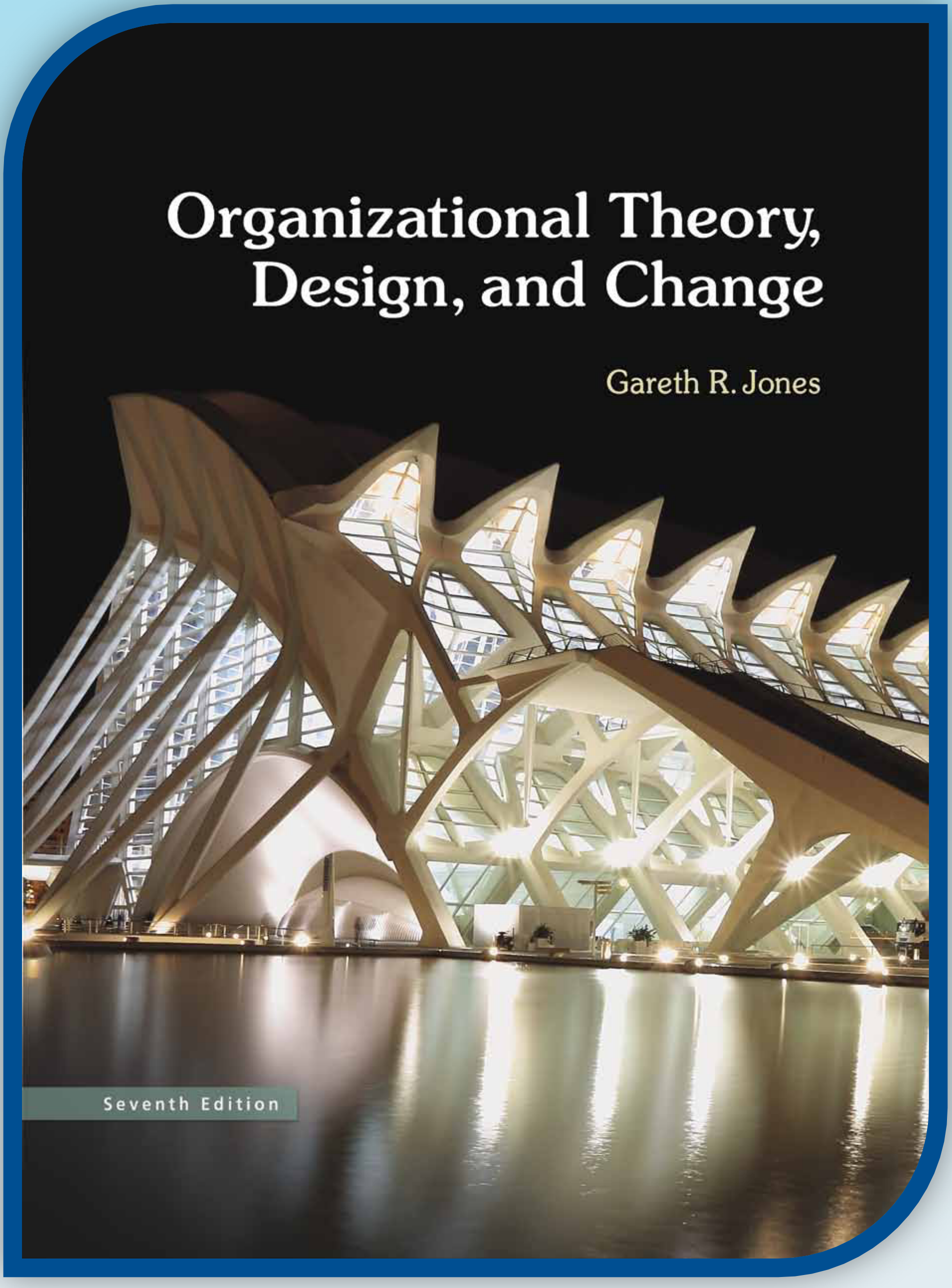


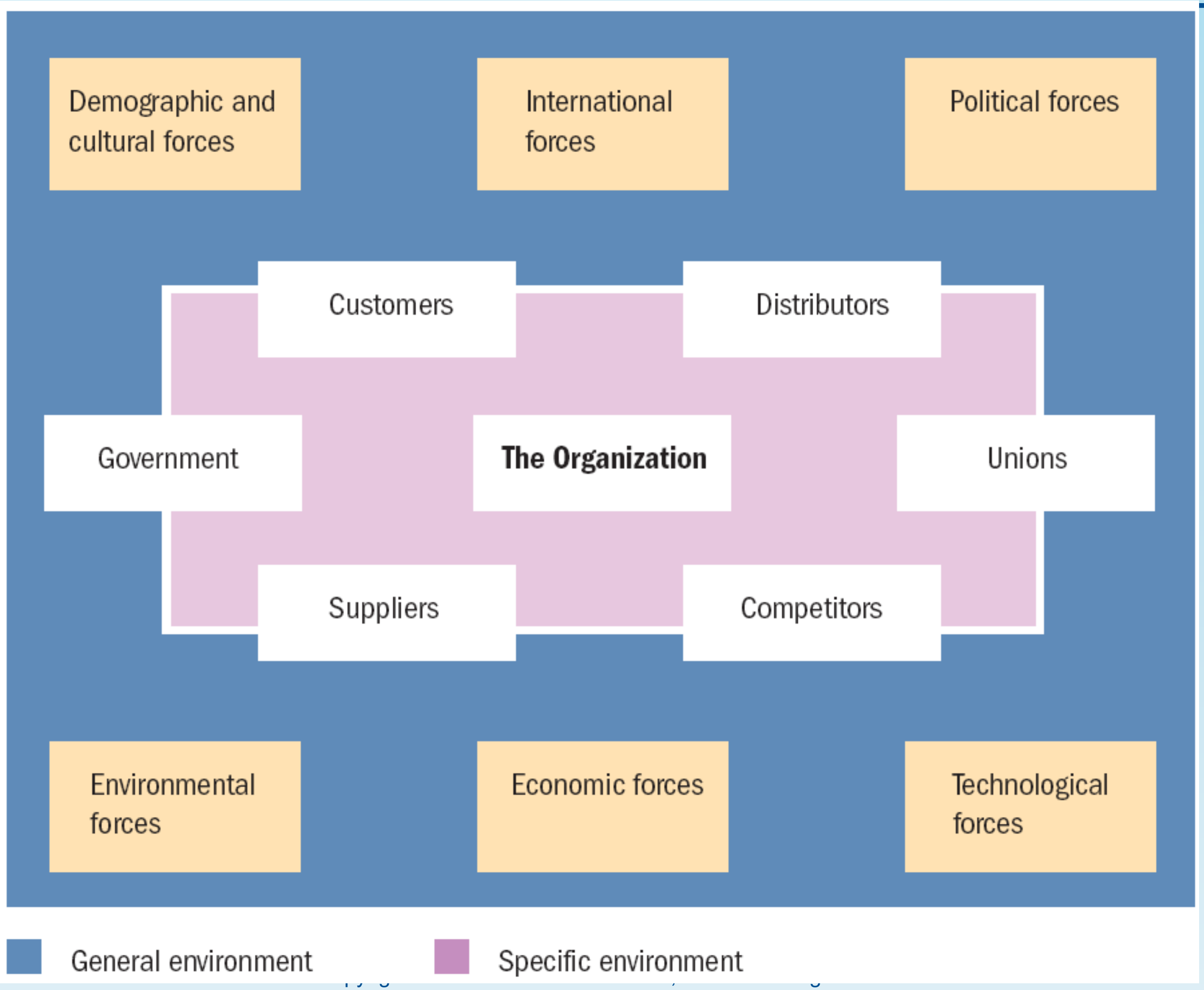
3

Organizing in a Changing Global Environment

What is the Organizational Environment?

- Environment: The set of forces surrounding an organization that have the potential to affect the way it operates and its access to scarce resources
- Organizational domain: The particular range of goods and services that the organization produces and the customers and other stakeholders it serves

Figure 3.1 – The Organizational Environment



The Specific Environment

- The forces from outside stakeholder groups that directly affect an organization's ability to secure resources
- Changes in the number and types of customers, and in customer tastes, are forces that affect an organization

The Specific Environment (cont.)

- Global supply chain management: The coordination of the flow of raw materials, components, semifinished goods, and finished products around the world
- In the global environment, supplies of inputs can be obtained not just from domestic sources but from any country in the world

The Specific Environment (cont.)

- The challenges associated with distributing and marketing products increase in the global environment
  - The tastes of customers vary from country to country
  - Many advertising and marketing campaigns are country specific
  - Many products are customized to overseas customers' preferences

The Specific Environment (cont.)

- An organization that establishes global operations has to forge good working relationships with its new employees and with any unions that represent them
- Each country has its own system of government and its own laws and regulations that control the way business is conducted

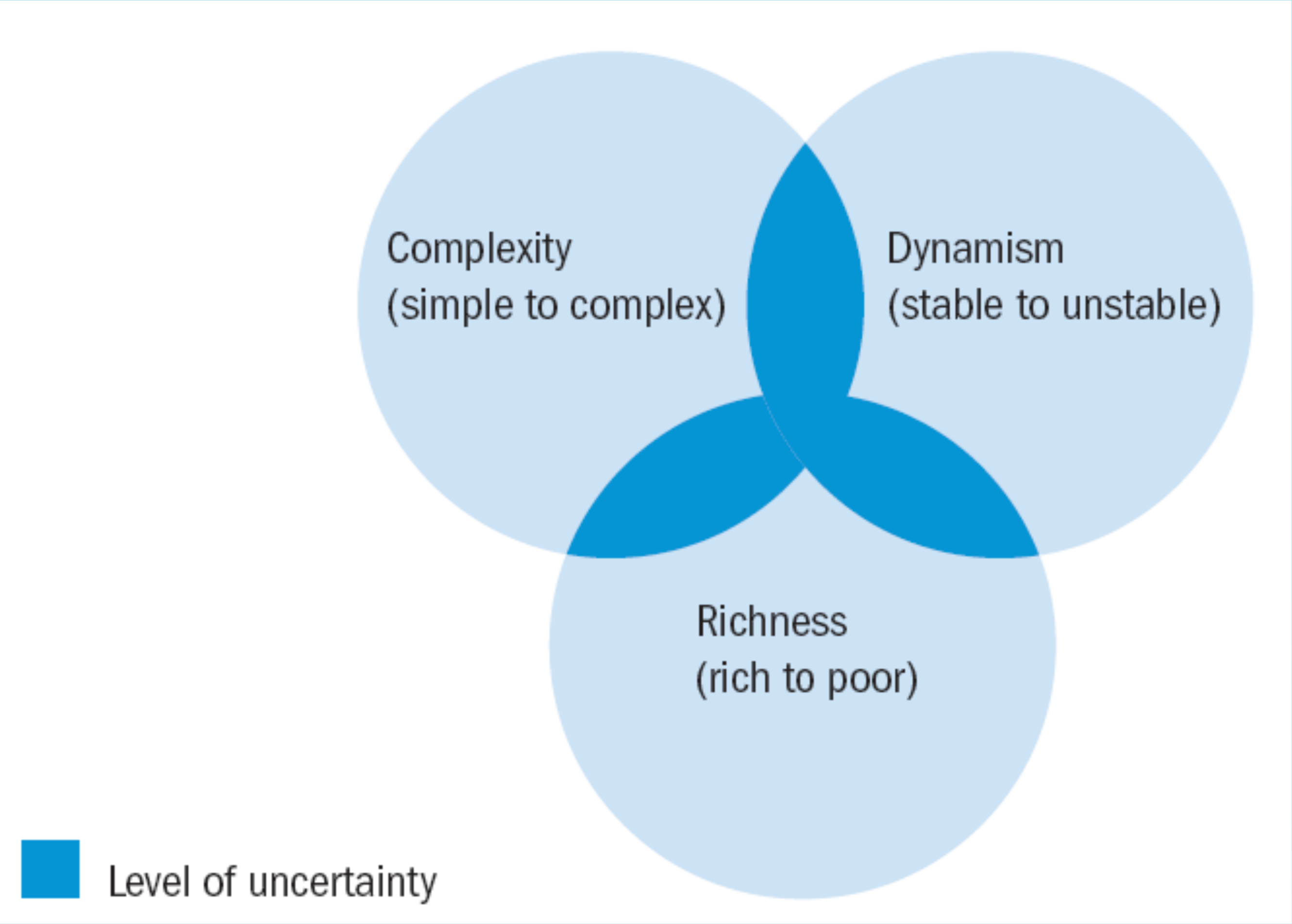
The General Environment

- The forces that shape the specific environment and affect the ability of all organizations in a particular environment to obtain resources

The General Environment

Economic forces	• Interest rates, the state of the economy, and the unemployment rate, determine the level of demand for products and the price of inputs
Technological forces	• The development of new production techniques and new information-processing equipment influence many aspects of organizations' operations
Political, ethical, and environmental forces	• Influence government policy toward organizations and their stakeholders
Demographic, cultural, and social forces	• The age, education, lifestyle, norms, values, and customs of a nation's people

Figure 3.2 – Three Factors Causing Uncertainty



Resource Dependence Theory

- A theory that argues the goal of an organization is to minimize its dependence on other organizations for the supply of scarce resources in its environment and to find ways of influencing them to make resources available

Resource Dependence Theory (cont.)

- An organization must simultaneously manage two aspects of its resource dependence:
  - It has to exert influence over other organizations so it can obtain resources
  - It must respond to the needs and demands of the other organizations in its environment

Resource Dependence Theory (cont.)

- The strength of one organization's dependence on another depends on:
  - How vital the resource is to the organization's survival
  - The extent to which other organizations control the resource

Interorganizational Strategies for Managing Resource Dependencies

- Linkage mechanisms, while controlling interdependency, require coordination
- Coordination reduces each organization's freedom to act
- Organizations aim to choose the interorganizational strategy that offers the most reduction in uncertainty with the least loss of control

Figure 3.3 – Interorganizational Strategies for Managing Symbiotic Interdependencies

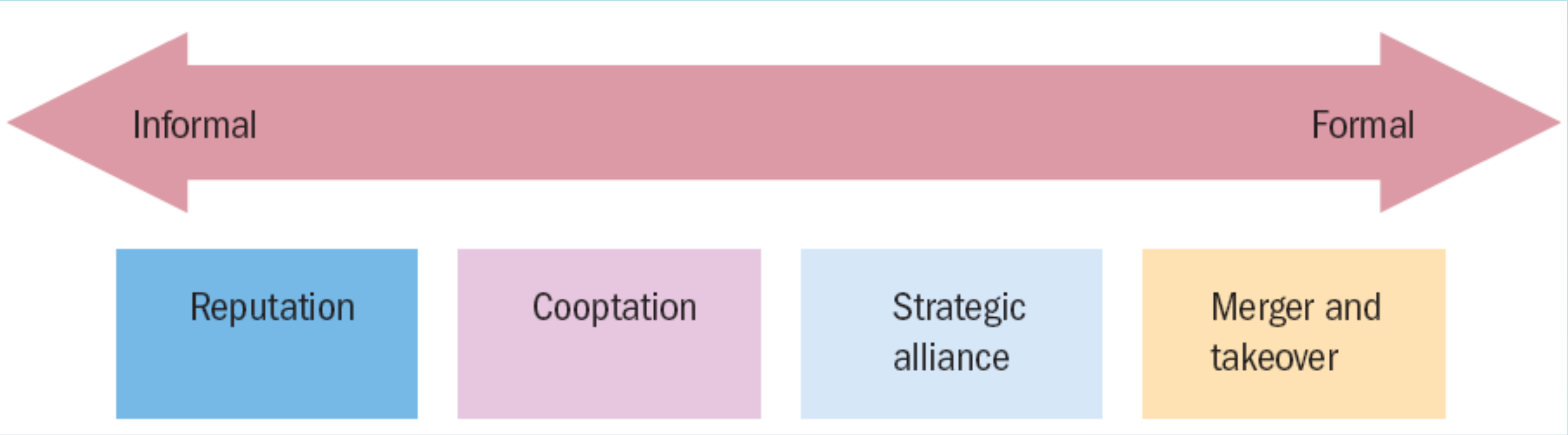


Figure 3.4 – Types of Strategic Alliance

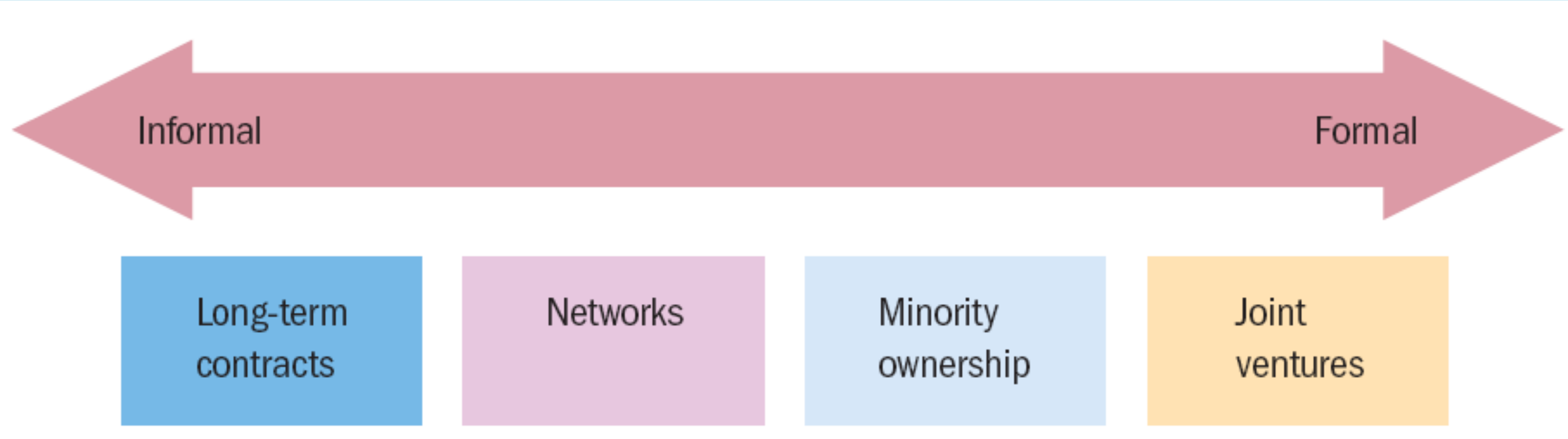


Figure 3.5 – The Fuyo Keiretsu

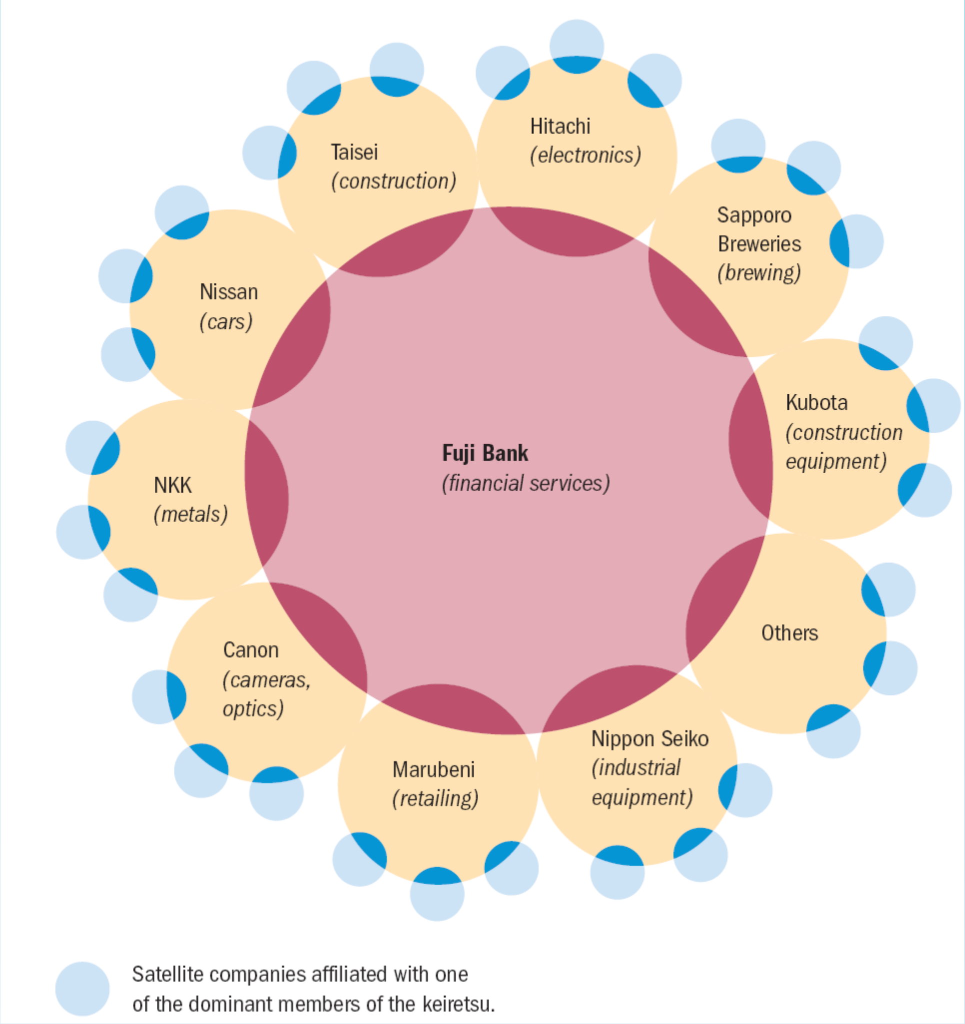


Figure 3.6 – Joint Venture Formation

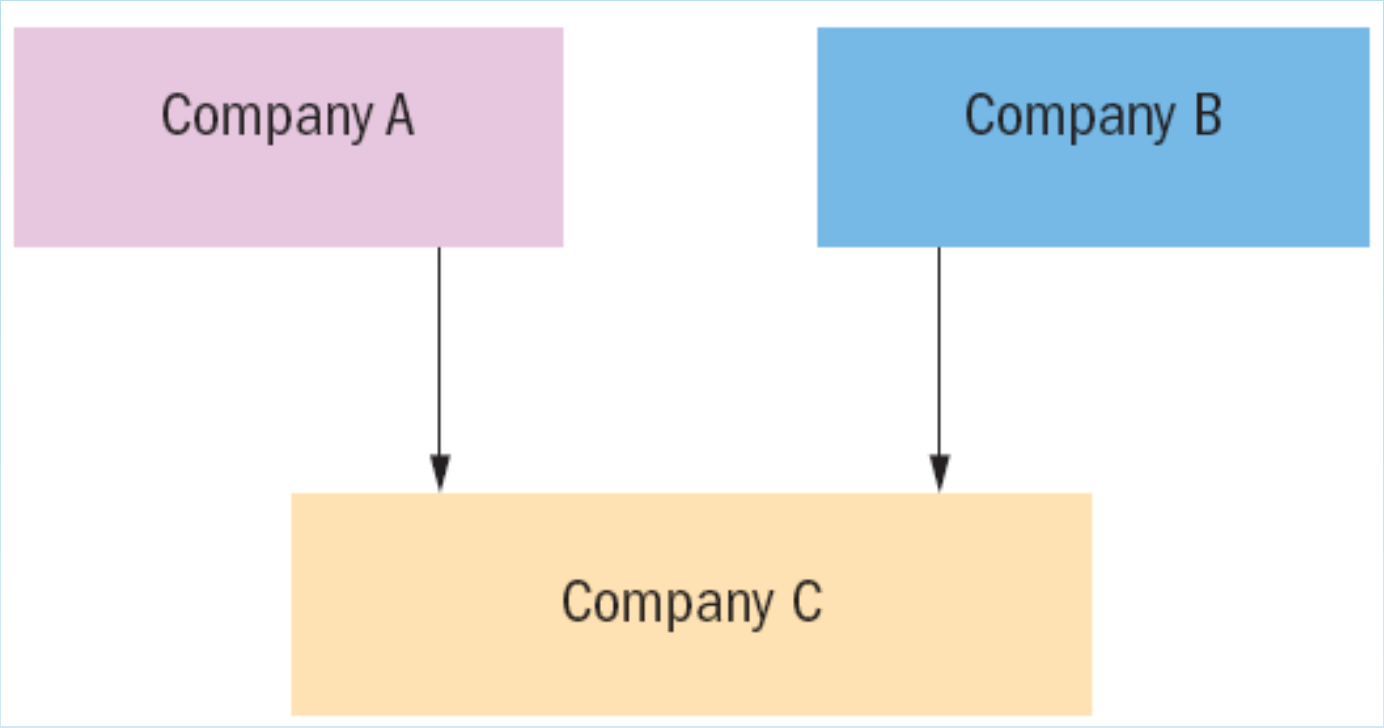
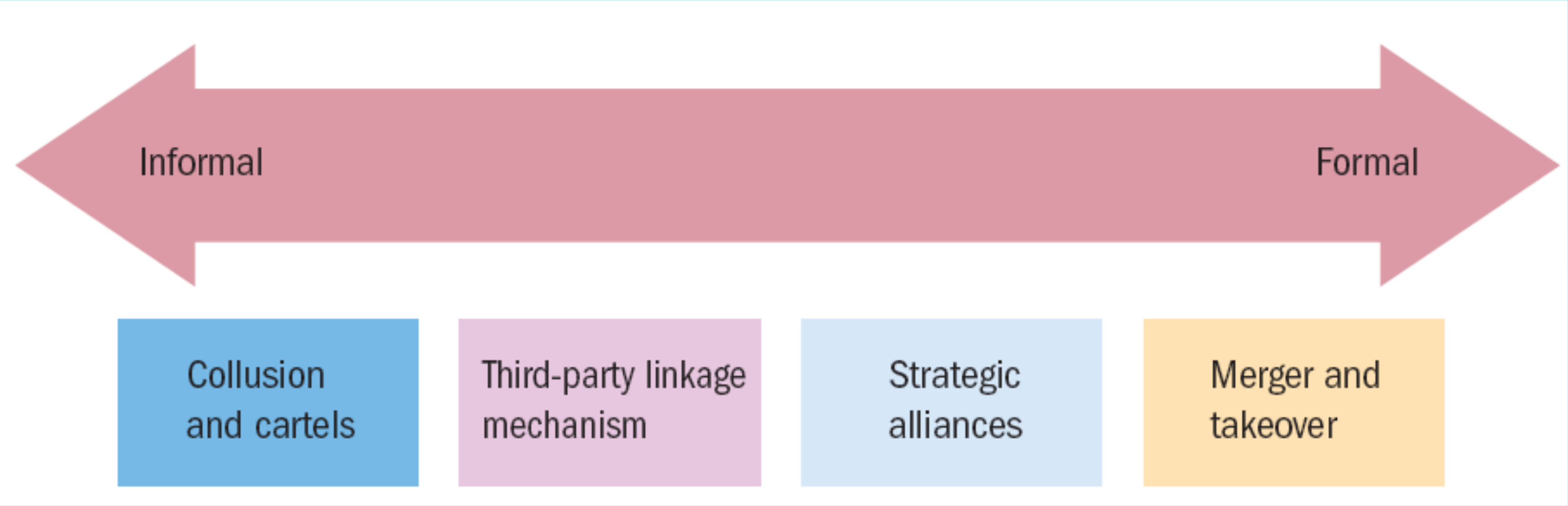


Figure 3.7 – Interorganizational Strategies for Managing Competitive Interdependencies



Interorganizational Strategies for Managing Resource Dependencies

- Collusion: A secret agreement among competitors to share information for a deceitful or illegal purpose
- Cartel: An association of firms that explicitly agrees to coordinate their activities
- Third-party linkage mechanism: A regulatory body that allows organizations to share information and regulate the way they compete

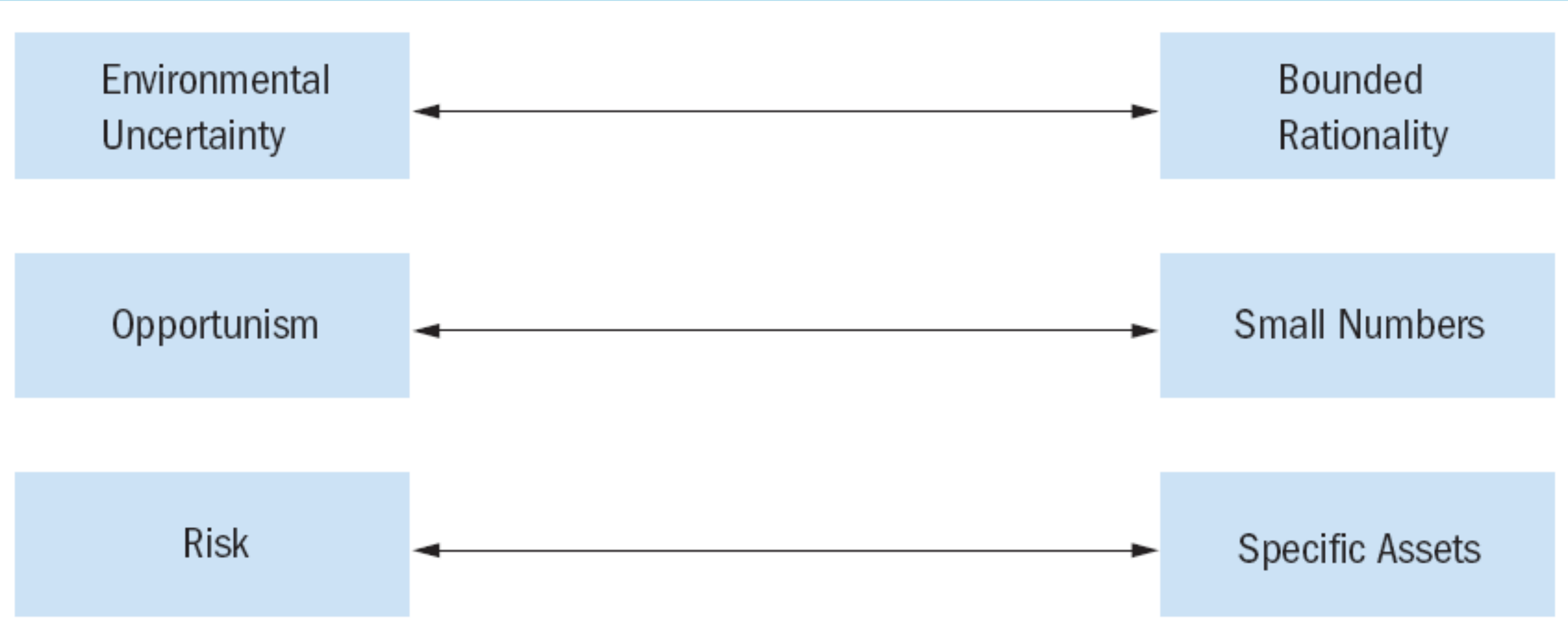
Interorganizational Strategies for Managing Resource Dependencies (cont.)

- Strategic alliances – Can be used to manage both symbiotic and competitive interdependencies
- Merger and takeover – The ultimate method for managing problematic interdependencies

Transaction Cost Theory

- Transaction costs: The costs of negotiating, monitoring, and governing exchanges between people
- Transaction cost theory: The goal of an organization is to minimize the costs of exchanging resources in the environment and the costs of managing exchanges inside the organization

Figure 3.8 – Sources of Transaction Costs



Transaction Costs and Linkage Mechanisms

- Transaction costs are low when:
  - Organizations are exchanging nonspecific goods and services
  - Uncertainty is low
  - There are many possible exchange partners

Transaction Costs and Linkage Mechanisms (cont.)

- Transaction costs increase when:
  - Organizations begin to exchange more specific goods and services
  - Uncertainty increases
  - The number of possible exchange partners falls

Transaction Costs and Linkage Mechanisms (cont.)

- Bureaucratic costs – Internal transaction costs
  - Bringing transactions inside the organization minimizes but does not eliminate the costs of managing transactions

Using Transaction Cost Theory to Choose an Interorganizational Strategy

- Transaction cost theory can be used to choose an interorganizational strategy
- Managers can weigh the savings in transaction costs of particular linkage mechanisms against the bureaucratic costs

Using Transaction Cost Theory to Choose an Interorganizational Strategy (cont.)

- Managers deciding which strategy to pursue must take the following steps:
  - Locate the sources of transaction costs that may affect an exchange relationship and decide how high the transaction costs are likely to be
  - Estimate the transaction cost savings from using different linkage mechanisms

Using Transaction Cost Theory to Choose an Interorganizational Strategy (cont.)

- Estimate the bureaucratic costs of operating the linkage mechanism
- Choose the linkage mechanism that gives the most transaction cost savings at the lowest bureaucratic cost

Keiretsu

- Japanese system for achieving the benefits of formal linkages without incurring its costs
  - Example: Toyota has a minority ownership in its suppliers
    - Affords substantial control over the exchange relationship
    - Avoids problems of opportunism and uncertainty with its suppliers

Franchising

- A franchise is a business that is authorized to sell a company's products in a certain area
- The franchiser sells the right to use its resources (name or operating system) in return for a flat fee or share of profits

Outsourcing

- The process of moving a value creation that was performed inside an organization to outside problems of opportunism and uncertainty with its suppliers
- Decision is prompted by the weighing the bureaucratic costs of doing the activity against the benefits
  - Increasingly, organizations are turning to specialized companies to manage their information processing needs