Figure 11.3 Strategies for Competing in the Resource Environment

	Specialist Strategy (operates in one niche)	Generalist Strategy (operates in several niches)
r-Strategy (early entry into environment)	r-Specialist	r-Generalist
K-Strategy (late entry into environment)	K-Specialist	K-Generalist

crafts operations that produced high-priced cars for small market segments. These companies were the original r-specialists. Then Henry Ford realized the potential for establishing a mass market via mass production, and he decided to pursue a K-generalist strategy by producing a low-priced standardized car for the mass market. Meanwhile, at GM, Alfred Sloan was rapidly developing a K-generalist strategy based on differentiation. He positioned GM's different car divisions to serve the whole range of market segments, from low-price Chevrolets to high-price Cadillacs. The low price and high variety of car models now available soon put many of the small r-specialists out of business. GM and Ford, together with Chrysler, proceeded to dominate the environment. Many new small companies pursuing K-specialist strategies then emerged to serve specialist segments that these companies had left open. Luxury-car manufacturers like Cord and Packard produced high-priced vehicles and prospered for a while, and overseas carmakers such as Rolls-Royce, Mercedes-Benz, and Bugatti were popular among the rich.

In the 1970s, Japanese companies like Toyota, Nissan, and Honda entered the U.S. market with a K-specialist strategy, producing cars much smaller than the vehicles that the Big Three were making. The popularity of these new cars quickly gave the Japanese companies access to the resources they needed to allow them to switch to a K-generalist strategy, and they began to directly threaten the Big Three. Thus, over time, new generations of organizations are born to take advantage of changes in the distribution of resources and the appearance of new niches.

New organizations continually emerge to take advantage of new opportunities. The driving force behind the population ecology model of organizational birth is **natural selection,** the process that ensures the survival of the organizations that have the skills and abilities that best fit with the environment.[21] Over time, weaker organizations, such as those with old-fashioned or outdated skills and competences or those that cannot adapt their operating structure to fit with changes in the environment, are selected out of the environment and die. New kinds of organizations emerge and survive if they can stake a claim to an environmental niche. In the car industry, Ford was a more efficient competitor than the craft shops, which declined and died because they lost their niche to Ford. In turn, Japanese companies, which continued to innovate and develop new skills, entered the U.S. car market. When customers selected Japanese cars because they wanted smaller, better quality vehicles, U.S. carmakers were forced to imitate their Japanese competitors in order to survive.

Natural selection
The process that ensures the survival of the organizations that have the skills and abilities that best fit with the environment.

Natural selection is a competitive process. New organizations survive if they can develop skills that allow them to fit with and exploit their environment. Entrepreneurship is the process of developing new capabilities that allow organizations to take advantage of new niches or find new ways to serve existing niches more efficiently. Entrepreneurship,

Focus on New Information Technology

Amazon.com, Part 6

Jeff Bezos was the first entrepreneur both to realize that the Internet could be used effectively to sell books and to act on the opportunity by establishing Amazon.com. As such he gave his company a first-mover advantage over rivals, which has been an important component of its strong position in the marketplace. Being early, Amazon.com was able to capture customer attention, and keep their loyalty—in 2011 65% of its business is repeat business. Moreover, Amazon.com's very success has made it difficult for new competitors to enter the market, and the birthrate into the industry has tapered off substantially.

First, new "unknown" competitors face the major hurdle of attracting customers to their websites rather than to Amazon.com's website. Second, even "known" competitors such as Barnes & Noble and Borders, which imitated Amazon's strategy and developed their own online bookstores, faced the problem of luring away Amazon's customer base and securing their position. Being late entrants, these organizations essentially followed a K-strategy, whereas Amazon.com followed an r-strategy. This delay in going online has cost them dearly in the current highly competitive environment, Barnes & Noble is struggling, and Border's went bankrupt in 2011, and all its stores were shut down.

Indeed, the process of natural selection has been operating in the book-selling industry in a major way because, as discussed in earlier chapters, thousands of small, specialized bookstores have closed their doors. Even large bricks-and-mortar bookstores that may carry hundreds of thousands of books have been unable to compete with an online bookstore that can offer customers the more than 1.5 million books in print at large price discounts.

In 2011, Amazon announced that for the first time sales of its heavily discounted online books that users download to its Kindle mobile reading devices outsold "paper" books. Amazon.com and its largest competitor Barnes & Noble, which launched its new Nook color book reader in 2011, are locked in a fierce battle, but Amazon.com is still winning the online book-selling war. However, it seemed that plans were in progress in 2011 for Amazon to introduce its own color Kindle as the popularity of all kinds of tablet computing devices increased and Apple's iPod became a new threat to Amazon's dominance of online book sales.

Even its success in the online book market did not provide Amazon with sufficient resources to ensure its continued growth and survival, however, and it has become a generalist and entered many new market niches by opening online storefronts in which it can compete profitably. As previously discussed, it started to sell more and more varieties of product and moved from being a specialist online bookstore to a generalist online retailer.[22] The changes to its strategy and structure not only have allowed it to survive—it has prospered as its profitability increased throughout the 2010s and its future looks rosy indeed. Borders' and Barnes & Noble's struggle makes it likely that Amazon will have less competition in the book market in the future. Similarly, in electronics, Circuit City went bankrupt in 2009. And Best Buy, the biggest bricks-and-mortar electronics retailer, is also struggling to compete against Amazon, which has been gaining market share in the electronics market as well. Small wonder that Amazon's stock price rose to a record high in 2011.

an ongoing process, leads to a continuous cycle of organizational birth as new organizations are founded to compete for resources in an environment, as Focus on New Information Technology: Amazon.com, Part 6 discusses.

The Institutional Theory of Organizational Growth

If an organization survives the birth stage of the organizational life cycle, what factors affect its search for a fit with the environment? Organizations seek to change themselves to obtain control over scarce resources and reduce uncertainty. They can increase their control over resources by growing and becoming larger.

Organizational growth The life cycle stage in which organizations develop value creation skills and competences that allow them to acquire additional resources.

Organizational growth is the life cycle stage in which organizations develop value-creation skills and competences that allow them to acquire additional resources. Growth allows an organization to increase its division of labor and specialization and thus develop a competitive advantage. An organization that is able to acquire resources is likely to generate surplus resources that allow it to grow further. Over time, organizations thus transform themselves: They become something very different than they were when they started. Microsoft took the resources that it obtained from its popular MS-DOS system, for example, and used them to employ more computer programmers, who developed new software applications to bring in additional resources. In this way, Microsoft grew from strength to strength and transformed itself into a software company that competes in almost all segments of the market. In 2011, facing strong competition from Google and Apple, it was striving to become a dominant player in mobile computing devices, hence its acquisition of Skype, the online communication service provider, for $8.5 billion and its alliance with Nokia that will use the Windows platform in its future mobile devices. Although sheer size can increase an organization's chances of stability and survival, Microsoft and other companies should not pursue growth as an end in itself. Growth should be the by-product of an organization's ability to develop core competences that satisfy the needs of its stakeholders and so provide access to scarce resources.[23] **Institutional theory** studies how organizations can increase their ability to grow and survive in a competitive environment by becoming *legitimate*, that is, accepted, reliable, and accountable, in the eyes of their stakeholders.

Institutional theory
A theory that studies how organizations can increase their ability to grow and survive in a competitive environment by satisfying their stakeholders.

New organizations suffer from the liability of newness, and many die if they cannot develop the competences needed to attract customers and obtain scarce resources. To increase their survival chances as they grow, organizations must become acceptable and legitimate in the eyes of their stakeholders, and they do this by satisfying the latter's needs. Institutional theory argues that it is as important to study how organizations develop skills that increase their legitimacy to stakeholders as it is to study how they develop skills and competences that increase their operational efficiency. Institutional theory also argues that to increase their chances of survival, new organizations adopt many of the rules and codes of conduct found in the institutional environment surrounding them.[24]

The **institutional environment** is the set of values and norms that govern the behavior of a population of organizations. For example, the institutional environment of the insurance industry comprises strict rules and procedures about what insurance companies can and cannot do and penalties and actions to be taken against those that break those rules. Insurance companies that follow legal rules and codes of conduct are considered trustworthy, and therefore legitimate, by stakeholders, such as customers, employees, and any group that controls the supply of scarce resources.[25] As a result they are considered to be legitimate and are able to attract resources and improve their chances of survival. So the best way for a new organization to gain and strengthen its legitimacy is to imitate the goals, structure, and culture of successful organizations in its population.[26]

Institutional environment
The set of values and norms in an environment that govern the behavior of a population of organizations.

Organizational Isomorphism

As organizations grow, they may copy one another's strategies, structures, and cultures and try to adopt certain behaviors because they believe doing so will increase their chances of survival. As a result, **organizational isomorphism**—the process by which organizations in a population become more alike or similar—increases. Three processes that explain why organizations become more alike have been identified: coercive, mimetic, and normative isomorphism.[27]

Organizational isomorphism
The similarity among organizations in a population.

COERCIVE ISOMORPHISM Isomorphism is said to be *coercive* when an organization adopts certain kinds of values and norms because it is pressured to by other organizations or by society in general. For example, an organization that increasingly depends on other organizations will tend to adopt their values and norms so it will become increasingly similar to them. For example, the previous chapter discusses how the general public has put pressure on Nike, Walmart, Apple, and other organizations to boycott goods made by children in developing countries and how these companies have responded by creating uniform codes of supplier conduct. Coercive isomorphism also results when organizations are forced to adopt nondiscriminatory equitable hiring practices because they are mandated by law.

MIMETIC ISOMORPHISM Isomorphism is *mimetic* when organizations intentionally imitate and copy one another to increase their legitimacy. A new organization is especially likely to imitate the structure and processes of successful organizations when the environment is highly uncertain and so it needs to search for a structure, strategy, culture, and technology that will increase its chance of survival.[28] Because of mimetic isomorphism, a population of similar organizations, such as fast food restaurants, will increasingly come to resemble one another along the lines suggested by the S-shaped curve in Figure 11.2.

McDonald's was the first organization to operate a national chain of fast-food restaurants. Ray Kroc, the entrepreneur who orchestrated its growth, developed rules and procedures that were easy to replicate in every McDonald's restaurant. Standardization allowed the individual restaurants within the McDonald's organization to imitate one another, so that each reached its high-efficiency standards. Entrepreneurs who later entered the fast-food environment studied why McDonald's was so successful and then imitated the techniques and procedures that McDonald's had developed. Thus fast-food customers expect certain standards of quality, speed, and cleanliness, and they expect to clear their own tables. Retail stores also imitated one another in devising their codes of ethical conduct so that no particular retailer could be singled out as being unresponsive.

Although imitating the most successful organizations in a population increases their chances for survival and success, there is a limit to how much a new organization should seek to imitate existing ones. The first organization in an industry gains a first-mover advantage; if later arrivals model themselves too closely on the first mover, there might be no reason for customers to try them out. Each new organization must develop some unique competences to differentiate itself and define the niche where it has access to most resources. Chipotle's claim to fame is that it can provide customers with a customized, organic burrito, unlike Taco Bell, whose burrito is very standardized, and although Chipotle's burrito is more expensive, the chain has enjoyed explosive growth in the 2000s.

NORMATIVE ISOMORPHISM Isomorphism is *normative* when organizations come to resemble one another over time because they indirectly adopt the norms and values of other organizations in the environment. Organizations can acquire norms and values in a circuitous, even "viral" way for several reasons. Managers and employees frequently move from one organization to another and bring with them the norms and values of their former employers. Most companies in an industry recruit their managers from other companies in the same industry, for example. So AT&T recruits managers from Verizon and T-Mobile, and Dell recruits managers from PC and high-tech companies that have been experiencing similar kinds of operating problems. Organizations also indirectly acquire specific sets of values and norms through membership in industry, trade, and professional associations. Through meetings, personal contacts, and publications, these associations promote specific ideas and norms to their members. Because of this indirect influence, organizations within an industry come to develop a similar view of the world.

Disadvantages of Isomorphism

Although organizational isomorphism can help new and growing organizations develop stability and legitimacy, it has some disadvantages.[29] The ways organizations have learned to operate may become outdated, inertia sets in, and the result is low effectiveness. Also, the pressure to imitate competitors and beat them at their own game may reduce the incentive to experiment so that the level of innovation declines. For many decades, for example, the Big Three U.S. carmakers were happy to imitate one another and compete to make the best full-size fuel-inefficient cars. Innovations to reduce the costs of making a car or to improve efficiency and quality significantly were few and slow in coming because no U.S. company saw a reason to take the lead. Only the entry of new high-quality, low-cost global carmakers into the U.S. market showed U.S. carmakers how uncompetitive they had become and that new kinds of vehicles and better ways to make them should be developed as quickly as possible.

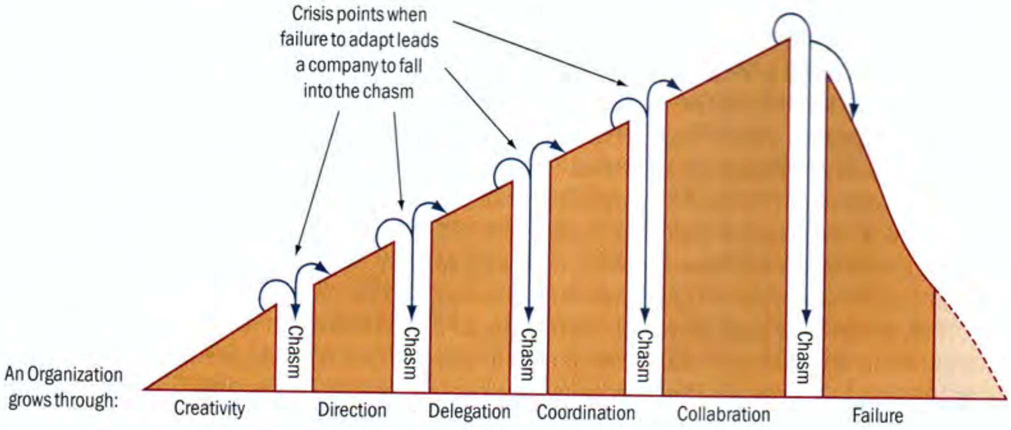
Greiner's Model of Organizational Growth

Institutional theory is one way to look at how the need to achieve legitimacy leads a growing organization to change its structure, strategy, and culture and imitate those of successful organizations. If organizations do model themselves on one another in this way, it follows that both the imitators and the imitated encounter similar kinds of strategic and structural problems as they grow over the life cycle.

One of the best-known life cycle models of organizational growth is Greiner's model (see Figure 11.4). He proposes that an organization passes through five sequential growth stages during the course of its evolution, and that at each stage a specific organizational design problem causes a crisis that must be solved if a company is not to fall into a chasm and so becomes unable to advance from one stage to the next.[30] Companies that fall into the chasm fail and die; companies that have skills in organizational design use them to cross the chasm and then they can proceed to the next stage of organizational growth.

Figure 11.4 Greiner's Model of Organizational Growth

Each stage that Greiner identified ends with a crisis that must be resolved before the organization can advance to the next stage.



Stage 1: Growth through Creativity

Greiner calls the first stage in the life cycle the growth through creativity stage. In this stage (which includes the birth of the organization), entrepreneurs develop the skills and abilities to create and introduce new products for new market niches. As entrepreneurs create completely new procedures and learn to improve them, a great deal of organizational learning occurs. They learn which products and procedures work best, for example, and how to continuously improve them so they can continue to grow and obtain more resources. In this stage, innovation and entrepreneurship go hand in hand as an organization's founders work long hours to develop and sell their new products with the hope of being rewarded by future profits. As noted earlier, eBay was founded by Pierre Omidyar, the former Microsoft software engineer who designed a new online auction platform and then obtained the financing needed to bring it online on a shoestring budget. In the creativity stage, the norms and values of the organization's culture, rather than the hierarchy and organizational structure, control people's behavior.

Once a new organization is up and running, a series of internal forces begin to change the entrepreneurial process. As the organization grows, the founding entrepreneurs confront the task of having to manage the organization, and they discover that management is a very different process from entrepreneurship. Management involves using organizational resources to achieve organizational goals effectively. Thus, for example, in its manufacturing operations, management is confronted with the problem of making the production process more efficient. Early in the life of a new company, however, management is not likely to pay much attention to efficiency goals. Entrepreneurs are so involved in getting the organization off the ground that they forget the need to manage organizational resources efficiently. Similarly, they are so involved in providing customers with high-quality products that they ignore the costs involved. Thus, after securing a niche, the founding entrepreneurs are faced with the task of developing the functional competences necessary to allow their organization to grow effectively, a task to which they are often not really suited and for which they lack the necessary skills.

CRISIS OF LEADERSHIP Frequently, when an entrepreneur takes control of the management of the organization, significant problems arise that eventually lead to a *crisis of leadership.* eBay founder Pierre Omidyar, for example, had created the software platform that made it the dominant player in the online auction market. But to attract outside funding, investors demanded that eBay be managed by an experienced CEO who had the proven skills to manage a growing company. They recruited Meg Whitman, who had experience in high-tech startups, and she orchestrated its growth into the powerhouse it has become. Very often, investors realize that the founding entrepreneur is not the best person to manage a growing company because he or she lacks the organizational skills to develop the right strategy and structure to cross the chasm.

Stage 2: Growth through Direction

The crisis of leadership ends with the recruitment of a strong top-management team to lead the organization through the next stage of organizational growth: *growth through direction.* The new top-management team takes responsibility for directing the company's strategy, and lower-level managers assume key functional responsibilities. In this stage, a new CEO such as Meg Whitman chooses an organizational strategy and designs a structure and culture that allow the organization to meet its effectiveness goals as it grows. As we saw in Chapter 6, a functional or divisional structure is established to allow the organization to regain control of its activities, and decision making becomes more centralized. Then the adoption of formal standardized rules and procedures allows each organizational function to monitor and control its activities better. Managers in production, for example, develop procedures to track cost and quality information, and the materials management function develops efficient purchasing and inventory control systems.

Often, growth through direction turns around an organization's fortunes and propels the organization up the growth curve to new levels of effectiveness, as happened at eBay in the 1990s. As an organization continues to grow rapidly, however, the move to centralize authority and formalize decision making often leads to a new crisis.

CRISIS OF AUTONOMY With professional managers now running the show, many organizations experience a *crisis of autonomy*, which arises because the organization's creative people in departments such as R&D, product engineering, and marketing become frustrated by their lack of control over new product development and innovation. The structure designed by top managers and imposed on the organization centralizes decision making and limits the freedom to experiment, take risks, and be internal entrepreneurs. Thus the increased level of bureaucracy that comes in the growth-through-direction stage lowers entrepreneurial motivation. For instance, top-management approval may be needed to start new projects, and successful performance at low levels of the hierarchy may go unnoticed or at least unrewarded as the organization searches for ways to reduce costs. Entrepreneurs and managers in functional areas such as R&D begin to feel frustrated when their performance goes unrecognized and when top managers fail to act on their recommendations to innovate. Employees and managers feel lost in the growing organizational bureaucracy and become more and more frustrated with their lack of autonomy.

This situation occurred in eBay during the mid-2000s. When its rapid growth but deteriorating performance led its top managers to choose new ways to raise revenues that would raise its profits, it led to a revolt among eBay sellers, who saw more and more of their profit going to eBay. The level of innovation in eBay fell and Meg Whitman resigned in 2008 and was replaced by a new CEO, John Donahoe, who has worked hard to bring about new growth by finding new ways to attract buyers and sellers—and to lower selling costs. Once again, Amazon.com's online fixed-price retail platform has become a major competitor to eBay's auction platform, however, and hurt its performance.

What happens if the crisis of autonomy is not resolved? Internal entrepreneurs are likely to leave the organization and a company falls into the chasm. In high-tech industries, entrepreneurs often cite frustration with bureaucracy as one of the main reasons they leave one company to start their own.[31] In the 2000s, for example, many of Microsoft's top software engineers jumped ship and deserted the company for Google because they felt their efforts were not being rewarded; now in the 2010s Google is experiencing the same problem. The departure of an organization's entrepreneurs not only reduces its ability to innovate but also creates new competitors in the industry. By not resolving the crisis of autonomy, an organization creates a major problem for itself and limits its ability to grow and prosper.[32]

Stage 3: Growth through Delegation

To solve the crisis of autonomy, organizations must delegate authority to lower-level managers in all functions and divisions and link their increased control over organizational activities to a reward structure that recognizes their contributions. Thus, for example, managers and employees may receive bonuses and stock options that are directly linked to their performance. In essence, *growth through delegation* allows the organization to strike a balance between recruiting experienced managers to improve performance and the need to provide room for entrepreneurship so that the organization can innovate and find new ways to reduce costs or improve its products. Jen-Hsun Huang, CEO of Nvidia, the leading graphics chip company, delegates authority to small teams and creates a setting in which members can act entrepreneurially and control their own development activities. Huang also rewards these team members with stock options, and the most successful team members become highly visible stars in the organization. At the same time, however, Huang and his top-management team control the meshing of the activities of different teams to execute the company's long-term strategy. Indeed, Huang designed Nvidia's structure to avoid the crisis of autonomy, and the organization has profited from his foresight.

Thus, in the growth-through-delegation stage, more autonomy and responsibility are given to managers at all levels and functions. Moving to a product team structure or a multidivisional structure, for example, is one way in which an organization can respond to the need to delegate authority. These structures can reduce the time needed to get new products to market, improve strategic decision making, and motivate product or divisional managers to penetrate markets and respond faster to customer needs. At this stage in organizational growth, top managers intervene in decision making only when necessary. Growth through delegation allows each department or division to expand to meet its own needs and goals, and organizational growth often proceeds at a rapid pace. Once again, however, the organization's very success brings on another crisis: Explosive growth can cause top managers to feel that they have lost control of the company as a whole.

CRISIS OF CONTROL When top managers compete with functional managers or corporate-level managers compete with divisional managers for control of organizational resources, the result is a *crisis of control.* The need to resolve the crisis of autonomy by delegating authority to lower-level managers increases their power and control of organizational resources. Lower-level managers like this extra power because it is associated with prestige and access to valued rewards. If managers use this power over resources to pursue their own goals at the expense of organizational goals, the organization becomes less effective. Thus power struggles over resources can emerge between top and lower-level managers. Sometimes during this power struggle, top management tries to recentralize decision making and take back control over organizational activities. However, this action is doomed to failure because it brings back the crisis of autonomy and so an organization falls into the chasm. How does the organization solve the crisis of control so that it can prevent this and continue to grow?

Stage 4: Growth through Coordination

To resolve the crisis of control, as we saw in Chapter 4, an organization must find the right balance between centralized control from the top of the organization and decentralized control at the functional or divisional level. Top management takes on the role of coordinating different divisions and motivating divisional managers to take a company-wide perspective. In many organizations, for example, divisions can cooperate and share resources in order to create new products and processes that benefit the organization as a whole. In Chapter 8, we saw how this kind of coordination is very important for companies pursuing a strategy of related diversification. If companies are growing internationally, coordination is even more important. Top functional managers and corporate headquarters staff must create the "matrix in the mind" that facilitates international cooperation between divisions and countries.

At the same time, corporate management must use its expertise to monitor and oversee divisional activities to ensure that divisions efficiently use their resources, and it must initiate company-wide programs to review the performance of the various divisions. To motivate managers and align their goals with those of the organization, organizations often create an internal labor market in which the best divisional managers are rewarded with promotion to the top ranks of the organization while the most successful functional-level managers gain control over the divisions. If not managed correctly, all this coordination and the complex structures to handle it will bring about yet another crisis.