

CHAPTER 2

The Changing Environment of Organizations

CHAPTER OVERVIEW

The environment of business is changing at an unprecedented rate. The effects of today's changing environment permeate the entire organization. Hence, to truly understand the behavior of people in organizational settings, it is also necessary to understand the changing environment of business. This chapter is intended to provide the framework for such understanding. We introduce and examine five of the central environmental forces for change faced by today's organizations: globalization, diversity, technology, ethics and corporate governance, and new employment relationships (Fig. 2.1).

CHAPTER LEARNING OBJECTIVES

After studying this chapter you should be able to:

1. Discuss the emergence of international management and its impact on organizations.
2. Describe the nature of diversity in organizations and identify and explain the key dimensions of diversity.
3. Discuss the changing nature of technology and its impact on business.
4. Describe emerging perspectives on ethics and corporate governance.
5. Discuss the key issues in new employment relationships.

LECTURE OUTLINE

- I. Globalization and Business. Perhaps the most significant source of change impacting many organizations today is the increasing globalization of organizations and management.
 - A. The Growth of International Business. In 2012, the volume of international trade in current dollars was fifty times greater than the amount in 1960. Four major factors account for much of this momentum.
 1. Communication and transportation have advanced dramatically over the past several decades.
 2. Businesses have expanded internationally to increase their markets.
 3. More and more firms are moving into international markets to control costs, especially to reduce labor costs.
 4. Many organizations have become international in response to competition.
 - B. Cross-Cultural Differences and Similarities.
 1. General Observations. Cultural and national boundaries do not necessarily coincide. One major review of the literature on international management reached five basic conclusions:
 - a) Behavior in organizational settings varies across cultures.
 - b) Culture itself is one major cause of this variation. Culture is the set of shared values, often taken for granted, that help people in a group, organization, or society understand which actions are considered acceptable and which are deemed unacceptable.

- c) Although causes and consequences of behavior within organizational settings remain quite diverse across cultures, organizations and they way they are structured appear to be growing increasingly similar.
 - d) The same individual behaves differently in different cultural settings.
 - e) Cultural diversity can be an important source of synergy in enhancing organizational effectiveness.
 - 2. Specific Cultural Issues. Geert Hofstede studied workers and managers in sixty countries and found that specific attitudes and behaviors differed significantly because of the values and beliefs that characterized those countries (see Table 2.1).
 - a) Individualism versus collectivism.
 - b) Power distance (orientation to authority).
 - c) Uncertainty avoidance (preference for stability).
 - d) Masculinity (assertiveness or materialism).
 - e) Long-term versus short-term orientation.
 - C. Managerial Behavior Across Cultures. Some individual variations in people from different cultures shape the behavior of both managers and employees. Other differences are much more likely to influence managerial behavior *per se*. In general, these differences relate to managerial beliefs about the role of authority and power in the organization (see Figure 2.2).
- II. Diversity and Business. Workforce diversity refers to the important similarities and differences among the employees of organizations. Employees' conceptions of work, expectations of rewards from the organization, and practices relating to others are all influenced by diversity. A stereotype is a generalization about a person or group of persons based on certain characteristics or traits. A stereotype can lead to prejudice, a judgment about others that reinforces beliefs about superiority and inferiority.
- A. Dimensions of Diversity.
 - 1. Primary dimensions are those factors that are either inborn or exert extraordinary influence on early socialization. Examples include age, race and ethnicity, gender, physical and mental abilities, and sexual orientation.
 - 2. Secondary dimensions include factors that matter to us as individuals and that to some extent define us to others; however, they may be less permanent than primary dimensions and can be adapted or changed. They include educational background, geographical location, income, marital status, military experience, parental status, religious beliefs, and work experience.
 - B. Who Will be the Workers of the Future? Figures 2.3 and 2.4 show some significant statistical changes in the workforce projected to 2014. White males will decline as a percentage of the workforce while older workers generally (fifty-five and older) will dramatically increase (46.6 percent).
 - C. Global Workforce Diversity. Similar statistics on workforce diversity are found in other countries. In Canada, for instance, minorities are the fastest-growing segment of the population and the workforce. Increasing diversity in the workplace is even more dramatic in Europe.
 - D. The Value of Diversity. Rather than the traditional view of the U.S. as a "melting pot" where people from culturally different groups were assimilated into existing organizations, today the U.S. workplace is viewed more as a "tossed salad" made up of a mosaic of different flavors, colors, and textures.
 - 1. Assimilation is the process through which members of a minority group are forced to learn the ways of the majority group. Dominant groups tend to be self-perpetuating and be unaware of outside opinions. Ignoring diversity, however, can result in tension, lower productivity, increased absenteeism and turnover, lower morale and more equal opportunity and harassment lawsuits against the employer.

2. Valuing diversity means putting an end to the assumption that everyone who is not a member of the dominant group must assimilate. Valuing diversity is not just the right thing to do for workers; it is the right thing to do for the organization, both financially and economically.

III. Technology and Business. Technology refers to the methods used to create products, including both physical goods and intangible services. Technological change has become a major driver for other forms of technological change. Three specific areas of technology worth noting are the shift toward a service-based economy, the growing use of technology for competitive advantage, and mushrooming change in information technology.

- A. Manufacturing and Service Technologies. Manufacturing is a form of business that combines and transforms resources into tangible outcomes that are sold to others. Manufacturing entered a period of long decline in the U.S. during the 1970s, primarily because of foreign competition. Now U.S. manufacturing has regained a competitive position in many different industries, and the service sector continues to grow vigorously. A service organization is one that transforms resources into intangible output and creates time or place utility for its customers.
- B. Technology and Competition. Technology is the basis of competition for some firms. Another challenge is meeting constant demands to decrease cycle time—the time required to accomplish some recurring activity or function—which businesses increasingly are finding can make them more competitive.
- C. Information Technology has resulted in leaner organizations, more flexible operations, increased collaboration among employees, more flexible work sites, and improved management processes and systems. On the other hand, it has also led to less personal communication, less “down time” for managers and employees, and an increased sense of urgency.

IV. Ethics and Corporate Governance.

- A. Framing Ethical Issues. One special aspect of business ethics, corporate governance, has taken on increased importance. Most ethical dilemmas faced by managers relate to how the organization treats its employees, how employees treat the organization, and how employees and organizations treat other economic agents (Fig. 2.5)
 1. How an Organization Treats its Employees. One important area of managerial ethics is the treatment of employees to include: hiring and firing, wages, working conditions, employee privacy and respect.
 2. How Employees Treat the Organization. Ethical issues stem from how employees treat the organization, with regard to conflicts of interest, secrecy and confidentiality, and honesty.
 3. How Employees and the Organization Treat Other Economic Agents. Agents of interest include customers, competitors, stockholders, suppliers, dealers, and unions (Fig. 2.5). Interactions subject to ethical ambiguity include advertising and promotions, financial disclosures, ordering and purchasing, shipping and solicitations, bargaining and negotiation, and other business relationships.
- B. Ethical Issues in Corporate Governance. Corporate Governance is the oversight of a public corporation by its board of directors. The biggest complaint today leveled at boards often relates to board independence.
- C. Ethical Issues in Information Technology. Individual rights to privacy and the potential abuse of information technology are specific questions in this area.

V. New Employment Relationship.

- A. The Management of Knowledge Workers. Unlike traditional employees who added value to organizations because of what they did or because of their experience, knowledge workers

add value simply because of what they know. Examples include computer scientists, physical scientists, engineers, product designers, and video game developers. They often believe they have right to work in an autonomous fashion, identify strongly with their profession, and require extensive, highly specialized training. Compensation and related policies for knowledge workers must be highly tailored.

- B. Outsourcing. This is the practice of hiring other firms to do work previously performed by the organization itself. It helps firms focus on their core activities and avoid being sidetracked into secondary activities. While outsourcing makes good business sense in areas that are highly unrelated to a firm's core business activities, it has drawn criticism because of a trend toward outsourcing abroad merely to cut labor costs.
- C. Temp and Contingency Workers. A contingent worker works for an organization on something other than a permanent or full-time basis. Contingent workers include independent contractors, on-call workers, temporary employees, and contract and leased employees. Managing contingent and part-time workers is not straightforward from a behavioral perspective.
- D. Tiered Workforce. A tiered workforce exists when one group has a contractual arrangement with the organization different from that of another group performing the same jobs.

DISCUSSION QUESTIONS AND POSSIBLE RESPONSES

1. **Identify ways in which the internationalization of business affects businesses in your community.**

Answer: Students probably will recognize that international business affects almost every aspect of business in every community. Within the work sphere, it influences product design, distribution, market segmentation, promotion, and pricing. At a higher level, it influences corporate objectives, policies, and strategies. Like it or not, every business is in the international marketplace.

2. **What would you imagine to be the major differences among working for a domestic firm inside the United States, working for a foreign company's operations inside the United States, and working for an American firm's operations abroad?**

Answer: Possible cultural clashes when there is a mixture of different cultures (U.S. versus foreign) would be the major difference. Language differences might also be a factor when a different one is spoken by the parent company than what the employee is accustomed to.

3. **Why do organizations need to be interested in managing diversity? Is it a legal or moral obligation, or does it have some other purpose?**

Answer: Organizations need to be interested in managing diversity for several reasons. First, the composition of the workforce is becoming more diverse, as indicated by the data shown in the text. Second, it is the right thing to do because the workforce will be more productive. Third, personnel costs can be decreased. Fourth, companies are finding that it is necessary to be more competitive in the marketplace.

4. **Summarize in your own words what the statistics tell us about the workplace of the future.**

Answer: Summaries should include the increasing number of women and minority group members in the workforce, increasing participation by older workers, and growth of all sectors except the typical white male.

5. **All things considered, do you think people from diverse cultures are more alike or more different? Explain the reasons for your answer?**

Answer: Responses to this question will largely depend on students' exposure to people of other cultures. Once the initial "culture shock" has been overcome, familiarity should breed sameness; that is, the more one is exposed to other cultures, the more alike people are apt to appear.

6. **What roles does changing technology play in your daily activities?**

Answer: Communication is faster, easier, and a wide range of options is available. Privacy may be encroached upon with greater ease than ever; unit costs of communication are lower. Entertainment is also more varied in terms of format and accessibility, increasing a person's options. It may be more of a challenge to keep pace with the rapid changes in technology in the consumer products field as well as work-related technology, and the problem and pace of obsolescence are accelerating.

7. **How concerned are you regarding technology-related privacy? Are your concerns increasing? Why or why not?**

Answer: The growing publicity about identity theft may increase students' concerns about privacy. Hacking and related activities such as deliberately planted "viruses" have revealed the downside of online popularity.

8. **Do you think concerns regarding ethics will remain central in managerial thinking, or will these concerns eventually become less important? Why?**

Answer: Concerns about ethics will likely remain fresh in the minds of current managers and business students, perhaps fading in future generations, especially if other issues, such as a shrinking workforce or global catastrophes, emerge. As long as business schools and organizations themselves make an effort to remind the young about ethical issues they will remain important, if not central, to managerial thinking.

9. **Do you anticipate becoming a “knowledge worker”? How do you think this will shape your own thinking regarding an employer, compensation, and so forth?**

Answer: Probably every student taking this class anticipates becoming a knowledge worker or they would not be in it! Since that is the case, their expectations regarding various aspects of employment will be affected. They will seek an employer who appreciates them as individuals, grants them freedom and flexibility, pays well, supports any training or education they may need, and invites their input on every aspect of the job.

10. **What are your personal opinions about the use of international outsourcing?**

Answer: If one has never lost one's job due to international outsourcing the opinion might be very positive—it can reduce labor costs, make the organization more efficient and competitive, and help develop economies that are below par. There are downsides, of course, particularly revolving around the short-term effects on individual American workers and the communities in which they live from a sudden loss of jobs. Longer-term, downsizing can force individuals and organizations alike to learn new skills, streamline their operations, and ... change for the better!

11. **Does multiculturalism contribute to competitive advantage for an organization?**

Answer: The multicultural organization contributes to competitive advantage by reducing personnel costs, increasing marketing creativity for special markets, increasing creativity and innovation in product development and marketing, increasing problem solving and decision making, and increasing flexibility.

EXPERIENCING ORGANIZATIONAL BEHAVIOR

Understanding Your Own Stereotypes about Others

Purpose: This exercise will help students better understand their own stereotypes and attitudes toward others.

Format: Students will evaluate a situation and the assumptions made in doing so. Then they will compare results with classmates.

Procedure:

1. Read the following description and decide who is standing at your door and why you believe it to be that person. Take notes that explain your rationale for eliminating the other possibilities and selecting the one that you did. Then answer the follow-up questions.
2. Working in small groups or with the class as a whole, discuss who might be standing at your door and why you believe it to be that person. Record the responses of your class members.
3. In class discussion, reflect on the stereotypes used to reach a decision and consider the following:
 - a. How hard was it to let go of your original belief once you had formed it?
 - b. What implications do first impressions of people have concerning how you treat them, what

you expect of them, and your assessment of whether the acquaintance is likely to go beyond the initial stage?

- c. What are the implications of your responses to these questions concerning how you, as a manager, might treat a new employee? What will the impact be on that employee?
- d. What are the implications of your answers for yourself in terms of job hunting?

Follow-Up Questions and Possible Responses

1. Of the seven people listed, which of them is standing at your door? How did you reach this conclusion?
Answer: The person standing at the door is the surgeon because she is wearing a white coat.
2. If the woman had not been wearing a white hospital laboratory coat, how might your perceptions of her have differed? Why?
Answer: She is wearing flamboyant clothing and jewelry which does not fit the stereotype of a doctor.
3. If you find out that she is the surgeon who will be operating on you in the morning, and you thought initially that she was someone else, how confident do you now feel in her ability as a surgeon? Why?
Answer: I would not feel confident in her ability as a surgeon because she doesn't have a professional look.
4. What implications can you draw from this exercise regarding the management of knowledge workers?
Answer: The adage "clothes make the man" fits here, although the exercise concerns a woman. People judge others by their appearance.

SELF-ASSESSMENT EXERCISE

Cross-Cultural Awareness

This assessment inventory is intended to provide insights into the students' awareness of other cultures. Students indicate their responses to twenty questions and then add up their score. A higher score indicates more awareness of other cultures. Students can compare their scores to others in their groups or classes and discover strengths and weaknesses.

BUILDING MANAGERIAL SKILLS

Exercise Overview: Communications skills refer to a manager's ability to convey ideas and information to other people. This exercise asks requires communication of information by carefully crafting the terms of expression.

Exercise Background: You own an unfinished furniture store, and one of your customers owns a furniture store catering to the local ethnic community. She is not a native speaker of English, and you need to send her a letter reassuring her about product safety.

Exercise Task: The point of this exercise is to think through a workplace-related scenario involving communication with a nonnative speaker of English. In this case, students are challenged to make decisions regarding how write clear messages to nonnative speakers and to reduce the possibility of creating a misunderstanding with a person from a different culture.

MINILECTURE

How to Launch a Diversity Initiative

Introduction

Most organizations believe that diversity is important. Still, because the importance of building a diverse workforce is a relatively new challenge, most firms are unsure about how to launch a diversity initiative. Initially, there are two important rules for launching a diversity initiative that should be followed. The first is to have clear diversity-related goals and to have a way of measuring success. The second is to communicate diversity-related goals to employees and to periodically report the results of the diversity efforts. Most employees recognize and appreciate it when their company is “making progress” on important goals and objectives. However, it is hard to convince employees that progress is being made unless a firm can report positive results on measurable goals.

In addition to establishing goals, a firm needs to carefully prepare for the launch of a diversity-related initiative. The launch is crucial, because a strong and effective launch sets the tone for employees’ perception of how important the diversity effort really is. The following are several components that should be in place before a diversity initiative is introduced.

Key Components to the Effective Launch of a Diversity Initiative

1. **An Awareness of the Benefits of Diversity.** Workplace diversity has many benefits that go beyond simply complying with the law and/or satisfying the demands of certain stakeholders. Before launching a program, a firm should answer the question, “How can workforce diversity help us?” An answer to that question can help a firm shape and mold its diversity-related objectives and goals. For example, the following is a quotation from IBM’s website, explaining the company’s perspective on workforce diversity.

“To know our markets and serve them well requires that we understand them. And understanding comes from employees who represent those markets. Our customers can clearly see that they are people like us. They can relate to the fact that we are people like them. Diversity is our source of innovation, opportunity and competitive advantage. It is our key to continuing success.”

This statement says a lot about why IBM values workforce diversity. It is also a statement that can be used to explain the value of workplace diversity to employees, customers, and other stakeholders when the diversity initiative is introduced.

2. **Top Management Support.** Diversity initiatives need top management support. It is optimal for the CEO or president to lead his or her firm’s diversity effort. This approach sends an important message to employees that “diversity is important.” It also holds top management accountable to do its part in a company’s diversity initiative.
3. **Set up a Diversity Team.** Along with top management support, an effective diversity program must be supported by the rank-and-file employees. A cross-functional team or task force should be formed to manage the diversity effort. The team itself should be as diverse as possible, ensuring that the needs and concerns of all the demographic groups in the firm are represented.
4. **Establish Specific Diversity-Related Goals.** This reiterates the information provided above, but is worth repeating. The diversity initiative should be attached to specific diversity-related goals, with appropriate measures of success in place. For example, a firm may have a goal of increasing minority hiring from 20 percent to 35 percent in one year. This is a specific goal that is measurable.

5. **Integration.** A diversity program can't stand alone. It must become part of the culture and fabric of the organization. As a result, the support of diversity must be reflected at all levels within a firm, and across all stakeholder groups (i.e., employees, customers, suppliers, creditors, stockholders, local communities, and so on). This objective can't happen by just wishing that it will. A firm must make plans early on to support the introduction of its diversity initiative with diversity training, mentoring opportunities for minorities and women, employee incentives that reward diversity efforts, and so on.

Summary

In summary, the effective launch of a diversity program is a challenging, yet achievable, objective. Many examples of excellent diversity programs exist. The launch of an effective diversity program, however, must be accompanied by the key components outlined above to have the maximum chance of achieving success.

ADDITIONAL EXPERIENTIAL EXERCISE

Diversity Success

Purpose: To understand that some companies are actively promoting diversity programs and to appreciate the innovative ways companies compete for the best talent.

Format: Students should research publications for the “Best Places to Work” for minorities and women. Individually or in small groups, as directed by your instructor, compile a list of best practices from your research. Share your research with the class.

Procedure: Each student's research should answer the following questions. What programs do the winning companies have in common? What aspects of the company culture support opportunities for everyone? What was the most unique practice you read about? Would you want to work there? If you were a white male, would you feel the same way? Or, what if you were a minority?

VIDEO CASE FOR DISCUSSION

Snow Job

Summary

Holden is a company that makes garments that looked great [while] hiding a ton of technical features. The underpinning idea is to “bring back a sense of Old World tailoring and craftsmanship” complete with high fashion and eco-friendly production. LeBlanc is the marketing director while Zergebel is the creative director.” Holden's CEO is the former Adidas executive Ben Pruess.

Case Questions and Possible Responses

1. **Google “Holden Outerwear” and check out some of the company's online advertising (much of which appears in the advertising of distributors and retailers). Typically, what product features are stressed? Which features are designed to make products “look great”? Which features qualify as “technical features”? In general, does Holden seem to live up to LeBlanc's ideal of “making garments that look great [while] hiding a ton of technical features”?**

Answer: The product features stressed on the website exemplify all of the Holden's design sensibilities: fashion-forward styling, top of the line “eco-friendlier” fabrication, the finest trims

including Riri® zippers, and hidden technical functionality to the max. Holden lives up to LeBlanc's ideal of "making garments that look great [while] hiding a ton of technical features.

2. **As of this writing, Holden has a grand total of ten employees. We're introduced to a few of them during the video, although only briefly. What does Hillary Lloyd do? What *cultural issues* does she probably face in working with the outside vendor for whom she's responsible? *Hint: Go to <http://geert-hofstede.com/south-korea.html>.***

Answer: Hillary Lloyd handles Sealon seam tape and glue made in South Korea. She faces cultural issues with vendors because, unlike the U.S., South Korea is a hierarchical society with inherent inequalities and autocratic managers. Unlike the U.S., South Korea is a collectivistic society in which loyalty over-rides other societal rules and regulations. South Korea, as opposed to the U.S., is a feminine society which focuses on consensus. Also, South Korea ranks high in uncertainty avoidance, unlike the U.S., with rigid codes of belief and intolerance of unorthodox behaviour and ideas. Finally, South Korea, as opposed to the U.S., has a long-term orientation such that companies are not in existence to make money but to serve the stake holders and society at large over time.

3. **In explaining Holden's choice of *outsourcing* as a strategy, LeBlanc discusses three areas of product and marketing management. What are they, and what advantages does LeBlanc attribute to each? Which of the three has proved to be the biggest challenge, and what has Holden done to solve problems in this area?**

Answer: The first area of management is cost containment. There is a huge cost advantage by manufacturing products in low-wage countries like China. The second area is quality. It would be hard to find highly skilled workers outside of Asia. The third area concerns maintaining high production standards while being eco-friendly. This includes on-time delivery of products. It has been challenging to get products in a store by a certain date because of excessive paperwork. Holden has consolidated factories in China and reduced the number of ships delivering products. To solve this problem, Holden has streamlined operations.

4. **In May 2012, Holden announced that it was moving its headquarters from Portland to Los Angeles, where operating expenses will be about 15 percent lower. The company also said that it intended to extend its product lines into apparel for hiking, skateboarding, bicycling, and, eventually, surfing. "We are a reflection of the global community that inspires us," explained Ben Pruess. Give some reasons why you think the strategy decisions were made and why you think they were good ones. Do you think that the two decisions are related? If so, in what ways?**

Answer: The decisions were good ones because they reflect the trend towards increased globalization and cost effectiveness. The decisions are related because consumers want high quality, eco-friendly, fashionable products at reasonable prices.

5. **A recent article entitled "Manufacturing Startups: What You Need to Know" begins this way:**

With ever-advancing technology, cheap outsourced labor, and globalized logistics providers, it should be easy to start up a manufacturing company, right? Wrong. The challenges have simply become greater.

In what ways—specifically—does this statement apply to Holden Outerwear?

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Answer: This statement applies to Holden Outerwear because the company uses advanced technology such as the seam tape and glue for waterproofing all clothes, cheap outsourced labor in China, and providers in Europe and Asia. The challenges have become greater because of cultural differences, intense scrutiny by the media of global working conditions to include coverage of sweatshops and child labor in Asia, and pressures to bring outsourced jobs back to the U.S. because of the recession and high unemployment rate.