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chapter 2

The External and Internal Environments

CHAPTER CONTENTS

Learning Objectives	2-2
Chapter Outline	2-2
Chapter Resources	2-3
Key Student Questions	2-4
Class Roadmap	2-4
Bottom Line	2-18
Spotlight On . . .	2-19
Lecturettes	2-20
Discussion Questions	2-21
Experiential Exercises	2-24
Concluding Case	2-26

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LEARNING OBJECTIVES

2.1 Describe how environmental forces influence organizations and how organizations can influence their environments.
2.2 Distinguish between the macroenvironment and the competitive environment.
2.3 Identify elements of the competitive environment.
2.4 Summarize how organizations respond to environmental uncertainty.
2.5 Define elements of an organization's culture.
2.6 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: Culture and Climate

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CHAPTER RESOURCES

Experiential Exercises	Concluding Case	Spotlight On . . .	Lecturettes
2.1 External Environment Analysis 2.2 Corporate Culture Preference Scale	PRGA Motors	Combating Climate Change **Management in Action** • Amazon: Surviving and Thriving in any Environment (Manager's Brief) • Amazon Reinvents the Competitive Environment. . . But Is It for the Better? (Progress Report) • The Internal Culture at Amazon (Onward)	2.1 Operations and Human Resources: IBM's Workforce Management Initiative
Connect® Click and Drags • Creating Products as Open Systems • Elements of Organizational Culture	**Connect® Comprehension Case** Rubio's Competitive Environment		

Connect® Application-Based Activities

MANAGEMENT HISTORY: TAKING IT TO THE NEXT LEVEL.
As a junior associate at Next Level Consultants, you've been assigned to your first two clients—Batch Microchips and Leather Works. Both of them have reached out to Next Level to help overcome some difficulties they are having in production. Your direct supervisor, Cameron, will be with you, but he has told you to take the lead.

ORG. CULTURE: SIDE EFFECTS INCLUDE HARASSMENT AND BULLYING
HydroHealth is all about making the world a healthier place through its nutritional supplements, but it seems like their work environment is anything but healthy. Its culture has been plagued by allegations of harassment and bullying toward some employees. The CEO has brought you in as a consultant to help fix the organizational culture. Can you fix it before it's too late?

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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: Amazon: Surviving and Thriving in any Environment as an example.

- The second question is best addressed by having students work together to complete the concluding case study "PRGA 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.

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CLASS ROADMAP

The Class Roadmap gives Learning Objectives at appropriate places and lists PowerPoints. The boxes Management in Action are addressed. Teaching Tips and Examples are presented and Connect® activities are also given to enhance class instruction.

POWERPOINTS
Slide 1 The External and Internal Environments
Slide 2 Learning Objectives
Slide 3 Open Systems
Slide 4 Exhibit 2.1 Organization as an Open System

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MANAGEMENT IN ACTION

AMAZON: SURVIVING AND THRIVING IN ANY ENVIRONMENT

Manager's Brief

Amazon, the world's largest e-commerce company and the fourth most valuable company in the United States, aspires to be successful in every business environment in which it operates. The company was founded by Jeff Bezos in 1994 as an online discount bookseller during the early days of the Internet. Despite taking almost a decade to become profitable in 2003, the company has evolved to a point where it now sells virtually everything. It has also innovated in terms of creating the Alexa AI-based web platform, its own TV and movie production studio, and it is even getting into the pharmacy services business. Amazon also acquired the high-end food market, Whole Foods. It created Amazon Go in 2018, its own grocery brand that consists of cashier-less grocery stores. There are now 25 locations of Amazon Go around the United States.

Amazon's resilience as a company was further demonstrated during the COVID-19 pandemic that hit the United States and the world in 2020. In fact, Amazon's sales revenue during the pandemic was $348 billion, almost double what it was in 2017.

Much of the success of Amazon is attributable to the leadership and vision of Jeff Bezos, the founder and CEO of the company. Bezos stepped down from his position and was succeeded by Andy Jassy, the company's head of could computing. In order to Amazon to continue to grow and prosper, Jassy will need to understand, predict, and respond to a complex myriad of environmental opportunities and challenges.

Technology and global competition are two of the forces shaping the environment in which Amazon operates. As you study this chapter, consider what other forces Amazon's managers should monitor.

Introduction

LO 2.1: Describe how environmental forces influence organizations, and how organizations can influence their environments.

- Organizations are ***open systems***
  - Receive raw materials, services, and financial, human, and information resources from the environment called ***inputs.***
  - ***Transform*** resources into finished goods and services.
  - Send ***outputs*** back into the environment.

- External Environment Influences
  - When resources change, environment influences the organization.
  - When outputs differ, organization influences the environment.
  - The organization operates in a competitive environment.

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- ***Macroenvironment*** is defined by the most general elements in the external environment, affecting all organizations, that can potentially influence strategic decisions, which are:
  - Legal, political, economic, technological, demographic, and social and natural factors.

CONNECT®
Creating Products as Open Systems

SUMMARY
An organization that interacts with various environments is considered an open system. This interaction happens when an organization uses inputs from the environment and produces outputs that impact the environment. This Click-and-Drag activity examines different organizations, their products, and the inputs used in making those products.

FOLLOW-UP ACTIVITY:
To expand on the idea of open systems, instructors can ask students to identify the outputs and the processes that occur to transform the inputs into outputs within each of the organizations listed in the Click-and-Drag activity. In addition, to illustrate open systems in service organizations, students can explore the Internet to identify inputs, the transformation process, and outputs in service organizations.

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]

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I. THE MACROENVIRONMENT

POWERPOINTS
Slide 5 External Environment
Slide 6 Exhibit 2.2 The External and Internal Environments of Organizations
Slide 7 The Economy
Slide 8 Managers and the Economy
Slide 9 Technology
Slide 10 Laws and Regulations
Slide 11 Demographics
Slide 12 Sustainability and the Natural Environment
Slide 13 Spotlight On . . . Combating Climate Change

LO 2.2: Distinguish between the macroenvironment and the competitive environment.

A. The Economy

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

B. Technology

1. Technological advances create new products. As technology evolves, new industries, markets, and competitive niches develop.
2. New technologies provide new production techniques that are used by industries because of their quick speed, high integrity, and high energy efficiency.
3. 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 that have the power to investigate company practices and take legal actions to ensure compliance with the laws are:
   a. Securities & Exchange Commission (SEC)
   b. Occupational Safety and Health Administration (OSHA)
   c. National Labor Relations Board (NLRB)
   d. Office of Federal Contract Compliance Programs (OFCCP)

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T B E X A M . C O M

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*** are 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.

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

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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?

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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 parental leave after the birth of a child, family leave, and in many firms, the opportunity for employees to design their own benefits packages.

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 an important factor in making managerial decisions.

II. THE COMPETITIVE ENVIRONMENT

POWERPOINTS
Slide 14 Exhibit 2.4 The Competitive Environment
Slide 15 Competitors
Slide 16 New Entrants
Slide 17 Substitutes and Complements
Slide 18 Exhibit 2.5 Potential Substitutes for and Complements
Slide 19 Suppliers
Slide 20 Customers
Slide 21 Exhibit 2.6 Actions and Attitudes Affect Customer Service

LO 2.3: Identify elements of the competitive environment.

A. Competitors

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1. As a first step in understanding their competitive environment, organizations must identify their competitors, which may include:
   a. Small domestic firms
   b. Strong regional competitors
   c. Big, new domestic companies exploring new markets
   d. Overseas firms
   e. Newer 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. A *substitute* is a potential threat; customers use it as an alternative.
2. A *complement* is a potential opportunity because customers buy more of a given product if they also demand more of the complementary product.
3. 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. A supplier accrues power if the buyer has few other sources of supply.
4. Choosing the right supplier is an important strategic decision; suppliers must be efficient and flexible.

E. Customers

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

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AMAZON REINVENTS THE COMPETITIVE ENVIRONMENT… BUT IS IT FOR THE BETTER?

Progress Report

Summary

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.

Discussion Questions

1. No member of Amazon's Marketplace could pose a serious competitive threat to Amazon today. But Amazon wasn't always the giant it is now. Initially, the creation of the third-party Marketplace was a risk. Do you think Amazon's treatment of third-party vendors is fair? Why or why not?

Student answers will vary. Some may argue that Amazon is so dominant that smaller third-party vendors will necessarily be at a severe disadvantage and not be treated fairly. Other students could argue that Amazon created its marketplace for third-party vendors and those vendors have been far more successful as a result of it, which is a good thing.

2. Who are Amazon's competitors? What effect do you think the Marketplace has on Amazon's competitors?

Sample answer: Amazon has many different competitors given the size and diversity of its operations. It's most direct competitor currently appears to be Wal-Mart, which is making a massive investment in its online retail business.

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.

III. ENVIRONMENTAL ANALYSIS

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POWERPOINTS
Slide 22 Environmental Analysis
Slide 23 Environmental Scanning
Slide 24 Exhibit 2.7 Attractive and Unattractive Environments
Slide 25 Scenario Development and Forecasting
Slide 26 Benchmarking

LO 2.4: 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. It's 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)

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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, leading to increased absenteeism and health costs. Managers who promote the use of eco-cleaners, which do not evaporate and emit 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]

B. 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.

[3] Boulden, Jennifer. "The air in there." *Fast Company*, September 2007, Iss. 118, pg. 64.

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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]

C. 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 and average their predictions.
   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

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 27 Changing the Environment You Are In (1)
Slide 28 Changing the Environment You Are In (2)
Slide 29 Changing the Environment You Are In (3)
Slide 30 Influencing Your Environment
Slide 31 Exhibit 2.8 Independent Action
Slide 32 Exhibit 2.9 Cooperative Action

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[4] *Techweb Newswire.* "Dell suspends bonuses, streamlines management." February 5, 2007

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Slide 33 Adapting to the Environment: Changing the Organization

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 that 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.

B. Influencing Your Environment

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

C. Adapting to the Environment: Changing the Organization

1. To cope with environmental uncertainty and change, organizations frequently make adjustments in their structures and work processes:

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

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a. Decentralized approach—when top-level managers use ***empowerment***, the process of sharing power with employees, to allow lower-level managers to make decisions to benefit the firm.
b. *Organic* structures, changing products, technologies, customers, or competitors, give organizations the flexibility to adjust to change.

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 processes*** allow 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]

D. Choosing an Approach

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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 34: Choosing an Approach
Slide 35 Organizational Culture (1)
Slide 36 Exhibit 2.10 Culture Ground Rules at Warby Parker
Slide 37 Organizational Culture (2)
Slide 38 Organizational Culture (3)
Slide 39 Management in Action: The Internal Culture at Amazon
Slide 40 In Review

LO 2.5: Define elements of an organization's culture

A. Organization Culture

[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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1. ***Organization culture*** is the set of important assumptions about the organization and its goals and practices that members of the company share.
   a. It's a system of shared values about what is important.
   b. It's shared beliefs about how the world works.

LO 2.6: Discuss how an organization's culture affects its response to its external environment

2. Cultures can be strong or weak.
   a. Strong cultures
      i. Everyone understands and believes in firm's goals, priorities, and practices
      ii. An advantage if appropriate behaviors are supported
      iii. Can be counterproductive when changes become necessary
   b. Weak cultures
      i. Different people hold different values
      ii. Confusion about corporate goals
      iii. Not clear what principles should guide decisions

3. 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
      v. Cultural assessments TBEXAM.COM

4. Managing Culture
   a. The best managers clearly articulate ideals to pursue and values to exhibit.
   b. Communicate with employees regularly.
   c. Embody the vision of the company.

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CONNECT®
Click and Drag: Elements of Organizational Culture

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."

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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?

B. Organizational Climate

1. Patterns of attitudes and behavior that shape people's experience of an organization is called ***organizational climate***.
2. Organizations are most effective when their climate motivates and enables workers to achieve the organization's strategy

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MANAGEMENT IN ACTION

THE INTERNAL CULTURE AT AMAZON

Onward

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 it and try to improve, or resign with severance.

1. Is it possible for a company to be as successful as Amazon without having a culture of "high standards"? Why or why not?

Sample answer: The answer to this question depends on how "success" is defined. While some companies like Amazon are successful and have demonstrated a passion for high standards in customer service and operational efficiency, it is potentially possible for a company that defines "success" solely as profitability to find ways to be profitable without having a culture of high standards for the quality of their products and services. Although this would be unethical and irresponsible, a company could show little concern for the quality of a product it makes but charge a high price for it that could still make it successful or profitable.

2. To what degree do and can employees "self-select" their work environments? How does Bezos's belief inform Amazon's reported treatment of its employees?

Sample answer: To a large degree, it could be argued that employees do self-select into an organizational culture because job candidates evaluate the culture of the companies that they apply for a job with and usually only accept job offers from companies where they feel there is a good match between the culture of the company and their personal values.

Bezos believed in making Amazon a company with a high-intensity culture that drives productivity and growth. This can be seen in the efficiency-driven operations at Amazon facilities, some which have been criticized for creating high levels of employee stress.

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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 workers 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.

Companies often compete through innovation, quality, service, and cost. In which of these areas would you say PepsiCo tried to create a competitive advantage?
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 from which PepsiCo has tried to move away.

Would the cost be a bigger barrier for someone who opens a new tattoo shop or a developer of mobile game apps? Why?
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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. However, 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.

The ability to manufacture customized products quickly became a competitive requirement. 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.

Identify some excellent and poor customer service that you have received.
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 groceries home delivery company?
For a grocery home delivery, a flexible process is any part of the service that enables the company to customize its offerings, such as in careful selection of perishable items like produce, meat, and dairy products. Besides creating processes for customers to get the freshest food,

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timely delivery is another issue. The company must also concentrate on the delivery side of their service. To compete with other grocery delivery services, can this company promise delivery within a certain amount of time when ordered the same day? If deliveries are totally customized by time, management will have to figure out how many additional employees will be needed for shopping and delivering. Maybe deliveries could be handled on a contract basis with people using their own cars.

To be aligned with its environment, what values should a meal kit delivery 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. Simplicity of the recipe and good taste must work together with the environmental promises or people won't buy them.

SPOTLIGHT ON . . .

COMBATING CLIMATE CHANGE

A growing trend is that business, and not the government, is taking a leadership role in making a difference in responding to the long-term consequences of climate change. Part of the reason for this is that businesses (e.g., Apple, Lego, Walmart, Starbucks) are viewing climate change issues as having the potential to create jobs rather than to eliminate them. They are examining all aspects of their operations including their supply chains, operations, use of materials and energy at their facilities, to identify opportunities to reduce their carbon footprint and to reduce the long-term adverse consequences of climate change. Together with the efforts of government and the citizens and communities of the United States, the hope is to achieve aggressive goals for reducing climate change in the future.

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Questions

1. What do you think the role of business should be in relation to the environment?

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.

2. Do you patronize businesses based on their sustainability efforts? Why or why not?

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.

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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.

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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.

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

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.

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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 that organizations can make to the environment. What examples have you seen recently of an organization's responding effectively to its environment? Did the effectiveness of the response depend on 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 its current environment through competitive aggression, competitive pacification, public relations, voluntary action, legal action, or political action.

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

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 interest you. Do some research and talk with an employee or two, if possible. How would you characterize the cultures 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."

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7. **When you visited colleges to select the one 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 College 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.

8. **Think about jobs you've had. How would you describe the cultures you worked in?**

Student answers will vary based on their experiences.

9. **See question 8 and do the same for teams or clubs you've been involved in.**

Student answers will vary based on their experiences.

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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?**

   Using the music industry as an example, explain how in order to 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?**

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   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.

Teaching Tips

This exercise can be completed in about 30-40 minutes. It would be extremely helpful if students can access the Internet so that they can conduct research on the company that they were assigned by the instructor or students can be allowed to select their own company. It would be helpful to remind students what types of factors make up the external environment of an organization to guide them in terms of what to look for and what to focus on as they conduct their environmental analysis. Students can make brief 3-5 minute presentations of their environmental analyses to the class. Instructors should try to facilitate discussion from the class after each presentation by asking whether any key issues may have been missed or which factors students feel are most important. Finally, it would help to ask students what the practical takeaways are from this exercise in terms of what they should remember to do regarding environmental analysis after they graduate and have a job.

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EXERCISE 2.2. CORPORATE CULTURE PREFERENCE SCALE

Objective: This self-assessment is designed to help you identify a corporate culture that fits most closely with your personal values and assumptions.

Suggested Responses to 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, 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.)

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Teaching Tips

This exercise should be conducted by having students work in groups of 4-6 so that they will have as many possibilities to consider to identify an appropriate culture. Students work in their groups for 15-20 minutes and then have them report out the results of their analyses. The instructor can facilitate discussion of each presentation by also asking students whether they saw any relationship between the type of culture in classes and how much the students enjoyed those classes or how much they feel they learned? Also, it would be helpful to discuss the practical takeaways from the exercise in terms of things they should remember to do about culture once they graduate and have a job in a real world organization.

CONCLUDING CASE

PRGA MOTORS

Case Summary

This case reveals how important it is for organizations of all sizes to be prepared and ready to change both marketing and manufacturing strategies. When PRGA Motors introduced the Synapse, it was priced at $2,000 to $2,500, but it 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 both the marketing and manufacturing strategies, including a rebranding from “cheapest in the world” to “awesome” car that is also affordable.

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Chapter Topics Related to the Case:

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

Case Discussion Questions

1. **Which barriers to entry contributed most to PRGA Motors’ lack of success with the original Synapse??**

   Low sales were a result of the unacceptably low level of quality and features built into the vehicle, including an underpowered and noisy motor, no stereo or air conditioning, and wires visible in the driver’s compartment. Another reason for the Synapse’s decline was a missed target market, namely young urban drivers, who didn’t like the Synapse’s cheap and unsafe image.

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2. Which macroenvironment factors did PRGA Motors consider when adjusting the marketing and manufacturing strategies to achieve success with the more recent Snap and LX models?

They 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 PRGA Motors will succeed in delivering a successful low-cost vehicle to consumers?

The new focus on a different set of demographics, as well as technological advances, puts PRGA 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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