The Environment of Management

Whether it's the glorious vista of a national park, the perennial blooms in a backyard patch, or the carefully manicured lines of a French garden, the landscape is an environment of unlimited possibilities. Few things are more elemental than the needs of a garden: dirt, water, sun, caring and knowledgeable hands. Yet there are turbulent forces at work, including constantly changing weather, human carelessness, and nature's own cycles.

Fires sweep through Yellowstone National Park every summer, but 1988 was a watershed year. That summer, as a years-long drought continued, lightning-fed and manmade flames converged to burn more than a third of the park. Some conservationists bemoaned the loss of old-growth trees, but the following spring, ample rain and the ash and nutrients of fallen trees led to spectacular wildflowers and a new cycle of forest growth.

Today, there is renewed emphasis on the use of controlled burns as a counterweight to years of uncontrolled overgrowth. Those who care most deeply about the environment have seen that managing the environment and those that thrive in it is vital to its continued vibrancy.

Whatever type of organization managers work in, they—like gardeners and park caretakers—must pay attention to the environment and its powerful, elemental forces. Controlled, they can work together harmoniously, harnessing their strengths to better compete, to better serve, to better produce. Uncontrolled, they become chaotic, inflicting damage to the organization.

Managers face their responsibilities within a variety of environments. The task environment—those customers and suppliers with whom relationships must be sown, rooted, and cultivated—affects how a manager plans, organizes, and implements or delegates tasks. The general environment involves weeding through, sowing, and reaping the rewards of economic upturns, political shifts, and technology breakthroughs.

Choices lie ahead: You can change the environment through controlled decisions or allow other, outside elements to influence your path as a manager.
Chapter 3

The Environment and Corporate Culture

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

1. Describe the general and task environments and the dimensions of each.

2. Explain the strategies managers use to help organizations adapt to an uncertain or turbulent environment.

3. Define corporate culture and give organizational examples.

4. Explain organizational symbols, stories, heroes, slogans, and ceremonies and their relationship to corporate culture.

5. Describe how corporate culture relates to the environment.

6. Define a cultural leader and explain the tools a cultural leader uses to create a high-performance culture.
IBM once ruled the technology industry, but the company was practically a has-been by the early 1990s. As the environment changed, IBM managers failed to keep pace, relying on outdated management procedures and clinging to mainframe computers. After the company lost $8 billion in one year, Louis V. Gerstner was brought in as CEO to try to save the giant corporation. He succeeded admirably, reviving IBM’s reputation in computer hardware and software as well as moving it higher up the computing food chain by edging into business services. But now, a new CEO sees the limits IBM is facing as the environment for the computing industry continues to shift rapidly. Sam Palmisano, hand-picked by Gerstner as his successor, envisions less emphasis on technology and more on relationships—establishing deep connections with large corporate clients and helping them improve their planning, operations, marketing, and customer service. His “e-business on-demand strategy” calls for IBM to supply computing power to other companies as if it were water or electricity. IBM’s systems will be infused with complex knowledge from a variety of industries, enabling the company to model human behavior and solve tough client problems. The new strategy puts IBM in the lead of a massive shift going on in the technology environment. However, to succeed, IBM will have to be fast, flexible, and innovative—characteristics that huge, hierarchical organizations typically don’t possess. As he launches this bold and risky project, Palmisano wonders where to begin.

Manager’s Challenge

Take A Moment

If you were Sam, Palmisano, what changes would you make to support a new strategy that requires speed, innovation, and flexibility? What values do employees need to model, and how would you instill them?
In high-tech industries, environmental conditions are volatile. You read in Chapter 1 about the problems Xerox is facing partly because managers missed cues from the environment. IBM once nearly faded into history by failing to keep pace with changes in the environment, and Sam Palmisano is trying to make sure the same thing doesn’t happen again. Even in seemingly low-tech industries, shifts in the environment can wreak havoc on an organization. Dixon Ticonderoga Company makes pencils and once had a large share of the U.S. market. Today, though, more than 50 percent of the pencils sold in the United States come from overseas, compared to only 16 percent a decade ago. As another example, the Gerber baby food company has faced challenges from Greenpeace and other activist groups over the use of genetically altered grains.2

Government actions and red tape can also affect an organization’s environment and create problems. Scandals in the mutual fund industry have prompted the SEC to propose a ban on special incentive payments to brokerage firms. The beef and dairy industries in the United States were hurt by increased rules and restrictions following the discovery of mad cow disease in Washington state. However, the organic and natural beef industry experienced an upturn, as consumers grew more cautious about where their meat comes from and how it is produced. And consider thousands of public schools that use a common land snail called Helix aspera as a major unit in their science curricula. The U.S. Department of Agriculture’s unexpected ban on the interstate transport of the snails threw school science programs into disarray around the nation.3

The environment surprises many managers and leaves them unable to adapt their companies to new competition, shifting consumer interests, or new technologies. The study of management traditionally has focused on factors within the organization—a closed systems view—such as leading, motivating, and controlling employees. The classical, behavioral, and management science schools described in Chapter 2 focused on internal aspects of organizations over which managers have direct control. These views are accurate but incomplete. Globalization and worldwide societal turbulence affect companies in new ways. Even for those companies that try to operate solely on the domestic stage, events that have the greatest impact typically originate in the external environment. To be effective, managers must monitor and respond to the environment—an open systems view.

This chapter explores in detail components of the external environment and how they affect the organization. We will also examine a major part of the organization’s internal environment—corporate culture. Corporate culture is shaped by the external environment and is an important part of the context within which managers do their jobs.

The External Environment

The tremendous and far-reaching changes occurring in today’s world can be understood by defining and examining components of the external environment. The external organizational environment includes all elements existing outside the boundary of the organization that have the potential to affect the organization.4 The environment includes competitors, resources, technology, and economic conditions that influence the organization. It does not include those events so far removed from the organization that their impact is not perceived.

The organization’s external environment can be further conceptualized as having two layers: general and task environments, as illustrated in Exhibit 3.1.5 The
The Environment and Corporate Culture

CHAPTER 3

The Environment and Corporate Culture

3.1 Location of the Organization’s General, Task, and Internal Environments

Exhibit 3.1 illustrates the relationship among the general, task, and internal environments. As an open system, the organization draws resources from the external environment and releases goods and services back to it. We will now discuss the two layers of the external environment in more detail. Then we will discuss corporate culture, the key element in the internal environment. Other aspects of the internal environment, such as structure and technology, will be covered in Parts Four and Five of this book.

**general environment** is the outer layer that is widely dispersed and affects organizations indirectly. It includes social, demographic, and economic factors that influence all organizations about equally. Increases in the inflation rate or the percentage of dual-career couples in the workforce are part of the organization’s general environment. These events do not directly change day-to-day operations, but they do affect all organizations eventually. The **task environment** is closer to the organization and includes the sectors that conduct day-to-day transactions with the organization and directly influence its basic operations and performance. It is generally considered to include competitors, suppliers, and customers.

The organization also has an **internal environment**, which includes the elements within the organization’s boundaries. The internal environment is composed of current employees, management, and especially corporate culture, which defines employee behavior in the internal environment and how well the organization will adapt to the external environment.

Exhibit 3.1 illustrates the relationship among the general, task, and internal environments. As an open system, the organization draws resources from the external environment and releases goods and services back to it. We will now discuss the two layers of the external environment in more detail. Then we will discuss corporate culture, the key element in the internal environment. Other aspects of the internal environment, such as structure and technology, will be covered in Parts Four and Five of this book.
General Environment

The general environment represents the outer layer of the environment. These dimensions influence the organization over time but often are not involved in day-to-day transactions with it. The dimensions of the general environment include international, technological, sociocultural, economic, and legal-political.

International

The international dimension of the external environment represents events originating in foreign countries as well as opportunities for U.S. companies in other countries. Note in Exhibit 3.1 that the international dimension represents a context that influences all other aspects of the external environment. The international environment provides new competitors, customers, and suppliers and shapes social, technological, and economic trends, as well.

Today, every company has to compete on a global basis. High-quality, low-priced automobiles from Japan and Korea have permanently changed the American automobile industry. Toyota recently overtook Ford to become the world’s second largest automaker, and managers plan to take the company to Number 1 by 2010. Foreign companies like Toyota, Sony, and Nokia have made huge jumps in recent years on Fortune magazine’s list of the World’s Most Admired Companies. Nokia is the world’s top maker of cell phones, and Korea’s Samsung Corp. is rapidly closing in on U.S.-based Motorola for the Number 2 spot. For many U.S. companies, such as Starbucks and Wal-Mart, domestic markets have become saturated and their only potential for growth lies overseas. E-commerce organizations, too, are making international expansion a priority. The United States’ share of worldwide e-commerce is falling as foreign companies set up their own e-commerce ventures. When operating globally, managers have to consider legal, political, sociocultural, and economic factors not only in their home countries but in various other countries as well. For example, a drop in the U.S. dollar’s foreign exchange rate lowers the price of U.S. products overseas, increasing export competitiveness. Many companies have had to cut prices to remain competitive in the new global economy.

The global environment represents an ever-changing and uneven playing field compared with the domestic environment. Managers who are used to thinking only about the domestic environment must learn new rules to cope with goods, services, and ideas circulating around the globe. Chapter 4 describes how today’s businesses are operating in an increasingly borderless world and examines in detail how managing in a global environment differs from the management of domestic operations. Perhaps the hardest lesson for managers in the United States to learn is that they do not always know best. U.S. decision makers know little about issues and competition in foreign countries. In addition, one recent study found that only 28 percent of surveyed executives from the United States think multicultural experience is important. U.S. arrogance is a shortcut to failure. To counter this, Pall Corporation keeps a team of Ph.D.s traveling around the world gathering current information on markets and issues.

Technological

The technological dimension includes scientific and technological advancements in a specific industry as well as in society at large. In recent years, this dimension has created massive changes for organizations in all industries. Twenty years ago, many organizations didn’t even use desktop computers. Today, computer networks, Internet access, videoconferencing capabilities, cell phones, PDAs, fax machines, and laptops are practically taken for granted as the minimum tools for doing business. Technological advancements that make the Internet accessible to nearly everyone have changed the nature of competition and of organizations’ relationships to customers. Many companies are adopting sophisticated e-business methods that use private networks or the
Internet to handle practically all their operations. Communications and computing devices are getting smaller, more powerful, and more affordable. One estimate is that 70 percent of the adult U.S. population owned a mobile phone in late 2003, and the use of advanced features such as photo messaging is growing.11

Other technological advances will also affect organizations and managers. The decoding of the human genome could lead to revolutionary medical advances. Cloning technology and stem cell research are raising both scientific and ethical concerns. High-tech composites, embedded with sensors that enable them to think for themselves, are being used to earthquake-proof bridges and highways as well as build better airplanes and railcars.12 Advances in nanotechnology, which refers to seeing and manipulating matter at the level of molecules and atoms, will enable scientists to create amazing new materials—electronic, structural, biological, and medicinal.13 Examples already in use include “smart gels” that mold to human needs on cue, self-repairing optical coatings, and cleansers that repair a surface at the molecular level while cleaning it.

**Sociocultural**

The sociocultural dimension of the general environment represents the demographic characteristics as well as the norms, customs, and values of the general population. Important sociocultural characteristics are geographical distribution and population density, age, and education levels. Today’s demographic profiles are the foundation of tomorrow’s workforce and consumers. Forecasters see increased globalization of both consumer markets and the labor supply, with increasing diversity both within organizations and consumer markets.14 Consider the following key demographic trends in the United States:

1. The United States is experiencing the largest influx of immigrants in more than a century. By 2050, non-Hispanic whites will make up only about half of the population, down from 74 percent in 1995 and 69 percent in 2004. Hispanics are expected to make up about a quarter of the U.S. population.15
2. The huge post–World War II baby-boom generation is aging and losing its interest in high-cost goods. Meanwhile, their sons and daughters, sometimes called Generation Y, rival the baby boomers in size and will soon rival them in buying power.
3. The fastest-growing type of living arrangement is single-father households, which rose 62 percent in 10 years, even though two-parent and single-mother households are still much more numerous.\textsuperscript{16}

4. In an unprecedented demographic shift, married couple households have slipped from 80 percent in the 1950s to just over 50 percent in 2003. Couples with kids total just 25 percent, with the number projected to drop to 20 percent by 2010. By that year, it is expected that 30 percent of homes will be inhabited by someone who lives alone.\textsuperscript{17}

The sociocultural dimension also includes societal norms and values. As this book is being written, the low-carb craze has replaced the low-fat concerns of previous years. From pre-teens to grandparents, people are piling on the bacon and eggs, pork chops and cheese sticks and avoiding carbohydrates like the plague. A market research firm in Chicago estimated that more than 10 million people are following a low-carb regimen. The trend got hot fast, and some analysts predict it will cool just as quickly, but restaurants are altering their menus and supermarkets are devoting shelf space to a growing array of low-carb products.\textsuperscript{18} Even the Girl Scouts are affected. In the 2004 Girl Scout cookie season, sales were down an average of 10 percent nationwide.

Other sociocultural trends also affect organizations. A groundswell of interest in spirituality and personal development in the United States since the mid-1990s has led to a proliferation of books and other materials related to religion and spiritual growth.\textsuperscript{19} Handgun manufacturers have been tugged back and forth as public acceptance and support of guns in the home fell in the wake of tragic school shootings, and then surged following the September 11, 2001, terrorist attacks.

**Economic**

The economic dimension represents the general economic health of the country or region in which the organization operates. Consumer purchasing power, the unemployment rate, and interest rates are part of an organization’s economic environment. Because organizations today are operating in a global environment, the economic dimension has become exceedingly complex and creates enormous uncertainty for managers. The economies of countries are more closely tied together now. For example, an early 2000s economic recession and the decline of consumer confidence in the United States has affected economies and organizations around the world. Similarly, economic problems in Asia and Europe have had a tremendous impact on companies and the stock market in the United States.

One significant recent trend in the economic environment is the frequency of mergers and acquisitions. Citibank and Travelers merged to form Citigroup, IBM purchased PricewaterhouseCoopers Consulting, and Cingular is acquiring AT&T Wireless. In the toy industry, the three largest toy makers—Hasbro, Mattel, and Tyco—gobbled up at least a dozen smaller competitors within a few years. At the same time, however, there is a tremendous vitality in the small business sector of the economy. Entrepreneurial start-ups are a significant aspect of today’s U.S. economy and will be discussed in Chapter 6.
CHAPTER 3  The Environment and Corporate Culture

CONCEPT CONNECTION

PPL Corporation controls more than 12,000 megawatts of generating capacity in the United States and sells energy in key U.S. markets. The company utilizes advances in the technological dimension of its environment to understand the complexities of today's ever-changing energy market. In the photo, members of PPL's risk management office, which reports directly to CEO William Hecht, analyze data to improve decision making while controlling risk. Such high-tech analysis is essential to keeping the company competitive in the electricity market.

Legal–Political

The legal–political dimension includes government regulations at the local, state, and federal levels, as well as political activities designed to influence company behavior. The U.S. political system encourages capitalism, and the government tries not to overregulate business. However, government laws do specify rules of the game. The federal government influences organizations through the Occupational Safety and Health Administration (OSHA), Environmental Protection Agency (EPA), fair trade practices, libel statutes allowing lawsuits against business, consumer protection legislation, product safety requirements, import and export restrictions, and information and labeling requirements. The Federal Communications Commission, which regulates broadcast television to limit potentially offensive material, has been striving to extend its regulatory authority to the cable networks. Incidents such as Bono's use of a four-letter word at the 2003 Golden Globe Awards and the outrage over Janet Jackson's "wardrobe malfunction" at the 2004 Super Bowl have triggered increased attention to what is shown on television. Many organizations also have to contend with government and legal issues in other countries. For example, the European Union (EU) has recently adopted new environmental and consumer protection rules that are costing American companies hundreds of millions of dollars a year. Companies like Hewlett-Packard, Ford Motor Company, and General Electric have to pick up the bill for recycling the products they sell in the EU.

Managers must recognize a variety of pressure groups that work within the legal–political framework to influence companies to behave in socially responsible ways. Automobile manufacturers, toy makers, and airlines have been targeted by Ralph Nader's Center for Responsive Law. Tobacco companies today are certainly feeling the far-reaching power of antismoking groups. Middle-aged activists who once protested the Vietnam War have gone on battle to keep Wal-M art from "destroying the quality of small-town life." Some groups have also attacked the giant retailer on environmental issues, which likely will be one of the strongest pressure points in coming years. Two of the hottest current issues for pressure groups that are also related to environmental concerns are biotechnology and world trade. Environmental and human rights protesters have disrupted World Trade Organization meetings and meetings of the World Bank and the International Monetary Fund to protest a system of worldwide integration that has food, goods, people, and capital freely moving across borders. This current international issue will be discussed in more detail in Chapter 4.
Task Environment

As described earlier, the task environment includes those sectors that have a direct working relationship with the organization, among them customers, competitors, suppliers, and the labor market.

Customers

Those people and organizations in the environment who acquire goods or services from the organization are customers. As recipients of the organization’s output, customers are important because they determine the organization’s success. Patients are the customers of hospitals, students the customers of schools, and travelers the customers of airlines. Toy companies have to stay in close touch with the whims of young customers and their parents. Mattel is hoping that by snapping up rights to make toys tied to Yu-Gi-Oh!, a popular Japanese monster-themed show, and SpongeBob SquarePants, it can create products that will fly off the shelves rather than sit in warehouses. Mattel is also bringing out a toy that can pick up digital signals from the new Warner Bros. Batman cartoon shows running on cable networks, meaning a toy Batmobile will zoom across the floor at the exact moment the cartoon car shows up on the television screen.23

A big concern for managers today is that the Internet has given increased power to customers and enabled them to directly impact the organization. For example, gripe sites such as http://walmartsucks.com, where customers and sales associates cyber-vent about the nation’s largest retailer, and http://untied.com, where United Airlines employees and disgruntled fliers rail against the air carrier, can quickly damage a company’s reputation and sales. “In this new information environment,” says Kyle Shannon, CEO of e-commerce consultancy Agency.com, “you’ve got to assume everyone knows everything.”24

Competitors

Other organizations in the same industry or type of business that provide goods or services to the same set of customers are referred to as competitors. Each industry is characterized by specific competitive issues. The recording industry differs from the steel industry and the pharmaceutical industry.

Competitive wars are being waged worldwide in all industries. Coke and Pepsi continue to battle it out for the soft-drink market. UPS and FedEx are fighting the overnight delivery wars. Home Depot and Lowe’s are brawling in the retail home improvement market, trying to out-do one another in terms of price, service, and selection.25 This chapter’s Unlocking Creative Solutions Through Technology box describes how retailer Target has achieved a competitive edge with strategic use of the Internet. In the travel and tourism industry, Internet companies like Expedia.com and Hotels.com have hurt the big hotel chains. These chains are fighting back by undercutting the brokers’ prices on the hotels’ own Web sites. In addition, five of the largest chains have banded together to create Travelweb.com, which is aimed directly at the online brokers.26

Suppliers

The raw materials the organization uses to produce its output are provided by suppliers. A steel mill requires iron ore, machines, and financial resources. A small, private university may utilize hundreds of suppliers for paper, pencils, cafeteria food, computers, trucks, fuel, electricity, and textbooks. Companies from toolmakers to construction firms and auto manufacturers were hurt recently by an unanticipated jump in the price of steel. Just as they were starting to see an upturn in their business, the cost of raw materials from suppliers jumped 30 percent in a two-month period.27 Many companies are using fewer suppliers and trying to build good relationships
Unlocking Creative Solutions Through Technology

Target Is Right On in Internet Retailing
Target has fewer than half the number of retail stores as Wal-Mart, but on the Internet, the smaller retailer gets almost as much business as the giant. Managers at Target have succeeded online better than those of any other mass retailer.

Target.com sells items that are too big to stock in retail stores, such as Little Tikes kiddie furniture. In addition, Target test-markets new products on the Web before committing to shelf space for them in the stores. One example is the $200 Graco jogging stroller, which debuted on Target.com in the spring of 2002. When it rapidly became the best-selling stroller online, Target managers added it to the product lineup for bricks-and-mortar stores.

The biggest success for Target.com, however, has been the “Web as gift-shop” approach. The site has sold thousands of “Student Survival Kits,” such as the Movie Night package that contains a bucket of popcorn, candy, soda, and a blank VCR tape, and just as many “Cold Comfort” get-well boxes containing medicine along with a cuddly teddy bear. The site’s bridal and baby registries are hot destinations, and these areas account for about 22 percent of the site’s total sales.

Target.com is also helping to get more customers into the retail stores. One technique is to use the Target Visa smart card, which contains a microchip, as a repository of customer information, helping Target keep in closer touch with customer needs. Customers can also download personalized coupons from the Web site onto their smart cards. But there’s only one place they can use the coupons—at their nearest Target store.


with them so that they will receive high-quality parts at lower prices. The relationship between manufacturers and suppliers has traditionally been an adversarial one, but many companies are finding that cooperation is the key to saving money, maintaining quality, and speeding products to market.

Labor Market
The labor market represents people in the environment who can be hired to work for the organization. Every organization needs a supply of trained, qualified personnel. Unions, employee associations, and the availability of certain classes of employees can influence the organization’s labor market. Labor market forces affecting organizations right now include (1) the growing need for computer-literate information technology workers; (2) the necessity for continuous investment in human resources through recruitment, education, and training to meet the competitive demands of the borderless world; and (3) the effects of international trading blocs, automation, outsourcing, and shifting facility location upon labor dislocations, creating unused labor pools in some areas and labor shortages in others.

Changes in these various sectors of the environment can create tremendous challenges, especially for organizations operating in complex, rapidly changing industries. Nortel Networks, a Canadian company with multiple U.S. offices, is an example of an organization operating in a highly complex environment.
and individuals to the Internet. When John Roth took over as CEO in 1997, the company was about to be run over by rivals such as Cisco Systems that were focused on Internet gear. Roth knew he needed to do something bold to respond to changes in the technological environment. A name change to Nortel Networks symbolized and reinforced the company’s new goal of providing unified network solutions to customers worldwide.

One response to the competitive environment was to spend billions to acquire data and voice networking companies, including Bay Networks (which makes Internet and data equipment), Cambrian Systems (a hot maker of optical technology), Periphonics (maker of voice-response systems), and Clarify (customer management software). These companies brought Nortel top-notch technology to help the company, as Roth put it, “move at Net speed.” Nortel began snatching customers away from rivals Cisco
and Lucent Technologies. In addition, even during rough economic times, Nortel kept spending nearly 20 percent of its revenues on research and development to keep pace with changing technology.

Internationally, Nortel has made impressive inroads in Taiwan, China, Brazil, Mexico, Colombia, Japan, and Sweden, among other countries. It has also won customers by recognizing the continuing need for traditional equipment and offering hybrid gear that combines old telephone technology with new Internet features, allowing companies to transition from the old to the new. Bold new technologies for Nortel include optical systems that move voice and data at the speed of light and third-generation wireless networks (3G), which zap data and video from phone to phone. Nortel is considered a leader in wireless gear and recently won contracts from Verizon Communications and Orange SA, a unit of France Telecom, to supply equipment that sends phone calls as packets of digital data like that used over the Internet.

Companies moving in a Net speed environment risk a very hard landing, and during the economic slump of the early 2000s, Nortel’s business was devastated. The company cut two-thirds of its workforce and closed dozens of plants and offices. In late 2002, Nortel’s stock was trading for less than a dollar. Two years later, though, positive changes in the telecom industry and the economic environment had Nortel back on an uphill swing. The stock rebounded with news of the Verizon deal and current CEO Frank Dunn’s announcement of a fourth quarter 2003 profit of $499 million. Nortel was once again recognized as an industry leader.28

**The Organization–Environment Relationship**

Why do organizations care so much about factors in the external environment? The reason is that the environment creates uncertainty for organization managers, and they must respond by designing the organization to adapt to the environment.

**Environmental Uncertainty**

Organizations must manage environmental uncertainty to be effective. Uncertainty means that managers do not have sufficient information about environmental factors to understand and predict environmental needs and changes.29 As indicated in Exhibit 3.3, environmental characteristics that influence uncertainty are the number of factors that affect the organization and the extent to which those factors change. A large multinational like Nortel Networks has thousands of factors in the external environment creating uncertainty for managers. When external factors change rapidly, the organization experiences very high uncertainty; examples are telecommunications and aerospace firms, computer and electronics companies, and e-commerce organizations that sell products and services over the Internet. Companies have to make an effort to adapt to the rapid changes in the environment. When an organization deals with only a few external factors and these factors are relatively stable, such as for soft-drink bottlers or food processors, managers experience low uncertainty and can devote less attention to external issues.

**Adapting to the Environment**

If an organization faces increased uncertainty with respect to competition, customers, suppliers, or government regulation, managers can use several strategies to adapt to these changes, including boundary-spanning roles, interorganizational partnerships, and mergers or joint ventures.

**Boundary-Spanning Roles**

Departments and boundary-spanning roles link and coordinate the organization with key elements in the external environment. Boundary spanners serve two purposes for
The External Environment and Uncertainty

Employees in engineering or research and development scan for new technological developments, innovations, and raw materials. People in departments such as marketing and purchasing span the boundary to work with customers and suppliers, both face-to-face and through market research. Some organizations are staying in touch with customers through the Internet, such as by monitoring gripe sites, communicating with customers on company Web sites, and contracting with market-research firms such as Look-Look that use the Web to monitor rapidly changing marketplace trends.

A growing area in boundary spanning is competitive intelligence (CI), which refers to activities to get as much information as possible about one’s rivals. Membership in the Society of Competitive Intelligence Professionals more than doubled between 1997 and 2001, and colleges are introducing master’s degree programs in CI. Competitive intelligence specialists use Web sites, commercial databases, financial reports, market activity, news clippings, trade publications, personal contacts, and numerous other sources to scan an organization’s environment and spot potential threats or opportunities. Visa has an employee who searches the Web for two hours each day for insights on MasterCard and other competitors. Harley-Davidson hires an outside research firm to search through massive amounts of data and reveal patterns that help decipher and predict competitors’ actions.

Managers need good information about their competitors, customers, and other elements of the environment to make good decisions. In today’s turbulent environment, the most successful companies involve everyone in boundary-spanning activities. People at the grass-roots level, for instance, are often able to see and interpret significant changes sooner than managers who are more removed from the day-to-day work. However, top executives, too, need to stay in tune with the environment. Tom Stemberg, CEO of Staples, visits a competitor’s store once a week and shares what he learns with others on the management team.

Go to the ethical dilemma on page 109 that pertains to competitive intelligence.
Interorganizational Partnerships

One popular strategy for adapting to the environment is reducing boundaries and increasing collaboration with other organizations. North American companies have typically worked alone, competing with one another, but an uncertain, interconnected, global environment has changed all that. Companies are joining together to become more effective and to share scarce resources. Sony, Toshiba, and IBM are collaborating to produce a new, tiny computer chip. Kroger, Albertsons, and Safeway banded together to negotiate with labor unions. Head-to-head competition among independent firms is giving way to networks of alliances that compete for business on a global basis. For example, the aerospace industry is controlled by two networks—those of Boeing and Airbus, each of which is made up of more than 100 partner organizations.

Managers have shifted from an adversarial orientation to a partnership orientation, as summarized in Exhibit 3.4. The new paradigm is based on trust and the ability of partners to work out equitable solutions to conflicts so that everyone profits from the relationship. Managers work to reduce costs and add value to both sides, rather than trying to get all the benefits for their own company. The new model is also characterized by a high level of information sharing, including e-business linkages for automatic ordering, payments, and other transactions. In addition, there is a lot of person-to-person interaction to provide corrective feedback and solve problems. People from other companies may be onsite or participate in virtual teams to enable close coordination. Partners are frequently involved in one another’s product design and production, and they are committed for the long term. It is not unusual for business partners to help one another, even outside of what is specified in the contract. The Manager’s Shoptalk further...

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<tr>
<th>From Adversarial Orientation</th>
<th>To Partnership Orientation</th>
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<tr>
<td>Suspicion, competition, arm’s length</td>
<td>Trust, value added to both sides</td>
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<td>Price, efficiency, own profits</td>
<td>Equity, fair dealing, everyone profits</td>
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<tr>
<td>Information and feedback limited</td>
<td>E-business links to share information and conduct digital transactions</td>
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<td>Lawsuits to resolve conflict</td>
<td>Close coordination; virtual teams and people onsite</td>
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<td>Minimal involvement and up-front investment</td>
<td>Involvement in partner’s product design and production</td>
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<td>Short-term contracts</td>
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<td>Contracts limit the relationship</td>
<td>Business assistance goes beyond the contract</td>
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The New Golden Rule: Cooperate!

News flash: Companies all over the world are sleeping with the enemy. A decade ago, many managers would have considered it heresy to collaborate with competitors, but today they are finding that collaboration is necessary to compete in a rapidly changing environment. Worldwide, research and development budgets are shrinking even as technological complexity grows by leaps and bounds. Collaboration in product development is sweeping every field from autos to aircraft to biotechnology.

Suppliers are also a part of this new collaborative business model. Speed is essential in today’s economy, which requires a seamless integration between a company and its suppliers. Volkswagen, Europe’s biggest automaker, has stretched the supplier relationship to new limits at its revolutionary plant in Brazil. Twelve international suppliers work directly in Volkswagen’s factory, making their own components and then fastening them together into finished trucks and buses. Although few have stretched the supplier relationship as far as VW, other auto companies, including Ford, DaimlerChrysler, and General Motors, are also experimenting with this modular approach, in which suppliers provide pre-made chunks of a vehicle that can be quickly assembled into a finished car or truck by a handful of workers. Manufacturers win with lower costs, while suppliers gain in higher volume, and transaction costs go down for everyone. In the quest for speed and efficiency, collaboration is a trend that is likely to go even further in coming years.

Here are a few tips from the experts about what makes a collaborative relationship successful:

- **Enter the relationship with a spirit of true partnership.** An arm’s-length, semiaversarial, no-trust, “dump them-tomorrow-if-we-get-a-better-deal” mindset guarantees failure. Successful partnerships are based on openness, trust, and long-term commitment.
- **When choosing partners, pay attention to culture and values.** Too often, managers perform due diligence on matters such as markets, products, and technologies, but overlook the “softer” side of partnerships. When it comes right down to it, incompatibility of culture and values can doom a partnership faster than anything else.
- **Clarify what each partner is expected to give and to get from the relationship.** This includes defining those who will lead the project, how decisions will be made, review and oversight responsibilities, and who has final authority regarding any negotiations, contract approvals, and so forth.
- **Put together the right team, including top management.** Top management support and active involvement is crucial for the success of the partnership. In addition, team members should represent all functions, levels, and areas of expertise. The most successful alliance managers are those with open minds, strong relationship skills, and a desire for learning.
- **Put it in writing.** An open, trusting relationship does not mean there should not be a legal contract and clear, written guidelines for how the partnership will conduct business. A legal contract prevents misunderstandings and provides continuity through changes in personnel and management. However, experts warn that you can kill a partnership by turning to the contract at the first hint of any conflict. Partners should learn to resolve disagreements in a collaborative, no-blame manner.

examine the new partnership orientation and offers some guidelines for building successful partnerships.

**Mergers and Joint Ventures**

A step beyond strategic partnerships is for companies to become involved in mergers or joint ventures to reduce environmental uncertainty. A frenzy of merger and acquisition activity both in the United States and internationally in recent years is an attempt by organizations to cope with the tremendous volatility of the environment. A **merger** occurs when two or more organizations combine to become one. For example, Wells Fargo merged with Norwest Corp. to form the nation’s fourth largest banking corporation.

A **joint venture** involves a strategic alliance or program by two or more organizations. This typically occurs when a project is too complex, expensive, or uncertain for one firm to handle alone. Oprah Winfrey’s Harpo Inc. formed a joint venture with Hearst Magazines to launch *O, The Oprah Magazine*. Despite her popularity and success with her television show, Winfrey recognized the complexity and uncertainty involved in starting a new magazine when so many were going out of business. The combined resources and management talents of the partners contributed to the most successful startup ever in the magazine publishing industry. Joint ventures are on the rise as companies strive to keep pace with rapid technological change and compete in the global economy. Barnes & Noble formed a joint venture with Germany’s Bertelsmann AG to establish Barnesandnoble.com. MTV Networks has established joint ventures with companies in Brazil, Australia, and other countries to expand its global presence. Many small businesses are also turning to joint ventures with large firms or with international partners. A larger partner can provide sales staff, distribution channels, financial resources, or a research staff. Small businesses seldom have the expertise to deal internationally, so a company such as Nypro, Inc., a plastic injection-molding manufacturer in Clinton, Massachusetts, joins with overseas experts who are familiar with the local rules. Nypro now does business in four countries.

**The Internal Environment: Corporate Culture**

The internal environment within which managers work includes corporate culture, production technology, organization structure, and physical facilities. Of these, corporate culture has surfaced as extremely important to competitive advantage. The internal culture must fit the needs of the external environment and company strategy. When this fit occurs, highly committed employees create a high-performance organization that is tough to beat.

The concept of culture has been of growing concern to managers since the 1980s, as turbulence in the external environment has grown, often requiring new values and attitudes. Organizational culture has been defined and studied in many and varied ways. For the purposes of this chapter, we define **culture** as the set of key values, beliefs, understandings, and norms shared by members of an organization. The concept of culture helps managers understand the hidden, complex aspects of organizational life. Culture is a pattern of shared values and assumptions about how things are done within the organization. This pattern is learned by members as they cope with external and internal problems and taught to new members as the correct way to perceive, think, and feel. Culture can be analyzed at three levels, as illustrated in Exhibit 3.5, with each level becoming less obvious. At the surface level are visible artifacts, which include such things as manner of dress, patterns of behavior,
CONCEPT CONNECTION

With a mop top of blond hair and a love for turning cartwheels, Betsey Johnson’s whimsical personality reflects her company’s unique corporate culture. That culture provides the organization with the design sensibilities necessary to keep up with changing fashion trends. Its lacy, embroidered dresses are a big hit with prom-goers, and are sold at high-end department stores like Saks Fifth Avenue and Nordstrom. The Betsey Johnson clothing label has become a retail fashion empire with $50 million in revenue last year and 45 boutiques in the United States, Canada, and Britain.

Symbols

A symbol is an object, act, or event that conveys meaning to others. Symbols can be considered a rich, non-verbal language that vibrantly conveys the organization’s important values concerning how people relate to one another and interact with the
Levels of Corporate Culture

**Visible**
1. Artifacts, such as dress, office layout, symbols, slogans, ceremonies

**Invisible**
2. Expressed values, such as “The Penney Idea,” “The HP Way”
3. Underlying assumptions and deep beliefs, such as “people here care about one another like a family”

**Stories**
A story is a narrative based on true events that is repeated frequently and shared among organizational employees. Stories are told to new employees to keep the organization’s primary values alive. One of Nordstrom’s primary means of emphasizing the importance of customer service is through corporate storytelling. An example is the story about a sales representative who took back a customer’s two-year-old blouse with no questions asked. A frequently told story at UPS concerns an employee who, without authorization, ordered an extra Boeing 737 to ensure timely delivery of a load of Christmas packages that had been left behind in the holiday rush. As the story goes, rather than punishing the worker, UPS rewarded his initiative. By telling this story, UPS workers communicate that the company stands behind its commitment to worker autonomy and customer service.

**Heroes**
A hero is a figure who exemplifies the deeds, character, and attributes of a strong culture. Heroes are role models for employees to follow. Sometimes heroes are real, such as the female security supervisor who once challenged IBM’s chairman because...
The AFLAC Duck, which appears in innovative commercials, is the major reason for AFLAC’s brand awareness and name recognition. The AFLAC duck started as an advertising campaign for AFLAC Incorporated, an insurance company that sells its products in the United States and Japan. But the duck has been transformed into a symbol of the company’s commitment to being a good corporate citizen. The company sponsors the AFLAC Cancer Center and Blood Disorders Service, which is part of Children’s Healthcare of Atlanta. Employees support the center through volunteering, fundraising, and personal donations. Plush toy ducks are used to soothe children undergoing treatment at the center, and proceeds from the sales of the plush ducks on the AFLAC Web site go to the cancer center.

he wasn’t carrying the appropriate clearance identification to enter a security area. Other times they are symbolic, such as the mythical sales representative at Robinson Jewelers who delivered a wedding ring directly to the church because the ring had been ordered late. The deeds of heroes are out of the ordinary, but not so far out as to be unattainable by other employees. Heroes show how to do the right thing in the organization. Companies with strong cultures take advantage of achievements to define heroes who uphold key values.

At 3M Corp., top managers keep alive the heroes who developed projects that were killed by top management. One hero was a vice president who was fired earlier in his career for persisting with a new product even after his boss had told him, “That’s a stupid idea. Stop!” After the worker was fired, he would not leave. He stayed in an unused office, working without a salary on the new product idea. Eventually he was rehired, the idea succeeded, and he was promoted to vice president. The lesson of this hero as a major element in 3M’s culture is to persist at what you believe in.

Slogans

A slogan is a phrase or sentence that succinctly expresses a key corporate value. Many companies use a slogan or saying to convey special meaning to employees. H. Ross Perot of Electronic Data Systems established the philosophy of hiring the best people he could find and noted how difficult it was to find them. His motto was, “Eagles don’t flock. You gather them one at a time.” Averitt Express uses the slogan “Our driving force is people” on its trucks to express its commitment to treating employees and customers well. Cultural values can also be discerned in written public statements, such as corporate mission statements or other formal statements that express the core values of the organization. The mission statement for Hallmark Cards, for example, emphasizes values of excellence, ethical and moral conduct in all relationships, business innovation, and corporate social responsibility.
Ceremonies

A ceremony is a planned activity that makes up a special event and is conducted for the benefit of an audience. Managers hold ceremonies to provide dramatic examples of company values. Ceremonies are special occasions that reinforce valued accomplishments, create a bond among people by allowing them to share an important event, and anoint and celebrate heroes.55

The value of a ceremony can be illustrated by the presentation of a major award. Mary Kay Cosmetics Company holds elaborate awards ceremonies, presenting gold and diamond pins, furs, and luxury cars to high-achieving sales consultants. The setting is typically an auditorium, in front of a large, cheering audience, and everyone dresses in glamorous evening clothes. The most successful consultants are introduced by film clips, like the kind used to present award nominees in the entertainment industry. These ceremonies recognize and celebrate high-performing employees and emphasize the rewards for performance.56 A company can also bestow an award secretly by mailing it to the employee’s home or, if a check, by depositing it in a bank. But such procedures would not make the bestowal of rewards a significant organizational event and would be less meaningful to the employee.

In summary, organizational culture represents the values, norms, understandings, and basic assumptions that employees share, and these values are signified by symbols, stories, heroes, slogans, and ceremonies. Managers help define important symbols, stories, and heroes to shape the culture.

Environment and Culture

A big influence on internal corporate culture is the external environment. Cultures can vary widely across organizations; however, organizations within the same industry often reveal similar cultural characteristics because they are operating in similar environments.57 The internal culture should embody what it takes to succeed in the environment. If the external environment requires extraordinary customer service, the culture should encourage good service; if it calls for careful technical decision making, cultural values should reinforce managerial decision making.

Adaptive Cultures

Research at Harvard on 207 U.S. firms illustrated the critical relationship between corporate culture and the external environment. The study found that a strong corporate culture alone did not ensure business success unless the culture encouraged healthy adaptation to the external environment. As illustrated in Exhibit 3.6, adaptive corporate cultures have different values and behavior from unadaptive corporate cultures. In adaptive cultures, managers are concerned about customers and those internal people and processes that bring about useful change. In the unadaptive corporate cultures, managers are concerned about themselves, and their values tend to discourage risk taking and change. Thus a strong culture alone is not enough, because an unhealthy culture may encourage the organization to march resolutely in the wrong direction. Healthy cultures help companies adapt to the environment.58

Go to the experiential exercise on page 108 that pertains to adaptive cultures.

Types of Cultures

In considering what cultural values are important for the organization, managers consider the external environment as well as the company’s strategy and goals. Studies
Exhibit 3.6

Environmentally Adaptive versus Unadaptive Corporate Cultures

<table>
<thead>
<tr>
<th></th>
<th>Adaptive Corporate Cultures</th>
<th>Unadaptive Corporate Cultures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Visible Behavior</td>
<td>Managers pay close attention to all their constituencies, especially customers, and initiate change when needed to serve their legitimate interests, even if it entails taking some risks.</td>
<td>Managers tend to behave somewhat insularly, politically, and bureaucratically. As a result, they do not change their strategies quickly to adjust to or take advantage of changes in their business environments.</td>
</tr>
<tr>
<td>Expressed Values</td>
<td>Managers care deeply about customers, stockholders, and employees. They also strongly value people and processes that can create useful change (e.g., leadership initiatives up and down the management hierarchy).</td>
<td>Managers care mainly about themselves, their immediate work group, or some product (or technology) associated with that work group. They value the orderly and risk-reducing management process much more highly than leadership initiatives.</td>
</tr>
</tbody>
</table>


adaptability culture
A culture characterized by values that support the company’s ability to interpret and translate signals from the environment into new behavior responses.

Nokia has been the world’s leading maker of cell phone handsets since 1998. One reason is that innovation and adaptability are built into the corporate culture. Nokia’s top goal is to keep churning out new products, because what’s hot in this industry one day is stone cold a few months later.

The Nokia Mobile Phones unit (NMP) launched 15 new products in 2001, doubled it to 30 in 2002, and was on track to meet or exceed that in 2003. The company has been first to market with a number of hot innovations. When it came out with the first phone to feature a built-in camera, for example, it had the market to itself for nearly six months because competitors weren’t prepared. Another first was a phone with a fold-out keyboard to use for e-mail.

Nokia managers encourage “uninhibited dabbling,” whereby people feel free to try crazy ideas and never shirk from making mistakes. To spur creativity and fresh thinking, people are rotated to different jobs and divisions—a lawyer might be shifted to running a division or a network engineer moved to handset design. The company also keeps divisions and teams small and gives them the power to implement their ideas. Friendly internal
Four Types of Corporate Cultures


-Competitions celebrate individual creativity, such as photo contests where employees take pictures of their vacation homes or favorite pets with Nokia camera phones.

-Nokia faces challenges as the mobile phone market matures, and market share has been dropping as consumers turn to less expensive, mid-range cell phone models from Samsung and Motorola. The history of Nokia indicates that it isn’t afraid to take a dramatic turn if the environment demands it: In its lifetime, Nokia has gone from manufacturing paper to making rubber boots, then raincoats, hunting rifles, and consumer electronics, before concentrating on cellular phones.

-Most companies in the electronics industry, as well as those involved in e-commerce, cosmetics, and fashion, also use an adaptability culture because they must move quickly to respond to rapid changes in the environment.

-The achievement culture is suited to organizations that are concerned with serving specific customers in the external environment but without the intense need for flexibility and rapid change. This is a results-oriented culture that values competitiveness, aggressiveness, personal initiative, and willingness to work long and hard to achieve results. An emphasis on winning and achieving specific ambitious goals is the glue that holds the organization together. Siebel Systems, which sells complex software systems, has thrived on an achievement culture. Professionalism and aggressiveness are core values. Employees are forbidden to eat at their desks or to decorate with more than one or two personal photographs. People who succeed at Siebel are focused, competitive, and driven to win. Those who perform and meet stringent goals are handsomely rewarded; those who don’t are fired.

-The involvement culture has an internal focus on the involvement and participation of employees to rapidly meet changing needs from the environment. This culture places high value on meeting the needs of employees, and the organization may be characterized by a caring, family-like atmosphere. Managers emphasize values such as cooperation, consideration of both employees and customers, and avoiding status

Achievement Culture
A results-oriented culture that values competitiveness, personal initiative, and achievement.

Involvement Culture
A culture that places high value on meeting the needs of employees and values cooperation and equality.
consistency culture
A culture that values and rewards a methodical, rational, orderly way of doing things.

One company that illustrates an involvement culture is J. M. Smucker & Co., which in 2004 became the first manufacturer to earn the top spot on Fortune magazine’s list of “The 100 Best Companies to Work For.” Co-CEOs Tim and Richard Smucker, known to employees as “the boys,” have continued their father’s emphasis on treating people well. Their code of conduct for managers is to listen with full attention, always look for the good in others, have a sense of humor, and say “thank you” for a job well done. Plant supervisors sometimes hold barbecues to celebrate reaching goals; managers routinely thank employees for their service with gift certificates and lunches. “At first I was skeptical,” said Brian Kinsey, director of operations. “But this family feel is for real.” Thanks to Smucker’s involvement culture, turnover is low and employee satisfaction remarkably high, helping the company consistently meet productivity, quality, and customer service goals in a changing marketplace.

The final category of culture, the consistency culture, has an internal focus and a consistency orientation for a stable environment. Following the rules and being thrifty are valued, and the culture supports and rewards a methodical, rational, orderly way of doing things. In today’s fast-changing world, few companies operate in a stable environment, and most managers are shifting toward cultures that are more flexible and in tune with changes in the environment. However, one thriving new company, Pacific Edge Software, has successfully implemented elements of a consistency culture, ensuring that all its projects are on time and on budget. The husband-and-wife team of Lisa Hjorten and Scott Fuller implanted a culture of order, discipline, and control from the moment they founded the company. The emphasis on order and focus means employees can generally go home by 6:00 P.M. rather than working all night to finish an important project. Hjorten insists that the company’s culture isn’t rigid or uptight, just careful. Although sometimes being careful means being slow, so far Pacific Edge has managed to keep pace with the demands of the external environment.

Each of these four categories of culture can be successful. In addition, organizations usually have values that fall into more than one category. The relative emphasis on various cultural values depends on the needs of the environment and the organization’s focus. Managers are responsible for instilling the cultural values the organization needs to be successful in its environment.

Shaping Corporate Culture for Innovative Response

Research conducted by a Stanford University professor indicates that the one factor that increases a company’s value the most is people and how they are treated. In addition, a business magazine survey found that CEOs cite organizational culture as their most important mechanism for attracting, motivating, and retaining talented employees, a capability they consider the single best predictor of overall organizational excellence. Corporate culture plays a key role in creating an organizational climate that enables learning and innovative responses to threats from the external environment, challenging new opportunities, or organizational crises. However, managers can’t focus all their attention on values; they also need a commitment to solid business performance.

Managing the High-Performance Culture

Companies that succeed in a turbulent world are those that pay attention both to cultural values and to business performance. Cultural values can energize and motivate employees by appealing to higher ideals and unifying people around shared
goals. In addition, values boost performance by shaping and guiding employee behavior, so that everyone's actions are aligned with strategic priorities. Exhibit 3.8 illustrates four organizational outcomes based on the relative attention managers pay to cultural values and business performance. A company in Quadrant A pays little attention to either values or business results and is unlikely to survive for long. Managers in Quadrant B organizations are highly focused on creating a strong culture, but they don't tie organizational values directly to goals and desired business results. A strong, cohesive culture can be positive for a company, especially in terms of employee morale and satisfaction. However, if the culture isn't connected to business performance, it isn't likely to benefit the organization during hard times. For example, Levi Strauss has always been highly focused on values, even tying part of managers' pay to how well they toe the values line. The problem is that top executives lost sight of the business performance side of the issue; that is, they stopped thinking about what it took to make blue jeans profitably.

Quadrant C represents organizations that are focused primarily on bottom-line results and pay little attention to organizational values. This may be profitable in the short run, but the success is difficult to sustain over the long term because the "glue" that holds the organization together—that is, shared values—is missing. Think about the numerous get-rich-quick goals of dot-com entrepreneurs. Thousands of companies sprang up in the 1990s that were aimed primarily at fast growth and quick profits, with little effort to build a solid organization based on long-term mission and values. When the crash came, these companies failed. Those that survived were typically companies that had instilled cultural values that helped them weather the storm. Giants eBay and Amazon have both paid careful attention to organizational values, as have smaller e-commerce companies like Canada's Mediagrif Interactive Technologies, an online B2B brokerage that allows businesses to meet online and trade their goods.

Finally, companies in Quadrant D put high emphasis on both culture and solid business performance as drivers of organizational success. Managers in these organizations align values with the company’s day-to-day operations—hiring practices, performance management, budgeting, criteria for promotions and rewards, and so forth. Quadrant D represents the high-performance culture, a culture that: (1) is based on a solid organizational mission or purpose, (2) embodies shared adaptive values that guide decisions and business practices, and (3) encourages individual employee ownership of both bottom-line results and the organization’s cultural backbone. An example from Nordstrom, which has strong values of outstanding customer service, provides an illustration. A sales associate had shown a woman nine pairs of shoes, but the store didn’t have the right combination of style, size, and color the woman wanted. As she was leaving, another sales associate approached her and offered to see if he could find the shoes at another store. He informed her that he had located them at a competitor’s store (Macy’s) and would have the shoes shipped directly to her home. Nordstrom’s would pick up the overnight shipping charge. Later, this associate reprimanded his peer for failing to try harder. “You really let us down,” he said. Nordstrom is a Quadrant D organization, where employees are strongly committed to the cultural values that drive the organization’s success and are willing to challenge one another when they fail to honor them. This chapter’s Unlocking Creative Solutions Through People box describes Wal-Mart’s high-performance culture.

One of the most important things managers do is create and influence organizational culture to meet strategic goals, because culture has a significant impact on performance. In Corporate Culture and Performance, Kotter and Heskett provided evidence that companies that intentionally managed cultural values outperformed similar companies that did not. Jim Collins also found culture to be a key factor in his studies of successful companies compared to ones that have not done so well. Caterpillar Inc. developed its Cultural Assessment Process (CAP) to measure and manage culture’s contributions to organizational effectiveness. The process gave top executives hard data documenting millions of dollars in savings attributed directly to cultural factors.

Cultural Leadership

One way managers shape cultural norms and values to build a high-performance culture is through cultural leadership. Managers must overcommunicate to ensure that employees understand the new culture values, and they signal these values in actions as well as words.

A cultural leader defines and uses signals and symbols to influence corporate culture. Cultural leaders influence culture in two key areas:

1. The cultural leader articulates a vision for the organizational culture that employees can believe in. This means the leader defines and communicates central values that employees believe in and will rally around. Values are tied to a clear and compelling mission, or core purpose.
2. The cultural leader heeds the day-to-day activities that reinforce the cultural vision. The leader makes sure that work procedures and reward systems match and reinforce the values. Actions speak louder than words, so cultural leaders “walk their talk.”

Leaders can create a culture that brings people together by ensuring that people have a voice in what the important values should be. Managers at United Stationers built a new, adaptive culture from the ground up by asking all 6,000 globally dispersed employees to help define the values that would be the building blocks of the culture. Other companies, though, have found small teams and focus groups that include people from all functions and levels of the company to be more effective than trying to include everyone. Tony Wild, CEO of the pharmaceutical company...
Unlocking Creative Solutions Through People

Wal-Mart Takes Care of Business—And Culture

Whether it’s with a corny company cheer that includes an infamous rear-end wriggle known as the “squiggly,” with posters on the break room walls, or through computer-based training sessions, managers at retail giant Wal-Mart are continually reinforcing the company’s core values of respect for the individual, excellence, and customer service. Wal-Mart has built a high-performance culture that produces a company of disciplined employees who use disciplined thought and exercise disciplined action. People who don’t share the company’s values usually don’t stay long because they feel like outcasts among the “Walmartians.”

Wal-Mart integrates the efficiencies and competitiveness of a huge corporation with the homespun values of Main Street America. Every time a top manager visits a store, he or she leads employees in the Wal-Mart cheer: “Give me a W! Give me an A! Give me an L! Give me a squiggly! Give me an M! Give me an R! Give me a T! What’s that spell? Wal-Mart! What’s that spell? Wal-Mart! Who's No. 1? The customer!” Wal-Mart’s aim is to have a company full of people who never rest on their laurels but continually strive to improve operations, customer service and satisfaction, and the company itself.

Wal-Mart is now the largest company in the world, but executives remain concerned about the future, always talking about what it would take to be more successful, always implementing changes toward that goal. Yet a main ingredient in Wal-Mart’s success is its ability to change without sacrificing the sense of purpose and core values the company was founded on. Founder Sam Walton made a deal with employees: They would work hard for him and he would be fair to them. Walton’s pact with his workers promised that cost cutting, efficiency, and everyday low prices would exist alongside a moral center. Training programs, hiring and promotion practices, and other procedures were built around that pact and the core values of respect, service, and excellence. The Wal-Mart Associates’ handbook has a quote that runs in large type across the top of a page: “The undeniable cornerstone of Wal-Mart’s success can be traced back to our strong belief in the dignity of each individual.”

Wal-Mart’s culture is feeling some strains in light of a recent gender discrimination suit, ongoing attempts to unionize, protests against building supercenters in some towns, and charges that Wal-Mart’s low prices are hurting American manufacturers. Just the sheer size of the company, with more than a million employees, is challenging managers’ ability to maintain the storied culture. However, executives are striving to make changes that reinforce the core values at the same time they move the company forward to address new challenges and responsibilities.

during difficult times or crises. Xilinx, a Silicon Valley semiconductor manufacturer, is based on a culture of respect and adhered to a strict no-layoffs policy throughout the technology downturn by negotiating with workers to take pay cuts. Significantly, top leaders took the hardest hit, with the CEO cutting his salary by 20 percent. Maintaining consistency with the cultural values helps organizations weather the storm and come out stronger on the other side.

Creating and maintaining a high-performance culture is not easy in today’s turbulent environment and changing workplace, but through their words—and particularly their actions—cultural leaders let everyone in the organization know what really counts.

This chapter discussed several important ideas about internal and external organizational environments. Events in the external environment are considered important influences on organizational behavior and performance. The external environment consists of two layers: the task environment and the general environment. The task environment includes customers, competitors, suppliers, and the labor market. The general environment includes technological, sociocultural, economic, legal-political, and international dimensions. Management techniques for helping the organization adapt to the environment include boundary-spanning roles, interorganizational partnerships, and mergers and joint ventures.

A major internal element for helping organizations adapt to the environment is culture. Corporate culture is a major element of the internal organizational environment and includes the key values, beliefs, understandings, and norms that organization members share. Organizational activities that illustrate corporate culture include symbols, stories, heroes, slogans, and ceremonies. For the organization to be effective, corporate culture should be aligned with organizational strategy and the needs of the external environment.

Four types of culture are adaptability, achievement, involvement, and consistency. Strong cultures are effective when they enable an organization to meet strategic goals and adapt to changes in the external environment. Culture is important because it can have a significant impact on organizational performance. Managers emphasize both values and business results to create a high-performance culture, enabling the organization to consistently achieve solid business performance through the actions of motivated employees who are aligned with the mission and goals of the company. Managers create and sustain adaptive high-performance cultures through cultural leadership. They define and articulate important values that are tied to a clear and compelling mission, and they widely communicate and uphold the values through their words and particularly their actions. Work procedures, budgeting, decision making, reward systems, and other day-to-day activities are aligned with the cultural values.

At IBM, a new CEO is shifting values toward an adaptability culture to support a new strategy that requires flexibility, speed, and innovation. Sam Palmisano believes culture is the key to transforming IBM for a new era. To create the new culture, Palmisano got IBM’s nearly 320,000 employees involved, setting up online forums where people could voice their ideas. The CEO was adamant about involving employees so they would be owners of the new culture. The key themes that emerged were customer relationships, innovation, and trust. Palmisano has made a number of moves to signal the new cultural values. When he asked the board to cut his 2003 bonus in half and set the money aside to be split among IBM’s 20 top executives based on their performance as a team, Palmisano made a powerful statement that egalitarianism and teamwork is the new way of doing business at Big Blue. “Creativity . . . does not come from one individual,” he said. “Creativity in an
organization starts where the action is—either in the laboratory, or in R & D sites, at a customer place, in manufacturing.”

Palmisano dismantled the 92-year-old executive committee that had previously ruled the company and formed three cross-functional and cross-hierarchical teams for strategy, operations, and technology. “Heads are spinning,” said one vice president. “He’s reaching six levels down and asking questions.” Listening to both employees and customers is a priority. After Palmisano announced the e-business-on-demand strategy, he scheduled a two-day session to discuss how to tackle it. The CEO listened for a while, then cut the meeting short, telling people to go out and talk to customers and find out what their biggest problems were and how IBM could help to solve them. Teams of employees will work across functional boundaries and with customers to find out what clients want and produce it fast. The company will spend $100 million on training managers to lead rather than control employees so that people have more freedom and power to do their jobs. Teams are also hard at work on revising performance evaluations, career paths, training programs, reward systems, and other practices to be in line with the new values.83 Culture change of the magnitude Palmisano is attempting at IBM is not easy, and it may take years for the new values to become firmly rooted. However, Palmisano believes instilling new cultural values tied to the organization’s strategy and goals can ensure IBM’s long-term prosperity.

Discussion Questions

1. Some scientists predict major changes in the earth’s climate, including a temperature rise of 8°F over the next 60 years. Should any companies be paying attention to this possible long-range environmental trend? Explain.

2. Would the task environment for a cellular phone company contain the same elements as that for a government welfare agency? Discuss.

3. What do you think are the most important forces in the external environment creating uncertainty for organizations today? Do the forces you identified typically arise in the task environment or the general environment?

4. Contemporary best-selling management books often argue that customers are the most important element in the external environment. Do you agree? Are there company situations for which this might not be true?

5. Why do you think many managers are surprised by environmental changes and unable to help their organizations adapt? Can a manager ever be prepared for an environmental change as dramatic as that experienced by airlines in the United States following the September 11, 2001 terrorist attacks in New York and Washington?

6. Why are interorganizational partnerships so important for today’s companies? What elements in the current environment might contribute to either an increase or a decrease in interorganizational collaboration? Discuss.

7. Define corporate culture and explain its importance for managers.

8. Why are symbols important to a corporate culture? Do stories, heroes, slogans, and ceremonies also have symbolic value? Discuss.

9. Describe the cultural values of a company for which you have worked. Did those values fit the needs of the external environment? Of employees?

10. What type of environmental situation is associated with an adaptability culture? How does this culture differ from the involvement culture? From the consistency culture?

11. How do managers create a high-performance culture? Do you think strong cultural values are better for organizational performance than weak values? Are there times when a strong culture might lead to lower performance? Discuss.
Management in Practice: Experiential Exercise

Working in an Adaptive Culture

Think of a specific full-time job you have held. Please answer the questions below according to your perception of the managers above you in that job. Circle a number on the 1–5 scale based on the extent to which you agree with each statement about the managers above you: 5 = Strongly agree; 4 = Agree; 3 = Neither agree nor disagree; 2 = Disagree; 1 = Strongly disagree

1. Good ideas got serious consideration from management above me. 1 2 3 4 5

2. Management above me was interested in ideas and suggestions from people at my level in the organization. 1 2 3 4 5

3. When suggestions were made to management above me, they received fair evaluation. 1 2 3 4 5

4. Management did not expect me to challenge or change the status quo. 1 2 3 4 5

5. Management specifically encouraged me to bring about improvements in my workplace. 1 2 3 4 5

6. Management above me took action on recommendations made from people at my level. 1 2 3 4 5

7. Management rewarded me for correcting problems. 1 2 3 4 5

8. Management clearly expected me to improve work unit procedures and practices. 1 2 3 4 5

9. I felt free to make recommendations to management above me to change existing practices. 1 2 3 4 5

10. Good ideas did not get communicated upward because management above me was not very approachable. 1 2 3 4 5

Scoring and Interpretation

To compute your score: Subtract each of your scores for questions 4 and 10 from 6. Using your adjusted scores, add the numbers for all 10 questions to give you the total score: ______. Divide by 10 to get your average score: ______.

An adaptive culture is shaped by the values and actions of top and middle managers. When managers actively encourage and welcome change initiatives from below, the organization will be infused with values for change. These 10 questions measure your management’s openness to change. A typical average score for management openness to change is about 3. If your average score was 4 or higher, you worked in an organization that expressed strong cultural values of adaptation. If your average score was 2 or below, the culture was probably unadaptive.

Thinking about your job, is the level of management openness to change correct for the organization? Why? Compare your scores to those of another student, and take turns describing what it was like working for the managers above your jobs. Do you sense that there is a relationship between job satisfaction and your management’s openness to change? What specific management characteristics and corporate values explain the openness scores in the two jobs?

Management in Practice: Ethical Dilemma

Competitive Intelligence Predicament

Miquel Vasquez was proud of his job as a new product manager for a biotechnology startup, and he loved the high stakes and tough decisions that went along with the job. But as he sat in his den after a long day, he was troubled, struggling over what had happened earlier that day and the information he now possessed.

Just before lunch, Miquel's boss had handed him a stack of private strategic documents from their closest competitor. It was a competitive intelligence gold mine—product plans, pricing strategies, partnership agreements, and other documents, most clearly marked “proprietary and confidential.” When Miquel asked where the documents came from, his boss told him with a touch of pride that he had taken them right off the competing firm's server. “I got into a private section of their intranet and downloaded everything that looked interesting,” he said. Later, realizing Miquel was suspicious, the boss would say only that he had obtained “electronic access” via a colleague and had not personally broken any passwords. Maybe not, Miquel thought to himself, but this wouldn't pass the 60 Minutes test. If this ever got out to the press, the company's reputation would be ruined.

Miquel didn't feel good about using these materials. He spent the afternoon searching for answers to his dilemma, but found no clear company policies or regulations that offered any guidance. His sense of fair play told him this was unethical, if not downright illegal. What bothered him even more was the knowledge that this kind of thing might happen again. Using this confidential information would certainly give him and his company a competitive advantage, but Miquel wasn't sure he wanted to work for a firm that would stoop to such tactics.

What Would You Do?

1. Go ahead and use the documents to the company's benefit, but make clear to your boss that you don't want him passing confidential information to you in the future. If he threatens to fire you, threaten to leak the news to the press.
2. Confront your boss privately and let him know you're uncomfortable with how the documents were obtained and what this says about the company's culture. In addition to the question of the legality of using the information, point out that it is a public relations nightmare waiting to happen.
3. Talk to the company's legal counsel and contact the Society of Competitive Intelligence Professionals for guidance. Then, with their opinions and facts to back you up, go to your boss.


Surf the Net

1. Monitor the environment. A comprehensive informational Web site designed especially for executives is at http://www.ceoexpress.com. After familiarizing yourself with this site, send an e-mail message to your instructor. Your instructor will play the role of your boss, who is currently unaware that CEO Express® exists. In your e-mail, present evidence to convince your "boss" that the information at this site would help him or her monitor the environment and, therefore, is a site worthy of bookmarking and visiting regularly.
2. Mergers and acquisitions. To learn more about merger and acquisition activity that affects the economic environment, locate and record the merger and acquisition announcements made in the past two weeks. Use a search engine to locate this information that can be found at such sites as http://www.theonlineinvestor.com/.
3. Corporate culture. Select two sites from the list below. Print out the information the organization presents about its corporate culture. On your printouts, try to identify one aspect of the organization's culture at each of the three levels
Society of Equals

Ted Shelby doesn’t make very many mistakes, but . . .

“Hey Stanley,” says Ted Shelby, leaning in through the door, “you got a minute? I’ve just restructured my office. Come on and take a look. I’ve been implementing some great new concepts!”

Stanley is always interested in Ted Shelby’s new ideas, for if there is anyone Stanley wants to do as well as, it is Edward W. Shelby IV. Stanley follows Ted back to his office and stops, nonplussed.

Restructured is right! Gone are Ted’s size B (junior executive) walnut veneer desk and furniture, and his telephone table. In fact, the room is practically empty save for a large, round, stark white cafeteria table and the half-dozen padded vinyl swivel chairs that surround it.

“Isn’t it a beauty! As far as I know, I’m the first executive in the plant to innovate this. The shape is the crucial factor here—no front or rear, no status problems. We can all sit there and communicate more effectively.”

“I see, Stanley,” says Ted, managing his best sincere/intense attitude, “the main thing wrong with our culture is that most of the communication is top-down. We in the executive suite send our messages down the line, but we never ask for ideas and suggestions from the rest of the company. Just because we have more status and responsibility doesn’t mean that we are necessarily (Stanley duly noted the word necessarily) better than the people below us. In fact, with our customers’ needs changing so fast these days, we need all the ideas we can get. We’ve got to shift to a culture of participation and employee involvement if we want to keep up with today’s fast pace of business.”

“So that’s what the cafeteria table is for?” Stanley asks.

“Yes!” says Ted. “We need better two-way communication—up the line as well as down the line. We managers don’t have all the answers, and I don’t know why I never realized it before that seminar. Why, for example, the folks who run those machines out there. I’ll bet any one of them knows a thing or two about how to speed up our manufacturing process that I’ve never thought of. So I’ve transformed my office into a full-feedback communication net.”

“That certainly is an innovation around here,” says Stanley.

A few days later Stanley passed by Ted Shelby’s office and was surprised that Ted’s desk, furniture, and telephone table were back where they used to be.

Stanley, curious about the unrestructuring, went to Bonnie for enlightenment. “What,” he asked, “happened to Shelby’s round table?”

“That table we were supposed to sit around and input things?” she said. “All I know is, about two days after he had it put in, Mr. Drake came walking through here. He looked in that office, and then he sort of stopped and went back—and he looked in there for a long time. Then he came over to me, and I could barely hear him, he was talking so low. And he said,
‘Have that removed. Now. Have Mr. Shelby’s furniture put back in his office. Have Mr. Shelby see me.’”

My, my. You would think Ted would have known better, wouldn’t you? But then, by now you should have a pretty firm idea of just why it is those offices are set up as they are.

Questions

1. How would you characterize the culture in this company? What are the dominant values?
2. Why did Ted Shelby’s change experiment fail? To what extent did Ted use the appropriate change tools to increase employee communication and participation?
3. What would you recommend Ted do to change his relationship with subordinates? Is it possible for a manager to change cultural values if the rest of the organization, especially top management, does not agree?


Endnotes

4. This section is based on Richard L. Daft, Organization Theory and Design, 8th ed. (Cincinnati, Ohio: South-Western, 2004): 136–140.


37. A discussion of the Sony-Toshiba-IBM alliance was heard by the author on NPR’s Morning Edition; information on Kroger, Albertson’s, and Safeway from an Associated Press story, “Strike Increases Pressure on Safeway CEO,” in Johnson City Press (February 1, 2004): 7D.


52. Martin, Organizational Culture: 71–72.

53. Terrence E. Deal and Allan A. Kennedy, Corporate Cultures: The Rites and Rituals of Corporate Life (Reading, Mass.: Addison-Wesley, 1982).


68. This section is based on Jeff Rosenthal and Mary Ann Masarech, “High Performance Cultures: How Values Can Drive Business Results,” Journal of Organizational Excellence (Spring 2003): 3-18.

69. Rosenthal and Masarech, “High-Performance Cultures.”


71. Rosenthal and Masarech, “High-Performance Cultures.”

72. Chatman and Cha, “Leading by Leveraging Culture.”


77. Lencioni, “Make Your Values Mean Something.”

78. Lencioni, “Make Your Values Mean Something.”

79. Rosenthal and Masarech, “High-Performance Cultures.”


