Organizational Design Change and Transformation

Prof. Sangeeta Sahney
Vinod Gupta School of Management
Indian Institute of Technology, Kharagpur

Module - 02
Lecture - 08
Organizational Environment

[FL] We will continue with our discussion on the topic Organizational Environment. This is Module 2 and Lecture 3. In the previous lectures we have spoken about the organizational environment, the factors affecting the organizational environment. We have spoken about environmental uncertainty and sources of uncertainty and we have also spoken about the changing environment and adaptation as well as a framework for response to environmental change.

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Today we will be talking about resource the resource dependence theory and the inter organizational strategies for managing resource dependencies. So, let us first start with the resource dependence theory. Now any and every organization depends on the environment for the resources and it would want to reduce its dependence on the environment for such resources.

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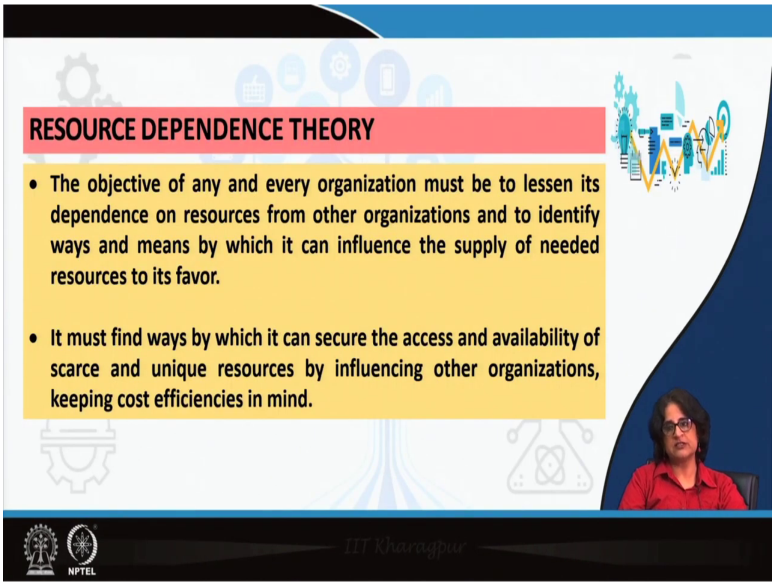

Because the higher the dependence the higher the uncertainty as well. And any and every kind of uncertainty in the environment can is some is not comfortable for any organization. So, organizations would try to reduce the uncertainty they want to you know also reduce you know their dependence on external bodies or on external stakeholders for their resources.

So, the objective of any and every organization is to lessen its dependence on resources from other organizations. And it must also identify ways and means by which it can influence the supply of resources to its favor. It is to be noted here that it is not always possible for any organization to eliminate dependence and elimination of dependence may not always be desirable.

But any and every organization desires certainty, they want you know they want lesser uncertain environments and one of the causes or one of the reasons for uncertainty also is with respect to you know the access to resources and availability of resources and companies would want to minimize their dependence on other organizations for these resources.

A total elimination or may not total elimination of dependence may not is not possible and. So, companies aim at minimizing the dependence on resources from other organizations. And they also look for ways and means by which they can influence the supply of needed resources to their favor. In other ways in other words it means is that even if companies depend on others for resources they would want the arrangement to be such that they are not at a disadvantage.

And they are able to acquire resources at the right price as and when needed. So, come the objective of any and every organization is to minimize its dependence of resources on other organizations and look for means and ways by which it can influence the supply of needed resources in terms of quality, in terms of price, in terms of quantity to their favor as and when needed.

So, you must find ways by which it can secure the access and the availability of resources of scarce resources of or unique resources by influencing other organizations or keeping cost efficiencies in mind.

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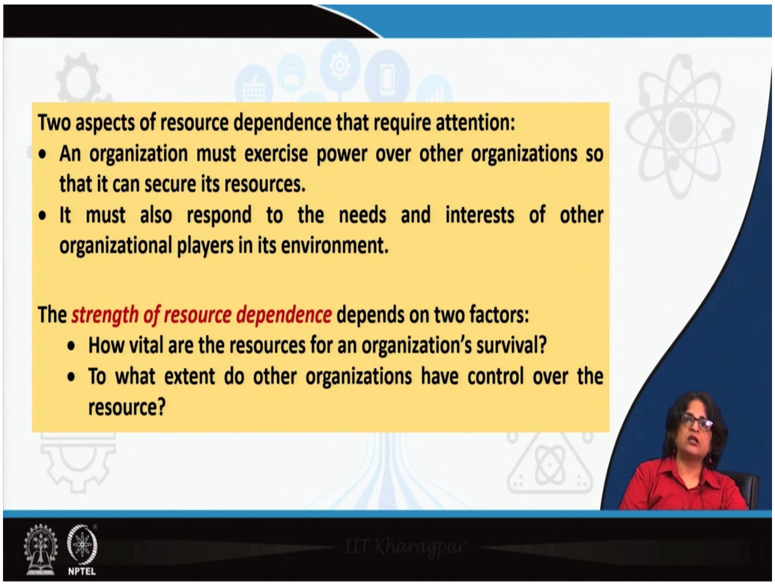

Now, two aspects of resource dependence that require attention is that an organization must exercise power over the other organization. So, that it can secure the resources. And two it must also respond to the needs and interests of other organizational players in the environment, ok.

So, the strength of the resource dependence depends upon one, how vital are the resources for the organization? And two, to what extent do other organizations have control over the resource? So, you know when we talk about resources organizations seek resources in the right quantity, right quality, at the right price as and when needed, right.

So, and they would want that there is surety about the quantity, about the quality, about the availability and about the right price as in when the organization wants the resources. So, organizations are always trying to look for arrangements with partners with external stakeholders and you know such that they are able to get the timely resources at the right price right, quality resources at the right price.

And you know they are able to do so with cost efficiency, they are able to do so you know time in a timely manner and they are able to do so in a in more efficiently and effectively than the competitor because that would ultimately give them a competitive edge, it would actually lead to a core competence and give them a competitive edge.

So, the relationship with partners, the relationship with the external stakeholders can also lead to a core competence for an organization, ok. And you know keeping in mind the resource dependence theory which I am; which we are discussing right now its important that organizations reduce or minimize their dependence on external stakeholders or on vendors and suppliers or resources.

It, but it is also important that they are able to have access and availability of the scarce resources of the unique resources which they are able to procure at the right time, in the right quantity, at the right in that at the right quality and at the right price, ok. So, you know it is important for organizations to understand two things. One, how important is this resource for my survival? And two, what extent do I have control and to what extent do other organizations have control over the resource? Ok.

So, the this the this these two factors actually determine the strength of resource dependence. An organization which wants to assess it resource dependence will have to actually answer these two questions. How important is this resource for me and two what to what extent do other organizations have control over the resources, ok. And when we talk of resource dependence it is also important that an organization exercises power over the other organization.

So, that it can seek it can have resources as and when it wants in the right quality and at the right price and at the right time and it must also respond to the needs and interests of other players other organizational players in the environment. So, this is something which is very very crucial, ok.

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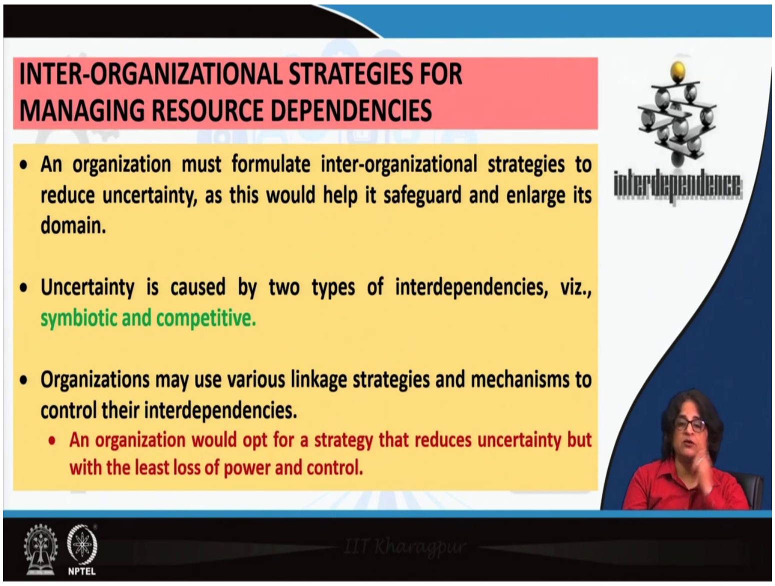

Now, in order to do that in order to ensure that you know other stakeholder interests are kept in mind. That the organizations own interest in terms of being able to secure the resources or novel resource the unique resources or the scarce resources you know in order to keep that in mind that the organization.

So, what? So, in order one in order to understand in order to assure that the other stakeholder interests are being kept in mind. Two, in order to assure that the organization itself is able to be assured of the supply of scarce and unique resources. It is important that organizations enter into different kinds of arrangements, different kinds of you know relationships or and this leads us to the discussion on inter organizational strategies for managing resource dependencies, ok.

We will go by the fundamental that the objective of any organization is to minimize its dependence of resources on other partners and it one. And two that when it is dependent on others if the balance of power should be in its own favor, it should be in a dictating position, it should be in a commanding position.

Now when we talk of this it would also mean that the interest of the other stakeholders are kept in mind, other partners are kept in mind and that leads us to the fact that its important that arrangements are made, contracts are signed or relationships are built which will on one hand serve the interests of the stakeholder, of the vendor, of the supplier or the other you know other parties on whom you are dependent.

And two it will also serve your purpose that you are able to as an organization you are able to acquire resources get access to resources as and when you need them at the right price, at the right quantity, at the right quality. So, for this it becomes very very important that your interests as an organization and your partner interests both move together in the same direction.

And for this it is important that the you know a very the there is cooperation and there is coordination and what is required is huge amount of collaboration, ok. So, resource dependence by an organization on other organizations is something which is essential. But it is also essential that you as an organization are stronger when it comes to the power balance, you are able to dictate terms over other partners when it comes to acquiring the resources the scarce resources or the unique resources.

And for this it is important that you know to be to because both of this will ultimately reduce the level of uncertainty that you face as an organization. You will be more sure about the supply of resources to you and to your organization. And you will be more source about more sure about the value creation activities that you are into to accomplish or your overall objectives of the organization. So, the organization must formulate inter organizational strategies to reduce the uncertainty as this would help it safeguard and it help it guard as well as enlarge its domain.

So, when we talk of the uncertainty as we said the objective of the organization is to reduce uncertainty, to reduce the dependence on external stakeholders, to have the balance of power in their favor and to be able to ensure that it has access and availability of resources as and when it needs your the of course, the strength of the dependency will depend upon how vital the resource is for the organization as well as what is the control of the other organizations over the resources.

So, keeping all that in mind it you know and keeping the very fact that you need external partners as an organization you need external stakeholders as an organization. So, it is important that you forge into relationships with them, you formulate inter organizational strategies and enter into relationships which will reduce uncertainty and would safeguard and enlarge your or your domain.

So, uncertainty you know is something which must be managed by organizations and inter organizational strategies are a means towards debt. So, uncertainty is caused by two types of interdependencies. One is a symbiotic interdependency the other is a competitive interdependency. Organizations may use various linkages and mechanisms to control their interdependencies and an organization would opt for such a strategy that reduces the uncertainty.

But with the least loss of power of control. As I said you want to minimize your dependence on stakeholders for resources, you want to minimize uncertainty, but you also want to ensure that you do not lose your power and control. So, you want to have keep the balance of power and balance of control in your hands.

So, for this it is very very important that you and you actually forge relationships or enter into relationships or you enter into such you know linkages and you adopt such mechanisms which would help you control the interdependency and the kind of strategy that an organization may use could would be such that it reduces the uncertainty, but also with the least loss of power and control.

So, moving ahead we will now talk of what symbiotic interdependencies are and what competitive interdependencies are.

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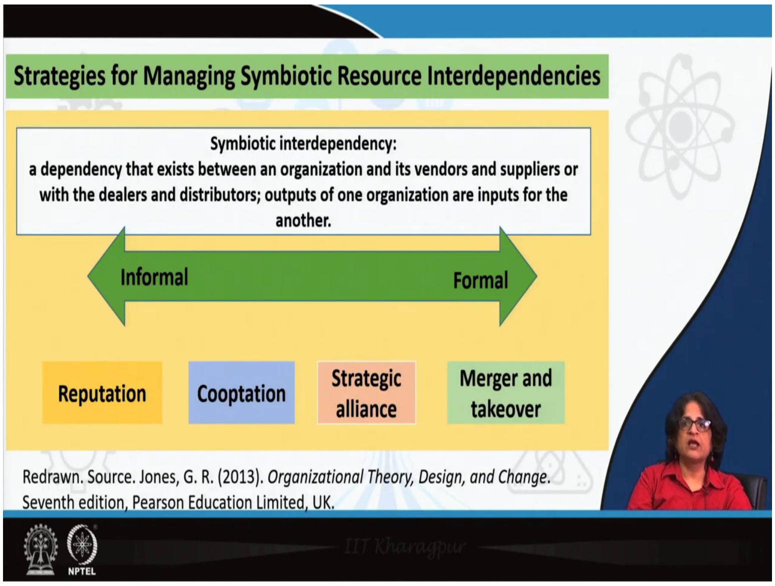

Now, what is a symbiotic interdependency? A dependency that exists between an organization and its vendors and suppliers or with its dealers and distributors is actually a symbiotic is actually a symbiotic interdependency, ok. So, output of one organization is input for another. Like for example, the output of the vendor or the supplier is the input to you as an organization, ok.

So, you depend upon the supplier or the and the vendor. Similarly, your output in the form of a good or a service is actually an input for the your people in your distribution network, for your wholesalers, for your dealers who are now have to sell it in the market sell who would now have to sell this and earn money, ok.

So, a dependency that exists between an organization and its vendors and suppliers or that is back end or front end with the dealers and distributors ok, is what is the symbiotic interdependency. So, output of the vendor supplier is your input and your output in the form of goods and services is an input which has to be now taken care of by the wholesaler and dealer and distributor who has to then sell it to somebody else.

In the case of a b to b to b business to business to business transaction you as a business or an organization may be a middle person. So, somebody makes copper say for example, somebody makes a copper wire and gives it to you and you put you make motors and now your output goes into the input of another businessman who is going to use those motors into something else, ok.

So, what I am trying to say is that in this case you are now supplying it to another person. So, there is again a symbiotic interdependency. So, a dependency that exists between an organization and vendor suppliers you know or it with dealers and distributors constitutes what is called a symbiotic interdependency. In the case of b to b to b somebody is your vendor and supplier ok, and you are somebody elses vendor and supplier.

So, there is this relationship that exists between one business to another business to another business. So, that is again a symbiotic interdependency where somebody's inputs is somebody somebody's output is somebody's input and then somebody is again output is another person's input. So, again when we talk of this kind of a relationship between an organization and its vendors and suppliers or between an organization and the dealers and distributors we call it a symbiotic interdependency.

Now, symbiotic interdependency can be very formal or it can be informal and on a scale if you see you know you have mergers and takeovers and strategic alliances which are very formal forms of symbiotic interdependency and then you have cooptation reputation which are very very informal forms of symbiotic interdependency.

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So, let us see what they are. Now what is reputation? Now reputation as a linkage mechanism is the most commonly used one ok, it is lowest on formality least direct way to manage interdependencies back end with your suppliers and front end with your dealers distributors and with your customers. So, the organization is here you know some is dealing with the other partners be it the dealers or distributors or the customers or the vendors and suppliers very informally, ok.

And the organization is respected for its very honest and fair business practices and dealing with others and hence earns a lot of goodwill it earns a lot of regard and goodwill. So, the organization is respected for its honest and fair business practices and dealings with others and hence earns regard and goodwill. So, this is a very very informal you know linkage mechanism very very low on formality as you can see from the continuum here, ok.

So, it is a low its very low on formality it is something which is very very informal, it is very low on formality. The second is cooptation. Cooptation is again another linkage arrangement another linkage mechanism which is again low on formality, it is again something which is little more formal than reputation, but is still informal.

Now, the problem creating forces in the firm specific environment are diffused by winning over the winning over the you know former by giving a stake or a claim in business and hence satisfying the interest. So, problem creating forces for example, any organization which is trying to create a problem in your environment is diffused by winning the that organization over by giving that organization a stake or a claim in your business.

And then you are satisfying the interest of that of that oppose of that problem maker or the problem creator.

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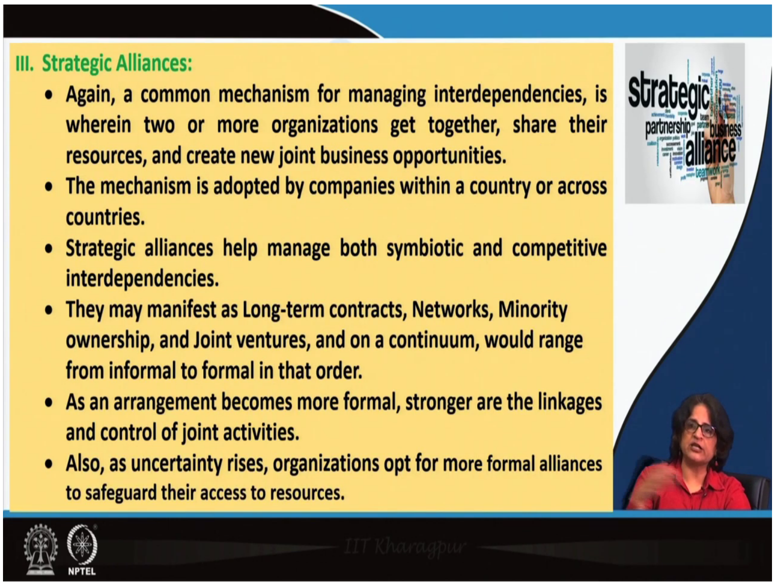

The third is a slightly more formal mechanism it is more it is more to towards the formality where there are lot of contracts and arrange agreements which are made between the various parties or the various organizations. It is a very common mechanism for managing interdependencies where two or more organizations get together, they share the resources and create new business opportunities.

So, the mechanism you know is adopted by companies within a country or across the countries and they help manage both such strategic alliances as you will see will help manage both symbiotic as well as competitive interdependencies. So, we will also see this as a part of the competitive interdependency. They manifest as long term contracts, networks, minority, ownerships, joint ventures.

And on a continuum again you can raise them from formal to informal which we will just see, ok. So, you know long term contracts networks my minority ownership and joint ventures are ranging could range from informal to formal, ok. So, long term contracts and networks could be slightly more informal than minority ownership and joint ventures which are more formal.

So, as this as an arrangement you know become more stronger more formal stronger you know as you will see as the arrangements here become more formal the linkages become stronger and parties have control over each other's activities. Also, as uncertainty increases companies generally opt for more formal alliances. So, that they can safeguard their interests you know safeguard their access to the resources that they want.

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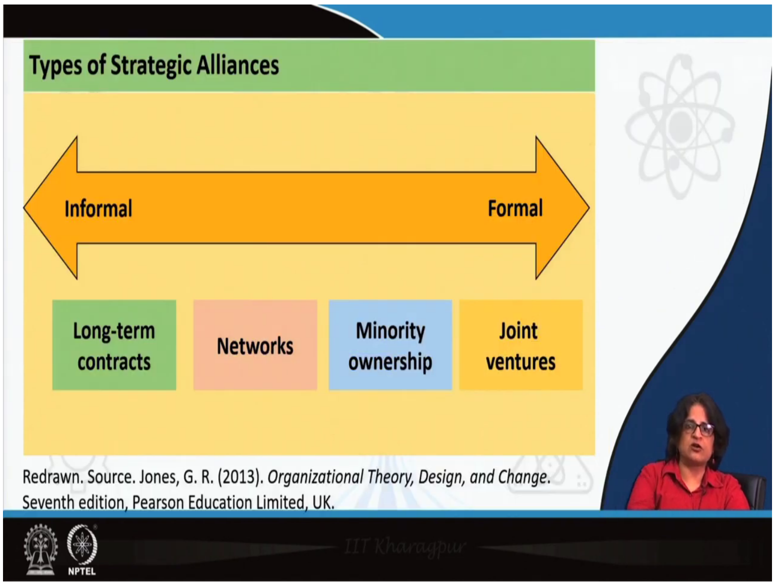

So, if you see here on a continuum as I just mentioned you have the you know long term contracts, networks, minority ownership and joint ventures on a continuum ranging from the informal to the formal in that order. So, you have long term contracts and networks which are less formal and then you have minority ownership and joint ventures which are more formal.

As these as the arrangements become more and more formal it means that there is that there are there is no coordination, but there are also joint control on joint activities. And as and as uncertainty in the environment increases companies generally prefer moving from the informal to the more formal alliances.

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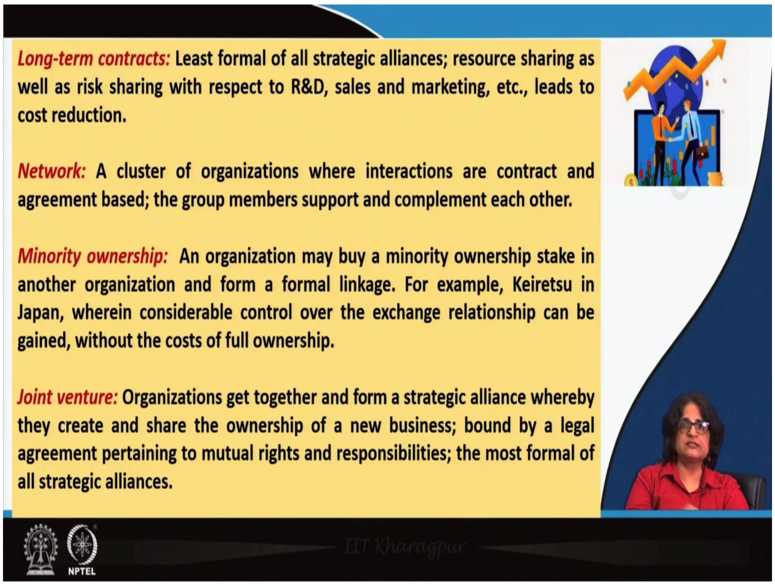

So, let us you know briefly discuss each one of these. First is a long term contract. Now the long term contract is the least formal of the strategic alliance. Resource sharing as well as risk sharing is there which with you know whether it is R and D whether it is in sales and marketing and this leads to long this leads to cost reduction. So, contracts are made between partners.

They share resources they share risks regarding R and D, marketing, sales etcetera and leading to cost reduction. And this is in terms of a scale this is something which is low on formality as far as the strategic alliances are concerned. They are less formal than network and network is less formal than a minority ownership and a minority ownership is less formal than a joint venture. Of course, the joint venture is the most formal of all.

Now, what is a network? A network is a cluster of organizations where whose interactions where interactions are contract and agreement based, ok. So, interactions are contract and agreement based and the group member's support and complement each other. So, that is what is a network. The third is a minority ownership minority ownership is when one company may buy a minority stake ownership stake in another organization and form a linkage.

So, when you know. So, when they form a linkage there is some control over the exchange relationship you know and, but some without the cost of a full ownership, ok. So, in minority ownership the one organization may buy a minority stake in another organization. So, this is more formal as a strategic alliance if you see here the long term contracts and networks are less formal as compared to the minority ownership and the joint ventures.

In the case of minority ownership the one company or one organization gets a stake in another one vice is take in another one and forms of formal linkage. So, in terms of formality this is higher on form high more formal as compared to the long term contracts and the network. So, Keiretsu Japan is one such arrangement one such linkage mechanism where considerable control over exchange relationship is gained without cost of full ownership.

And then of course, you have joint ventures joint ventures can also be set up by organizations, they get to two organizations get together and form a strategic alliance whereby they create and share ownership of a new business, they are bound by legal arrangements the and the legal agreement pertains to mutual rights and responsibilities and this is the most formal of all.

So, if you look at on a continuum you had long term contracts and network which was low on formalism or where you know the it is a less formal mechanism in the case of a minority ownership and joint venture they are higher on the scale and they are more formal than long term contracts and networks. Of course, joint venture is the most formal arrangement of all, ok.

So, moving ahead with the moving ahead with the symbiotic interdependencies.

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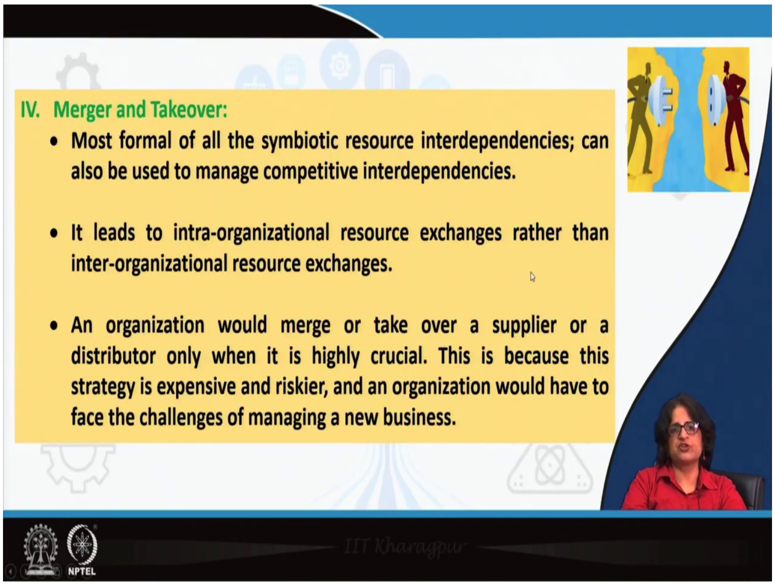

The fourth and the last one is a merger or a takeover. This is the most formal of all the symbiotic resource interdependencies and it again can also be used to manage the competitive interdependencies. So, what is the merger and what is the takeover? Here an organization would merge or take over a supplier or a distributor only when it is highly crucial and it leads to an intra organizational resource exchange rather than inter organizational resource exchange, ok.

So, why will a organization merge or take over a supplier or distributor only when it is highly crucial is because this strategy is expensive it is also riskier, ok. And the organization will have to face the challenges of managing an entirely new business, ok. So, generally companies would you know prefer this arrangement only when they realize that the resource is something which is extremely crucial and you know and the you know the its very important that they gain control over the supplier or the distributor totally.

In that case they would decide to merge or take over the other partner and. So, this is the most expensive strategy most risky it is a riskier strategy and so this is something which companies will only take when it is absolutely essential. So, you have these four you know linkage mechanisms or four strategies for managing symbiotic resource interdependencies.

You have repetition and coordination sorry, repetition and cooptation which are informal or low on formal arrangements and then you have strategic alliance and mergers which are formal mechanisms or high on formal for you know high on the scale of and all of these can be used to manage dependencies which have which occur between an organization and its suppliers and vendors or its dealers and distributors and its external partners.

So, output of one organization is the input of the other organization. And in such cases you have what we call as symbiotic interdependency and reputation cooptation strategic alliance and merger and takeover are all forms of managing or all strategies which I can be used to manage symbiotic resource interdependencies, ok.

Then we come to strategies for managing competitive resource interdependencies. Now what is a competitive resource interdependency? A dependency that exists amongst organizations which compete each other for scarce inputs and resources, ok.

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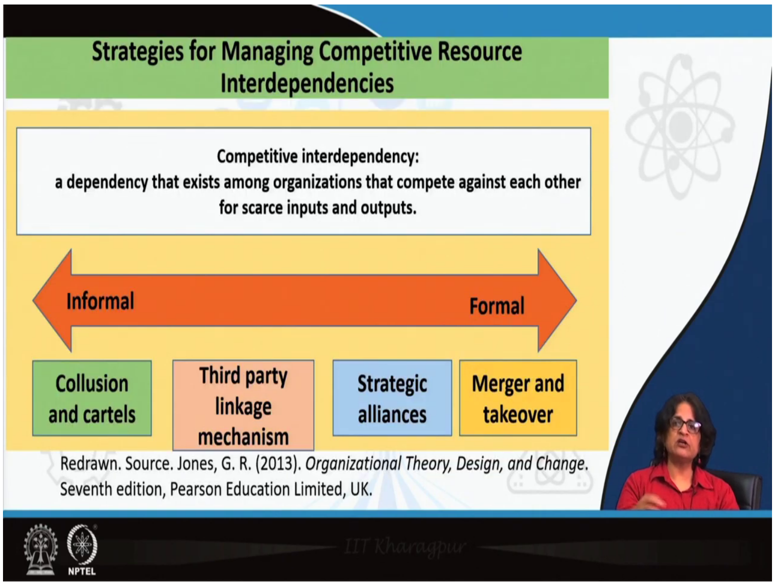

So, a dependency that exists among organizations which compete against each other for obtaining scarce inputs and outputs is referred to as a competitive resource interdependency. Again here on a continuum we see that there are arrangements which are highly formal and there are arrangements which are highly informal. There are strategies which are very very formal their strategies which are very very informal.

So, collusions and cartels are informal strategies third party mechanism is slightly higher, but yet informal, but strategic alliances mergers and takeovers are very form formal arrangements which are entered into formal strategies which help manage competitive resource interdependencies.

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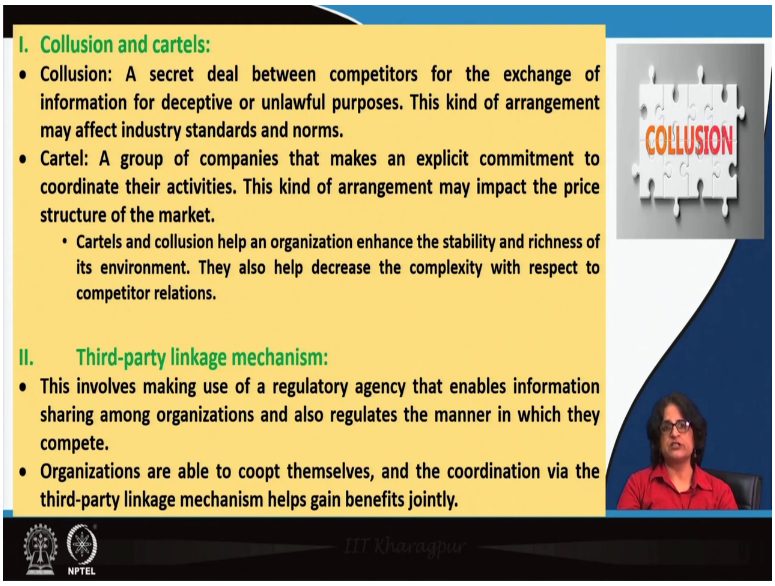

So, what is a collusion and a cartel? Now a collision is a secret deal or a secret pact between competitors for the exchange of information for unlawful purposes for deceptive purposes. So, this kind of an arrangement between two competitors can actually affect industry standards and industry norms. What is a cartel? Now a group of companies that makes an explicit commitment to coordinate their activities is a cartel, ok.

This kind of an arrangement can impact the price structure. So, in a collusion it is secret deal and it will affect industry standards and norms, but a cartel is an explicit arrangement explicit commitment where two or more competitors decide to get together to coordinate their activities and this kind of a cartel this kind of an arrangement will impact the price structure.

So, both cartels and collusions help an organization enhance their stability and richness, they help decrease the complexity with respect to competitor relations. So, you know this is one of these strategies which is used by competitors to reduce the level of uncertainty in their competitive environment, ok. So, they use it to manage their competitor relations well.

And they try to use this strategy to reduce the level of uncertainty that they may face. So, collusion is a secret pact, but cartel is an explicit arrangement between companies where they cut together and can affect the functioning they can affect the price structure in the industry. The second is what we refer to as third party third party linkage mechanism.

Now, the third party linkage mechanism involves the use of a regulatory body which enables information sharing amongst organization and also regulates the manner in which they will compete. So, the third party here as a regulatory agency facilitates information sharing and regulates the manner in which companies compete with each other.

Organizations are able to cope way cope organizations are able to you know cope themselves and coordinate with each other via the third party linkage mechanisms you know via this arrangement are able to gain benefits jointly. So, such companies which are able to co opt amongst themselves and coordinate via such third party linkage mechanisms have a lot to gain. They are able to gain a lot of advantages and benefits when they jointly.

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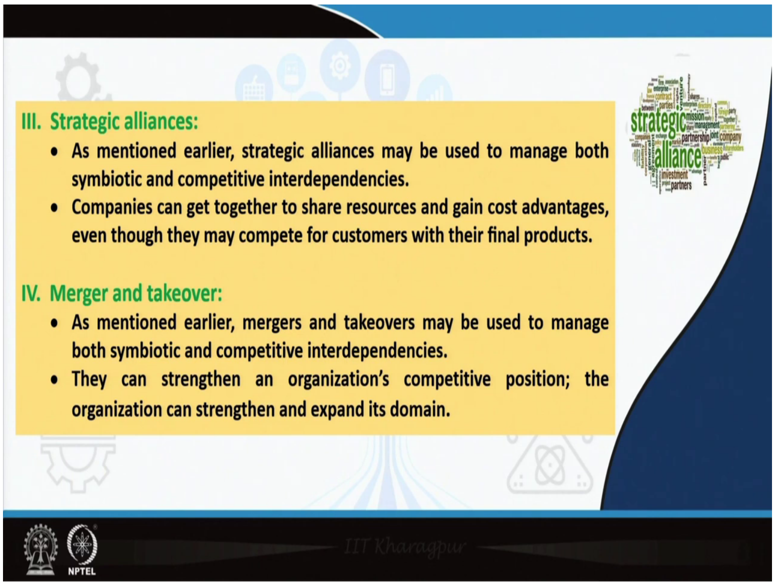

The third is strategic alliances. So, I have just mentioned about strategic alliances earlier that they may be used to manage both symbiotic and competitive interdependencies. The various strategic alliances that we spoke of you know were long term contracts, networks, minority ownership and joint ventures.

So, we spoke about these strategic alliances which can be used to manage both symbiotic and competitive inter dependencies long term contracts networks minority ownership joint ventures. So, companies can get together to share resources gain cost advantages even though they may compete for customers when it comes to the final product.

And then you have mergers and takeovers. We have also mentioned earlier about mergers and takeovers that they may be used to manage both symbiotic and competitive interdependencies. And they can strengthen an organizations competitive position you know and the organization can strengthen and expand its organizational domain through the through such mergers and through such takeovers.

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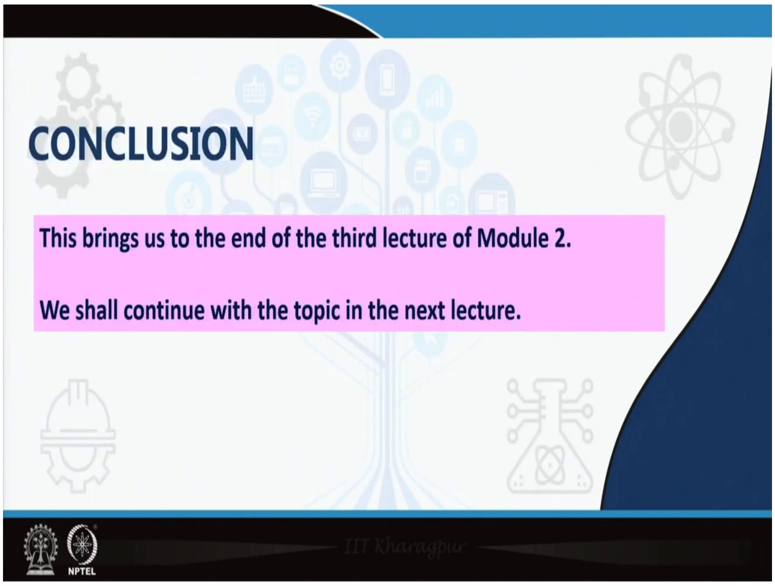

So, with this I come to an end of the lecture these are the references. So, this is an end of the 3rd lecture of module 2 we will continue with the topic in the next lecture.

Thank you.