The Organization's Environment

Organizational environment includes all the elements that exist outside the boundary of the organization and have the potential to affect all or part of the organization.

Environmental domain is the chosen territory of action defining the niche and external sectors with which the organization will interact to accomplish its goals.

Sectors are subdivisions of the external environment that contain similar elements.

General Environment

General environment includes those sectors that may not have a direct impact on the daily operations of the firm but that influence the industry or economy in general ways that in turn indirectly influence the organization. Often included are:

- Government sector
- Socio-cultural sector
- Economic conditions
- Technology sector
- Financial resources sector

Task Environment

Task environment includes sectors with which the organization interacts directly, including:

- Industry sector
- Raw materials sector
- Market sector
- Human resources sector

The Changing Environment

Uncertainty means that decision makers have some degree of **insufficient information** about environmental factors, making prediction of external changes difficult.

Characteristics of the environmental domain that influence uncertainty are the extent to which the external domain is simple or complex and the extent to which events are stable or unstable.

Simple-Complex Dimension
The **simple-complex dimension** concerns heterogeneity, or the number and dissimilarity of external elements relevant to an organization's operations.

Stable-Unstable Dimension
The **stable-unstable dimension** refers to whether elements in the environment are dynamic; the domain is stable if it remains the same over a period of months or years.

Adapting to a Changing Environment
Organizations need to have the right fit between internal structure and the external environment. Internal structures can be adapted in many ways to better meet the external environment.

Adding Positions and Departments
As the complexity in the external environment increases, so does the number of positions and departments with the organization, which in turn increases internal complexity. Each sector in the external environment requires an employee or department to deal with it.

Building Relationships

1. **Buffering roles** or departments can absorb uncertainty from the environment by protecting the technical core from environmental changes and helping it function efficiently.
   A newer approach is to expose the technical core to the environment and make it more fluid and adaptable.

2. **Boundary-spanning** roles link and coordinate an organization with key elements in the external environment by bringing into the organization information about changes in the environment and sending information into the environment that presents the organization in a favorable light.
   One recent approach to boundary spanning is **Business Intelligence** which refers to the high-tech analysis of large amounts of internal and external data to spot patterns and relationships that might be significant.

3. **Differentiation and Integration**
   Environmental uncertainty leads to increased **differentiation**, which is "the differences in cognitive and emotional orientations among managers in different functional departments, and the difference in formal structure among these departments." With high differentiation, coordination between departments becomes difficult, creating greater needs for **integration**, which is "the quality of collaboration between departments."

4. **Organic versus Mechanistic Management Processes**
   Organic rather than mechanistic management processes characterizes a looser, free flowing, and adaptive internal organization which fits with rapidly changing environments. A stable environment leads to a more **mechanistic** organization, which is more rigid, with a strict hierarchy, and more centralized vertical communication.

5. **Planning, Forecasting, and Responsiveness**
   The importance of planning and forecasting increase as environmental uncertainty increases because managers need to predict and anticipate external changes.
   Planning keeps the organization geared for a coordinated, speedy response.

Dependence on External Resources

Organizations depend on the environment for resources, yet attempt to be independent of it by acquiring control over resources.
Resource dependence means that organizations depend on the environment but strive to acquire control over resources in order to minimize their dependence.

Influencing External Resources

Establishing Interorganizational Relationships

There are many techniques for dealing with resource dependence, such as:

- Acquire an ownership stake
- Form joint ventures and partnerships
- Lock in key players
- Recruit Executives
- Use Advertising and Public Relations

Influencing Key Sectors Controlling Environmental Domain

Another strategy is to change the environment, which can be done by changing where you do business, engaging in political activity and influencing government regulation, uniting with others, and even engaging in illegitimate activities such as payoffs to foreign governments or promotional gifts.

INTERORGANIZATIONAL RELATIONSHIPS

<u>Interorganizational relationships</u> are defined as the relatively enduring resource transactions, flows, and linkages that occur among two or more organizations.

<u>Organizational ecosystems</u> are the systems formed by the interaction of a community of organizations and their environment.
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

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.

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.
Suppliers are asked to absorb more costs, ship more efficiently, and provide more services than ever before, sometimes without a price increase.

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.

Organizational Form and Niche
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.

There are three stages in the population ecology model.
Variation occurs when new organizational forms appear in the population of organizations.
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.

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

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.

Institutional View sees organizations as having two essential dimensions: technical and institutional.
<u>The technical dimension</u> is the day-to-day work technology and operating requirements which is governed by norms of rationality and efficiency.
<u>Institutional structure</u> is that part of the organization most visible to the outside public which is governed by expectations from the external environment.
Formal structure is separated from technical action in this view.

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.

Motivations for Global Expansion

- **Economies of Scale.** Building a global presence expands an organization's scale of operation, enabling it to realize economies of scale through large volume scale.

- **Economies of Scope**. Scope refers to the number and variety of products and services a company offers, as well as number and variety of regions, countries, and markets it serves. Having a presence in multiple countries provides marketing power and synergy compared to the same size firm that has presence in fewer countries.

- **Low-cost Production Factors**. The mayor force motivating global expansion relates to factors of production especially lower-cost labor. Organizations have gone international to obtain lower costs of raw materials, of labor, of capital, sources of cheap energy, reduced government restrictions, or other factors that lower total production costs.

Stages of International Development

As a company evolves toward full-fledged global operations, they tend to go through four stages :

- ***Domestic* stage** means that the company is predominantly domestically oriented, but managers are developing initial international involvement, often to increase market potential.

- ***International (Multidomestic)*** stage means that exports are taken seriously and that the company deals with the competitive issues of each country separately.

- ***Multinational*** means that it has marketing and production facilities in many countries, worldwide access to capital, and has more than one-third of its sales outside the home country.

- ***Global* stage** means that the company transcends any single country and does not identify with a single home country.

Global Coordination Mechanisms
Managers meet the global challenge of coordination and transferring knowledge and innovation across highly differentiated units in a variety of ways.

Global Teams.
Also called *transnational teams,* global teams are work groups made up of multinational members whose activities span multiple countries. Some help organizations achieve global efficiencies; others help their companies become more locally responsive; and others contribute to continuous learning and adaptation on a global level. However, cultural and language differences can create misunderstandings, and resentments and mistrust can quickly sidetrack the team's efforts.

Headquarters Planning.
In this approach, the global headquarters takes an active role in planning, scheduling, and control to keep the global organization working together and moving in the same direction. Without strong leadership, highly autonomous divisions can act like independent companies rather than coordinated parts of a global whole.

Expanded Coordination Roles.
Creating specific organization roles can help to integrate all the pieces. Often the role of top *functional manager* is expanded to include responsibility for coordinating across countries. *Country managers* can coordinate across functions. The *network coordinator* coordinates information and activities related to key customer accounts. Benefits include: cost savings, better decision making, greater revenues, and increased innovation.

Cultural Differences in Coordination and Control

National value systems influence management and organizations. Hofstede identified dimensions of national value systems that vary across countries.

Design Essentials

- **Change and complexity in the external environment have major implications for organization design and management action.**

- **Organizational uncertainty is the result of the stable–unstable and simple–complex dimensions of the environment. Resource dependence is the result of scarcity needed by the organization.**

- **Organizations try to survive and achieve efficiencies in a world characterized by uncertainty and scarcity.**

- **The concepts in this chapter provide specific frameworks for understanding how the environment influences the structure and functioning of an organization.**

- **When risk is great or resources are scarce, the organization can establish linkages through acquisitions, strategic alliances, interlocking directorates, executive recruitment, or advertising and public relations that will minimize risk and maintain a supply of scarce resources.**

- **Two important themes in this chapter are that organizations can learn and adapt to the environment and that organizations can change and control the environment. Such organizations can adapt when**

necessary but can also neutralize or change problematic areas in the environment.

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.**

Design Essentials

- **Three primary motivations for global expansion are to realize economies of scale, exploit economies of scope, and achieve scarce or low-cost factors of production such as labor, raw materials, or land.**

- **Organizations evolve through four stages: a domestic orientation, an international orientation, a multinational orientation, and a global orientation.**

- **Geographic structures are effective for organizations that benefit from a multidomestic strategy. A product structure supports a globalization strategy. Huge global firms might use a matrix structure. Many firms use hybrid structures.**

- **Global organizational challenges include: addressing environmental complexity through organizational complexity and differentiation, achieving integration and coordination among differentiated units, and implementing mechanisms for the transfer of knowledge and innovations.**