Management Leading and Collaborating in a Competitive World 13th edition Bateman Solutions Manual

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chapter 2

The External and Internal Environments

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LEARNING OBJECTIVES

1 Describe how environmental forces influence organizations and how organizations can influence their environments.
2 Distinguish between the macroenvironment and the competitive environment.
3 Explain why managers and organizations should pay attention to economic and social developments.
4 Identify elements of the competitive environment.
5 Summarize how organizations respond to environmental uncertainty.
6 Define elements of an organization's culture.
7 Discuss how an organization's culture and climate affect its response to its external environment.

CHAPTER OUTLINE

The Macroenvironment
- The Economy
- Technology
- Laws and Regulations
- Demographics
- Social Issues
- Sustainability and the Natural Environment

The Competitive Environment
- Competitors
- New Entrants
- Substitutes and Complements
- Suppliers
- Customers

Environmental Analysis
- Environmental Scanning
- Scenario Development
- Forecasting
- Benchmarking

Actively Managing the External Environment
- Changing the Environment You Are In
- Influencing Your Environment
- Adapting to the Environment: Changing the Organization
- Choosing an Approach

The Internal Environment of Organizations
- Organization Culture
- Organizational Climate

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CHAPTER RESOURCES

Experiential Exercises	Cases	Social Enterprise	Lecturettes
2.1 External environment analysis 2.2 Corporate culture preference scale	Tata Motors: From Cheap to Awesome?	Combating Climate Change	LECTURETTE 2.1 Operations and Human Resources: IBM's Workforce Management Initiative
Connect	**Connect**	**Connect**	**Connect**
Click and Drag: Open Systems: Outputs of an Organization Culture	Comprehension Case: Rubio's Competitive Environment	Click and Drag: Elements of Organizational Culture	Video Case: Organization Culture at Zappos

KEY STUDENT QUESTIONS

The two questions that come up most often for this chapter are:

1. ***"Can you explain the difference between the macroenvironment and the task environment?" (Or request to explain a particular element of either environment.)***
2. ***"As a manager, what should I do to respond to a changing environment?"***

Fortunately, the text has tools to help you deal with both of these questions more effectively.

- The first question is best addressed with examples, and students often find it useful to go through an example or two for a specific company. Start by discussing the high-tech industry, asking students to name a company with which they are familiar, and have them identify examples of each of the different environmental factors for that organization. If your students can't think of an organization, try using Apple or Management in Action: How Jeff Bezos Creates Amazon's Environment as an example.

- The second question is best addressed by having students work together to complete the concluding case study "Tata Motors: From Cheap to Awesome?" The brainstorming activity that students complete for the third discussion question on the case also serves as an excellent introduction to Chapter 3, Managerial Decision Making.

- "Now, create a plan for Tata. In your plan, describe what changes the organization needs to make to its culture to meet the upcoming challenges in the external

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environment. Then describe steps that Tata can take to compete successfully against the new amusement park. How can the Salernos keep their loyal customers happy while attracting new ones?"

CLASS ROADMAPS

The Class Roadmap, along with giving Learning Objectives at appropriate states along the way, also lists PowerPoints, the boxes Management in Action, Connect, Multiple Generations at Work, as well as Teaching Tips and Examples.

POWERPOINTS
Slide 1 The External and Internal Environment
Slide 2 Chapter Opening Quote
Slide 3 Learning Objectives
Slide 4 Open Systems
Slide 6 Exhibit 2.1 Open-System Perspective of an Organization

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MANAGEMENT IN ACTION

How Jeff Bezos Creates Amazon's Environment

Most managers strive to cope with their organization's environment, but Jeff Bezos, CEO of the e-commerce and cloud computing giant Amazon.com, is busy creating one.

The company Bezos founded in 1994 as an online discount bookseller is now in the business of selling virtually everything, to the tune of $100 billion in sales a year. Amazon's success was hard-won; when it finally posted a profit in 2003, the *Wall Street Journal* called it "one of the most powerful survivors on the Internet." Since then it has surpassed expectations. Many other companies now offer one or more of the services Amazon provides, but none does so with the kind of market power that has made Bezos's company a constant threat to competitors in so many industries.

Bezos seems to possess an uncanny ability to make use of environmental forces that others can only react to. His intuition about the unrealized potential of the Internet is what led him to found an online bookstore in the first place, and he has been quick to capitalize on other tech, and it seems likely that his company will continue to dominate its present environment and move into still more new ones.

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Introduction

LO 1: Describe how environmental forces influence organizations, and how organizations can influence their environments

A. Organizations are ***open systems***

1. Receive raw materials, services, and financial, human, and information resources from the environment called ***inputs***
2. ***Transform*** resources into finished goods and services
3. Send ***outputs*** back into the environment

B. External Environment Influences

1. When resources change, environment influences the organization
2. When outputs differ, organization influences the environment
3. The organization operates in a competitive environment.

CONNECT

Click and Drag: Open Systems. Outputs of an Organization Culture
(This exercise is also available in a multiple-choice version.)

SUMMARY
Organizations transform raw materials into sellable products and services and operate as open systems. As open systems, they are affected by, and affect, their environments. In this activity, students consider different organizations, their products, and the inputs used in making those products.

ACTIVITY
Students match notable organizations with their inputs.

CLASS DISCUSSION IDEAS
Expanding upon the exercise, ask students to offer inputs to the products they just saw as organizational inputs.

Example 2.1 Environment Influences

In August of 2013, Jeff Bezos, Amazon founder, and CEO purchased *The Washington Post*. The newspaper industry has been suffering over the past decade due to customers increasingly relying on the Internet for news coverage. The Post's newspaper division's revenue declined by 44 percent in the preceding six years. Some are optimistic, while others remain skeptical about Bezos' ability to turn the newspaper or its industry around. Bezos stated, "I don't want to imply that I have a worked-out plan. This will be uncharted terrain, and it will require experimentation."[1]

[1] Farhi, Paul. "Washington Post to be sold to Jeff Bezos, the founder of Amazon." *The Washington Post,* August 5, 2013. Retrieved from http://articles.washingtonpost.com/2013-08-05/national/41085661_1_washington-post-co-jeff-bezos-graham

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I. THE MACROENVIRONMENT

POWERPOINTS
Slide 6 External Environment
Slide 7 Exhibit 2.2 The External and Internal Environments
Slide 8 The Economy
Slide 9 Managers and the Economy
Slide 10 Technology
Slide 11 Laws and Regulations
Slide 12 Demographics
Slide 13 Social Issues
Slide 14 Social Enterprise

Macroenvironment is defined by the most general elements in the external environment that can potentially influence strategic decisions

LO 2: Distinguish between the macroenvironment and the competitive environment

A. The economy

a. The economic environment dramatically affects companies' ability to function effectively and influences their strategic choices.
b. Interest and inflation rates affect the availability and cost of capital, the ability to expand, prices, costs, and consumer demand for products.
c. Unemployment rates affect labor availability and the wages the firm must pass, as well as product demand.

B. Technology

a. Technological advances create new products. As technology evolves, new industries, markets, and competitive niches develop.
b. New technologies provide new production techniques. Sophisticated robots perform jobs without suffering fatigue.
c. New technologies also provide new ways to manage and communicate. Computerized management information systems (MIS) make information available when needed.

C. Laws and regulations (Exhibit 2.3)

1. U.S. government policies both impose strategic constraints and provide opportunities.

2. Government can affect business opportunities through tax laws, economic policies, and international trade rulings.

3. *Regulators* are specific government organizations in a firm's environment.

4. Regulatory agencies have the power to investigate company practices and take legal actions to ensure compliance with the laws are:

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a. Securities & Exchange Commission (SEC)
b. Occupational Safety and Health Administration (OSHA)
c. Food & Drug Administration (FDA)
d. Federal Aviation Administration (FAA)
e. Equal Employment Opportunity Commission (EEOC)
f. National Labor Relations Board (NLRB)
g. Office of Federal Contract Compliance Programs (OFCCP)
h. Environmental Protection Agency (EPA)

Example 2.2 Laws and Regulations

The macroenvironment is composed of international, legal and political, economic, technological and social forces that influence strategic decisions. Many of these factors affect a manager's ability to function effectively and influence their strategic choices—interest and inflation rates, unemployment rates, rising energy costs, rising health care costs and changes in the value of the dollar to name a few. In Malaysia when the cost of doing business is artificially inflated, the customer bears the charge without any real gain in value. One such example was The Private Healthcare Facilities and Services Act (1998) and Regulations (2006). This act stipulates higher charges by private medical practitioners to which must be added the cost of registration.[2]

D. Demographics

1. ***Demographics*** measures of various characteristics of the people comprising groups or other social units.
2. Workgroups, organizations, countries, markets, or societies can be described statistically by referring to their members' age, gender, family size, income, education, occupation, and so forth.

CONNECT

Comprehension Case: Rubio's Competitive Environment

SUMMARY

Firms operate in a competitive environment that is unique to their industry. Five main factors determine the attractiveness of the environment. These factors are competitors, threat of entry, substitutes, suppliers, and customers.

This comprehensive case presents Rubio's. The firm is a fast-food Mexican restaurant with 180 locations based in the western United States.

ACTIVITY

The activity will have students conduct a competitive analysis of Rubio's environment and determine if it is operating in an attractive or unattractive environment

CLASS DISCUSSION IDEAS

Ask students if their answers would be the same for a specific actual fast-food restaurant chain. Can the case concepts be applied to the school?

[2] Singh, Beldev. "Keep cost of doing business low." *New Straits Times (Malaysia)*. August 21, 2006, pg. 25.

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MULTIPLE GENERATIONS AT WORK

Are "Portfolio Careers" the New Normal?

Only a decade or two ago, people who changed jobs frequently or took a few months off from work to travel were often perceived as unreliable or lacking dedication. The career model back then was to begin a career immediately after graduating from college, do similar work for two or three different employers, take a couple of weeks of vacation during the summer, and try to retire with a pension. Now, this traditional career model is increasingly being replaced the portfolio career. Instead of climbing a traditional career ladder, someone pursuing a portfolio career works multiple jobs (full-time, part-time, freelance, or contract) at a time over the course of one's lifetime.

Millennials aren't the only ones who like portfolio work. Some organizations are turning to seasoned Boomers who want to continue working on a part-time, flexible basis to coach and mentor the next generation of leaders

LO 3: Explain why managers and organizations should attend to economic and social developments

E. Social Issues

1. Societal trends regarding how people think and behave have major implications for management of the labor force, corporate social actions, and strategic decisions about products and markets.
2. Companies have introduced more supportive policies, including family leave, flexible working hours, and childcare assistance.

F. Sustainability and the Natural Environment

1. Prominent issues in today's press pertain to natural resources.
2. The protection of the natural environment is important to managerial decisions.

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II. THE COMPETITIVE ENVIRONMENT

POWERPOINTS
Slide 15 Exhibit 2.4 The Competitive Environment
Slide 16 Competitors
Slide 17 New Entrants
Slide 18 Substitutes and Complements
Slide 19 Exhibit 2.5 Potential Substitutes for and Complements of Products
Slide 20 Suppliers
Slide 21 Customers

LO 4: Identify elements of the competitive environment

A. Competitors

1. As a first step in understanding their competitive environment, organizations must identify their competitors, which may include:
   a. small domestic firms
   b. overseas firms
   c. new domestic companies exploring new markets
   d. strong regional competitors
   e. unusual entries, such as Internet shopping
2. The next step is to analyze how they compete.

B. New Entrants

1. ***Barriers to entry*** are conditions that prevent new companies from entering an industry.
2. Some major barriers to entry are government policy, capital requirements, brand identification, cost disadvantages, and distribution channels.

C. Substitutes and Complements (Exhibit 2.5)

1. Technological advances and economic efficiencies are among the ways that firms can develop substitutes for existing products.

D. Suppliers

1. Suppliers provide the resources needed for production and may come in the form of people, raw materials, information, and financial capital.
2. Suppliers can raise their prices or provide poor quality goods and services.
3. Labor unions can go on strike or demand higher wages.
4. Workers may produce defective work.

E. Customers

1. Customers purchase the products or services the organization offers.

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2. ***Final consumers*** are those who purchase products in their finished form.
3. ***Intermediate consumers*** are customers who purchase raw materials or wholesale products before selling them to final customers.
   a. Customer service means giving customers what they want or need, the way they want it, the first time.
   b. Actions and attitudes that mean excellent customer service include:
      i. Speed of filling and delivering normal orders.
      ii. Willingness to meet emergency needs.
      iii. Merchandise delivered in good condition.
      iv. Readiness to take back defective goods and re-supply quickly.
      v. Availability of installation and repair services and parts.
      vi. Service charges (that is, whether services are "free" or priced separately).

MANAGEMENT IN ACTION

Progress Report

Amazon Reinvents the Competitive Environment

Amazon.com is known for its focus on the customer, and it's easy to see that focus in its online retail operations. However, Amazon's view of its "customer set" is much broader than just consumers who buy things. It also includes about 2 million individuals and small companies that sell a huge array of new and used products in Amazon's famous third-party Marketplace. Rather than competing with these sellers, Amazon has made them part of the family. Founder and CEO Jeff Bezos proudly credits Amazon's success in large part to the contribution these third-party sellers make to the vast number and variety of products it can offer. The company has also designed Amazon Web Services (AWS), the cloud-computing software that powers the site, to supply unbeatable speed and capacity even during the peak holiday shopping season.

Are Amazon, Apple, and Google competitors in Facebook's competitive environment or sellers of complements? Explain.

- These firms are competitors in the market for advertising dollars.

Facebook has two major kinds of customers: the users of its site and the advertisers on its site. What challenges does Facebook face from Google in serving each customer group competitors?

- Google may have an advantage for advertising dollars as it is a general tool. The shopping tool within Google, while not as significant force, may also directly siphon retail customers and the Google search function may allow these customers to find alternatives to those offered by Amazon.

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TEACHING TIP
Have students review and give feedback on each other's responses to the pre-class assignment (Experiential Exercise 2.1) at this point in the lecture. The best way to do this is in pairs. Each student reads the other's paper, and then both students talk about environmental factors that have been misclassified and other environmental factors that could be added. Students should correct their own papers before turning them in, and if possible, students should get feedback from the professor or teaching assistant about both the paper and the corrections.

II. ENVIRONMENTAL ANALYSIS

POWERPOINTS
Slide 22 Environmental Uncertainty
Slide 23 Environmental Analysis
Slide 24 Scenarios and Forecasting
Slide 25 Benchmarking

LO 5: Summarize how organizations respond to environmental uncertainty

- Developments outside the organization can have a profound impact on the way managers operate.
- Example: if little is known about customer likes and dislikes, organizations will have a difficult time designing new products, scheduling production, or developing market plans.
- ***Environmental uncertainty*** means that managers do not have enough information about the environment to understand or predict the future.
- Uncertainty arises from two related factors:
  - Environmental *complexity*, or the number of issues to which a manager must attend, as well as their interconnectedness.
  - *Dynamism*, or the degree of discontinuous change that occurs within the industry.

A. Environmental scanning

1. A process that involves searching out information that is unavailable to most people and sorting through that information to interpret what is important and what is not.
2. ***Competitive intelligence*** is the information necessary to decide how best to manage in the competitive environment they have identified. (Exhibit 2.7)

Example 2.3 Environmental Complexity
Recently, more and more Americans are becoming aware of the environment—specifically the air that they breathe. With concerns about global warming and pollution at an all-time high, people want to be sure that they and their companies are acting in environmentally responsible ways. Americans spend 90 percent of their time indoors and much of that at work. According to the EPA, air pollution is up to five times worse inside than outside. Harsh cleaning chemicals contribute to the problem. Approximately 37 million Americans suffer from chemical sensitivity,

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leading to increased absenteeism and health costs. Managers who promote the use of eco-cleaners, which do not evaporate harmful materials into the air, can reduce their costs, make the workplace safer for their workers, and improve their reputation as part of the "green movement."[3]

A. Scenario Development

1. ***Scenario*** is a narrative that describes a particular set of future conditions.
2. *Best-case scenario*—events occur that are favorable to the firm.
3. *Worst-case scenario*—events are all unfavorable.
4. Scenario development helps managers develop contingency plans for what they might do given different outcomes.

Example 2.4 Competitive Intelligence
Faced with declining customer-service ratings and prices higher than competitors, Michael Dell recently resumed the role of chief executive at the company he founded. His initial steps to be more competitive focused on eliminating redundancies throughout the business. He began by eliminating eight senior executives, suspending bonuses and providing limited discretionary awards to exceptional performers. Dell urged employees to work quickly to turnaround the company. He said "There is no luxury of time. The competitors are fierce." [4]

B. Forecasting

1. Used to predict exactly how some variable or variables will change in the future.
2. The best advice for using forecasts might include the following:
   a. Use multiple forecasts
   b. Accuracy decreases the farther into the future you are trying to predict.
   c. Forecasts are no better than the data used to construct them
   d. Use simple forecasts
   e. Important events often are surprises and represent a departure from predictions

Teaching Tip
Ask students to imagine different scenarios that might impact your school, and to develop contingency plans that might address those scenarios. This can either be done as a discussion question with the entire class, or students can work in groups to answer the question, and report back. For example, a possible scenario might center around a population boom or bust. In a population boom, universities might respond by setting up satellite campuses, whereas, in a bust, universities might look for additional students by setting up international programs and/or programs targeted to meet the needs of working professionals.

D. Benchmarking

[3] Boulden, Jennifer. "The air in there." *Fast Company*, September 2007, Iss. 118, pg. 64.
[4] *Techweb Newswire*. "Dell suspends bonuses, streamlines management." February 5, 2007

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1. ***Benchmarking*** is the process of comparing the organization's practices and technologies with those of other companies.
2. Benchmarking means identifying the best-in-class performance by a company in a given area.

IV. ACTIVELY MANAGING THE EXTERNAL ENVIRONMENT

POWERPOINTS
Slide 26 Changing the Environment You Are In (1 of 2)
Slide 27 Changing the Environment You Are In (2 of 3)
Slide 28 Changing the Environment You Are In (3 of 3)
Slide 29 Influencing Your Environment
Slide 30 Independent Action
Slide 31 Cooperative Action
Slide 32 Adapting to the Environment

A. Changing the Environment You Are In

1. ***Strategic maneuvering*** is the organization's conscious efforts to change the boundaries of its task environment. It can take four basic forms:
   a. ***Domain selection*** is the entrance by a company into another suitable market or industry.
   b. ***Diversification*** occurs when a firm invests in different types of businesses or products, or when it expands geographically to reduce its dependence on a single market or technology.
   c. A ***merger or acquisition*** takes place when two or more firms combine, or one firm buys another, to form a single company.
   d. ***Divestiture*** occurs when a company sells one or more businesses.
2. ***Prospectors*** are companies that continuously change the boundaries of their task environments by seeking new products and markets, diversifying and merging, or acquiring new enterprises.
3. ***Defenders*** are companies that stay within a more limited, stable product domain

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Example 2.5 Independent Strategies
As global warming is threatening the viability of Aspen's famed ski resort, companies there are responding by becoming pioneers in corporate environmentalism. Aspen uses biodiesel fuel in its bulldozer-sized snowcats, uses a speck of dust to seed artificial snowflake which consumes less water and energy, vehicle shop is partly heated with used motor oil, Coke machines run on motion sensors, toilets have two different flush settings—half flush and full flush, and resorts add $2 a day to the bill of every hotel guest donating it to the Aspen Valley Land Trust to preserve open space. Aspen managers must complete an environmental impact assessment for each request for capital spending. Auden Schendler, Aspen's director of environmental affairs, wants "Aspen to be a thought leader—not just to be doing it, but talking about how we do it."[5] This is a good example of both the public relations and voluntary action approaches to changing the environment.

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[5] Fishman, Charles. "Degree of difficulty." *Fast Company*, February 2007, Issue 112, pg. 94

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B. Influencing Your Environment

1. ***Independent strategies*** are strategies that an organization is acting on its own uses to change some aspect of its current environment. (Exhibit 2.8)
2. ***Cooperative strategies*** are strategies used by two or more organizations working together to manage the external environment. (Exhibit 2.9)

C. Adapting to the Environment: Changing the Organization

1. Four different approaches that organizations can take in adapting to environmental uncertainty are:
   a. Decentralized bureaucratic (stable, complex environment)
   b. Centralized bureaucratic (stable, simple environment)
   c. Decentralized organic (dynamic, complex environment)
   d. Centralized organic (dynamic, simple environment)

2. Adapting at the boundaries.
   a. ***Buffering*** is creating supplies of excess resources in case of unpredictable needs.
   b. ***Smoothing*** is leveling normal fluctuations at the boundaries of the environment.

3. Adapting at the core.
   a. ***Flexible process*** allows for adaptation in the technical core to meet the varied and changing demands of customers.

Example 2.6 Corporate Culture
Tony Hsieh, CEO of shoe retailer, Zappos, is passionate about corporate culture, "The original idea was to add a little fun." Now companies around the world are attempting to model Zappos' renowned corporate culture and customer service, model. Zappos employees are given the freedom to decide how best to satisfy their customers, whether that means staying on phone calls for hours at a time, sending flowers, or even redirecting a customer to a rival website with a better price. Hsieh observes, "They may only call once in their life, but that is our chance to wow them."[6]

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[6] Palmeri, Christopher. "Zappos retails its culture." *Bloomberg Businessweek*. December 2009. Retrieved from http://www.businessweek.com/magazine/content/10_02/b4162057120453.htm

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D. Choosing an Approach

1. Three general considerations help guide management's response to the environment.
   a. Change appropriate elements of the environment.
   b. Choose responses that focus on pertinent elements of the environment.
   c. Choose responses that offer the most benefit at the lowest cost.

V. THE INTERNAL ENVIRONMENT OF ORGANIZATIONS: CULTURE AND CLIMATE

POWERPOINTS
Slide 33 Organizational Culture
Slide 34 Diagnosing Culture
Slide 35 Organizational Climate
Slide 36 Management in Action
Slide 37 In Review

LO 6: Define elements of an organization's culture

A. ***Organization culture*** is the set of important assumptions about the organization and its goals and practices that members of the company share.

- Strong cultures
  - Everyone understands and believes in firm's goals, priorities, and practices.
  - An advantage if appropriate behaviors are supported.
- Weak cultures
  - Different people hold different values
  - Confusion about corporate goals
  - Not clear what principles should guide decisions

LO 7: Discuss how an organization's culture affects its response to its external environment

1. Diagnosing Culture

   a. Culture can be diagnosed through the following:
      i. Corporate mission statements and official goals.
      ii. Business practices.
      iii. Symbols, rites, and ceremonies.
      iv. The stories people tell.
   b. Four types of organizational culture
      i. Group culture — flexible, internal focus
      ii. Hierarchical structure — controlling, internal focus
      iii. Rational culture — controlling, external focus
      iv. Adhocracy — flexible, external focus

2. Managing Culture

   a. Espouse lofty ideals and visions for the company

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b. Give constant attention to mundane, daily details
c. CEO's need to embody the vision of the company

CONNECT

Click and Drag: Elements of Organizational Culture

(This exercise is also available in a multiple-choice version.)

SUMMARY

Organizational cultures reflect the internal environment of the organization. Thus, it is important to know how to diagnose a culture, as it is one of the most important factors that influence an organization's response to its external environment. Like an individual's personality, it can often be sensed immediately by examining four things, including (1) formal statements and goals; (2) business practices; (3) symbols, rites, and rituals; and (4) stories. This exercise helps students practice identifying elements of culture as they consider the retail organization Nordstrom.

Nordstrom is known for its outstanding customer service and high-quality shopping experience. Their employees are expected to abide by what they call "Our One Rule," which simply states, "Use good judgment in all situations." In fact, this one rule is all that exists in their employee handbook. They also state "Our number one goal is to provide outstanding customer service."

ACTIVITY

After reading the mini-case, students can match up examples in this exercise (or answer multiple-choice questions) addressing elements of culture.

CLASS DISCUSSION IDEAS

Ask the following question to extend the discussion: If Nordstrom's culture is the key to their success, why don't other organizations just copy it?

CONNECT

Video Case: Organization Culture at Zappos

SUMMARY

Organization culture is the set of important assumptions about the organization and its goals and practices that its members share. It is a system of shared values about what is important and beliefs about how the world works. A company's culture provides a framework that organizes and directs people's behavior on the job.

Online retailer Zappos.com was formed in 1999 by Nick Swinmurn. His goal was to create an online shoe store with the best selection and best customer service anywhere. Zappos has been very successful in achieving these goals. In 2009 it was acquired by Amazon.com, another leader in online service. Part of Zappos' success is due to its unique employee- and customer-centered culture. In the seven-minute video, students learn more about that culture.

ACTIVITY

After viewing the video, students are asked to answer a series of multiple-choice questions.

CLASS DISCUSSION IDEAS

Summarize and extend the discussion by asking students what leads Zappos' strong culture. To further illustrate the elements of a strong culture, ask students what management actions may inadvertently weaken the culture at Zappos.

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B. Organizational Climate

1. Patterns of attitudes and behavior that shape people's experience of an organization
2. Organization are most effective when it has a climate that motivates and enables workers to achieve the organization's strategy

MANAGEMENT IN ACTION

Onward

The Culture at Amazon

In his 2016 annual letter to shareholders, Amazon's CEO Jeff Bezos noted correctly that corporate cultures are "enduring, stable, hard to change." A recent *New York Times* investigation had revealed Amazon's own culture as ruthlessly competitive and intensely stressful, often bringing white-collar employees at its Seattle headquarters to tears at their desks.

Amazon recently announced changes. It is easing policies that rewarded such competitive behavior and will launch a retraining program to assign coaching and support to poor performers, who can either appeal the assignment, accept and try to improve or resign with severance.

- Jeff Bezos's shareholder letter calls Amazon a good place to fail, since "failure and invention are inseparable twins." What do you think is the relationship between failure and invention? What suggests that Amazon's culture is tolerant of failure?

  Student answers will vary; however, bringing employees to tears may indicate that failure is celebrated at Amazon. Students may also point out that if a culture produces a fear of failure, it will also limit risk-taking slowing innovation.

- Is it possible for a company to be as innovative and successful as Amazon without having a particular type of culture? What type of culture would that be?

  Student answers will again vary. Using the adaptive strategies from the chapter, students may state that cultures that promote prospecting are more likely to promote innovation.

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BOTTOM LINE

Does low-cost mean low-quality? Why or why not?
Not necessarily. Efforts to save money can improve processes—for example, simplifying a process in a way that reduces errors along with costs. It can involve reducing waste. It can involve locating in parts of the world where equally skilled people accept lower rates of pay. Of course, cost-cutting can also involve using inferior material or untrained labor, so decisions about saving money should be made with concern for the organization's overall strategy.

What are some technologies that have given managers fast access to information?
Two obvious answers are the Internet and portable computers such as laptops. Students may also be familiar with other information technologies, such as wireless computing, databases, and decision-support systems.

In which of these areas would you say PepsiCo tried to create a competitive advantage? (If you aren't sure, come back to this question after you've studied this section.)
PepsiCo sought to innovate by creating snacks that are more healthful, which could also be seen as competing regarding quality. It has spent less than Coca-Cola on advertising, which is in a sense a low-cost strategy that PepsiCo has tried to move away from.

Would the cost be a bigger barrier for someone who opens a new bicycle shop or a developer of mobile game apps? Why?
The cost would be a bigger barrier for a mobile game app because a tremendous investment in research is required to develop a competitive product. In contrast, once the software for a mobile app has been written, producing many copies is simple and fast, and the app can be distributed readily by offering downloads online, even if the app developer doesn't have much shelf space in stores.

To meet this requirement, what qualities would a company need in its employees?
A company that can manufacture customized products quickly will need employees who are themselves flexible—skilled in performing more than one process and willing to make adjustments to satisfy customers. The company would especially benefit from employees who are able to understand work processes and think creatively about how to adapt them to meet customer needs efficiently.

Name a company that has delivered good customer service to you.
Answers will vary. This is a chance for students to think about what "service" means in concrete, practical terms.

What might "flexible processes" mean for a fast-food restaurant? For an auto company?
For a fast-food restaurant, a flexible process is any part of food production that enables the restaurant to customize its offerings, such as a selection of cheeses and condiments on sandwiches or special decorations for a children's party in the restaurant. For an auto company,

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flexible processes would likely entail building cars with various options selected by customers, such as colors, entertainment systems, engine sizes, and so on.

To be aligned with its environment, what values should an organic grocery store chain company have?
Answers will vary. Examples might be a high value placed on sustainable practices, strategies for managing waste, and monitoring of suppliers to make sure they are implementing sound farming practices.

SOCIAL ENTERPRISE

Combating Climate Change

Despite its far-reaching impact, the problem of climate change has struggled to gain center stage in the United States. A landmark multination pact called the Paris Agreement called on all participating countries to curb their emissions of the greenhouse gases that contribute to planet-wide warming temperatures. Arguing that controlling climate change is good for business, more than 360 U.S. companies have petitioned the White House to hold fast to former President Obama's commitment to the Paris Agreement. Their open letter to the president says, in part, "Failure to build a low-carbon economy puts American prosperity at risk. But the right action now will create jobs and boost U.S. competitiveness. Implementing the Paris Agreement will enable and encourage businesses and investors to turn the billions of dollars in existing low-carbon investments into the trillions of dollars the world needs to bring clean energy and prosperity to all."

Questions

Can most organizations really be profitable while making a positive impact on the environment and society? What challenges do they face?

> While there may be a diversity of opinion, students may emphasize the lower long-term cost of renewable energy sources. Students may simultaneously present the high cost of the required new technology and the uneven application of standards across country boundaries.

Can you envision a world that doesn't produce waste? What changes are needed before that can happen?

> Student answers will vary. Answers may focus on technology and behavior changes.

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LECTURETTES

LECTURETTE 2.1

Operations and Human Resources: IBM's Workforce Management Initiative

As the book explains, one way in which an organization can manage its competitive environment is through becoming a globally integrated enterprise. IBM has adopted a human capital management approach to better utilize its talented workforce. Considering labor as an input and IBM products as an output, the company launched its Workforce Management Initiative (WMI) to capture and effectively leverage every employee's skill set and training. All of IBM's approximately 330,000 employees are captured in this database. Having this database allows managers to search for employee talent within the company—around the world—rather than having to look outside to recruit talent and fill current needs. The company estimates that this initiative has saved over $500 million. In addition to saving the company money, applying this supply chain approach allows the company to estimate its talent capacity for future anticipated needs as well, and to train individuals proactively. In 2007, the IBM Institute for Business Value published seven keys to succeed in a globally integrated world of business, written by Eric Lesser, Tim Ringo, and Andrea Blumberg. The seven principles are:

1. Understanding the demographics and capabilities of the workforce.
2. Predicting the future labor supply and demand.
3. Utilizing social networks to increase visibility and application of knowledge across the organization.
4. Enabling individuals to perform work regardless of location.
5. Facilitating collaboration across traditional organizational boundaries.
6. Driving the rapid development of skills and capabilities to meet changing business conditions.
7. Evaluating employee performance and providing appropriate feedback.

Sources:

Boudreau, John W. IBM's Global Talent Management Strategy: The Vision of the Globally Integrated Enterprise. Society for Human Resource Management. https://blog.shrm.org/sites/default/files/reports/IBM%20Case%20Study_partB.pdf

"Transforming the workforce: Seven keys to succeeding in a globally integrated world." IBM Institute for Business Value. https://www-05.ibm.com/services/bcs/at/bcsserv/human-capital/download_hcm/hcm-transforming-workforce-11-07.pdf

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DISCUSSION QUESTIONS

1. **This chapter's opening quote by Peter Drucker said, "The essence of a business is outside itself." What do you think this means? Do you agree?**

   Students may ask: What is meant by the word "essence?" It has a number of meanings. However, according to the dictionary, it means "that which makes something what it is." It is important to remember that the purpose of a successful business is to get customers and to retain customers.

   Using the definition above, Drucker's statement can be interpreted to mean that it is the outside environments that determine the nature of business. This can be illustrated through the use of an example. A new automobile manufacturer entering the U.S. market is faced with three large domestic companies and a number of well-established foreign firms. The newcomer's strategy has to take this external environment into consideration. This can be contrasted with a new company entering a business in which the competition is limited to three or four small firms.

   However, one can argue that even though the external environments can have a dramatic impact on a business, it is still management's responsibility to develop a strategy to enable the organization to grow and prosper.

2. **What are the most important forces in the macroenvironment facing companies today?**

   In order to answer this question, the student probably needs to recognize that different companies operate in different industries and a critical macroenvironment force facing one company may be a minor factor for another. Three examples are given below:

   > Economy. The economy is always a factor. A booming economy may allow a new business to grow and prosper while a depressed economy would cause it to fail. Some businesses do very well in booming economies whereas others (notably the entertainment industry) seem to flourish during times when the economy is weak.
   >
   > Technology. Consider the impact of rapidly changing technology in the computer industry. Most of the early innovators are no longer in business, and many of the current leaders might not survive another dramatic change in technology. And yet, in other industries (such as candy making), the technology has been unchanged for many years.
   >
   > Political/legal. This factor is having a major impact on the television/telephone/computer interface. Political efforts to increase competition in the cable television industry will probably be a major factor for many years to come.

   Students should be able to identify industries in which each of the forces in the macroenvironment is playing a major role or, at least, have done so in the past.

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3. **What are the main differences between the macroenvironment and the competitive environment?**

   The macroenvironment consists of the major forces (international, economic, social and natural, demographic, technological, and political/legal) which affect all businesses to some degree.

   While the competitive environment is also part of the external environment, it is viewed separately from the macroenvironment in that it focuses on the competitive forces that are specific to each business.

4. **What kinds of changes do companies make in response to environmental uncertainty?**

   Organizations may adapt to the environment by altering their work structures and work processes in order to reduce uncertainty. When uncertainty arises due to environmental complexity, many organizations adopt more decentralized decision-making structures. This allows people with the most direct knowledge of a particular product or operation to make important decisions rather than a centralized unit that may be more removed from the daily business activities.

   When uncertainty arises due to changes in the environment, many organizations adopt more flexible structures. When technologies, customers, and competitors change rapidly, a highly rigid, bureaucratized organization is less able to respond effectively. Thus responsiveness and innovation become priorities

   Organizations can adapt to uncertainty by buffering at both the input and output sides of their boundaries. They may do this by hiring temporary workers during rush periods on the input side, and by maintaining adequate inventory in order to manage a rush of orders on the output side. Organizations may also adapt at their core by establishing flexible processes such as mass customization which allows an organization to produce large quantities at low cost, yet still offer individual customization.

5. **We outlined several proactive responses organization can make to the environment. What examples have you seen recently of an organization responding effectively to its environment? Did the effectiveness of the response depend upon whether the organization was facing a threat or an opportunity?**

   A number of proactive responses to the environment are identified in the text:

   Independent strategies: The firm acts on its own to change some aspect of the current environment through competitive aggression, competitive pacification, public relations, voluntary action, legal action, or political action.

   Cooperative strategies: The firm collaborates with another organization to either reduce their costs and risks or increase their power relative to the environment.

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Strategic maneuvering: The firm attempts to change the boundaries of its competitive environment through domain selection (entering new markets with limited competition or regulation), diversification (investing in different types of business), mergers and acquisitions, or divestiture.

Challenge students to identify firms that are adopting each of these strategies and whether or not they are doing so in response to a threat or an opportunity.

6. **Select two organizations that you are interested in. Research information about the firms or talk with an employee if possible. What types of cultures do they have? Write a paragraph that describes each culture.**

   EXAMPLE: "Company X seems to really care about their new employees. The employee I spoke to told me that the company actively encourages employees to move from job to job within the organization—that sounded great to me. In addition, I found out that people have a lot of flexibility to work on their terms—for example, being in the office at 9 AM doesn't matter as much as whether or not you get the job done. To me, this company looks like it has a group culture."

7. **When you visited colleges to decide where to attend, were there cultural differences in the campuses that made a difference in your choice? Did these differences help you decide which college to attend?**

   Student responses to this question will differ widely, but if they understand the concept of culture, they should talk about the "feeling" a place has—organized, productive, friendly, etc. If students have visited several college campuses, they should definitely be able to talk about the difference in culture for each campus. For example, in California, one might have perceived USC as being very sports-oriented, Occidental as being very arts-oriented and exclusive, UCSD as a school that produced "renaissance people," CalTech as being a place for brains and geeks, and San Diego State as a party school. Note that all of these perceptions of culture have value judgments attached to them, and they may or may not be accurate.

EXPERIENTIAL EXERCISES

EXERCISE 2.1: EXTERNAL ENVIRONMENT ANALYSIS

Objective: To give students the experience of performing an analysis of a company's external environment.

Responses to the external environment questions will vary depending on the companies and industries the students discuss.

Suggested Responses to Discussion Questions

1. What has the company done to adapt to its environment?

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Using the music industry as an example, explain how in order adapt to the environment, music companies are taking over more of the supply chain, manufacturing their own CDs and managing their own music clubs. They are making deals with online music distributors to sell individual songs. They are also increasing their online marketing efforts, as in letting AOL offer its customers music video and song samples.

2. **How does the company attempt to influence its environment?**

Continuing with the music industry example, students might indicate that in order to influence the environment, music companies pay slotting fees to retailers to gain shelf space, and pay fees to ensure play time on radio stations. They heavily market new releases. They are aggressively seeking to enforce copyright laws forbidding illegal copying—their success in shutting down Napster is an example of that. They are also enlisting the artists themselves in an effort to educate and influence the public on the illegal copying issue. In the U.S., they are also asking the government to pressure China to reduce the widespread music piracy in that country.

EXERCISE 2.2: CORPORATE CULTURE PREFERENCE SCALE

Objectives

- To expose students to different types of corporate cultures.
- To help students identify the kind of organization in which they would most like to work.
- To help students see how classroom cultures can differ along the same lines as corporate cultures.

Case Discussion Questions:

1. **Review the four types of corporate cultures outlined in the exercise. Working in small groups, give examples of classes you have taken that correspond to each of the different types of corporate culture dimensions.**

Student responses will vary, but in general, you can expect to see the following differences across different types of classrooms:

Control Culture: These classes have professors that are firmly in charge of the class, and they let students know it. Typically, professors in a control culture will take roll, have large amounts of homework (which may or may not be meaningful to the students), and will give difficult tests that may or may not be related to the work done previously in class. Control culture classes often place a lot of emphasis on memorization as a learning tool.

Performance Culture: These classes have professors that are interested in learning and who foster a learning environment with their students. Class assignments are typically relevant and give students new skills, and although tests may be difficult,

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they are clearly related to what has been presented in class. Students often describe these classes as challenging, but fair and interesting. In a performance culture, the primary emphasis is on learning and growth.

Relationship Culture: These classes have professors that become 'friends' with students. Students feel that their opinions count, that their voices are heard, and that they contribute to learning, along with the professor.

Responsive Culture: This class is constantly changing to keep up with the latest changes in the field. It may be taught online, or it may evolve as students bring in additional information.

2. **How do you know what kind of culture a class has? What do you look for that tells you how the class is going to be?**

   Again, student responses will vary, but students are likely to talk about professor behavior (business practices), the class syllabus (corporate mission statement and official goals), ritualized behaviors such as distributing paperwork and taking roll (symbol, rites, and ceremonies), and student reviews of the class (the stories people tell.)

CONCLUDING CASE

Tata Motors: From Cheap to Awesome?

Case Summary:

This case reveals how important it is to organizations of all sizes to be prepared and ready to change both marketing and manufacturing strategies. When Tata introduced the Nano, it stated that the car would be sold for $2,000 to $2,500, but it was later found out that this price could not be sustained. Moreover, there were numerous safety issues with the car. This led to a change in the features of the Nano, and the entire pricing model, to stay competitive with competitors such as Suzuki.

Chapter Topics Related to the Case:

- Discuss how environmental forces impact organizations
- Describe the purpose of an environmental analysis
- Discuss how organizations like the Tata operation can conduct environmental analyses
- Discuss how organizations such as Tata change culture

Case Discussion Questions:

1. **Which barriers to entry contributed most to Tata Motors lack of success with the original Nano?**

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Tata Motors suffered from a cost analysis mistake in the way it priced its model. It was not able to enter the market competitively against Suzuki. There was also an issue with the brand as there were numerous safety issues reported.

2. **Which macroenvironment factors did Tata Motors consider when adjusting the marketing and manufacturing strategies to achieve success with the more recent Twist and LX models?**
   Tata focused on technology and demographics in revamping the Nano. It focused on young urban customers instead of first-time rural buyers. There were also technological upgrades such as power steering, Bluetooth connectivity and other enhanced interior and exterior features.

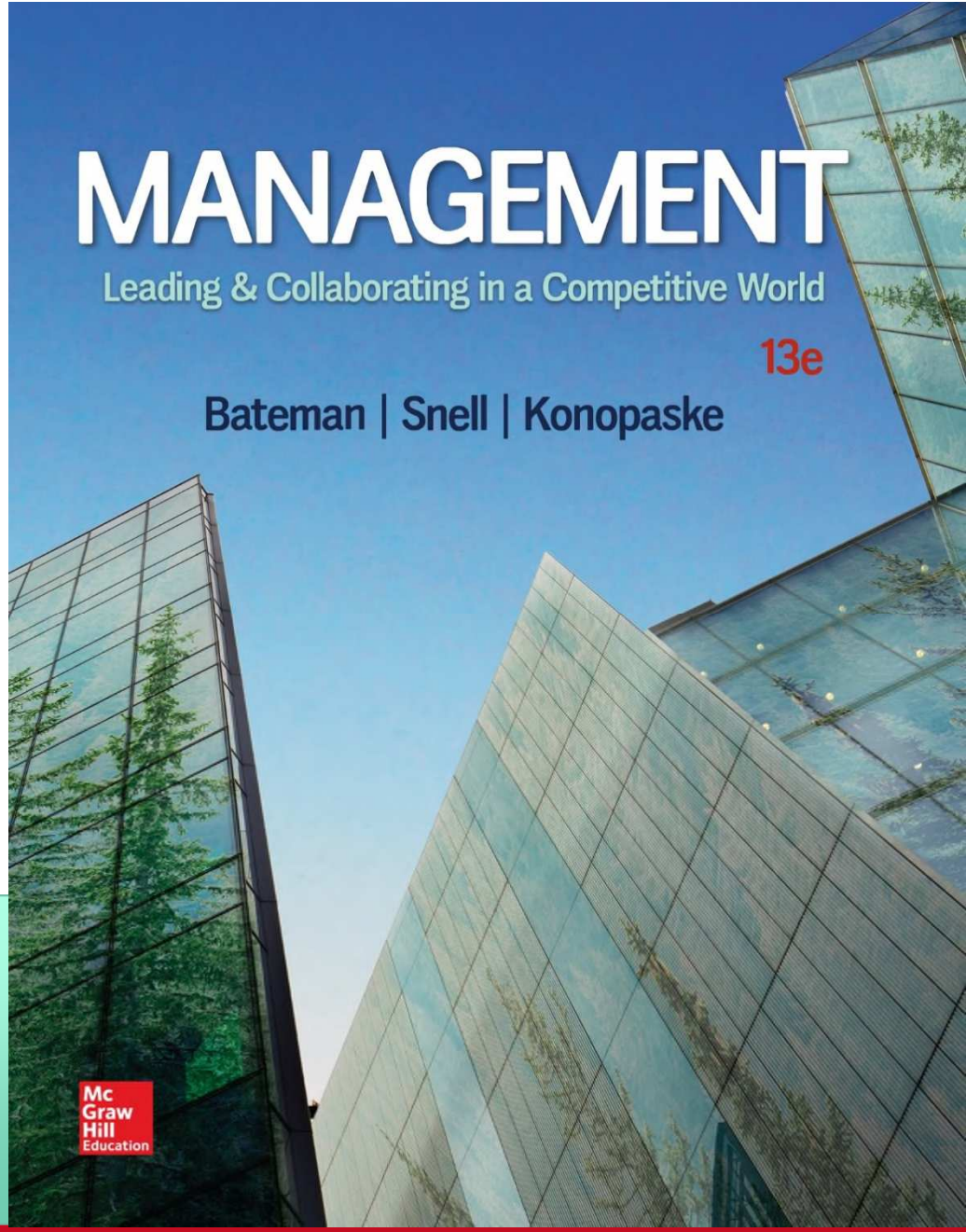
3. **To what degree of you believe Tata Motors will succeed in delivering a successful low-cost vehicle to consumers in India and other developing economies?**
   The new focus on a different set of demographics, as well as technological advances, puts Tata Motors in good shape for competing with companies like Suzuki. The car is a bit more expensive, but the market focus is a bit different, and there are some advancements that may justify the higher price. The buying power of this demographic is a bit more, and the technological advancements are what this set of demographics also demands.

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The External and Internal Environments

CHAPTER 2



Because learning changes everything.™
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Chapter Opening Quote

"The essence of a business is outside itself."

Peter Drucker

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Learning Objectives

1. Describe how environmental forces influence organizations and how organizations can influence their environments.
2. Distinguish between the macroenvironment and the competitive environment.
3. Explain why managers and organizations should attend to economic and social developments.
4. Identify elements of the competitive environment.
5. Summarize how organizations respond to environmental uncertainty.
6. Define elements of an organization's culture.
7. Discuss how an organization's culture and climate affects its response to its external environment.

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Open Systems

Organizations are affected by, and affect, their environment.

Inputs

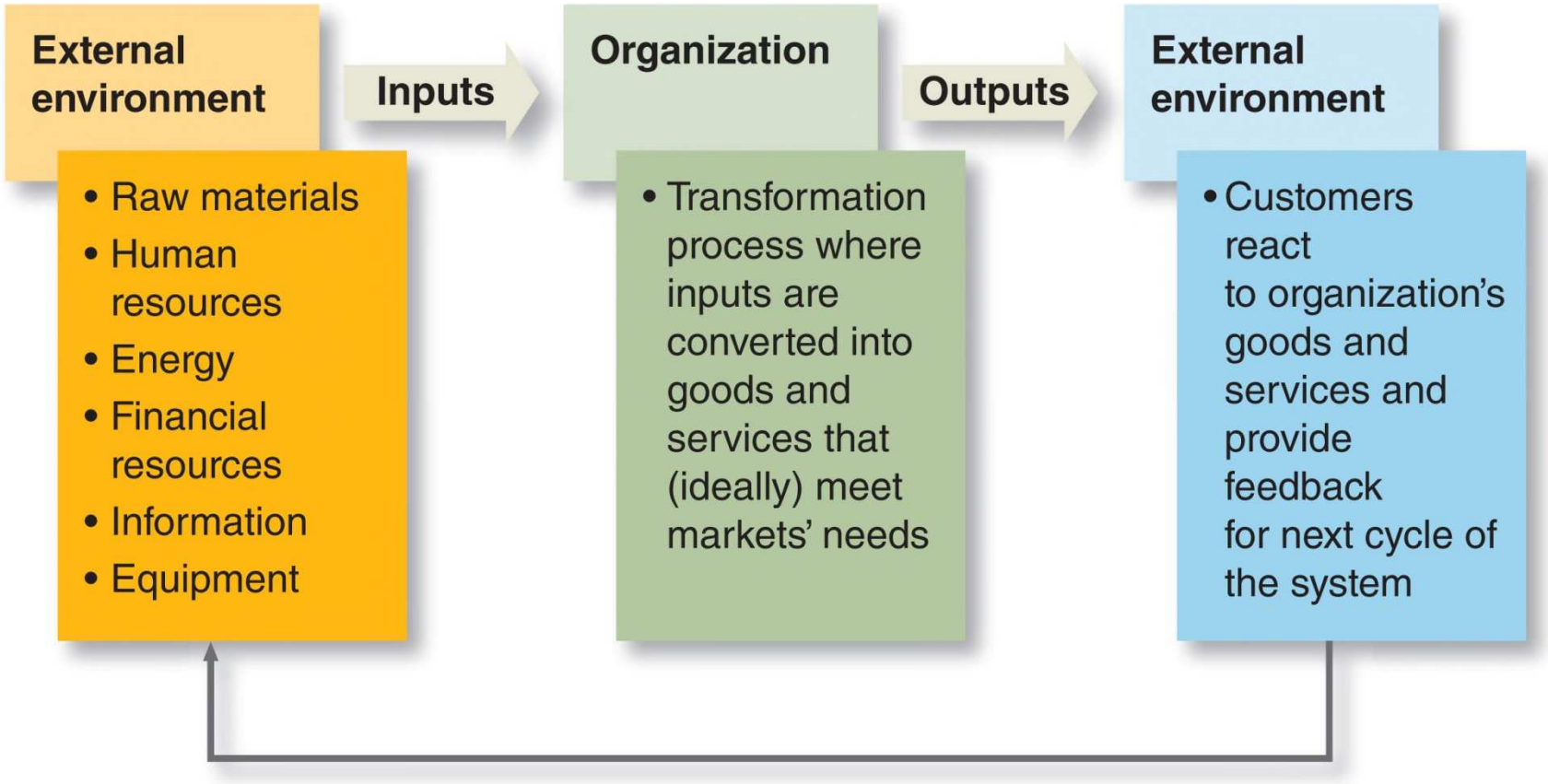
Goods and services organizations take in and use to create products or services

Outputs

The products and services organizations create

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Exhibit 2.1 Open-System Perspective of an Organization



Jump to Appendix 2 for long description of image

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External Environment

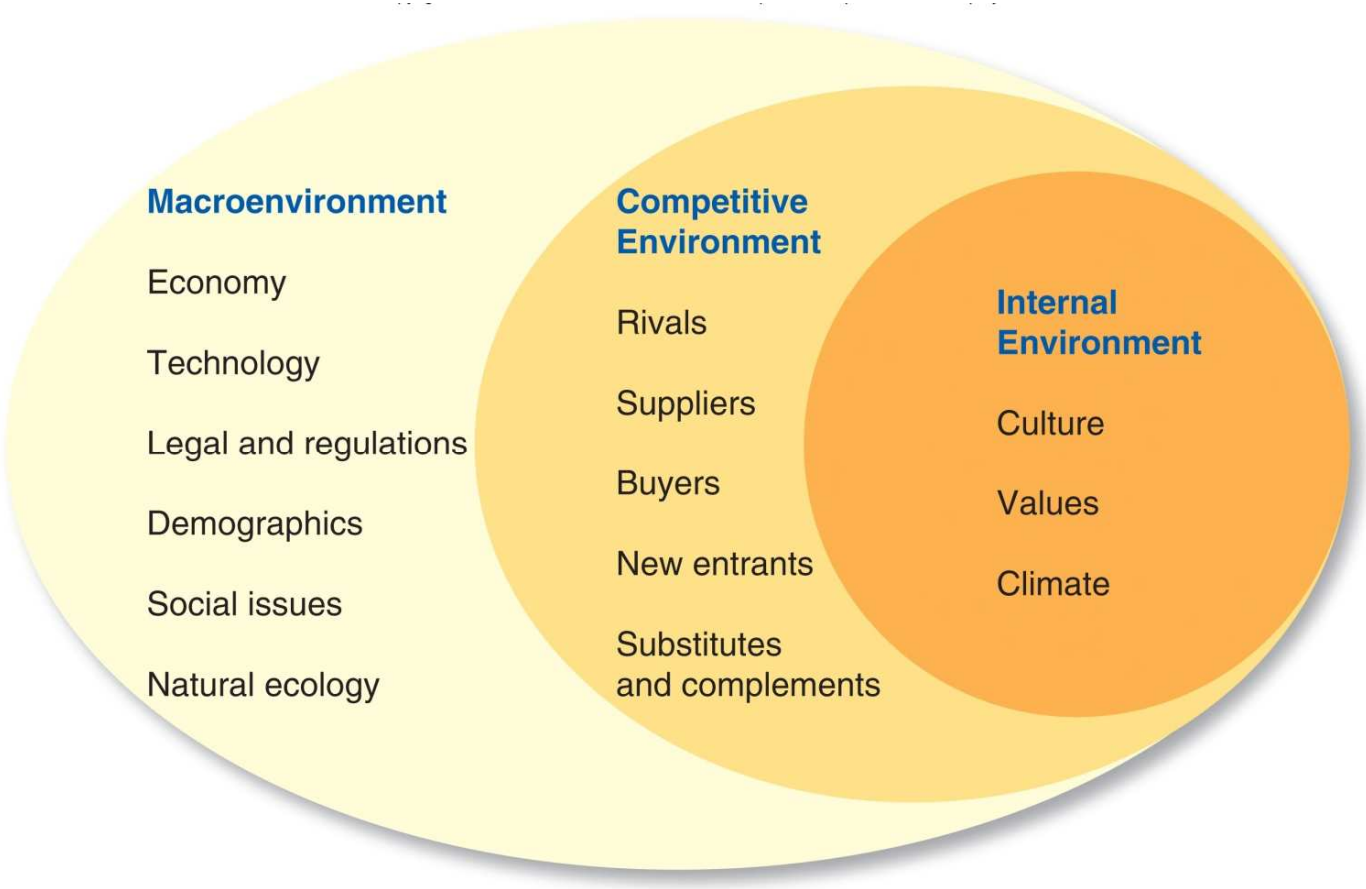
External environment

All relevant forces outside a firm's boundaries, such as competitors, customers, the government, and the economy

- Competitive environment
- Macroenvironment

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Exhibit 2.2 The External and Internal Environments



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The Economy

The economic environment dramatically affects managers' ability to function effectively and influences their strategic choices.

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Managers and the Economy

- In publicly held companies, managers may feel required to meet Wall Street's earnings expectations.
- Managers may focus on short-term results at the expense of long-term success.
- Some managers may be tempted to engage in unethical or unlawful behavior that misleads investors.

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Technology

Technological advances create new products, advanced production techniques, and better ways of managing and communicating.

As technology evolves, new industries, markets, and competitive niches develop.

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Laws and Regulations

Regulators include agencies such as:

- Occupational Safety and Health Administration (OSHA)
- Interstate Commerce Commission (ICC)
- Federal Aviation Administration (FAA)
- Equal Employment Opportunity Commission (EEOC)
- National Labor Relations Board (NLRB)

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Demographics

Demographics

Measures of various characteristics of the people who make up groups or other social units

Trends

- Growth of the labor force
- Increasing education and skill levels
- Immigration
- Increased numbers of women in the workforce
- Increasingly diverse workforce

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Social Issues

Societal trends regarding how people think and behave have major implications for management of the labor force.

- Family leave
- Domestic partner benefits
- Flexible working hours
- Child care assistance

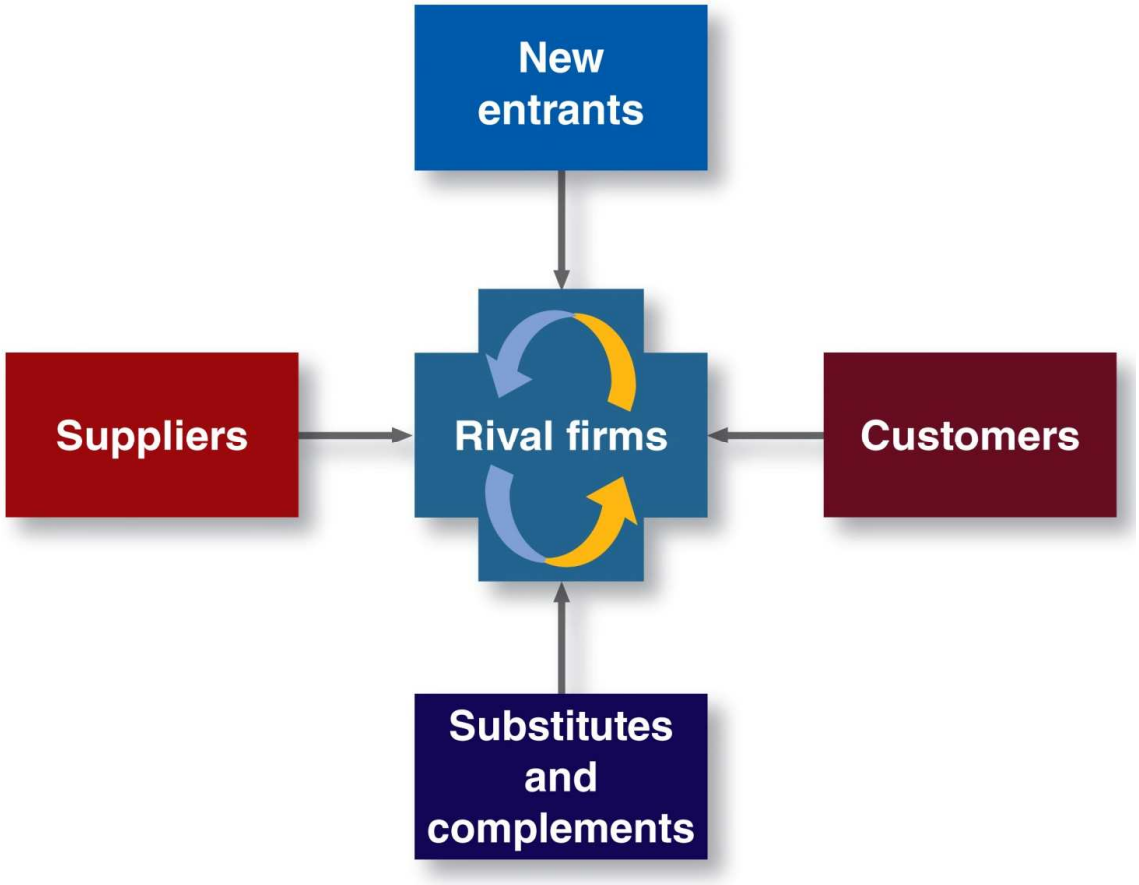
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Social Enterprise
Combating Climate Change

More than 360 U.S. companies wrote an open letter to the U.S. president saying, in part, "Failure to build a low-carbon economy puts American prosperity at risk. But the right action now will create jobs and boost U.S. competitiveness."

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Exhibit 2.4 The Competitive Environment



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Competitors

Competition is most intense when:

- There are many direct competitors.
- Industry growth is slow.
- Product/service is not easily differentiated.

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New Entrants

Barriers to entry

- Conditions that prevent new companies from entering an industry
- Government policy, capital requirements, brand identification, cost disadvantages, and distribution channels

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Substitutes and Complements

Substitutes	**Complements**
Alternative products or services	Products or services that increase purchases of other products

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Exhibit 2.5 Potential Substitutes for and Complements of Products

If the Product is . . .	The Substitute Might Be . . .
Panera soup and salad	Subway sandwich
Sony laptop computer	iPad tablet computer
Face-to-face course	Online course
ScanDisk USB flash drive	Dropbox

If the Product is . . .	The Compliment Might Be . . .
Starbucks beverage	Starbucks coffee cake
Netflix streaming video	Orville Redenbacher's popcorn
Evernote app	Evernote scanner
Apartment rental	IKEA furniture

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Suppliers

Supply chain management

Managing the acquisition of materials, their transformation into products, and the distribution of products to customers

Switching costs

- Provide resources or inputs needed for production
- Fixed costs buyer face if they change suppliers

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Customers

Exhibit 2.6 Actions and Attitudes = Excellent Customer Service



Jump to Appendix 3 for long description of image.

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SOURCE: Adapted from Kotler, P., Marketing Management: Analysis, Planning, Implementation and Control, 9th ed. Englewood Cliffs, NJ: Prentice Hall, 1990.

Environmental Uncertainty

Environmental uncertainty

Lack of information needed to understand or predict the future

Environmental complexity

The number of issues that must be attended to as well as the interconnectedness of these issues

Environmental dynamism

The degree of discontinuous change that occurs within an industry

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Environmental Analysis

Environmental scanning

Searching for information that is unavailable to most, sorting that information and interpreting what is important

Competitive intelligence

Information that helps managers determine how to compete better

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Scenarios and Forecasting

Scenario development

- A narrative that describes a set of future conditions
- Best-case, worst-case

Forecasting

Method for predicting how variables will change the future

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Benchmarking

The process of comparing an organization's practices and technologies with those of other companies

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Changing the Environment You are In (1 of 3)

Strategic maneuvering

An organization's conscious efforts to change the boundaries of its task environment

Domain selection

Entrance to a new market or industry with an existing expertise

Diversification

Occurs when a firm invests in a different product, business, or geographic area

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Changing the Environment You are In (2 of 3)

Mergers

One or more companies combine with another

Acquisitions

One firm buys another

Divestiture

A firm sells one or more businesses

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Changing the Environment You are In (3 of 3)

Prospectors

Continuously change the boundaries of their task environment by seeking new products and markets, diversifying and merging, or acquiring new enterprises

Defenders

Stay within a stable product domain as a strategic maneuver

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Influencing Your Environment

Independent strategies

Strategies that an organization acting on its own uses to change some aspect of its current environment

Cooperative strategies

Strategies used by two or more organizations working together to manage the external environment

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Independent Action

Environmental Factor	Unattractive	Attractive
Competitors	Many; low industry growth; equal size; commodity	Few; high industry growth; unequal size; differentiated
Threat of entry	High threat; few entry barriers	Low threat; many entry barriers
Substitutes	Many	Few
Suppliers	Few; high bargaining power	Many; low bargaining power
Customers	Few; high bargaining power	Many; low bargaining power

SOURCE: Adapted from Zeithaml , C. and Zeithaml, V., "Environmental Management: Revising the Marketing Perspective," Journal of Marketing, Spring 1984.

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Cooperative Action

Strategy	Definition	Examples
Contraction	Negotiations of an agreement between the organization and another group to exchange goods, services, information, patents, and so on	Contractual marketing systems
Cooptation	Absorbing new elements into the organization's leadership structure to avert threats to its stability or existence	Consumer and labor representatives and bankers on boards of directors
Coalition	Two or more groups that coalesce and act jointly with respect to some set of issues for some period of time	Industry associations; political initiatives of the Business Roundtable and the U.S. Chamber of Commerce.

SOURCE: Adapted from Zeithaml , C. and Zeithaml, V., "Environmental Management: Revising the Marketing Perspective," Journal of Marketing, Spring 1984.

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Adapting to the Environment

Buffering

Creating supplies of excess resources in case of unpredictable needs

Smoothing

Leveling normal fluctuations at the boundaries of the environment

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Organization Culture

The set of important assumptions about the organization and its goals and practices that members of the company share

- In strong cultures, the majority of people within the organization agree on organizational goals.
- In weak cultures, different people hold different values and there is confusion about corporate goals.

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Diagnosing Culture

A variety of things will give you useful clues about culture.

- Corporate mission statements and official goals
- Business practices
- Symbols, rites, and ceremonies
- The stories people tell

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Organization Climate

- Organizational climate consists of the patterns of attitudes and behavior that shape people's experience of an organization.
- Because organizational climate is easier to measure, managers often find that dimensions of organizational climate are more manageable.
- An organization is most effective when it has a climate that motivates and enables workers to achieve the organization's strategy.

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Management in Action
The Culture at Amazon

A recent *New York Times* investigation characterized Amazon's culture as ruthlessly competitive and intensely stressful.

CEO Jeff Bezos calls Amazon a good place to fail, since "failure and invention are inseparable twins."

- What is the relationship between failure and invention?
- Is it possible to be as innovative and successful as Amazon without having a particular type of culture? What type of culture would that be?

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In Review

1. Describe how environmental forces influence organizations and how organizations can influence their environments.
2. Distinguish between the macroenvironment and the competitive environment.
3. Explain why managers and organizations should attend to economic and social developments.
4. Identify elements of the competitive environment.
5. Summarize how organizations respond to environmental uncertainty.
6. Define elements of an organization's culture.
7. Discuss how an organization's culture and climate affects its response to its external environment.

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APPENDICES

Long Descriptions of Images

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Appendix 1: Exhibit 2.1 Open-System Perspective of an Organization

Exhibit 2.1 is a summary graphic showing three sections: external environment, organization, and external environment. External environment (raw materials, human resources, energy, financial resources, information, and equipment) provides inputs into an organization. A transformation process occurs where inputs are converted into goods and services that (ideally) meet markets' needs. The outputs of the organization are then sent to the external environment where customers react to the organization's goods and services and provide feedback for the next cycle of the system.

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Appendix 2: Exhibit 2.2 The External and Internal Environments

Exhibit 2.2 is a diagram of external and internal organization environments. The organization's internal environment includes culture, values, and climate. It is encompassed by the competitive environment, which involves rivals, suppliers, buyers, new entrants, and substitutes and complements. The competitive environment is encompassed by the macroenvironment, which involves economy, technology, legal and regulations, demographics, social issues, and natural ecology.

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Appendix 3: Exhibit 2.6
Actions and Attitudes = Excellent Customer Service

These actions and attitudes lead to excellent customer service.

- Speed of filling and delivering normal orders.
- Willingness to meet emergency needs.
- Merchandise delivered in good condition.
- Service charges whether free or priced separately.
- Availability of installation and repair services and parts.
- Readiness to take back defective goods and resupply quickly.

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