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# Organizational Culture External Environment

Lecture 2

Agenda for today

– Managerial discretion – constraints on management

– Organizational culture

  – Definition
  – Sources
  – Impact
  – Current issues

– External environment

  – Components
  – Environmental uncertainty
  – Methods of analysis
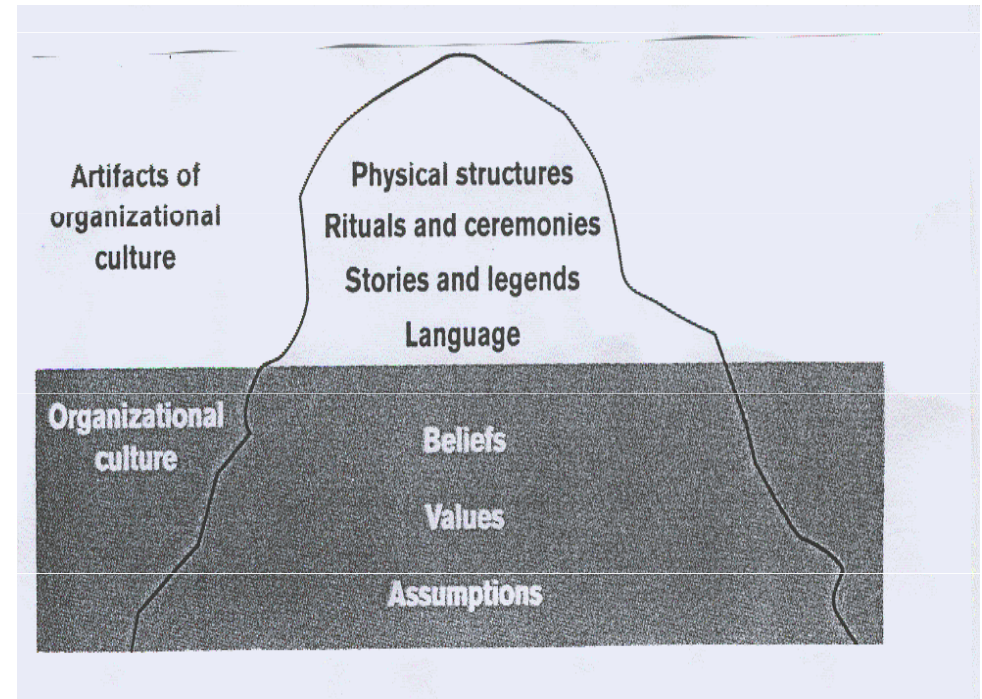 – Stakeholder approach

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Managerial discretion

– Managers are not „omnipotent"

– The ability of managers to affect outcomes is influenced and constrained by external factors => much of an organization's success or failure is due to external forces outside of managers' control.

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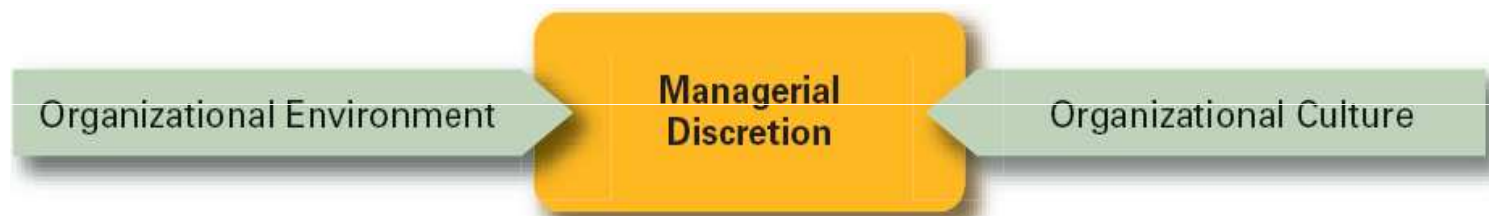
Organizational culture defined

A system of **shared** meanings and common beliefs held by organizational members that determines, in a large degree, how they act towards each other.

„The way we do things around here."

| Artifacts of organizational culture | Physical structures
Rituals and ceremonies
Stories and legends
Language |
| Organizational culture | Beliefs
Values
Assumptions |

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# Dimensions of organizational culture

Sources of organizational culture

– Sources of Organizational Culture

  – Vision and mission (of the organization's founder)
  – Past best practices (of the organization)
  – The behavior of the top-management

– Organizational culture's continuation and development

  – Recruitment of like-minded employees (who „fit")
  – Socialization of new employees => adapting people to the culture
    - Stories
    - Rituals
    - Material symbols
    - Language

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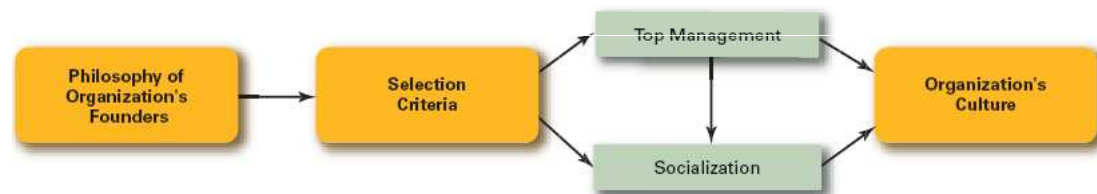
Impact of OC on management

- Whatever managerial actions the organization **recognizes as proper or improper** on its behalf

- Whatever organizational activities the organization **values and encourages**

- The overall **strength or weakness** of the organizational culture

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Strong vs. Weak organizational cultures

Strong Cultures

Key values are deeply held and widely held.
=> strong influence on organizational members.

Factors Influencing the Strength of OC

Size of the organization

Age of the organization

Rate of employee turnover

Strength of the original culture

Clarity of cultural values and beliefs

Benefits of a Strong Culture

– Creates a stronger employee commitment to the organization.

– Aids in the recruitment and socialization of new employees.

– Fosters higher organizational performance by instilling and promoting employee initiative.

– BUT: beware of the CULTURE VS. STRATEGY issues

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Strong vs. Weak organizational cultures

Strong Cultures	Weak Cultures
Values widely shared	Values limited to a few people—usually top management
Culture conveys consistent messages about what's important	Culture sends contradictory messages about what's important
Most employees can tell stories about company history/heroes	Employees have little knowledge of company history or heroes
Employees strongly identify with culture	Employees have little identification with culture
Strong connection between shared values and behaviors	Little connection between shared values and behaviors

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Current issues related to OC

– Creating a Customer-Responsive Culture

– Creating an Innovative Culture

– Creating an Ethical Culture

– Hiring the right type of employees (ones with a strong interest in serving customers)

– Having few rigid rules, procedures, and regulations

– Using widespread empowerment of employees

– Challenge and involvement

– Conflict resolution

– Debates

– Risk-taking

– Focus on means as well as outcomes

External environment

– Those factors and forces outside the organization that affect the organization's performance.

– Components of the External Environment

   – **General environment:** broad economic, socio-cultural, political/legal, demographic, technological, and global conditions that _may_ affect the organization.

   – **Specific environment:** external forces that have a direct and immediate impact on the organization.

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Environmental uncertainty

How the environment affects managers?

– The extent to which managers have knowledge of and <u>are able to</u> predict change their organization's external environment is affected by:

Complexity of the environment: the number of components in an organization's external environment.

Degree of change in environmental components: how dynamic or stable the external environment is.
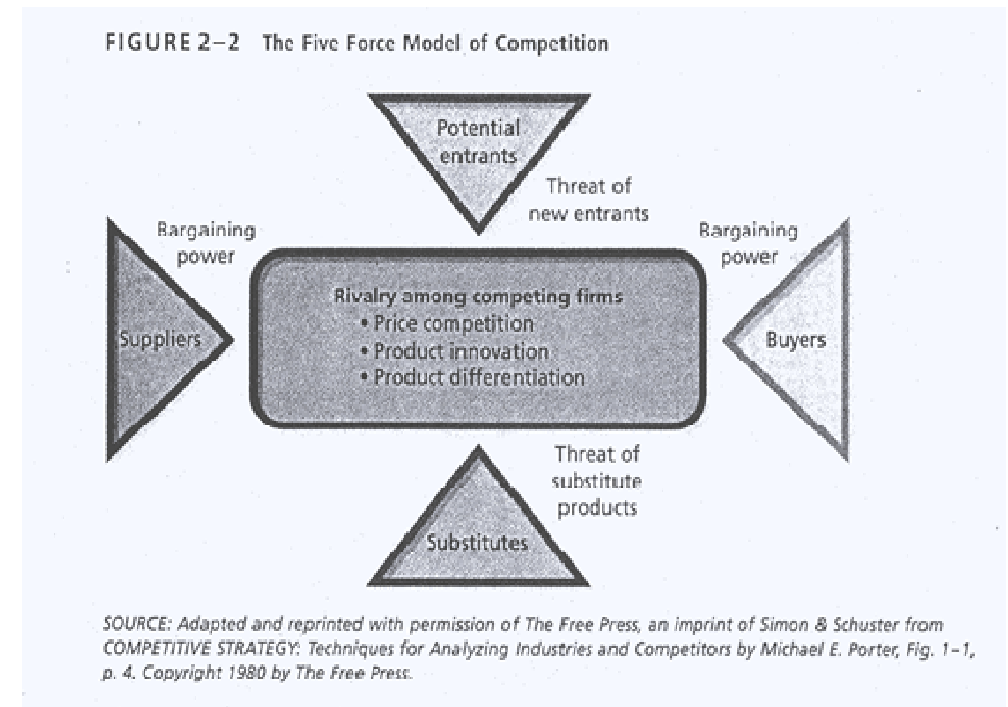
Environmental uncertainty matrix

	Degree of Change	
	Stable	**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 unpredictable 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

(Degree of Complexity)

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Methods of environmental analysis

General environment

Specific environment

– SLEPT analysis

- **S**ocial segment
- **L**egal segment
- **E**conomic segment
- **P**olitical segment
- **T**echnological segment

– analysis techniques

- scanning
- monitoring
- forecasting
- assessing

FIGURE 2–2 The Five Force Model of Competition

Potential entrants

Threat of new entrants

Bargaining power

Suppliers

Rivalry among competing firms
- Price competition
- Product innovation
- Product differentiation

Bargaining power

Buyers

Threat of substitute products

Substitutes

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Stakeholder approach

– Any constituencies in the organization's environment that are affected by the organization's decisions and actions.

– Managing stakeholder relationships

=> the interdependence of the organization and its external stakeholders

=> improved organizational performance;

1. Identify the organization's external stakeholders.
2. Determine the particular interests and concerns of the external stakeholders.
3. Decide how critical each external stakeholder is to the organization.
4. Determine how to manage each individual external stakeholder relationship.

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Organizational stakeholders

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Must know - keywords

- organizational culture
- strong cultures
- socialization
- artifacts of organizational culture
- values
- beliefs

- external environment
- specific environment
- general environment
- environmental uncertainty
- environmental complexity
- SLEPT analysis
- 5 force model of competition
- stakeholders

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