

CHAPTER FIVE

INTERORGANIZATIONAL RELATIONSHIPS

CHAPTER OVERVIEW

This chapter explores a trend in organizing, which is the increasingly dense web of relationships among organizations. Companies have always been dependent on other organizations for supplies, materials, and information. At one time it was a matter of a large, powerful company tightening the screws on small suppliers. Today a company can choose to develop positive, trusting relationships. Interorganizational research has yielded perspectives such as resource dependence, collaborative networks, population ecology, and institutionalism. Today, managers handle a whole set of challenging and complex, interorganizational relationships.

Organizational Ecosystems

Interorganizational relationships are defined as the relatively enduring resource transactions, flows, and linkages that occur among two or more organizations. James Moore's view is that organizations are evolving into business ecosystems. **Organizational ecosystems** are the systems formed by the interaction of a community of organizations and their environment.

Is Competition Dead?

In the sense that a single company competing for supremacy with other stand-alone businesses no longer exists, competition is dead. However, a new form of competition is intensifying. Companies find that they must coevolve with others in the ecosystem. The changing pattern of relationships and interactions in an ecosystem contributes to the health and vitality of the system as a whole. In an organizational ecosystem, conflict and cooperation exist at the same time.

The Changing Role of Management

Managers think about horizontal processes rather than vertical structures. The old way of managing relied almost exclusively on operations roles, defending the organization's boundaries and maintaining direct control over resources. Today, collaborative roles are becoming more important for success.

Interorganizational Framework

The models and perspectives for understanding interorganizational relationships help managers change their role from top-down management to horizontal management. Relationships among organizations can be characterized by whether the organizations are similar or dissimilar, and whether the relationships are competitive or cooperative.

By understanding these perspectives, managers can assess their environment and adopt strategies to suit their needs

Resource Dependence

This traditional theory of relationships argues that organizations try to minimize their dependence on other organizations for important resources, and try to influence the environment to make resources available. In this view, organizations strive for independence and autonomy. Dependence is based on the importance of the resource and how much discretion those who control the resource have over its allocation. Organizations with this awareness tend to develop strategies to reduce dependence on the environment, and learn how to use their power differences.

Supply Chain Relationships

Many organizations develop close relationships with key suppliers to gain control over necessary resources.

Supply chain management refers to managing the sequence of suppliers and purchasers, covering all stages of processing from obtaining raw materials to distributing finished goods to consumers. Formalizing collaborative supply chain relationships can help organizations obtain and use resources more efficiently and improve performance.

Power Implications

Large, independent companies often have such power over small suppliers that they must be lean and nimble and not count on price competition alone. Suppliers are asked to absorb more costs, ship more efficiently, and provide more services than ever before, sometimes without a price increase. The suppliers may have no choice but to acquiesce to the demands.

From Adversaries to Partners

With the push from international competitors, managers are shifting to a new partnership paradigm on which to base relationships from the traditional adversarial mindset. Trust is the base of the new model, for partners to develop equitable solutions to conflicts that inevitably arise. Partners are involved in each other's product design and production, and invest for the long term.

By breaking down boundaries and becoming involved in partnerships with an attitude of fair dealing and adding value to both sides, today's companies are changing the concept of what makes an organization.

Population Ecology

This perspective focuses on organizational diversity and adaptation within a population of organizations.

Population is a set of organizations engaged in similar activities with similar patterns of resource utilization and outcomes. According to the population-ecology view, the changing environment determines which organizations survive or fail. Organizational form must reflect the needs of a changing external environment. When rapid change occurs, old organizations are likely to decline or fail, and new organizations emerge that are better suited to the needs of the environment. The model is developed from theories of natural selection in

biology, and the terms *evolution* and *selection* are used to refer to the underlying behavioral processes.

Organizational Form and Niche

The population-ecology model is concerned with organizational forms.

Form is an organization's specific technology, structure, products, goals, and personnel, which can be selected or rejected by the environment.

Niche is a domain of unique environmental resources and needs sufficient to support an organization.

Process of Ecological Change

There are three stages in the population ecology model.

Variation occurs when new organizational forms appear in the population of organizations. Also, any single organization may try new variations for its own form.

Selection occurs when the organizational variation is able to survive and prosper in a small niche.

Retention occurs when the organization grows large and becomes institutionalized. It becomes a major part of the environment for other new organizations that appear.

Strategies for Survival

Another principle underlying the population ecology model is the **struggle for existence**, which means that each organizational form is engaged in a competitive struggle to obtain sufficient resources for survival. This competition is especially intense among new organizations, many of which fail to survive, but even institutionalized organizations are not necessarily permanent in the long run.

A company that offers a broad range of products or services or that serves a broad market or **generalists**.

A company that provides a narrow range of goods or services or that serves a narrower market is a **specialist**. Specialists are more competitive than generalists. However, the breadth of the generalist's domain serves to protect it somewhat from environmental changes.

Institutionalism

The **institutional perspective** describes how organizations survive and succeed through congruence between an organization and the expectations from its environment.

The **institutional environment** is composed of norms and values from stakeholders, and results in a belief that organizations adopt structures and processes to please outsiders.

Legitimacy is the perspective that an organization's actions are desirable, proper, and appropriate within the environment's system of norms, values, and beliefs. Institutional theory is concerned with the set of intangible norms and values that shape behavior.

The Institutional View and Organizational Design

This view sees organizations as having two essential dimensions—technical and institutional.

The technical dimension is the day-to-day work technology and operating requirements which is governed by norms of rationality and efficiency.

Institutional structure is that part of the organization most visible to the outside public which is governed by expectations from the external environment.

The adoption of structures might not be linked to actual production needs and might occur regardless of whether specific internal problems are solved.

Formal structure is separated from technical action in this view.

Institutional Similarity

Institutional similarity, called *institutional isomorphism* in the academic literature, is the emergence of a common structure and approach among organizations in the same field, causing one unit in a population to resemble other units in the same set of environmental conditions. Following are the reasons organizations change, or three forces behind the change toward institutional similarity, according to the institutional perspective.

With unclear goals, technology, and products or services, caused by great uncertainty, **mimetic forces** occur, which is the copying or modeling of other organizations.

Benchmarking is a clear example of official copying, although when *best practice* techniques are duplicated, they may be improved.

Coercive forces are external pressure on organizations to adopt structures, techniques, or behaviors similar to other organizations--sometimes with the force of law. It occurs when organizations are dependent on each other, when there are political factors such as rules, laws, and sanctions involved, or when a contractual or legal basis defines the relationship. Organizations will appear to be more effective because of the appearance of legitimacy in the environment.

Normative forces mean that organizations are expected to change for standards of professionalism and to adopt techniques considered by the professional community to be up-to-date and effective.

Changing Characteristics of Interorganizational Relationship

Traditional Orientation: Adversarial

- Suspicion, competition, arm's length
- Price, efficiency, own profits
- Legal resolution of conflict
- Minimal involvement and up-front investment, separate resources
- Short term contracts
- Contract limiting the relationship

New Orientation: Partnership

- Trust, addition to value to both sides, high commitment
- Equity, fair dealing, both profit
- Electronic linkages to share key information, problem feedback and discussion
- Mechanisms for close coordination, people on-site
- Involvement in partner's product design and production, shared resources
- Long term contracts
- Business assistance beyond the contract

Design Essentials

- This chapter has been about the important evolution in interorganizational relationships.
- Four perspectives have been developed to explain relationships among organizations.
- The collaborative-network perspective is an emerging alternative to resource dependence.
- The population-ecology perspective explains why organizational diversity continuously increases with the appearance of new organizations filling niches left open by established companies.
- The institutional perspective argues that interorganizational relationships are shaped as much by a company's need for legitimacy as by the need for providing products and services.
- Each of the four perspectives represents a different lens through which the world of interorganizational relationships can be viewed.

DISCUSSION QUESTIONS

1. Assume you are the manager of a small firm that is dependent on a large computer manufacturing customer that uses the resource dependence perspective. Put yourself in the position of the small firm, and describe what actions you would take to survive and succeed. What actions would you take from the perspective of the large firm?

ANSWER: Because the large manufacturing customer uses the traditional view of relationships between organizations, we know that they try to minimize their dependence on us and may at any time assert their control over us to minimize dependence on us. Therefore, in the small firm, as a protective device, we will develop a wide enough customer base so that we are not subject to their whim. But also, as a proactive strategy, we will attempt to improve communication with the large organization so that we can meet their needs better, and perhaps develop a relationship in which trust and interdependence that replaces a *buy from the lowest bidder* attitude.

2. Explain how the process of variation, selection, and retention might explain innovations that take place within an organization? Explain.

ANSWER: Organization populations are continually changing, and therefore within the populations, a single entity is continually changing. When new organization forms appear (variation), they bring innovative ideas to other firms in the industry that are often imitated. When some variations suit the external environment and find a niche (selection), other organizations are prone to imitate, thus bringing change within an organization. If dominant organizational forms do not adapt to external change, they will gradually be replaced, so they typically try to respond to selection and retention of firms in their industry.

3. Do you believe that legitimacy really motivates a large, powerful organization?

Is acceptance by other people a motivation for individuals as well?

ANSWER: When an organization's actions are seen as desirable, proper, and appropriate within the environment's system of norms, it is motivating to the organization to maintain that legitimacy because environmental support brings cooperation, partners, and customers. On the negative side, when legitimacy is not in place, organizations are motivated to find environmental acceptance. On the individual level, acceptance by other people is a motivation for them.

4. How does the desire for legitimacy result in organizations becoming

more similar over time?

ANSWER: Interorganizational relationships are characterized by forces that cause organizations in the same population to become similar over time. As they strive for legitimacy, institutional forces emerge and they adapt structure and behavior in many ways for environmental acceptance. They may copy other organizations, which has the effect of making them more similar over time. And to some extent, there may be outside forces that push organizations for similarity--laws that mandate certain responses such as pollution control or leave for pregnant women.

5. How do mimetic forces differ from normative forces?

ANSWER: Mimetic forces refer to the emergence of common structures and approaches among organizations in the same field from one organization copying or modeling another. In contrast, normative forces bring about the same result for a different reason--one organization adopting techniques that are considered by the professional community in general to be up-to-date. The motivation for adopting common structures differs in the two cases. In the first case, there is a conscious effort to mimic what another is doing successfully, and in the second case, common professional networks lead to a common understanding of what is right. An example of mimetic forces is when managers benchmark, and purposefully copy the *best practices* that they find in another company. An example of normative force is occurring in the field of human resources management; although there is no legal requirement (coercive) for outplacement services when downsizing, consulting companies and professional norms have created a standard of professional practice that companies offer this service for terminated employees.