practices that are effective in Canada might not work elsewhere.
  - A culturally diverse management team can be a source of strength in the global marketplace.

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The General Environment

- **Demographic forces** result from of changes in the nature, composition, and diversity of a population.
  - ➢ Includes gender, age, ethnic origin, race, sexual orientation
  - ➢ Many industrial countries have an **aging population**.
    - Creates opportunities for firms competing in these areas.
    - Demand for healthcare and assisted living can be expected.
    - Likely to put a strain on the labour resources of many countries including Canada.

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The General Environment

- **Technological forces** results from changes in technology that managers use to design, produce and distribute goods and services.
  - Results in new opportunities or threats to managers.
  - Often renders existing products obsolete.
  - Can impact management styles and behaviours.

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The General Environment

- **International/Global forces** result from changes in international relationships, changes in nations' economic, political, and legal systems, and changes in technology.
  - Critical factor: increasing economic integration of countries.
  - Free-trade agreements (NAFTA, EU) designed to reduce barriers to trade. These are enforced by the World Trade Organization (WTO).
  - Growth of representative democracies and reliable and instantaneous communications.

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The Global Environment

- **What drives globalization**?
  - The path of globalization is shaped by the **movement of capital.**
  - Capital moves seeking the **highest return**.
- **Four Principal Forms of Capital**
  - Human capital
  - Financial capital
  - Resource capital
  - Political capital

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Declining Barriers to Trade and Investment

- 1920s – 1930s: High **tariffs**
- GATT and the rise of free trade
  - The **free-trade doctrine**
  - NAFTA
- Declining barriers of **distance and culture**

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Managing the External Environment

- Managers must measure the **complexity** of the environment and rate of **environmental change**.
- **Environmental complexity**: deals with the number and possible impact of different forces in the environment.
  - Managers must pay closer attention to forces with larger impact.
  - Usually, the larger the organization, the greater the number of forces managers must oversee.

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Managing the External Environment

- **Environmental change** refers to the degree to which forces in the task and general environments change over time.
- Managers cannot be sure that actions taken today will be appropriate in the future given new changes.
  - Example: MacDonald's was able to adapt to changes in nutrition preferences and the aging population.
  - Sony was unable to adapt quickly to changes in technology and foreign competition.

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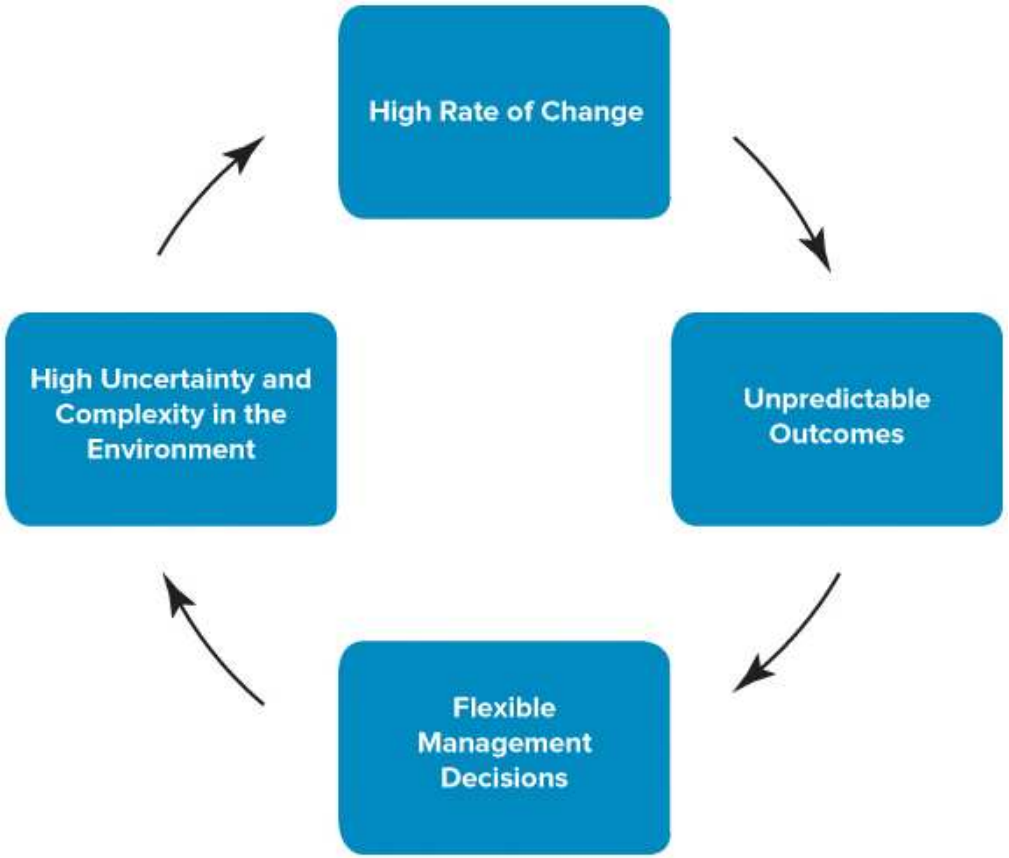
Managing the External Environment

- Managers can **counter environmental threats** by reducing the number of forces.
  - To reduce **uncertainty**, reduce the number of suppliers.
  - Top management - devise suitable strategies.
- All levels of managers should work to minimize the potential impact of environmental forces.
- Managers can also be proactive and act as agents of change.

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Managers as Agents of Change

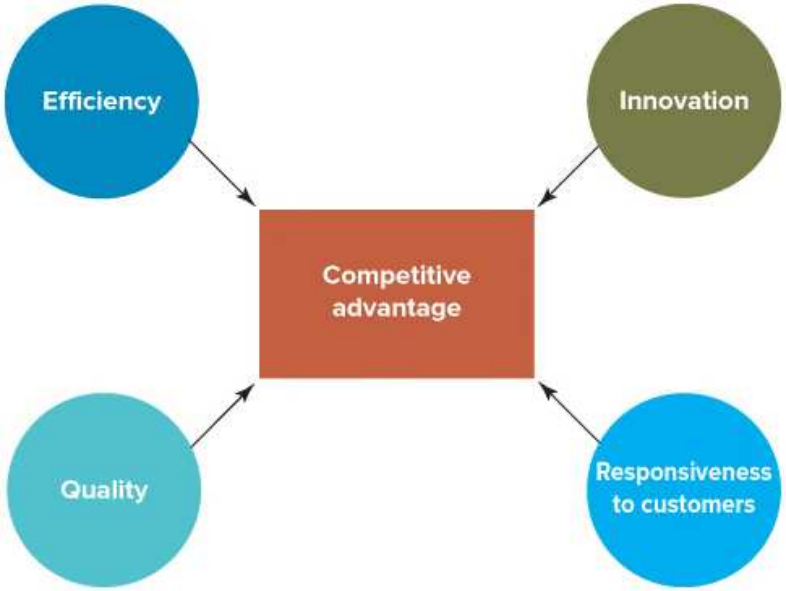


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Challenges for Management in a Global Environment

- Global organizations
- Creating shared value
- Building a competitive advantage



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Summary and Review

LO1 The organizational environment and managerial success

- ✓ The organizational environment has two components: the internal environment and the external environment.
- ✓ Internal environment: strategy, structure, human resources, organizational culture and control mechanisms of the organization.
- ✓ The external environment can be divided into the industry-specific or task environment and the general environment.

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Summary and Review

LO2 The External Organizational Environment

- ✓ The industry-specific or task environment is the set of forces and conditions that originate with suppliers, distributors, customers, and competitors and that influence managers ability to obtain inputs and sell outputs, on a daily basis.
- ✓ The general environment includes wider-ranging political, economic, socio-cultural, technological and international/global forces (PESTI) that affect an organization more indirectly.

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Summary and Review

LO3 Forces behind the Changing Global Environment

- ✓ Shift toward a more open global environment
- ✓ Hastened the process of globalization
- ✓ The process of globalization has been furthered by declining barriers to international trade and investment and declining barriers of distance and culture.

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Summary and Review

LO4 Managing the External Environment

✓Two factors affect the nature of the opportunities and threats that organizations face:

1. The level of complexity in the environment
2. The rate of change in the environment.

✓Managers must learn how to analyze the forces in the environment in order to respond effectively to opportunities and threats.

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Summary and Review

LO5 Challenges for Management in a Global Environment

- ✓ Challenge of creating shared value
- ✓ Building a competitive advantage through increasing efficiency, quality, innovation, and responsiveness to customers;
- ✓ Behaving ethically toward stakeholders inside and outside the organization; and utilizing new information systems and technologies.

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