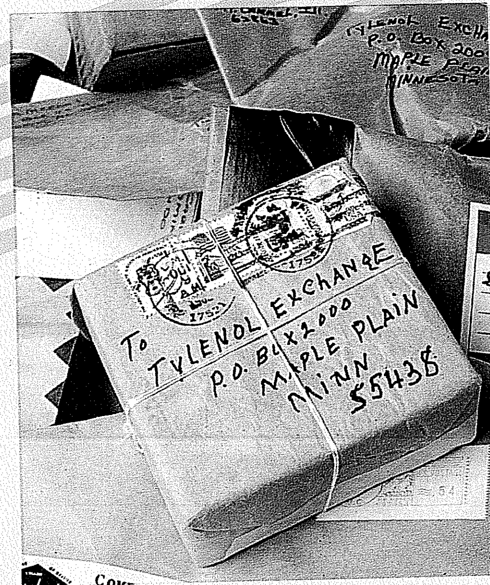


Johnson & Johnson no longer sells Tylenol in capsule form because of two apparently unrelated poisonings. Tylenol is now sold as solid caplets. These poisonings cost J&J a half-billion dollars and significantly hurt the company's financial performance, yet these incidents were something over which management had little control.

In the fall of 1982, eight Chicago-area residents died after taking Extra-Strength Tylenol capsules that had been laced with cyanide. In the winter of 1986, in a similar scenario, a New York woman died from a cyanide-laced Tylenol capsule. In both cases, the management at McNeil Consumer Products, the manufacturer and a division of Johnson & Johnson (J&J), claimed that it was blameless. Thorough investigations proved it right. Both poisonings were clearly the actions of deranged individuals. That fact, however, didn't reduce the devastating impact the poisonings had on Tylenol's sales and J&J's profits.[1]

After the 1982 incident, J&J recalled and destroyed 31 million bottles of Tylenol capsules, resulting in an after-tax write-off of $50 million. The company then spent nearly $300 million more to promote its repackaged "triple-sealed to resist tampering" capsules. It succeeded in restoring public trust in the product and reclaiming its market position. But after the 1986 poisoning, J&J's management decided to abandon the use of capsules in all its over-the-counter drugs and instead market them in the form of solid caplets. Again, the costs were high; approximately $150 million was spent to recall the capsules, reorganize the production process, and promote the new caplets.

Is the J&J case unique? It is if you focus on the tampering with the Tylenol product. But this case is not unique if you look at it as an instance where management is hit broadside by some action that it did not create and that it has little control over. A more recent incident confirms this point. In September 1992, a well-publicized Finnish study was released that showed a clear and strong relationship between a high level of iron in the body and heart attacks. Suddenly, iron supplement products were under siege. For the management of SmithKline Beecham PLC, which makes Geritol and other iron supplements, it was a devastating blow. With a sudden decline in sales, management was forced to redirect company resources to bolstering its iron supplement product lines.

J&J's and SmithKline's troubles were not of their own making. Incidents such as these raise the question of whether an organization's successes or failures are always directly attributable to management.

The Manager: Omnipotent or Symbolic?

omnipotent view
The view that managers are directly responsible for the success or failure of an organization.

symbolic view
The view that management has only a limited effect on substantive organizational outcomes because of the large number of factors outside of management's control.

The dominant view in management theory and in society is that managers are directly responsible for an organization's success or failure. We'll call this perspective the **omnipotent view of management.** In contrast, some observers have argued that managers have little influence on organizational outcomes. Instead, much of an organization's success or failure is said to be due to forces outside management's control. This perspective has been labeled the **symbolic view of management.**[2]

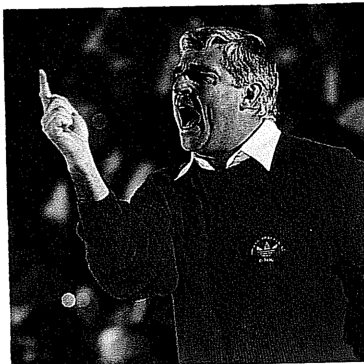
In this section, we want to review each of these positions. Our reason should be obvious. The analysis will go a long way in clarifying just how much credit or blame managers should receive for their organization's performance.

The Omnipotent View

In Chapter 1, we said, "Good managers can turn straw to gold. Poor managers can do the reverse." These statements reflect a dominant assumption in management theory: The quality of an organization's managers determines the quality of the organization itself. It's assumed that differences in an organization's effectiveness or efficiency are due to the decisions and actions of its managers. Good managers anticipate change, exploit opportunities, correct poor performance, and lead their organizations toward their objectives (and even change those objectives when necessary). When profits are up, management takes the credit and rewards itself with bonuses, stock options, and the like. When profits are down, the board of directors replaces top management in the belief that new management will bring improved results. As a case in point, the board at Prudential Securities replaced the firm's chief executive, George Ball, in early 1991.[3] Although he had held the job since 1982, big losses in 1990 brought about Ball's departure.

This view of managers as omnipotent is consistent with the stereotypical picture of the swashbuckling, take-charge executive who can overcome any obstacle in carrying out the organization's objectives. Chrysler's recently retired chairman Lee Iacocca, for example, became an American corporate folk hero in the mid-1980s as a result of his company's performance. When Iacocca took over Chrysler in the late 1970s, it was on the verge of bankruptcy. In 1980, the company lost $1.7 billion. But Iacocca cut costs and introduced new products, including the minivan. In 1984, Chrysler netted $2.4 billion in profits and Iacocca got most of the credit for the turn-around.[4] This omnipotent view, of course, is not limited to business organizations. It can, for instance, help to explain the high turnover among college coaches.

College coaches manage their teams. They decide which players to recruit and



Bobby Knight, the extremely successful basketball coach at Indiana University, earns high pay and is allowed his occasional instances of bizarre behavior. This reflects the omnipotent view—held by the IU administration, community, and alumni—that Knight is directly responsible for the success of the IU basketball program.

which players start, select assistant coaches, teach plays to their teams, and select every play during games. Coaches who lose more games than they win are seen as ineffective. They are fired and replaced by new coaches who, it is assumed, will correct the inadequate performance.

Regardless of extenuating circumstances, when organizations perform poorly, someone has to be held accountable. In our society, that role is played by management. Of course, when things go well, management gets the credit—even if it had little to do with causing the positive outcome.

The Symbolic View

A few years back, the board of directors of International Harvester (now called Navistar International) fired the company's chairman and chief executive officer, Archie McCardell. The company was losing tens of millions of dollars a month because farmers, suffering from depressed farm prices, couldn't afford to buy the farm machinery and heavy-duty trucks that International Harvester made. Of course, McCardell hadn't created the farm problem, nor was his firing likely to increase the demand for farm machinery and trucks. He was merely in the wrong place at the wrong time, and he lost his job because of it.

This example illustrates the symbolic view of managers. The symbolic view assumes that a manager's ability to affect outcomes is highly constrained. In this view, it is unreasonable to expect managers to have much of an effect on an organization's performance.

According to the symbolic view, an organization's results are influenced by a number of factors outside the control of management. These include the economy, government policies, competitors' actions, the state of the particular industry, the control of proprietary technology, and decisions made by previous managers in the organization. Referring back to our Chrysler example, it is interesting that by the late 1980s, Chrysler was again in financial trouble and suffering large losses. While some observers blamed Chrysler's problems on poor decisions made by Iacocca and his management team, a more plausible explanation lies outside Iacocca's control: Overcapacity in the industry created by new Japanese plants in the U.S.[5]

Following the symbolic view, management has, at best, only a limited effect on *substantive organizational outcomes.* What management does affect greatly are *symbolic* outcomes.[6] Management's role is seen as creating meaning out of randomness, confusion, and ambiguity. Management creates the illusion of control for the benefit of stockholders, customers, employees, and the public. When things go right, we need someone to praise. Management plays that role. Similarly, when things go wrong, we need a scapegoat. Management plays that role, too. However, according to the symbolic view, the *actual* part management plays in success or failure is minimal.

Reality Suggests a Synthesis

In reality, managers are neither impotent nor all-powerful. Internal constraints that restrict a manager's decision options exist within every organization. These internal constraints are derived from the organization's culture. In addition, external constraints impinge on the organization and restrict managerial freedom. These external constraints come from the organization's environment.

Figure 3–1 depicts the manager as operating within constraints. The organization's culture and environment press against the manager, restricting his or her options. Yet, in spite of these constraints, managers are not powerless. There still remains an area in which managers can exert a significant amount of influence on an organization's performance—an area in which good managers differentiate themselves from poor

Is the decline in sales of Rolls Royces and the company's recent losses due to poor management? A case can be made that Rolls Royce did well in the 1980s because of worldwide prosperity and a belief among consumers that "if you've got it, flaunt it." Rolls Royce was in the right place at the right time. In the early 1990s, a prolonged recession, the imposition of a luxury tax, and changing societal views that now frowned on conspicuous consumption all have ganged up to seriously hurt Rolls Royce sales. The declining sales are not management's fault. Rather, there are fewer people able to afford $100,000+ cars, and among those who can, it is no longer fashionable.

ones. In the remainder of this chapter, we'll discuss organizational culture and environment as constraints. But, as we'll also point out later in this book, these constraints need not be regarded as fixed in all situations. For some organizations, in certain circumstances, it may be possible to change and influence their culture and environment and thus expand their management's area of discretion.

The Organization's Culture

organizational culture
A system of shared meaning within an organization that determines, in large degree, how employees act.

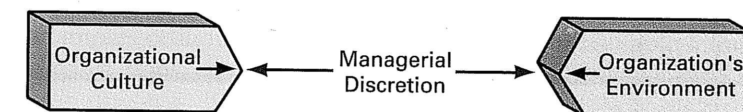
We know that every individual has something that psychologists have termed "personality." An individual's personality is made up of a set of relatively permanent and stable traits. When we describe someone as warm, innovative, relaxed, or conservative, we are describing personality traits. An organization, too, has a personality, which we call the organization's *culture.*

What Is Organizational Culture?

What do we specifically mean by the term **organizational culture?** We use the term to refer to a system of *shared meaning.* Just as tribal cultures have totems and taboos that dictate how each member will act toward fellow members and outsiders, organizations have cultures that govern how its members should behave. In every organization, there are systems or patterns of values, symbols, rituals, myths, and practice that have evolved over time.[7] These shared values determine, in large degree, what employees see and how they respond to their world.[8] When confronted with a problem, the organizational culture restricts what employees can do by suggesting the correct way—"the way we do things here"—to conceptualize, define, analyze, and solve the problem.

Our definition of culture implies several things. First, culture is a perception. But this perception exists in the organization, not in the individual. As a result, individuals with different backgrounds or at different levels in the organization tend to describe

FIGURE 3–1
Parameters of Managerial Discretion

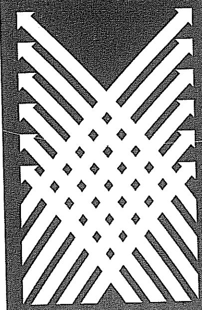


the organization's culture in similar terms. That is the *shared* aspect of culture. Second, organizational culture is a descriptive term. It is concerned with how members perceive the organization, not with whether or not they like it. It describes rather than evaluates.

Though we currently have no definitive method for measuring an organization's culture, preliminary research suggests that cultures can be analyzed by assessing how an organization rates on ten characteristics.[9] They have been identified as follows:

1. *Member identity:* the degree to which employees identify with the organization as a whole rather than with their type of job or field of professional expertise.
2. *Group emphasis:* the degree to which work activities are organized around groups rather than individuals.
3. *People focus:* the degree to which management decisions take into consideration the effect of outcomes on people within the organization.
4. *Unit integration:* the degree to which units within the organization are encouraged to operate in a coordinated or interdependent manner.
5. *Control:* the degree to which rules, regulations, and direct supervision are used to oversee and control employee behavior.
6. *Risk tolerance:* the degree to which employees are encouraged to be aggressive, innovative, and risk-seeking.

ETHICAL DILEMMAS IN MANAGEMENT



Should Organizations Protect Whistleblowers?

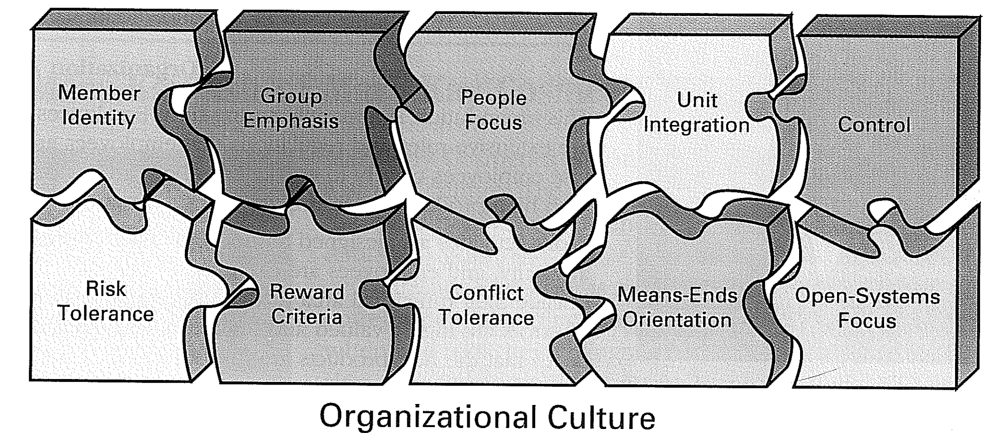
What do you do when you discover that your boss or your entire organization is engaged in unethical practices? If you're an employee of the federal government, the 1989 Whistleblower's Protection Act provides you with means of redress and protection. If you are an employee of one of the nineteen state governments with similar legislation, you're also protected. But what if you're not among this select group?

Some organizations have created cultures that encourage free expression of controversial or dissenting views, protect employees with formal grievance procedures, and provide mechanisms whereby employees can anonymously report unethical practices to senior management. Others, however, regard **whistleblowing**—reporting unethical practices to outsiders such as the press, government agencies, or public interest groups—as the ultimate demonstration of disloyalty. Whistleblowing embarrasses managers and erodes their authority. In such organizations, whistleblowing can mean putting one's job or entire career on the line.

On the other hand, does loyalty to an organization require you to ignore unethical or illegal practices? Does an employee have to forgo his or her rights to free speech in order to keep a job? Many states have passed laws to protect whistleblowers. But even where there is legal protection, employees often still fear subtle forms of retaliation if they embarrass their boss, senior management, or the organization. What do *you* think about whistleblowing? Would *you* be willing to blow the whistle if it meant risking your job?

Whistleblowing
Reporting unethical practices by your employer to outsiders such as the press, government agencies, or public interest groups.

FIGURE 3–2
Characteristics of an Organization's Culture



Elvis sighted in Vermont! To relieve the tension of work, Ben & Jerry's Homemade sponsors events like Elvis Day in which everyone—from top managers to production employees—is encouraged to participate. An essential part of Ben & Jerry's culture is a steadfast belief in fun. This culture affects the way the workers view the company and helps to keep the organization, and the ice cream, flowing smoothly.

7. *Reward criteria:* the degree to which rewards such as salary increases and promotions are allocated on employee performance criteria in contrast to seniority, favoritism, or other nonperformance factors.
8. *Conflict tolerance:* the degree to which employees are encouraged to air conflicts and criticisms openly.
9. *Means-ends orientation:* the degree to which management focuses on results or outcomes rather than the techniques and processes used to achieve those outcomes.
10. *Open-systems focus:* the degree to which the organization monitors and responds to changes in the external environment.

As illustrated in Figure 3–2, the organization's culture is a composite picture formed from these ten characteristics. Table 3–1 demonstrates how these characteristics can be mixed to create highly diverse organizations.

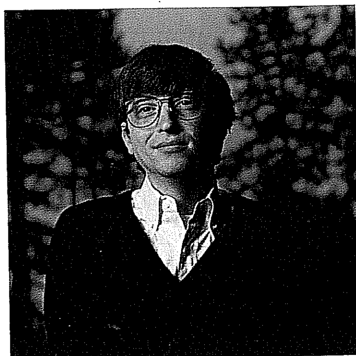
The characteristics listed above are relatively stable and permanent over time. Just as an individual's personality is stable and permanent—if you were outgoing last month, you're likely to be outgoing next month—so, too, is an organization's culture.

General Motors has been almost universally described as a cold, formal, risk-aversive firm. It was that way in the 1930s, and it is basically the same today. In contrast, Hewlett-Packard is an informal, loosely structured, and highly humanistic organization. Both General Motors and Hewlett-Packard have been essentially successful over the decades despite having completely different cultures.

The Source of Culture

An organization's culture usually reflects the vision or mission of the organization's founders. Because the founders have the original idea, they also have biases on how to carry out the idea. They are unconstrained by previous customs or ideologies. The founders establish the early culture by projecting an image of what the organization should be. The small size of most new organizations also helps the founders impose their vision on all organizational members. An organization's culture, then, results from the interaction between (1) the founders' biases and assumptions and (2) what the first employees learn subsequently from their own experiences.[10]

Thomas Watson at IBM and Frederick Smith at Federal Express are just two examples of individuals who have had an immeasurable influence on shaping their organizations' cultures. For instance, Watson's views on research and development,



Bill Gates is personally aggressive, competitive, and highly disciplined. These are the same characteristics often used to describe Microsoft, the software giant he cofounded and currently heads.

TABLE 3–1 Two Highly Diverse Organizational Cultures

Organization A

This organization is a manufacturing firm. Employees' loyalty is to the organization. There are extensive rules and regulations that employees are required to follow. Managers supervise employees closely to ensure that there are no deviations. Management is concerned with high productivity regardless of the impact on employee morale or turnover.

Work activities are designed around individuals. There are distinct departments and lines of authority, and employees are expected to minimize formal contact with other employees outside their functional area or line of command. Effort, loyalty, cooperation, and avoidance of errors are highly valued and rewarded. The company promotes only from within and believes that the best products are those developed inside the firm.

Organization B

This organization is also a manufacturing firm. Here, however, employees pride themselves on their technical skills, current expertise, and professional contacts outside the company. There are few rules and regulations, and supervision is loose because management believes that its employees are hardworking and trustworthy. Management is concerned with high productivity but believes that this comes from treating its people right. The company is proud of its reputation as being a good place to work.

Job activities are designed around work teams and team members are encouraged to interact with people across functions and authority levels. Managers are evaluated not only on their department's performance but on how well their department coordinates its activities with other departments in the organization. Promotions and other valuable rewards go to employees who make the greatest contributions to the organization, even when those employees have strange ideas, unusual personal mannerisms, or unconventional work habits. The company fills upper level positions with the best people available, which sometimes includes hiring people away from competitors. The company prides itself on being market-driven and rapidly responding to the changing needs of its customers.

product quality, employee attire, and compensation policies are still evident at IBM, although he died in 1956. Federal Express's aggressiveness, willingness to take risks, focus on innovation, and emphasis on service are central themes that founder Smith has articulated since the company's birth.

Strong Versus Weak Cultures

strong cultures
Organizations in which the key values are intensely held and widely shared.

While all organizations have cultures, not all cultures have an equal impact on employees. **Strong cultures**—organizations in which the key values are intensely held and widely shared—have a greater influence on employees than do weak cultures. The more that employees accept the organization's key values and the greater their commitment to those values, the stronger the culture is.

Whether an organization's culture is strong, weak, or somewhere in between depends on factors such as the size of the organization, how long it has been around, how much turnover there has been among employees, and the intensity with which the culture was originated. In some organizations, it's unclear what's important and what isn't—a characteristic of weak cultures. In such organizations, culture is less likely to affect managers. However, most organizations have moderate to strong cultures. There is relatively high agreement on what's important, what defines "good" employee behavior, what it takes to get ahead, and so forth. We should expect that a culture will have an increasing impact on what managers do as it becomes stronger.[11]

MANAGERS WHO MADE A DIFFERENCE

Mary Kay Ash of Mary Kay Cosmetics

Mary Kay Cosmetics is a highly successful company with a strong culture. The person who created this culture is the same person who founded the firm—Mary Kay Ash.[12]

The Mary Kay story is an inspiration to anyone with entrepreneurial aspirations. She was in her early 50s when she took her savings of $5,000 and started selling skin care products out of a small store in Dallas. Twenty years later, her firm had grown into an international corporation with annual sales of $300 million and a sales force of 200,000. Mary Kay Cosmetics today averages more than a 40 percent return on its equity—a percent which ranks among the highest in American industry.

Mary Kay attributes her success to developing a corporate culture that encourages and rewards its people—particularly the independent sales people that market her cosmetics. As she puts it, "We're only as good as our people." While she is committed to offering proven products of the highest quality, she has no monopoly on such products. What differentiates the Mary Kay firm from its competitors is the commitment to its sales people, training directors, and managers. Mary Kay selects the best people available and pays them top dollar. It makes every effort to encourage its people by reinforcing any and all positive sales efforts. Mary Kay has created a reward and incentive program that has allowed literally thousands of her sales representatives to earn in excess of $50,000 a year.

If there is one activity that best symbolizes the Mary Kay culture, it's the company's annual three-day meeting. It's a spectacular, "circus-like" event, combining inspiration, excitement, education, and employee recognition. One of its major purposes is to publicly recognize as many of Mary Kay's sales people as possible. Those with superior sales records are rewarded with money, jewelry, and the famous Mary Kay "pink Cadillacs." But more importantly, according to Mary Kay Ash, they receive public recognition before their peers. The result is a sales organization with unusual enthusiasm and team spirit.

Influence on Management Practice

Because it establishes constraints upon what they can and cannot do, an organization's culture is particularly relevant to managers. These constraints are rarely explicit. They are not written down. It even may be rare to hear them spoken. But they're there, and all managers quickly learn "the ropes to skip and the ropes to know" in their organizations. To illustrate, you won't find the following values written down anywhere, but each comes from a real organization:

Look busy even if you're not.

If you take risks and fail around here, you'll pay dearly for it.

Before you make a decision, run it by your boss so that he or she is never surprised.

We make our product only as good as the competition forces us to.

What made us successful in the past will make us successful in the future.

What made us successful in the past will make us successful in the future.

If you want to get to the top here, you have to be a team player.

The link between values such as these and managerial behavior is fairly straightforward. If a business firm's culture supports the belief that profits can be increased by cost cutting and that the company's best interests are served by achieving slow but steady increases in quarterly earnings, managers down the line are unlikely to pursue programs that are innovative, risky, long term, or expansionary. In organizations whose culture conveys a basic distrust of employees, managers are much more likely to use an authoritarian leadership style than a democratic one. Why? The culture conveys to managers what is appropriate behavior. For example, the president of Honeywell Information Systems recognized the constraining role that culture was playing in his effort to get his managers to be less authoritarian.[13] He noted that his organization's culture would have to become more democratic if it was going to succeed in the marketplace. He explained that managers' shared beliefs in authoritarian management had to some extent predisposed them to keep information "very close to the vest," resulting in situations in which people didn't have all the data they needed to make descent decisions.

An organization's culture, especially a strong one, therefore constrains a manager's decision-making options concerning all management functions. As depicted in Table 3–2, the major areas of a manager's job are influenced by the culture in which he or she operates.

The Environment

The recognition that no organization is an island unto itself was a major contribution of the systems approach to management. Anyone who questions the impact of the external environment on managing should consider the following:

One morning in January, 1993, Alaska Airlines' executives learned through a trade paper that United Airlines was cutting the price of a round-trip ticket between Los Angeles and Seattle from $399 to $289. As a competitor to United on this route and being determined not to lose market share, Alaska executives found themselves with no alternative other than to match United's cut-rate price.

Table 3–2 Examples of Managerial Decisions Affected by Culture

Planning

- The degree of risk that plans should contain
- Whether plans should be developed by individuals or teams
- The degree of environmental scanning in which management will engage

Organizing

- How much autonomy should be designed into employees' jobs
- Whether tasks should be done by individuals or in groups
- The degree to which department managers interact with each other

Leading

- The degree to which managers are concerned with increasing employee job satisfaction
- What leadership styles are appropriate
- Whether all disagreements—even constructive ones—should be eliminated

Controlling

- Whether to allow employees to control their own actions or to impose external controls
- What criteria should be emphasized in employee performance evaluations
- What repercussions will occur from exceeding one's budget

Land's End mails hundreds of thousands of catalogs each year. When the U.S. Postal Service recently increased the cost of third-class mail by 23 percent, management promptly saw company profits plummet.

In order to respond to recent revisions in the Clean Air Act, management at Ford Motor Co. will have to spend billions of dollars during the 1990s to cut tail pipe emissions and to make vehicles that can run on alternative fuels.

As these examples show, there are forces in the environment that play a major role in shaping managers' actions. In this section, we will identify some of the critical environmental forces that affect management and demonstrate how they constrain managerial discretion.

Defining the Environment

environment
Outside institutions or forces that potentially affect an organization's performance.

The term **environment** refers to institutions or forces that are outside the organization and potentially affect the organization's performance. As one writer put it, "Just take the universe, subtract from it the subset that represents the organization, and the remainder is environment."[14] But it's really not that simple.

general environment
Everything outside the organization.

General Versus Specific Environment The **general environment** includes *everything* outside the organization, such as economic factors, political conditions, the social milieu, and technological factors. It encompasses conditions that *may* affect the organization but whose relevance is not clear. The development of the technology that permits the contents of an entire bookshelf to be placed on one small computer disk is an example of a condition in the general environment of publisher Simon & Schuster. Its effect on the book industry is unclear, yet its potential impact could be very great. Similarly, the strength of the U.S. dollar against the pound and franc is an environmental force for U.S. companies that operate in Great Britain and France, but its effect is best described as only potentially relevant.

specific environment
The part of the environment that is directly relevant to the achievement of an organization's goals.

The bulk of management's attention is usually given to the organization's specific environment. The **specific environment** is the part of the environment that is directly relevant to the achievement of an organization's goals. It consists of the critical constituencies or components that can positively or negatively influence an organization's effectiveness. The specific environment is unique to each organization and changes with conditions. Typically, it will include suppliers of inputs, clients or customers, competitors, government agencies, and public pressure groups. Lockheed Corporation depends heavily on defense contracts; therefore, the U.S. Department of Defense is in its specific environment. Of course, elements in an organization's specific environment can move into its general environment over time and vice versa. An appliance manufacturer that had previously never sold to Sears, Roebuck recently signed a three-year contract to sell Sears 40 percent of its output of washing machines, which are to be sold under the retailer's Kenmore brand. This action moved Sears from the manufacturer's general environment to its specific environment.

An organization's specific environment varies depending on the "niche" that the organization has made for itself with respect to the range of products or services it offers and the markets it serves. Timex and Rolex both make wristwatches, but their specific environments differ because they operate in distinctly different market niches. Miami-Dade Junior College and the University of Michigan are both institutions of higher education, but they do substantially different things and appeal to different segments of the higher-education market. The managers or administrators in these organizations face different constituencies in their specific environments.

A comparison of private colleges and state colleges may make this clearer. Tuition

Burger King is an example of an organization in McDonald's specific environment. Actions that Burger King's management takes regarding concerns such as menu offerings and pricing have a direct effect on McDonald's operations.

at private colleges is considerably higher than it is at public colleges. The survival of private colleges depends on a constant influx of new students who can pay the tuition, alumni donations, and a record of placing their graduates in good jobs and graduate schools. A public college's survival is most dependent on appropriations by the state legislature. The result is that private colleges expend more effort than state colleges on student recruitment, alumni relations, and placement services. State college administrators, on the other hand, spend a lot of their time lobbying in the state capital for increased appropriations. The importance of our point should not be lost: The environmental factors that one organization is dependent upon and that have a critical bearing on its performance may not be relevant to another organization at all, even though they may appear at first glance to be in the same type of business.

Assessing Environmental Uncertainty The environment is important to managers because not all environments are the same. They differ by what we call their degree of **environmental uncertainty.** Environmental uncertainty, in turn, can be broken down into two dimensions: degree of change and degree of complexity.

environmental uncertainty
The degree of change and complexity in an organization's environment.

If the components in an organization's environment change a lot, we call it a *dynamic* environment. If change is minimal, we call it a *stable* one. A stable environment might be one in which there are no new competitors, no new technological breakthroughs by current competitors, little activity by public pressure groups to influence the organization, and so forth. This might describe, for instance, Smith-Corona's environment in the 1960s.

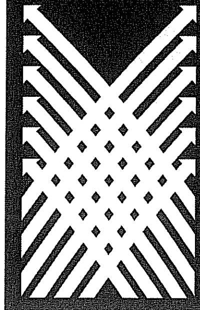
Smith-Corona had few significant competitors in its market niche—portable typewriters. When kids went off to college in the 1960s or early 1970s, they typically took a new Smith-Corona manual or electric typewriter with them. With the exception of the introduction of the electric portable, the technology was unchanging. But beginning in the mid-to-late 1970s, major alterations began to occur in Smith-Corona's environment because of breakthroughs in technology. Low-cost personal computers could do word processing and other functions in addition to typing. Electronic typewriters could do everything an electric could do but more cheaply because they have far fewer moving parts. Firms such as Apple, IBM, and Canon had superior technical capabilities in this new technology. Smith-Corona saw its market for portable typewriters virtually collapse in less than six years. The degree of change in Smith-Corona's environment went from stable to dynamic.

Similarly, U.S. automakers since the mid-1970s have faced a dynamic environment. In the 1950s and 1960s, for instance, they could predict with extremely high accuracy each year's sales and profits. Then came increased government safety and emission regulations, foreign competition, and escalating gasoline prices. Suddenly, managers in the U.S. auto industry found themselves confronting a radically changed environment.

What about rapid change that is predictable? Retail department stores are a case in point. They typically make a quarter or a third of their sales in December. The drop-off from December to January is precipitous. Does this predictable change in consumer demand make department stores' environment dynamic? No. When we talk about degree of change, we mean change that is unpredictable. If change can be accurately anticipated, it is not an uncertainty with which managers have to deal.

The other dimension of uncertainty relates to the degree of **environmental complexity.** The degree of complexity refers to the number of components in an organization's environment and the extent of the knowledge that the organization has about those components. When the washing machine manufacturer signed a contract to sell 40 percent of its output to Sears, it lowered its number of customers. It thus reduced its environmental complexity. The fewer customers, suppliers, competitors, and government agencies that an organization is required to interact with, the less uncertainty there is in its environment.

environmental complexity
The number of components in an organization's environment and the extent of an organization's knowledge about its environmental components.



Shaping Competitive Cultures

Some cultures help their organizations compete more effectively. Others actually hinder the organization. Whether an organization's culture is a positive or negative force essentially depends on how well the culture matches up with the organization's environment. The "right" culture for an organization facing a relatively stable environment is not likely to be effective when that environment turns dynamic.

Efforts to create a cultural revolution are taking place in many organizations today. Since their environments have become more dynamic, such companies as General Electric, IBM, Goodyear, Mobil, USX, and Xerox are trying to reshape their cultures to make themselves more competitive.

What kind of cultures are managers trying to create? While it's hard to generalize, it is usually true that dynamic environments match up best with cultures that encourage risk-taking and innovation, focus on ends rather than means, increase employee decision-making authority, facilitate inter-unit cooperation, and respond quickly and easily to their changing environment. IBM, as a case in point, is determined to shake up its bureaucratic culture and create a company that is more competitive and that has faster moving independent units. As part of this effort, it recently established a separate company—a wholly owned subsidiary of IBM—to develop, manufacture, distribute, and market personal computers.[15]

Of course, it's one thing for management to recognize the need to reshape its organizational culture and another to pull it off. The problem, as we've described, is that organizational cultures are relatively stable and enduring over time. That makes them very hard to change.

Complexity is also measured in terms of the knowledge an organization needs to have about its environment. Boeing managers must know a great deal about their suppliers' operations, for instance, if they are to ensure that the jet planes they build will perform without a flaw. Managers of retail grocery stores, in contrast, have a minimal need for sophisticated knowledge about their suppliers.

Environmental uncertainty is presented as a two-by-two matrix in Figure 3–3 on page 80. There are four cells, cell 1 being lowest in environmental uncertainty and cell 4 being highest. Management's influence on organizational outcomes is greatest in cell 1 and least in cell 4.

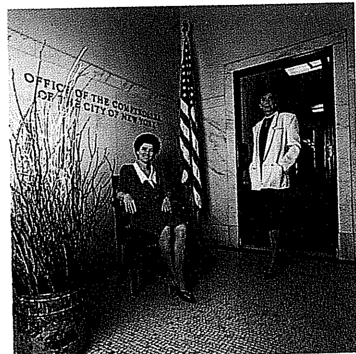
Since uncertainty is a threat to an organization's effectiveness, managers try to minimize it. Given a choice, managers would prefer to operate in environments like those in cell 1. But managers rarely have full control over that choice. For example, managers in firms that produced and marketed computer software in 1993 found themselves in cell 4. Because they chose this particular niche to operate in, they faced a highly dynamic and complex environment. Had they chosen to manufacture standard wire coat hangers, they would probably have found themselves in cell 1.

The Organization and Its Environment Figure 3–4 on page 81 summarizes our position that an organization is a system that interacts with and depends upon its specific environment but remains ever mindful of the potential influences of its general environment.

In the following sections we elaborate on the components in both specific and general environments and demonstrate how environments can constrain the choices available to managers.

FIGURE 3–3
Environmental Uncertainty Matrix

Degree of Complexity	Degree of Change: *Stable*	Degree of Change: *Dynamic*
Simple	*CELL 1* Stable and predictable environment Few components in environment Components are somewhat similar and remain basically the same Minimal need for sophisticated knowledge of components	*CELL 2* Dynamic and unpredicatable environment Few components in environment Components are somewhat similar but are in continual process of change Minimal need for sophisticated knowledge of components
Complex	*CELL 3* Stable and predictable environment Many components in environment Components are not similar to one another and remain basically the same High need for sophisticated knowledge of components	*CELL 4* Dynamic and unpredictable environment Many components in environment Components are not similar to one another and are in continual process of change High need for sophisticated knowledge of components



New York City comptroller Elizabeth Holtzman (seated) and Beverly Hamilton, deputy comptroller under Holtzman, were not pleased with management decisions at Lockheed. Hamilton, who oversees, $38 billion in New York pension funds that include a large block of Lockheed stock, recently met with Lockheed's CEO, Daniel Tellep. She told him both her own institution and others wanted a voice in the management of Lockheed. Seeing the institutions' power, Tellep offered them three representatives on an expanded board. Tellep was reacting to pressure from a group in Lockheed's environment, in this case an institutional stockholder.

The Specific Environment

As previously noted, different organizations face different specific environments. For most organizations, though, suppliers, customers, competitors, governmental agencies, and special-interest pressure groups are external factors that impose uncertainty.

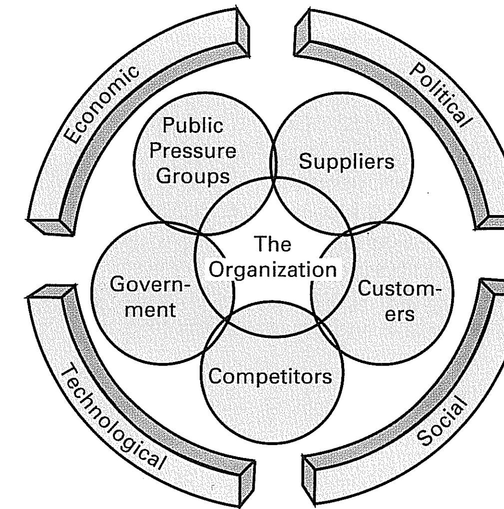
Suppliers When you think of an organization's suppliers, you typically think of firms that provide materials and equipment. For a building contractor, this includes firms that sell and rent bulldozers and trucks, office supply firms, lumber yards, hardware suppliers, and distributors of brick and concrete. But the term *suppliers* also includes providers of financial and labor inputs. Stockholders, banks, insurance companies, pension funds, and other similar institutions are needed to ensure a continuous supply of capital. Exxon can have rights to an oil field that can generate billions of dollars in profits, but the profits will remain only potential unless management can obtain the funds necessary to drill the wells. Labor unions, occupational associations, and local labor markets are sources of employees. A lack of qualified nurses, for instance, makes it difficult for a hospital to run efficiently.

Management seeks to ensure a steady flow of needed inputs at the lowest price possible. Because these inputs represent uncertainties—that is, their unavailability or delay can significantly reduce the organization's effectiveness—management typically goes to great efforts to ensure a steady flow. As you'll see later in this book, the reason most large organizations have departments of purchasing, finance, and personnel is the importance management places on the acquisition of machinery, equipment, capital, and labor inputs.

Customers Organizations exist to meet the needs of customers. It is the customer or client who absorbs the organization's output. This is true even for government organizations. They exist to provide services, and we are reminded, especially at election time, that we indicate by the way we vote how satisfied we actually are as customers.

Customers obviously represent potential uncertainty to an organization. Customers' tastes can change. They can become dissatisfied with the organization's product or service. Of course, some organizations face considerably more uncertainty as a

FIGURE 3–4
The Organization and Its Environment



result of their customers than do others. In general, we would expect customers to represent greater uncertainty for a manager of an upscale restaurant, such as Spago in Los Angeles, than for a manager of a county hospital.

Competitors All organizations, even monopolies, have one or more competitors. PepsiCo has Coca-Cola. General Motors has Toyota. New York University has Columbia, City University of New York, and a host of others. The U.S. Postal Service has a monopoly on mail service, but it competes against United Parcel, Federal Express, Western Union, and other forms of communication such as the telephone and fax machines.

No management can afford to ignore its competition. When they do, they pay a very serious price. Many problems incurred by the railroads, for instance, have been attributed to their failure to recognize who their competitors were. They believed they were in the railroad business when, in fact, they were in the transportation business. Trucking, shipping, aviation, and bus and private automobile transportation are all competitors of railroads. Fifteen years ago, the three major broadcasting networks—ABC, CBS, and NBC—virtually controlled what you watched on television. If your set was on, the probability was better than 90 percent that you were watching one of the major networks. Today, with the rapid expansion of cable, VCRs, and the syndicated programs sold to local stations, less than half of the average television viewer's time is spent watching programing from the major networks.

These examples illustrate that competitors—in terms of pricing, services offered, new products developed, and the like—represent an important environmental force that management must monitor and to which it must be prepared to respond.

Government Federal, state, and local governments influence what organizations can and cannot do. Some federal legislation has tremendous impact. For example, consider the following: The Sherman Anti-Trust Act of 1890 sought to stop monopoly practices that resulted in restraint of trade. The National Labor Relations Act of 1935 stipulated that employers are required to recognize a union chosen by the majority of their employees; it also established procedures and rules governing collective bargaining. The Civil Rights Act of 1964 made it unlawful for an employer to discharge, refuse to hire, or discriminate in employment against an individual because of race, color, religion, sex, or national origin. To illustrate the impact that federal regulation has had on business firms, Table 3–3 lists thirteen pieces of legislation passed in the last twenty-five years.

TABLE 3-3 Significant Legislation Regulating Business Since 1970

Economic Stabilization Act of 1970
Fair Credit Reporting Act of 1970
Occupational Safety and Health Act of 1970
Consumer Product Safety Act of 1972
Equal Employment Opportunity Act of 1972
Employee Retirement Income Security Act of 1974
Toxic Substance Control Act of 1976
Pregnancy Discrimination Act of 1978
Airline Deregulation Act of 1978
Immigration Reform and Control Act of 1986
Tax Reform Act of 1986
Plant Closing Bill of 1989
Americans with Disabilities Act of 1990

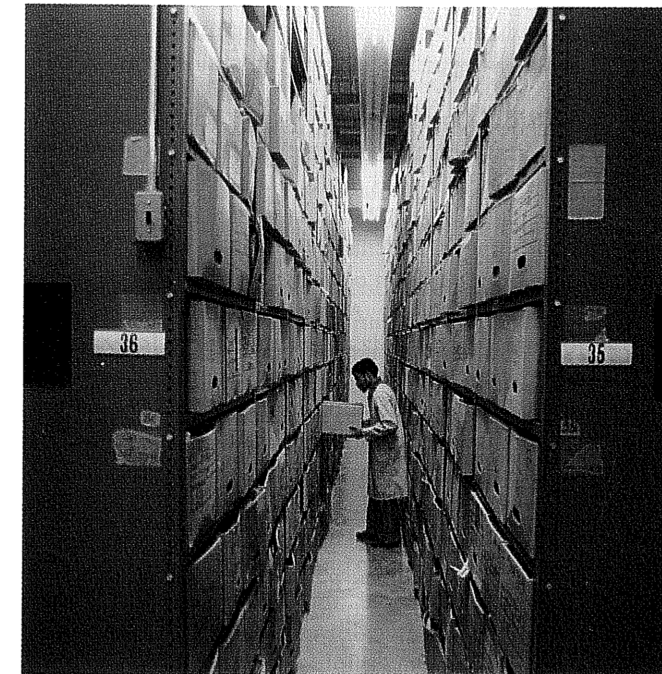
Certain organizations, by virtue of their business, are scrutinized by specific government agencies. Organizations in the telecommunications industry—including telephone companies and radio and television stations—are regulated by the Federal Communications Commission. Publicly held companies must abide by the acceptable financial standards and practices as defined by the Securities and Exchange Commission. If your firm manufactures pharmaceuticals, what you can sell is determined by the Food and Drug Administration.

The federal government is not the only source of legal regulations that govern organizations. State and local governmental regulations extend and modify many federal standards. Los Angeles County, for instance, imposes considerably stiffer antipollution standards on business firms operating within its borders than do state or federal regulations.

Organizations spend a great deal of time and money to meet government regulations.[16] But the effects of these regulations go beyond time and money. They also reduce managerial discretion. They limit the choices available to managers.

Consider the decision to dismiss an employee.[17] Historically, employees were free to quit an organization at any time, and employers had the right to fire an employee any time with or without cause. Recent laws and court decisions, however, have put new limits on what employers may do. Employers are increasingly expected to deal with employees by following the principles of good faith and fair dealing. Employees who feel they have been wrongfully discharged can take their case to court. Juries are increasingly deciding what is or is not "fair." This has made it more difficult for managers to fire poor performers or dismiss employees for off-duty conduct. For example, IBM dismissed a female employee for dating someone who worked for a competitor. She sued IBM, arguing that her personal relationship wasn't expressly prohibited by IBM's policies and represented no conflict of interest. She won a $300,000 settlement from IBM.

Pressure Groups. Managers cannot fail to recognize the special-interest groups that attempt to influence the actions of organizations. Automobile manufacturers, toy makers, and airlines have all been visible targets of Ralph Nader's Center for Responsive Law. Conservative citizen-action groups have successfully pressured publishers of elementary and secondary American history textbooks to change content that their group members have found offensive. And it would be an unusual week if we didn't read that pro-life or pro-choice members were picketing, boycotting, or just threatening some organization in order to get its management to change its policies.



Eli Lilly reports that it fills out more than 27,000 federal forms annually, and Dow Chemical estimates that it spends more than $400 million a year to meet federal regulations.

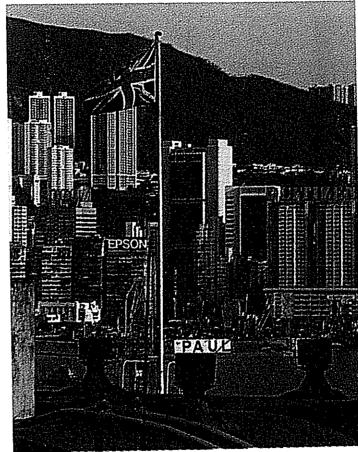
As social and political movements change, so too does the power of pressure groups. For example, through its persistent efforts, Greenpeace has not only managed to make significant changes in the whaling, tuna fishing, and seal fur industries, but has also raised public awareness about those and other environmental concerns. Managers should be aware of the power that these groups can exert on their decisions.

The General Environment

In this section, we will discuss economic, political, social, and technological conditions that can affect the management of organizations. In contrast to the specific environment, these factors usually do not have as large an impact on an organization's operations. However, management must take them into account. For instance, recent research has uncovered a technology that might make it possible to produce an energy-efficient light bulb that would last at least twenty times as long as a standard bulb. Senior managers in the lighting divisions at General Electric and Philips recognize that this has the potential to have far-reaching effects on their units' growth and profitability, so they carefully follow progress on this research.

Economic Conditions Interest rates, inflation rates, changes in disposable income, stock market indexes, and the general business cycle are some of the economic factors in the general environment that can affect management practices in an organization.

For example, many of the world's largest financial institutions have recently learned how closely their fortunes are tied to the U.S. real estate industry. The collapse of the commercial real estate market, which began in 1989, reverberated through the banking and savings and loan industry. Many banks, including Citicorp and Chase Manhattan, that had lent heavily on commercial property absorbed huge losses and then had to lay off thousands of employees in order to reduce costs.



The British colony of Hong Kong reverts to Chinese control in 1997. The uncertainty surrounding this political changeover has significantly affected business investment in Hong Kong.

Similarly, the 1991–92 recession reminded many retailers of how dependent they are on consumer disposable income. That recession hit such firms as Macy's, Ames, and Zale Corp. particularly hard, requiring management to close stores and sell off assets.

Political Conditions Political conditions include the general stability of the countries in which an organization operates and the specific attitudes that elected government officials hold toward the role of business in society.

In the United States, organizations have generally operated in a stable political environment. But management is a worldwide activity. Moreover, many U.S. firms have operations in countries whose record for stability is quite spotty—for example, El Salvador, Libya, Argentina, Chile, and Iran. The internal aspects of management require that organizations attempt to forecast major political changes in countries in which they operate. In this way, management can better anticipate political conditions, from the devaluation of a country's monetary unit to a dictator's decision to nationalize certain industries and expropriate their assets.

The recent collapse of the Soviet Union provides a vivid illustration. Many U.S., European, and Japanese companies had spent years engaged in tedious negotiations with Soviet officials to establish business relations in the Soviet Union. But in a few short months in 1991, all the rules changed. Communism died, capitalism suddenly became fashionable, and a united Soviet republic ceased to exist. What took its place was a commonwealth of fifteen independent states, each with a separate government. Almost overnight, companies around the world found potentially vast new markets had opened up, but they now had to deal with fifteen different governments and fifteen different political agendas.

Social Conditions Management must adapt its practices to the changing expectations of the society in which it operates. As values, customs, and tastes change, so too must management. This applies to both their products and service offerings and their internal policies. Recent examples of social conditions that have had a significant impact on the management of certain organizations include the changing career expectations of women and the aging of the work force.

Inflation, the women's movement, and an increased divorce rate have all contributed to a dramatic increase in female labor-participation rates. Today, more than half of all adult women are gainfully employed outside the home. This change has hit particularly hard organizations like Avon Products and Tupperware that traditionally sold their products to housewives at home. Today's working woman tends to buy her cosmetics and housewares during her lunch hour or after work. Banks, automobile manufacturers, and women's apparel makers have also found their markets changing because of the career expectations of women. Women want expanded credit; they look for cars that are consistent with their new life-styles; and their wardrobe purchases increasingly are business suits rather than casual wear. Management has also had to adjust its internal organizational policies because of the increase in the number of working women. Organizations that fail to offer child care facilities, for instance, may lose in their efforts to hire competent women employees.

In 1970, the median age in the United States was under 28. It is now past 30 and will reach 35 by the end of this decade. Organizations that cater to the needs of seniors will have a larger market. This implies increased demand for health care and homes in the Sunbelt. It also means that organizations will have to redesign products and services for an aging market. Levi Strauss, for example, now produces fuller-cut jeans designed to fit the middle-aged person's body. Inside organizations, management can expect to have more employees in their fifties and sixties. This is likely to translate into more experienced workers with needs that differ from those of their

younger counterparts. For instance, older workers tend to place greater value on such employee benefits as health insurance and pension plans and less value on college-tuition-reimbursement programs and generous moving allowances.

Technological Conditions Our final consideration in the general environment is technology. We live in a technological age. In terms of the four components in the general environment, the most rapid change during the past quarter-century has probably occurred in technology. We now have automated offices, robots in manufacturing, lasers, integrated circuits, microdots, microprocessors, and synthetic fuels. Companies that make the most of technology, including Apple Computer, 3M, and General Electric, prosper. Similarly, hospitals, universities, airports, police departments, and even military organizations that adapt to major technological advances have a competitive edge over those that do not.

An example of how the technological environment affects management is in the design of offices. Offices have become communication centers. Management can now link its computers, telephones, word processors, photocopiers, fax machines, filing storage, and other office activities into an integrated system. For management of all organizations, this means faster and better decision-making capability. For firms that have historically sold products in only one part of the office market—those offering only typewriters or photocopying equipment, for instance—it means developing comprehensive office systems or being entirely excluded from the market. And for a company like Western Union, whose main cash generator as recently as 1987 was the Telex, the explosive growth of fax technology has brought the firm to the brink of bankruptcy.

Influence on Management Practice

As we have seen, organizations are not self-sufficient. They interact with, and are influenced by, their environment. Organizations depend on their environment as a source of inputs and as a recipient of its outputs. Organizations must also abide by the laws of the land and respond to groups that challenge the organization's actions. As such, suppliers, customers, government agencies, public pressure groups, and similar constituencies can exert power over an organization. This power, for instance, is unusually evident among publicly held corporations whose stock is controlled by such institutional investors as insurance companies, mutual funds, and pension plans. These institutions control 80 percent or more of the stock in CNA Financial, Capital Cities/ABC, Cigna, Lotus Development, Southwest Airlines, Bausch & Lomb, and Whirlpool.[18] As a result, the institutions' interests dictate management's interests. These institutions have the power to control boards of directors and indirectly to fire management. The result is that management's options are constrained to reflect the desires of these institutional investors.

A survey of 400 chief executives from among the 1000 largest U.S. companies indicates that environmental constituencies have increased their influence on management in recent years.[19] As shown in Table 3–4, except for labor unions, all of the listed forces in the environment generally expanded their influence between 1982 and 1987. Keep in mind that this survey addressed only *changes* since 1982. These forces were already powerful constraints on managerial decision making in the early 1980s!

Many of these environmental forces are dynamic and create considerable uncertainty for management. Customers' tastes and preferences change. New laws are passed. Suppliers can't meet contractual delivery dates. Competitors introduce new technologies, products, and services. To the degree that these environmental uncer-

TABLE 3–4 Influence of Forces in the Environment

In the late 1980s, 400 chief executives were asked, "Compared with five years ago, would you say that the following individuals or institutions have gained, lost, or kept their influence over decisions in companies such as yours?" They responded as follows:

Force in the Environment	Gained Influence	Lost Influence	Kept Influence	Not Sure
Institutions holding big stock blocks	47%	2%	42%	9%
Investment bankers	46	13	36	5
Stock analysts	48	4	43	5
Government regulators	41	20	34	5
Environmentalists	37	14	40	9
Consumer groups	28	14	49	9
Labor unions	2	54	34	10

Source: "Business Week/Harris Executive Poll," *Business Week,* October 23, 1987, p. 28.

tainties cannot be anticipated, they force management to respond in ways that it might not prefer. The greater the environmental uncertainty an organization faces, the more the environment limits management's options and its freedom to determine its own destiny.

Summary

This summary is organized by the chapter-opening learning objectives found on page 67.

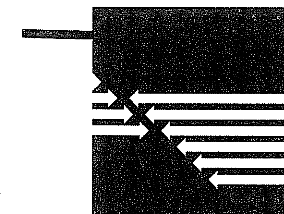
1. The omnipotent view is dominant in management theory and in society. It argues that managers are directly responsible for the success or failure of an organization. In contrast, the symbolic view argues that management has only a limited effect on substantive organizational outcomes because of the large number of factors outside of management's control; however, management greatly influences symbolic outcomes.
2. Organizational culture is a system of shared meaning within an organization that determines, in large degree, how employees act.
3. An organization's culture is composed of ten characteristics: member identity, group emphasis, people-focus, unit integration, control, risk tolerance, reward criteria, conflict tolerance, means–end orientation, and open-systems focus.
4. Culture constrains managers because it acts as an automatic filter that biases the manager's perceptions, thoughts, and feelings. Strong cultures particularly constrain a manager's decision-making options by conveying which alternatives are acceptable and which are not.
5. The general environment encompasses forces that have the potential to affect the organization but whose relevance is not overtly clear. These typically include economic, political, social, and technological factors. The specific environment is that part of the environment that is directly relevant to the achievement of the organization's goals. Relevant elements in an organization's specific environment might include suppliers, customers, competitors, government agencies, and public pressure groups.
6. Environmental uncertainty is determined by the degree of *change* and *complexity* in the environment. Stable and simple environments are relatively certain. The more dynamic and complex the environment, the higher the uncertainty.
7. High environmental uncertainty limits management's options and its freedom to determine its own destiny.

Review Questions

1. Why does the omnipotent view of management dominate management theory?
2. According to the symbolic view, what is management's role in organizations?
3. Contrast strong and weak cultures. Which has the greatest impact on managers? Why?
4. Who typically have more influence on an organization's culture: a company's first managers or current managers? Explain.
5. How does culture affect a manager's execution of the four management functions?
6. Describe an effective culture for (a) a relatively stable environment and (b) a dynamic environment.
7. How can suppliers constrain managerial discretion?
8. How can federal government regulations constrain managerial discretion?
9. Why do managers try to minimize environmental uncertainty?
10. What effect, if any, does the general environment have on managerial practice?

Discussion Questions

1. Classrooms have cultures. Describe your class culture. Does it constrain your instructor? If so, how?
2. Define a local grocery store's specific environment. How does it constrain the store manager?
3. Refer to Table 3–1. How would a first-line supervisor's job differ in these two organizations?
4. Describe the general and specific environments for the President of the United States. In what ways do they constrain him? In what ways do they make him appear to be a symbolic manager and in what ways do they cast him as an omnipotent manager?
5. When a large corporation loses money for several years in a row, the board of directors almost always replaces the corporation's chief executive. Why?



SELF-ASSESSMENT EXERCISE

What Kind of Organizational Culture Fits You Best?

For each of the following statements, circle the level of agreement or disagreement that you personally feel:

SA = Strongly Agree
A = Agree
U = Uncertain
D = Disagree
SD = Strongly Disagree

1. I like being part of a team and having my performance assessed in terms of my contribution to the team.	SA	A	U	D	SD
2. No person's needs should be compromised in order for a department to achieve its goals.	SA	A	U	D	SD
3. I prefer a job where my boss leaves me alone.	SA	A	U	D	SD
4. I like the thrill and excitement from taking risks.	SA	A	U	D	SD
5. People shouldn't break rules.	SA	A	U	D	SD
6. Seniority in an organization should be highly rewarded.	SA	A	U	D	SD
7. I respect authority.	SA	A	U	D	SD
8. If a person's job performance is inadequate, it's irrelevant how much effort he or she made.	SA	A	U	D	SD
9. I like things to be predictable.	SA	A	U	D	SD
10. I'd prefer my identity and status to come from my professional expertise than from the organization that employs me.	SA	A	U	D	SD

Turn to Scoring Keys for Self-Assessment Exercises.

FOR YOUR IMMEDIATE ACTION

WILLIAM STERN & COMPANY

To: Senior Research Associate
From: Dan Forrester; Director of Research
Subject: Relationship between company economic performance and top management turnover

Several of our clients have commented about the number of recent top-management shake-ups they've observed in companies in which they own stock. They asked me if I thought there was a direct relationship between declining profits in a firm and the departure of its chief executive. I had an opinion but I had to admit I was not up-to-date on the research.

Let me suggest four possible theories: (1) Consecutive quarterly declines in company profit lead to increased CEO turnover (2) It's not a decline in profits that leads to CEO departures, rather, it's several quarterly losses (3) The real issue is expectations. When a company's financial performance falls below the expectation of board members or security analysts, this creates pressure on the CEO, which leads to his departure (4) There is no relationship. CEO's are highly insulated. As long as they keep on good terms with their board of directors, their job security is assured.

Quite honestly, I don't know what the research indicates. I have identified two articles that you might want to look at as a point of departure. They are: J.R. Harrison, D.L. Torres, and S. Kukalis, "The Changing of the Guard: Turnover and Structural Change in Top-Management Positions," *Administrative Science Quarterly,* June 1988, pp. 211–32; and S.M. Puffer and J.B. Weintrop, "Corporate Performance and CEO Turnover; The Role of Performance Expectations," *Administrative Science Quarterly,* March 1991, pp. 1–19.

I want you to review the evidence and write up a one-page summary of what you find. Also, give me a bibliography of the sources you used.

This is a fictionalized account of a potentially real problem. It was written for academic purposes only and is not meant to reflect either positively or negatively on actual practices at William Stern & Co.