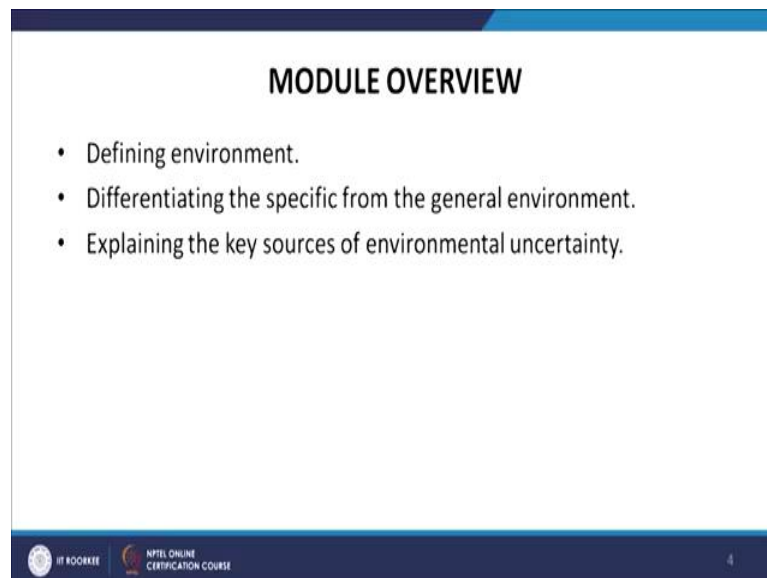


Organization Theory/Structure and Design
Prof. Zillur Rahman
Department of Management Studies
Indian Institute of Technology, Roorkee

Lecture - 18
Environment - I

Welcome to this course on Organization Theory Structure and Design. Now, we will start with module 18. So, module 18, 19 and 20 are dedicated to understanding of Environment and let us start with module 18.

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A presentation slide titled "MODULE OVERVIEW" with a blue header and footer. The slide lists three bullet points: "Defining environment.", "Differentiating the specific from the general environment.", and "Explaining the key sources of environmental uncertainty." The footer contains the IIT Roorkee logo, the text "NPTEL ONLINE CERTIFICATION COURSE", and the number "4".

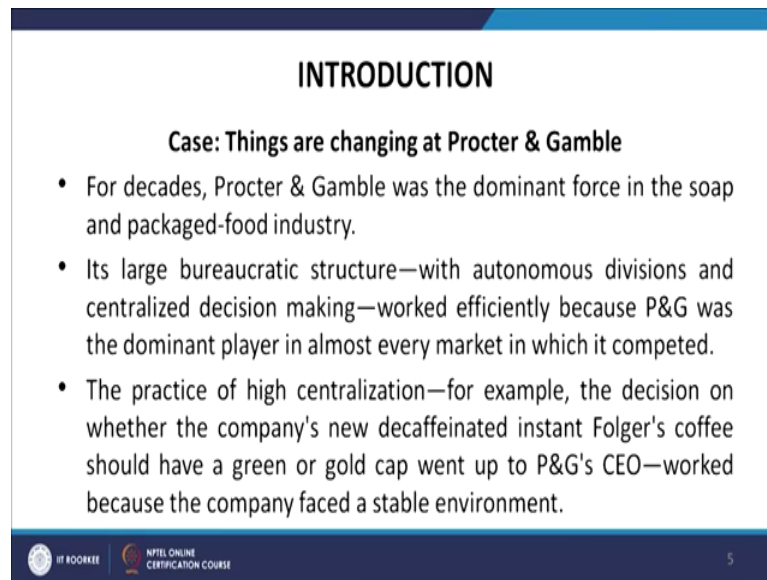
MODULE OVERVIEW

- Defining environment.
- Differentiating the specific from the general environment.
- Explaining the key sources of environmental uncertainty.

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So, we will talk about how do we define environment, then how do we differentiate the specific from the general environment and then we will explain the key sources of environmental uncertainty.

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INTRODUCTION

Case: Things are changing at Procter & Gamble

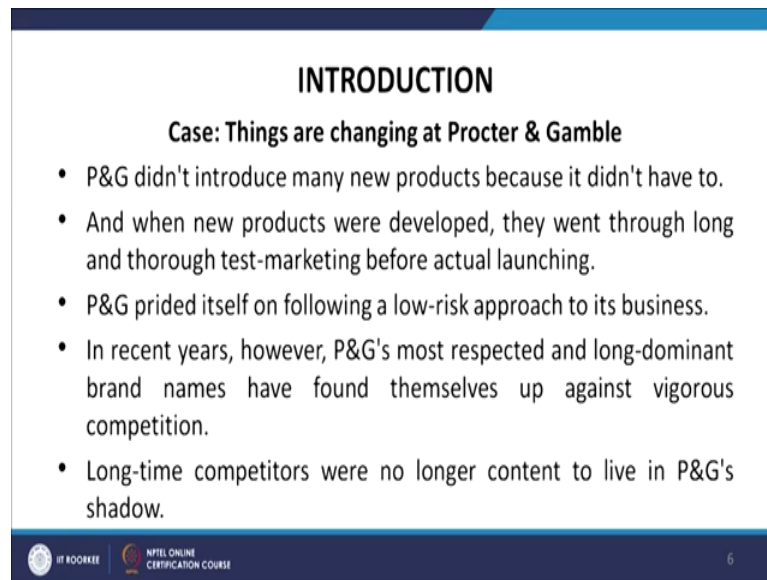
- For decades, Procter & Gamble was the dominant force in the soap and packaged-food industry.
- Its large bureaucratic structure—with autonomous divisions and centralized decision making—worked efficiently because P&G was the dominant player in almost every market in which it competed.
- The practice of high centralization—for example, the decision on whether the company's new decaffeinated instant Folger's coffee should have a green or gold cap went up to P&G's CEO—worked because the company faced a stable environment.

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Now, to start with let us look at the case: Things are changing at Procter and Gamble. For decades Procter and Gamble was the dominant force in the soap and packaged food industry. Its large bureaucratic structure with autonomous divisions and centralized decision making worked efficiently because P and G was the dominant player in almost every market in which it competed.

The practice of high centralization for example, the decision on whether the company's new decaffeinated instant coffee should have a green or gold cap went up to P and G CEO - worked because the company faced a stable environment.

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INTRODUCTION

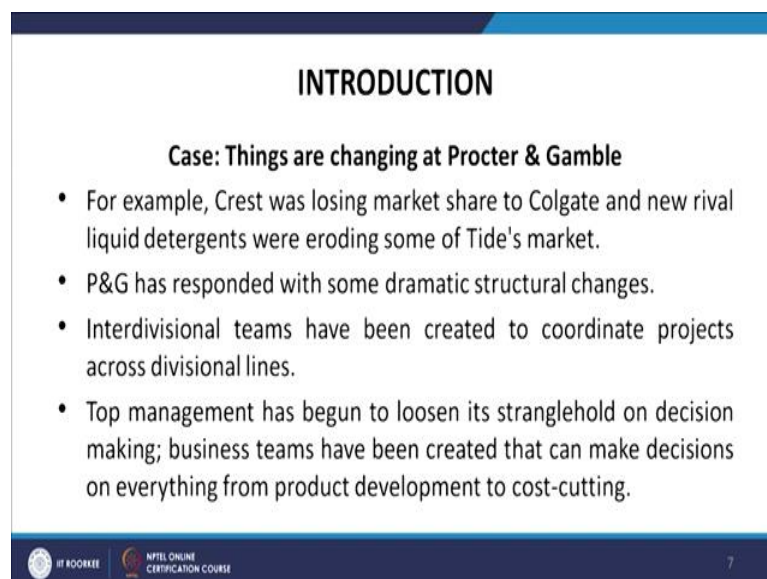
Case: Things are changing at Procter & Gamble

- P&G didn't introduce many new products because it didn't have to.
- And when new products were developed, they went through long and thorough test-marketing before actual launching.
- P&G prided itself on following a low-risk approach to its business.
- In recent years, however, P&G's most respected and long-dominant brand names have found themselves up against vigorous competition.
- Long-time competitors were no longer content to live in P&G's shadow.

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P and G did not introduce many new products because it did not have to. And when new products were developed they went through long and thorough test marketing before actual launching. P and G prided itself on following a low risk approach to its business. In recent years, however, P and G's most respected and long dominated brand names have found themselves up against vigorous competition. Longtime competitors were no longer content to live in P and G's shadow.

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INTRODUCTION

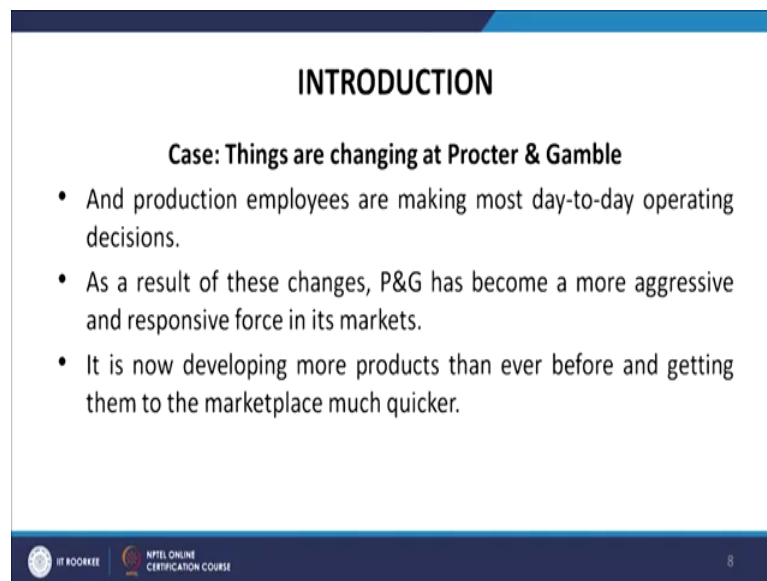
Case: Things are changing at Procter & Gamble

- For example, Crest was losing market share to Colgate and new rival liquid detergents were eroding some of Tide's market.
- P&G has responded with some dramatic structural changes.
- Interdivisional teams have been created to coordinate projects across divisional lines.
- Top management has begun to loosen its stranglehold on decision making; business teams have been created that can make decisions on everything from product development to cost-cutting.

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For example, Crest was losing market share to Colgate and new rivals liquid detergents were eroding some of the Tide's market. P and G has responded with some dramatic structural changes. Interdivisional teams have been created to coordinate projects across divisional lines. Top management has begun to loosen its stranglehold on decision making; business teams have been created that can make decisions on everything from product development to cost cutting.

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INTRODUCTION

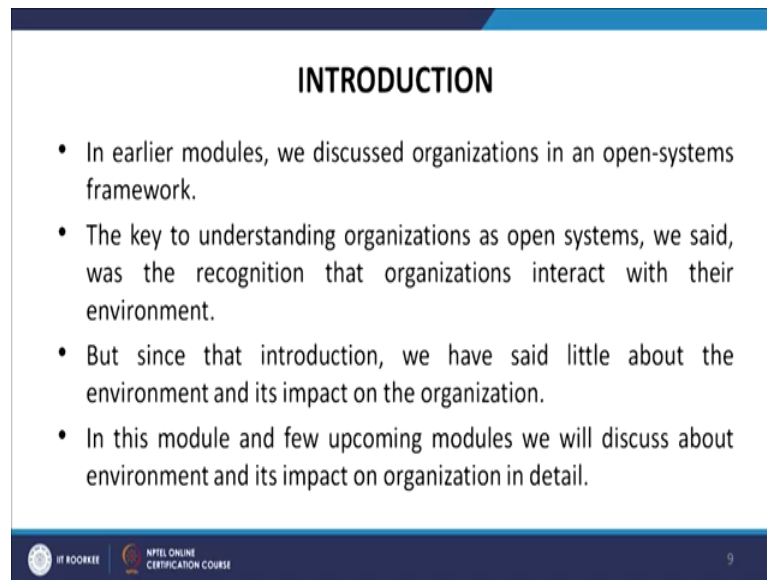
Case: Things are changing at Procter & Gamble

- And production employees are making most day-to-day operating decisions.
- As a result of these changes, P&G has become a more aggressive and responsive force in its markets.
- It is now developing more products than ever before and getting them to the marketplace much quicker.

IT ROOKIE NPTEL ONLINE CERTIFICATION COURSE 8



And production employees are making most day-to-day operating decisions. As a result of these changes, P and G has become a more aggressive and responsive force in its markets. It is now developing more products than ever before and getting them to the marketplace much quicker.

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INTRODUCTION

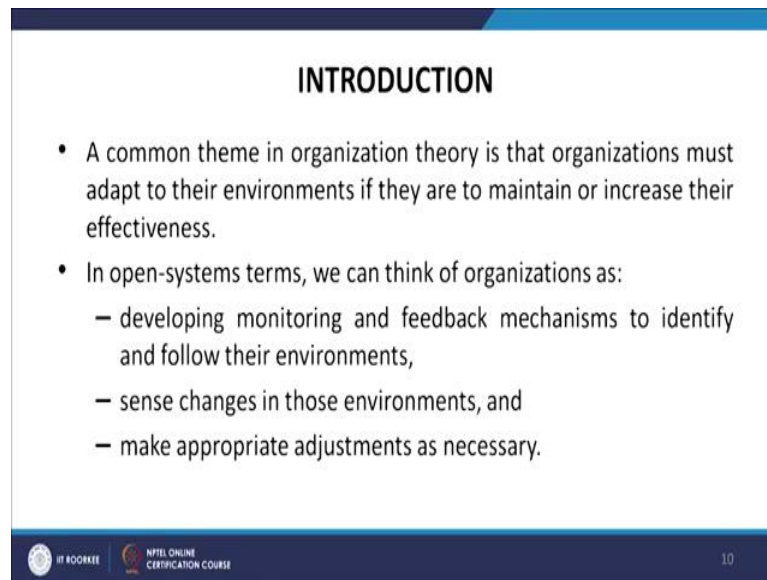
- In earlier modules, we discussed organizations in an open-systems framework.
- The key to understanding organizations as open systems, we said, was the recognition that organizations interact with their environment.
- But since that introduction, we have said little about the environment and its impact on the organization.
- In this module and few upcoming modules we will discuss about environment and its impact on organization in detail.

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So, in earlier modules, we discussed organizations in an open systems framework. The key to understanding organizations as open systems, we said, was the recognition that organizations interact with their environment. But since that introduction, we have said little about the environment and its impact on the organization.

In this module and few upcoming modules we will discuss about environment and its impact on organization in detail. A common theme in organization theory is that organizations must adapt to their environments if they are to maintain or increase their effectiveness.

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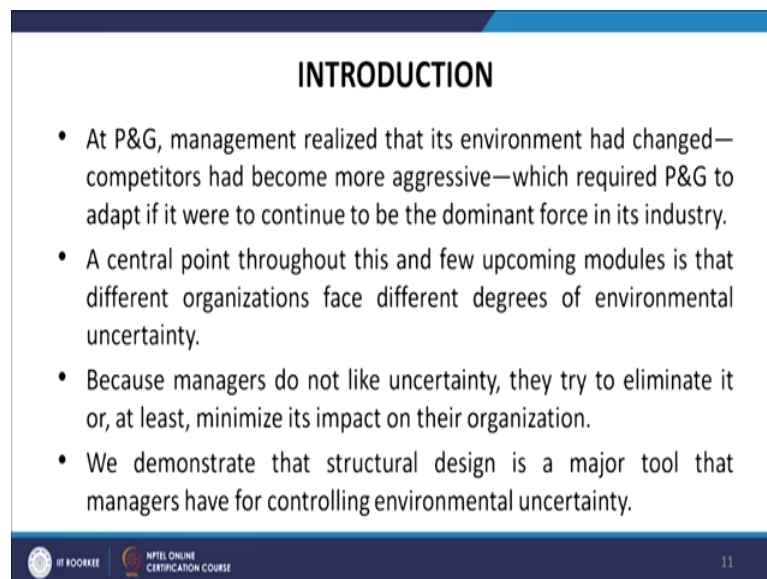
INTRODUCTION

- A common theme in organization theory is that organizations must adapt to their environments if they are to maintain or increase their effectiveness.
- In open-systems terms, we can think of organizations as:
 - developing monitoring and feedback mechanisms to identify and follow their environments,
 - sense changes in those environments, and
 - make appropriate adjustments as necessary.

10

In open system terms we can think of organizations as developing, monitoring and feedback mechanism to identify and follow their environment; second is, sense changes in those environment and the third is, make appropriate adjustments as and when necessary.

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INTRODUCTION

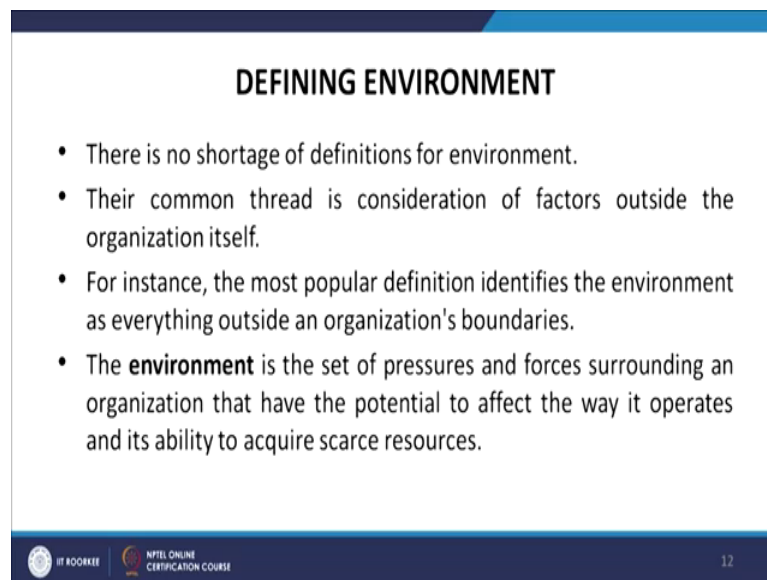
- At P&G, management realized that its environment had changed—competitors had become more aggressive—which required P&G to adapt if it were to continue to be the dominant force in its industry.
- A central point throughout this and few upcoming modules is that different organizations face different degrees of environmental uncertainty.
- Because managers do not like uncertainty, they try to eliminate it or, at least, minimize its impact on their organization.
- We demonstrate that structural design is a major tool that managers have for controlling environmental uncertainty.

11

At P and G, management realized that its environment had changed, competitors have become more aggressive which required P and G to adapt if it were to continue to be the dominant force in its industry. A central point throughout this and few upcoming

modules is that different organizations face different degrees of environmental uncertainty. Because, managers do not like uncertainty they try to eliminate it or at least minimize its impact on their organizations. We demonstrate that structural design is a major tool that managers have for controlling environmental uncertainties.

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The slide is titled "DEFINING ENVIRONMENT" in bold black text. It contains four bullet points: "There is no shortage of definitions for environment.", "Their common thread is consideration of factors outside the organization itself.", "For instance, the most popular definition identifies the environment as everything outside an organization's boundaries.", and "The **environment** is the set of pressures and forces surrounding an organization that have the potential to affect the way it operates and its ability to acquire scarce resources." The footer includes the IIT ROORKEE logo, the text "NPTEL ONLINE CERTIFICATION COURSE", and the slide number "12".

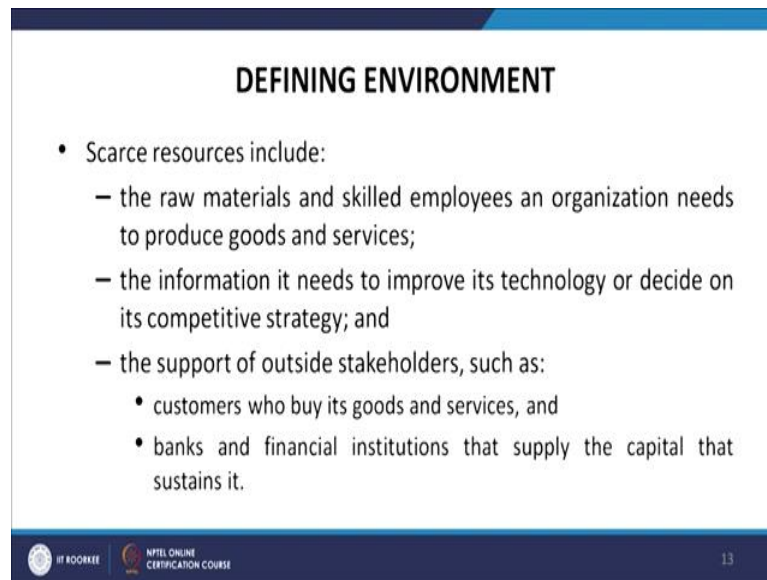
DEFINING ENVIRONMENT

- There is no shortage of definitions for environment.
- Their common thread is consideration of factors outside the organization itself.
- For instance, the most popular definition identifies the environment as everything outside an organization's boundaries.
- The **environment** is the set of pressures and forces surrounding an organization that have the potential to affect the way it operates and its ability to acquire scarce resources.

IIT ROORKEE NPTEL ONLINE CERTIFICATION COURSE 12

Now, let us start with defining environment. There is no shortage of definition for environment. Their common thread is consideration of factors outside the organization itself. For instance, the most popular definition identifies the environment as everything outside an organization's boundaries. The environment is the set of pressures and forces surrounding an organization that have the potential to affect the way it operates and its ability to acquire scarce resources.

(Refer Slide Time: 05:33)



The slide is titled "DEFINING ENVIRONMENT" in bold black text. Below the title, there is a bulleted list of scarce resources. The first bullet point is "Scarce resources include:", followed by three sub-bullets: "the raw materials and skilled employees an organization needs to produce goods and services;", "the information it needs to improve its technology or decide on its competitive strategy; and", and "the support of outside stakeholders, such as:". The last sub-bullet has two further indented bullet points: "customers who buy its goods and services, and" and "banks and financial institutions that supply the capital that sustains it." At the bottom of the slide, there is a dark blue footer bar containing the IIT ROORKEE logo, the text "IIT ROORKEE", the NPTEL ONLINE CERTIFICATION COURSE logo, and the text "NPTEL ONLINE CERTIFICATION COURSE". The slide number "13" is in the bottom right corner.

DEFINING ENVIRONMENT

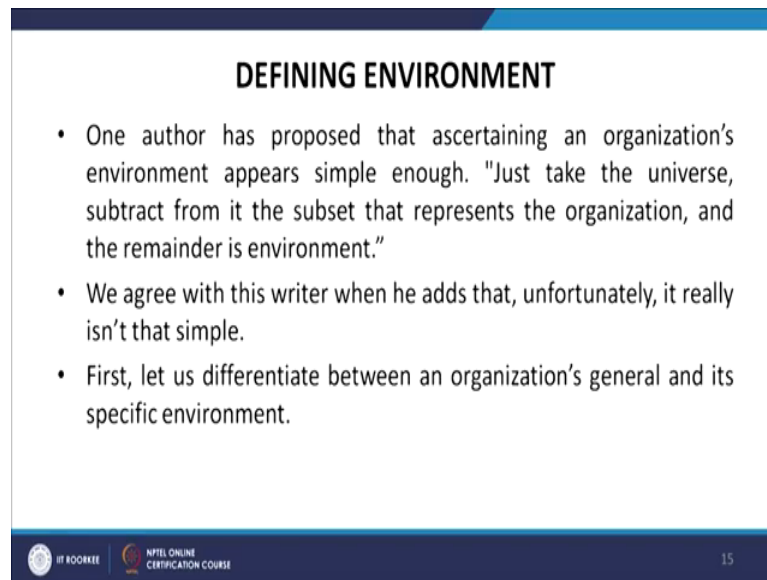
- Scarce resources include:
 - the raw materials and skilled employees an organization needs to produce goods and services;
 - the information it needs to improve its technology or decide on its competitive strategy; and
 - the support of outside stakeholders, such as:
 - customers who buy its goods and services, and
 - banks and financial institutions that supply the capital that sustains it.

IIT ROORKEE NPTEL ONLINE CERTIFICATION COURSE 13

And the scarce resources include; 1. the raw material and skilled employees an organization needs to produce goods and services, 2. the information it needs to improve its technology or decide on its competitive strategy and 3. the support of outside stakeholders such as customers who buy its goods and services and banks and financial institutions that supply the capital that sustains it.

Forces in the environment that affect an organization's ability to secure these scarce resources include; 1 competition from rivals for customers, rapid changes in technology that might erode its competitive advantage and 3 an increase in the price of important inputs that raises operating costs.

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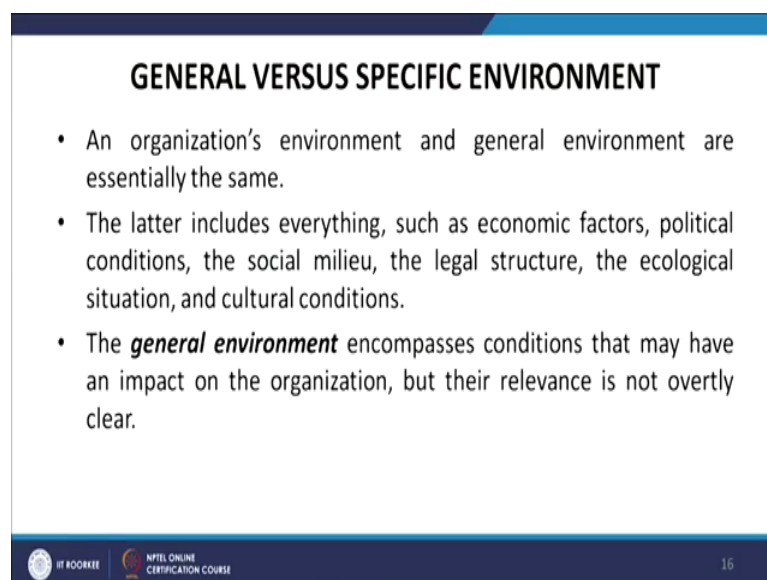
DEFINING ENVIRONMENT

- One author has proposed that ascertaining an organization's environment appears simple enough. "Just take the universe, subtract from it the subset that represents the organization, and the remainder is environment."
- We agree with this writer when he adds that, unfortunately, it really isn't that simple.
- First, let us differentiate between an organization's general and its specific environment.

IIT ROORKEE NPTEL ONLINE CERTIFICATION COURSE 15

One author has proposed that ascertaining an organization's environment appears simple enough. Just take the universe subtract from it the subset that represents the organization and the remainder is the environment. We agree with this writer when he adds that, unfortunately it really is not that simple. First let us differentiate between an organization's general and its specific environment.

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GENERAL VERSUS SPECIFIC ENVIRONMENT

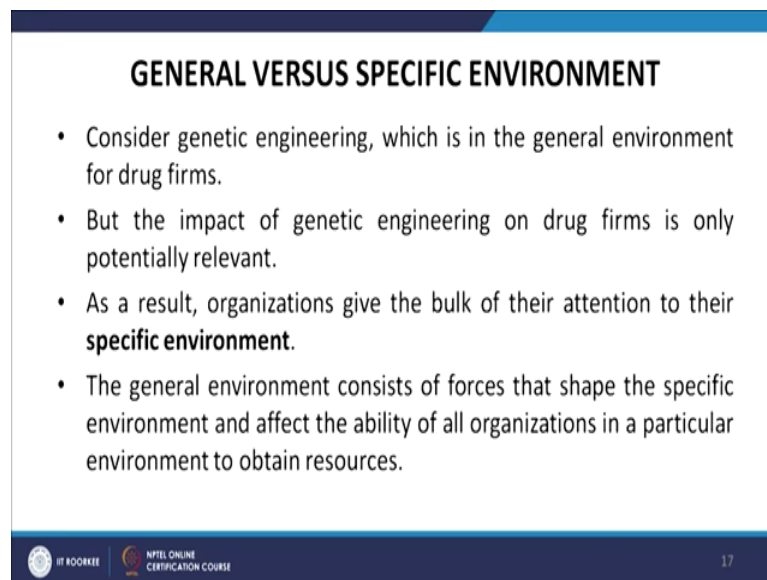
- An organization's environment and general environment are essentially the same.
- The latter includes everything, such as economic factors, political conditions, the social milieu, the legal structure, the ecological situation, and cultural conditions.
- The **general environment** encompasses conditions that may have an impact on the organization, but their relevance is not overtly clear.

IIT ROORKEE NPTEL ONLINE CERTIFICATION COURSE 16

So, now we are talking about the general environment versus the specific environment. An organization's environment and general environments are essentially the same. The

latter includes everything such as economic factors, political conditions, the social milieu, the legal structure and the ecological situation and cultural conditions. The general environment encompasses conditions that may have an impact on the organization, but their relevance is not overtly clear.

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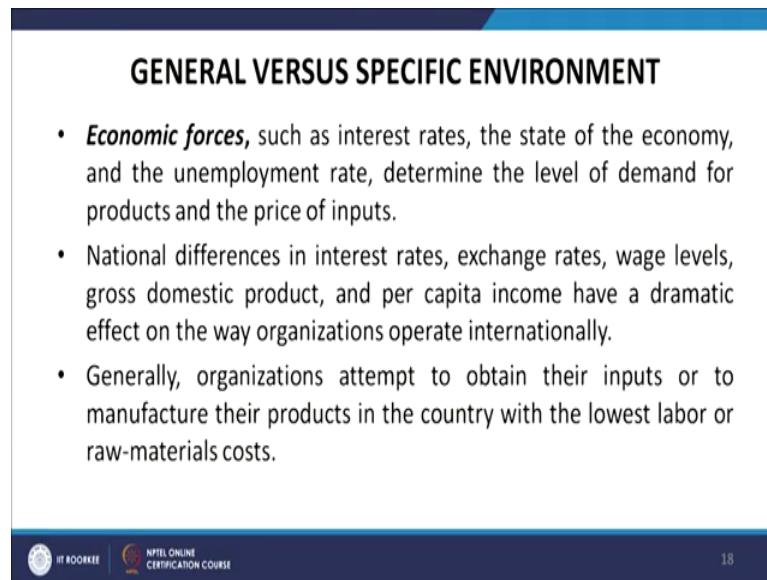
GENERAL VERSUS SPECIFIC ENVIRONMENT

- Consider genetic engineering, which is in the general environment for drug firms.
- But the impact of genetic engineering on drug firms is only potentially relevant.
- As a result, organizations give the bulk of their attention to their **specific environment**.
- The general environment consists of forces that shape the specific environment and affect the ability of all organizations in a particular environment to obtain resources.

IT ROOKIE NPTEL ONLINE CERTIFICATION COURSE 17

Consider genetic engineering which is in the general environment for drug firms. But the impact of genetic engineering on drug firms is only potentially relevant. As a result, organizations give the bulk of their attention to their specific environment. The general environment consists of forces that shape the specific environment and affect the ability of all organizations in a particular environment to obtain resources.

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GENERAL VERSUS SPECIFIC ENVIRONMENT

- **Economic forces**, such as interest rates, the state of the economy, and the unemployment rate, determine the level of demand for products and the price of inputs.
- National differences in interest rates, exchange rates, wage levels, gross domestic product, and per capita income have a dramatic effect on the way organizations operate internationally.
- Generally, organizations attempt to obtain their inputs or to manufacture their products in the country with the lowest labor or raw-materials costs.

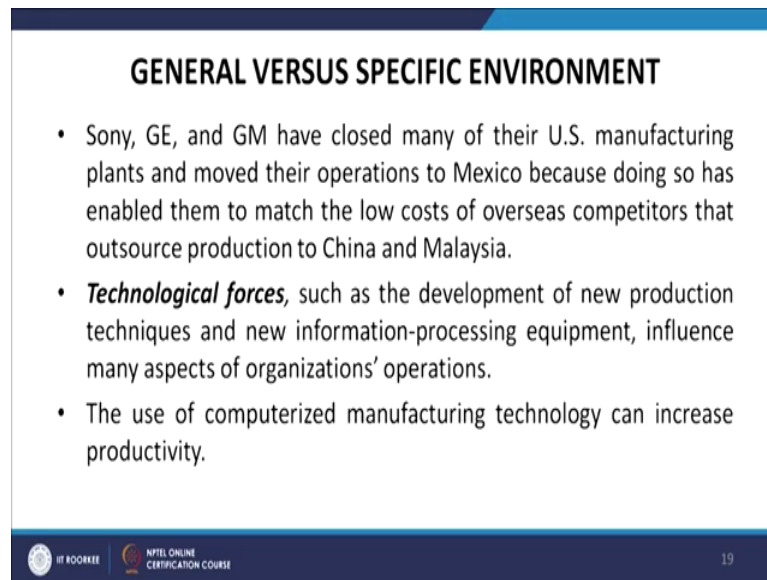
IIT ROORKEE NPTEL ONLINE CERTIFICATION COURSE 18

One component of this environment is the economic forces such as the interest rates, the state of the economy and the unemployment rate, determine the level of demand for products and prices of the inputs.

National differences in interest rates, exchange rates, wage levels, gross domestic product and per capita income have a dramatic effect on the ways organizations operate internationally. Generally, organizations attempt to obtain their inputs or to manufacture their products in the country with the lowest labor or raw material costs.

Sony, General electric and General motors have closed many of their US manufacturing plants and moved their operations to Mexico because doing so has enabled them to match the low cost of overseas competitors that outsource production to China and Malaysia. Next is that technological forces such as the development of new production techniques and new information processing equipments influence many aspects of organization's operations.

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GENERAL VERSUS SPECIFIC ENVIRONMENT

- Sony, GE, and GM have closed many of their U.S. manufacturing plants and moved their operations to Mexico because doing so has enabled them to match the low costs of overseas competitors that outsource production to China and Malaysia.
- **Technological forces**, such as the development of new production techniques and new information-processing equipment, influence many aspects of organizations' operations.
- The use of computerized manufacturing technology can increase productivity.

IIT ROORKEE NPTEL ONLINE CERTIFICATION COURSE 19

The use of computerized manufacturing technology can increase productivity.

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GENERAL VERSUS SPECIFIC ENVIRONMENT

- Similarly, investment in advanced research and development activities influences how organizations interact with each other and how they design their structures.
- The international transfer of technology has important implications for an organization's competitive advantage.
- Organizations must be able to learn about and have access to technological developments abroad that might provide a low-cost or differentiation advantage.

IIT ROORKEE NPTEL ONLINE CERTIFICATION COURSE 20

Similarly, investments and advanced research and development activities influence how organizations interact with each other and how they design their structures. The international transfer of technology has important implications for an organization's competitive advantage. Organization must be able to learn about and have access to technological development abroad that might provide a low cost or differentiation

advantage. Then we will look at the political, ethical and environmental forces; they also influence government policies towards the organizations and their stakeholders.

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GENERAL VERSUS SPECIFIC ENVIRONMENT

- ***Political, ethical, and environmental forces*** influence government policy toward organizations and their stakeholders.
- For example, laws that favor particular business interests, such as a tariff on imported cars, influence organizations' customers and competitors.
- Pressure from environmentalists, for example, to reduce air pollution or to decrease the nation's level of solid waste, affects organizations' production costs.

IIT ROORKEE NPTEL ONLINE CERTIFICATION COURSE 21

For example, laws that favor particular business interests, such as tariff on imported cars, influence organization's customers and competitors. Pressure from environmentalists, for example, to reduce air pollution or to decrease the nation's level of solid waste, affects organization's production costs.

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GENERAL VERSUS SPECIFIC ENVIRONMENT

- Environmentally friendly product design and packaging may alter organizations' relationships with competitors, customers, and suppliers.
- Toyota pioneered the development of gas-saving hybrid vehicles such as the Prius, for example, and licensed this technology to GM and Ford in 2005.

IIT ROORKEE NPTEL ONLINE CERTIFICATION COURSE 22

Environmentally friendly product designs and packaging may alter organization's relationship with competitors, customers and suppliers. Toyota pioneered the development of gas saving hybrid vehicles such as the Prius, for example, and licensed this technology to General Motors and Ford in 2005.

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GENERAL VERSUS SPECIFIC ENVIRONMENT

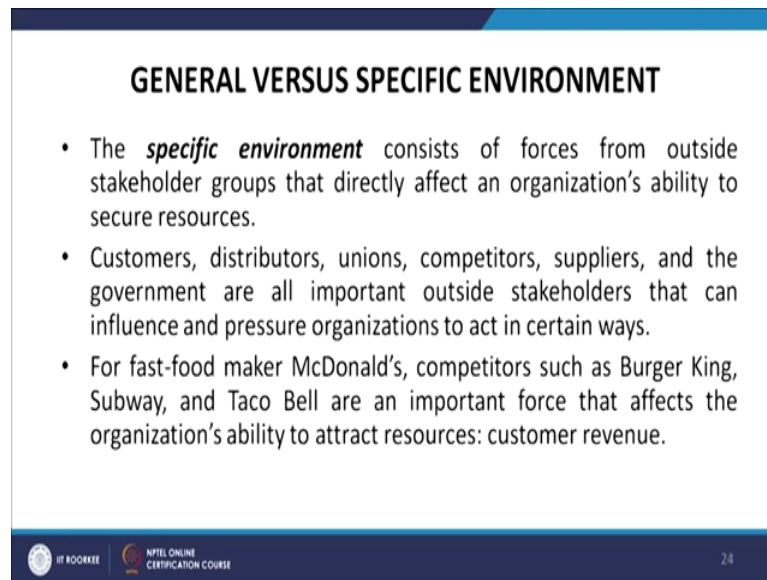
- **Demographic, cultural, and social forces**—such as the age, education, lifestyle, norms, values, and customs of a nation's people—shape organizations' customers, managers, and employees.
- The demand for baby products, for example, is linked to national birthrates and age distributions.
- Demographic, cultural, and social forces are important sources of uncertainty in a global environment because they directly affect the tastes and needs of a nation's customers.

IIT ROORKEE NPTEL ONLINE CERTIFICATION COURSE 23

Next, we will talk about the demographic, cultural and social forces such as the age, education, lifestyle, norms, values and customs of a nation's people-shape organization's customers, managers and employees.

The demand for baby products, for example, is linked to national birth rates and age distribution. Demographics, cultural and social forces are important sources of uncertainty in the global environment because they directly affect the tastes and needs of a nation's customers.

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GENERAL VERSUS SPECIFIC ENVIRONMENT

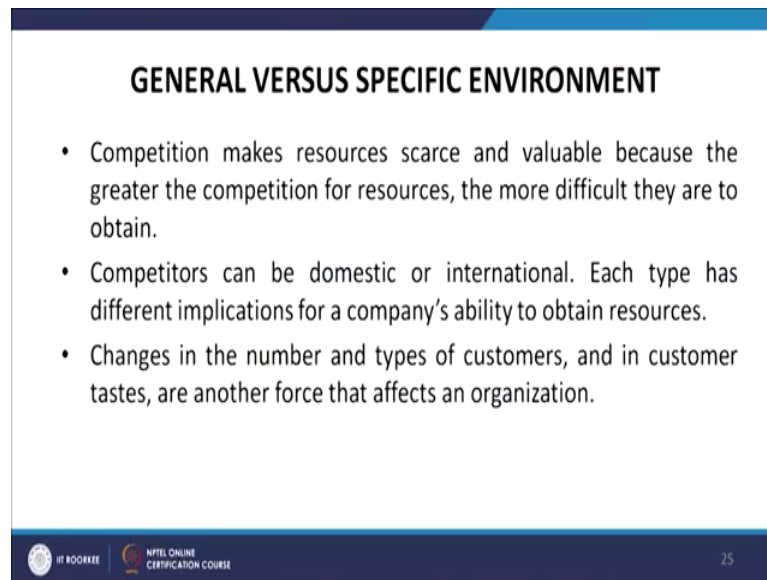
- The ***specific environment*** consists of forces from outside stakeholder groups that directly affect an organization's ability to secure resources.
- Customers, distributors, unions, competitors, suppliers, and the government are all important outside stakeholders that can influence and pressure organizations to act in certain ways.
- For fast-food maker McDonald's, competitors such as Burger King, Subway, and Taco Bell are an important force that affects the organization's ability to attract resources: customer revenue.

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The specific environment consists of forces from outside stakeholder groups that directly affect an organization's ability to secure resources. Customers, distributors, unions, competitors, suppliers and the government are all important outside stakeholders that can influence and pressure organizations to act in certain ways. For fast-food maker McDonald's, competitors such as Burger King, Subway and Taco Bell are an important force that affects the organization's ability to attract resources, that is, customer revenue.

Competition makes resources scarce and valuable because the greater the competition for resources, the more difficult they are to obtain. Competitors can be domestic or international, each type has different implications for a company's ability to obtain resources.

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GENERAL VERSUS SPECIFIC ENVIRONMENT

- Competition makes resources scarce and valuable because the greater the competition for resources, the more difficult they are to obtain.
- Competitors can be domestic or international. Each type has different implications for a company's ability to obtain resources.
- Changes in the number and types of customers, and in customer tastes, are another force that affects an organization.

IT ROOKIE NPTEL ONLINE CERTIFICATION COURSE 25

Changes in the number and types of customers and in customer tastes are another force that affect an organization.

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GENERAL VERSUS SPECIFIC ENVIRONMENT

- An organization must have a strategy to manage its relationship with customers and attract their support—and the strategy must change over time as customer needs change.
- In the global environment, satisfying customer needs presents new challenges because customers differ from country to country.
- For example, customers in Europe—unlike Americans or Indians—typically do not like their cereal sweetened, so Kellogg and General Mills modify their products to suit local European tastes.

IT ROOKIE NPTEL ONLINE CERTIFICATION COURSE 26

An organization must have a strategy to manage its relationships with customers and attract their support-and the strategy must change over time as customer needs changes. In the global environment, satisfying customer needs presents new challenges because customers differ from country to country. For example, customers in Europe-unlike

Americans or Indians, typically do not like their cereal sweetened. So, Kellogg's and General Mills modified their products to suite local European tastes.

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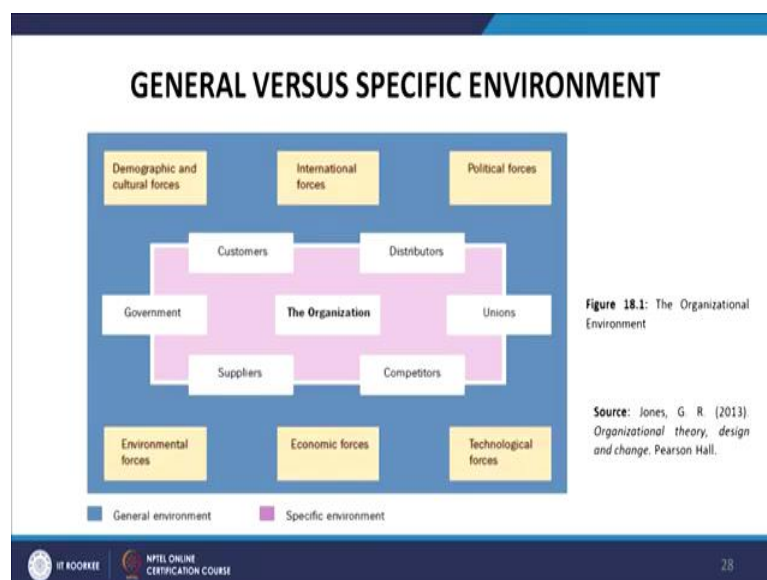
GENERAL VERSUS SPECIFIC ENVIRONMENT

- An organization must be willing and able to tailor or customize its products to suit the tastes and preferences of different consumers if it expects to attract their business.

IT ROORKEE NPTEL ONLINE CERTIFICATION COURSE 27

An organization must be willing and able to tailor or customize its products to suit the tastes and preferences of different customers if it expects to attract their businesses.

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Now this is the whole organizational environment. So, in between is the organization, then we have the specific environment, the customers, government suppliers, competitors, union, distributors and above that we have that general environment-

demographic and cultural forces, international forces, political forces, technological, economic and environmental forces. So, this purple is the specific environment and blue is the general environment.

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GENERAL VERSUS SPECIFIC ENVIRONMENT

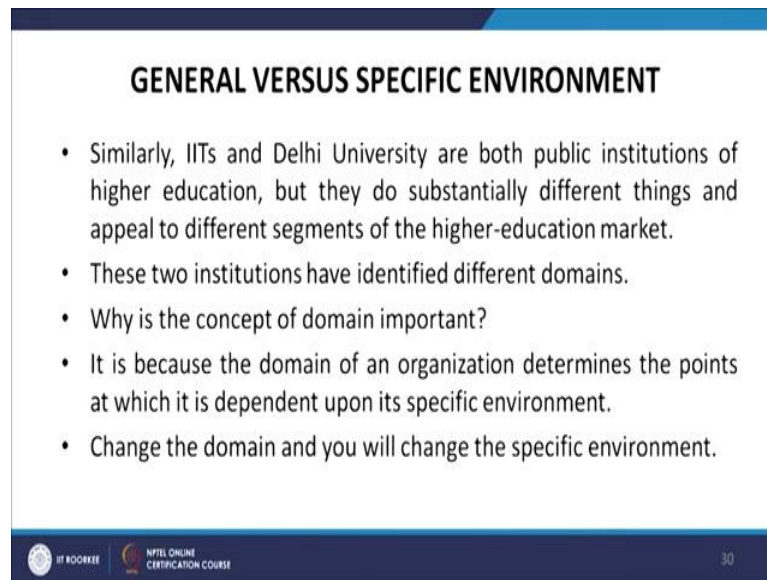
- An organization's specific environment will vary depending on the domain it has chosen.
- **Domain** refers to the claim that the organization stakes out for itself with respect to the range of products or services offered and markets served.
- It identifies the organization's niche.
- Volkswagen and Mercedes are both German firms that manufacture automobiles, but they operate in distinctly different domains.

IT ROOKIE NPTEL ONLINE CERTIFICATION COURSE 29

An organization's specific environment will vary depending on the domain it has chosen. Now what is a domain? Domain refers to the claim that the organization stake out for itself with respect to the range of products or services offered and markets they serve. It identifies the organization's niche. Volkswagen and Mercedes are both German firms that manufacture automobiles, but they operate in distinctly different domains.



Similarly, IITs and Delhi University are both public institutions of high education, but they do substantially different things and appeal to different segments of the higher education market.

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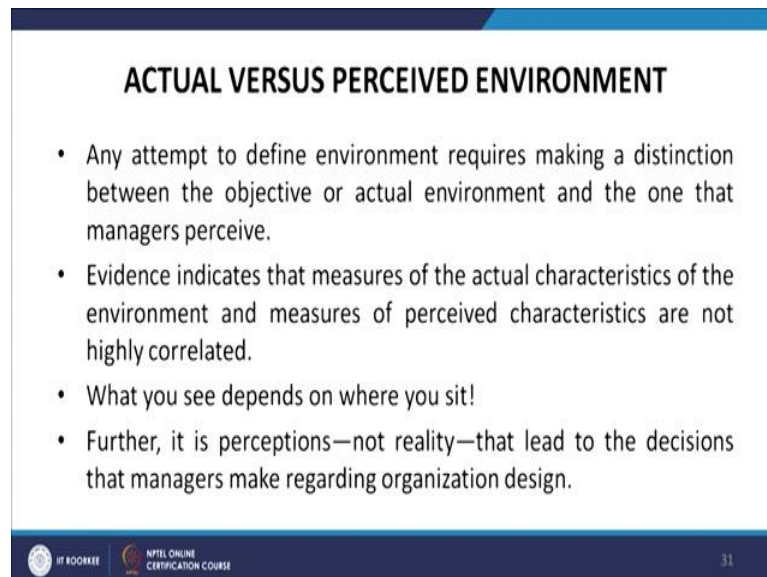
GENERAL VERSUS SPECIFIC ENVIRONMENT

- Similarly, IITs and Delhi University are both public institutions of higher education, but they do substantially different things and appeal to different segments of the higher-education market.
- These two institutions have identified different domains.
- Why is the concept of domain important?
- It is because the domain of an organization determines the points at which it is dependent upon its specific environment.
- Change the domain and you will change the specific environment.

 IIT ROORKEE  NPTEL ONLINE CERTIFICATION COURSE 30



These two institutions have identified different domains. Why is the concept of domain important? It is because the domain of an organization determines the point at which it is dependent upon its specific environment. Change the domain and you will change the specific environment.

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ACTUAL VERSUS PERCEIVED ENVIRONMENT

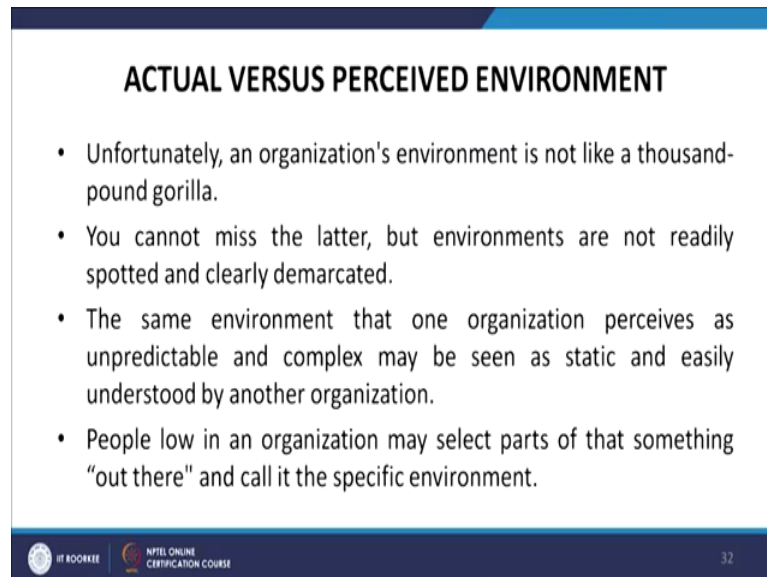
- Any attempt to define environment requires making a distinction between the objective or actual environment and the one that managers perceive.
- Evidence indicates that measures of the actual characteristics of the environment and measures of perceived characteristics are not highly correlated.
- What you see depends on where you sit!
- Further, it is perceptions—not reality—that lead to the decisions that managers make regarding organization design.

 IIT ROORKEE  NPTEL ONLINE CERTIFICATION COURSE 31

Another thing to discuss is about the actual versus perceived environment. Any attempt to define environment requires making a distinction between the objective or actual environment and the one that managers perceive. Evidence indicates that measures of the

actual characteristics of the environment and measures of perceived characteristics are not highly correlated. What you see depends on where you sit? Further it is perceptions not reality that leads to the decisions that managers make regarding organization's design.

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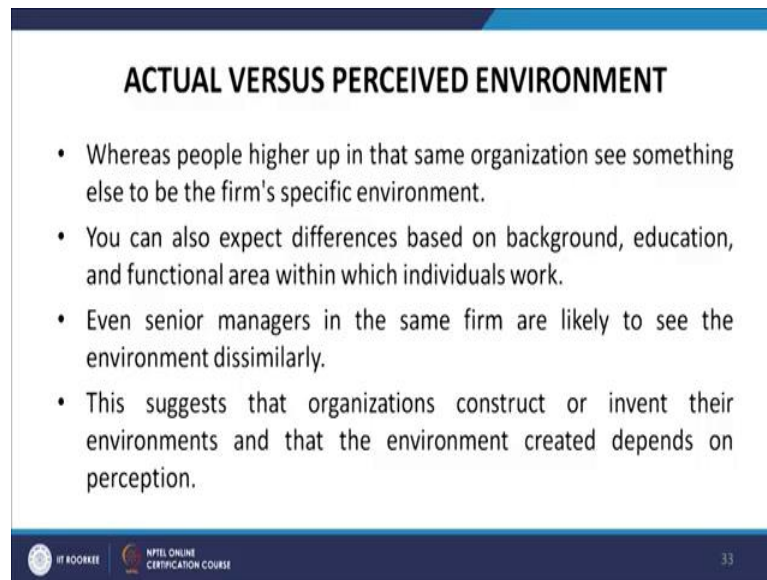
ACTUAL VERSUS PERCEIVED ENVIRONMENT

- Unfortunately, an organization's environment is not like a thousand-pound gorilla.
- You cannot miss the latter, but environments are not readily spotted and clearly demarcated.
- The same environment that one organization perceives as unpredictable and complex may be seen as static and easily understood by another organization.
- People low in an organization may select parts of that something "out there" and call it the specific environment.

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Unfortunately an organization's environment is not like a thousand pound gorilla. You cannot miss the latter, but the environments are not readily spotted and clearly demarcated. The same environment that one organization perceives as unpredictable and complex may be seen as static and easily understood by another organization. People low in the organization may select parts of that something out there and call it the specific environment.

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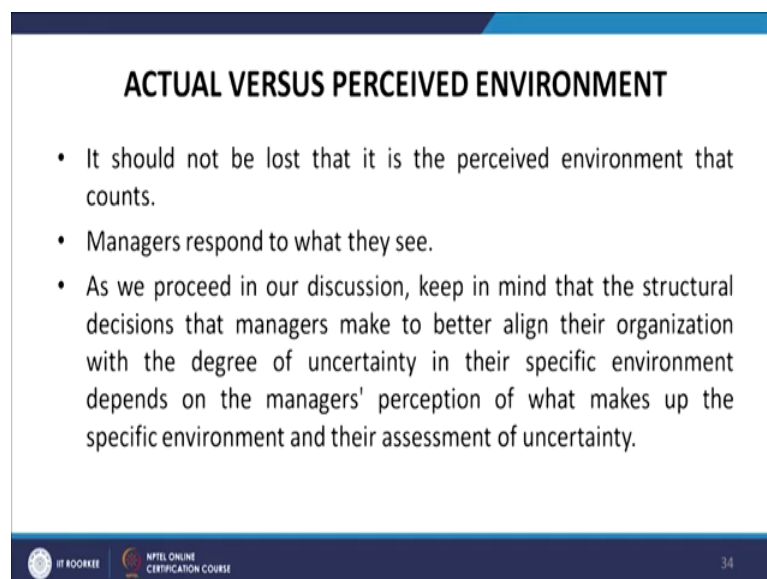
ACTUAL VERSUS PERCEIVED ENVIRONMENT

- Whereas people higher up in that same organization see something else to be the firm's specific environment.
- You can also expect differences based on background, education, and functional area within which individuals work.
- Even senior managers in the same firm are likely to see the environment dissimilarly.
- This suggests that organizations construct or invent their environments and that the environment created depends on perception.

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Whereas, people higher up in that same organization see something else to be the firm's specific environment. You can also expect differences based on background, education and functional areas within which individuals work. Even senior managers in the same firm are likely to see the environment dissimilarly. This suggests that organizations construct or invent their environments and that the environment created depends on the perception.

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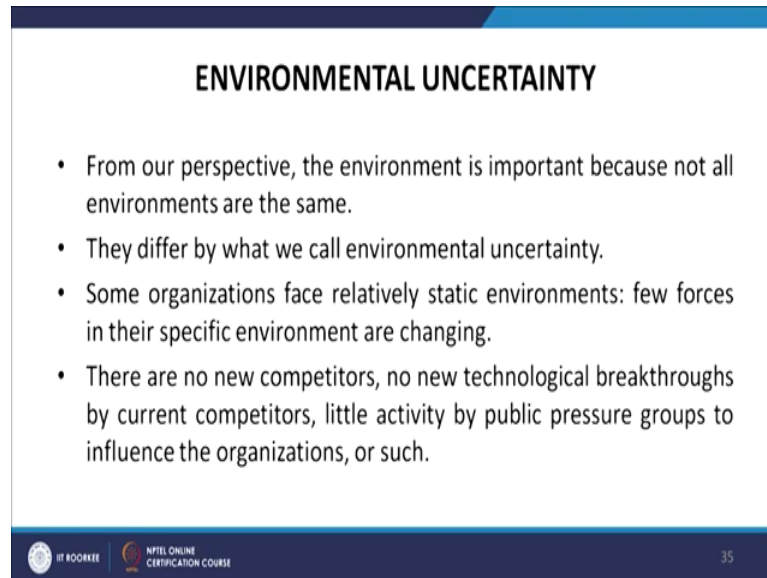
ACTUAL VERSUS PERCEIVED ENVIRONMENT

- It should not be lost that it is the perceived environment that counts.
- Managers respond to what they see.
- As we proceed in our discussion, keep in mind that the structural decisions that managers make to better align their organization with the degree of uncertainty in their specific environment depends on the managers' perception of what makes up the specific environment and their assessment of uncertainty.

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It should not be lost that it is the perceived environment that counts. Managers respond to what they see. As we proceed in our discussion keep in mind that the structural decisions that managers make to better align their organization with the degree of uncertainty in their specific environment depends on the managers' perception of what makes up the specific environment and their assessment of uncertainty.

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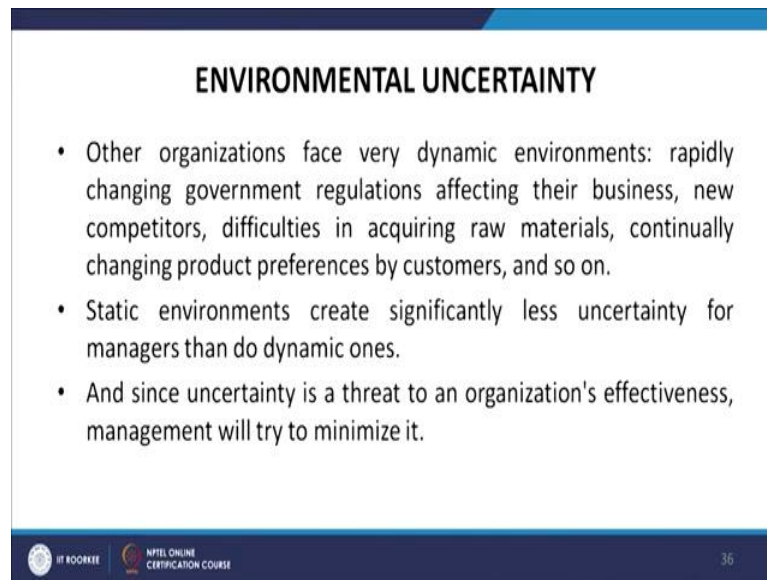
ENVIRONMENTAL UNCERTAINTY

- From our perspective, the environment is important because not all environments are the same.
- They differ by what we call environmental uncertainty.
- Some organizations face relatively static environments: few forces in their specific environment are changing.
- There are no new competitors, no new technological breakthroughs by current competitors, little activity by public pressure groups to influence the organizations, or such.

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Now, let us look at this environmental uncertainty. From our perspective, the environment is important because not all environments are the same. They differ by what we call environmental uncertainty. Some organizations face relatively static environments; few forces in their specific environment are changing. There are no new competitors, no new technological breakthroughs by current competitors, little activity by public pressure groups to influence the organization or such.

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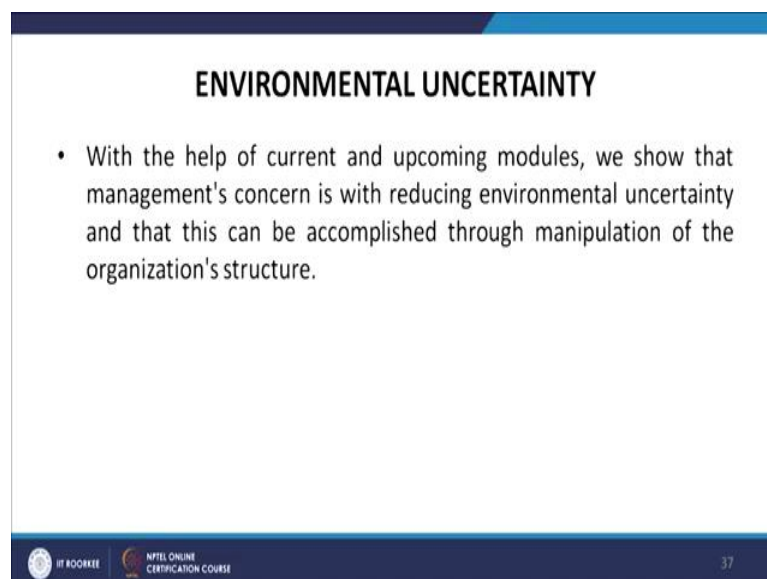
ENVIRONMENTAL UNCERTAINTY

- Other organizations face very dynamic environments: rapidly changing government regulations affecting their business, new competitors, difficulties in acquiring raw materials, continually changing product preferences by customers, and so on.
- Static environments create significantly less uncertainty for managers than do dynamic ones.
- And since uncertainty is a threat to an organization's effectiveness, management will try to minimize it.

36

Other organizations face very dynamic environments: rapidly changing government regulations affecting their businesses, new competitors, difficulties in acquiring raw materials, continually changing product preferences by customers and so on. Static environments create significantly less uncertainty for managers than do the dynamic ones. And since uncertainty is the threat to an organization's effectiveness, management will try to minimize it.

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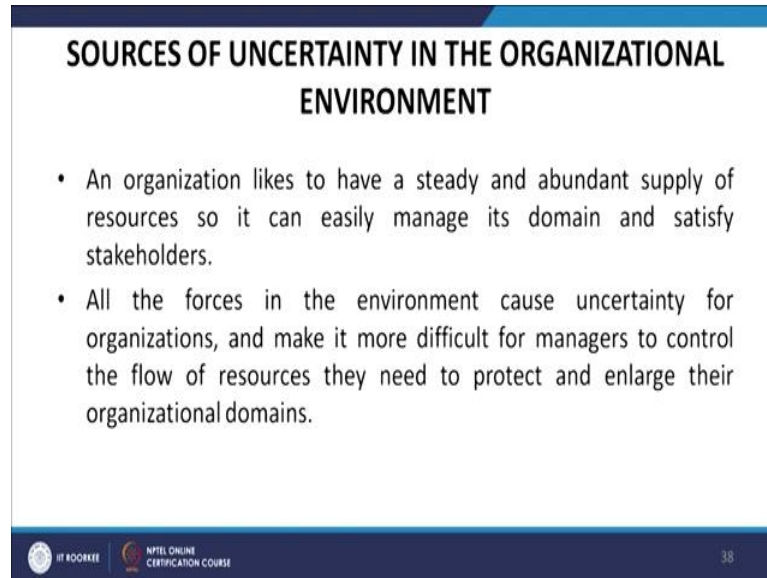
ENVIRONMENTAL UNCERTAINTY

- With the help of current and upcoming modules, we show that management's concern is with reducing environmental uncertainty and that this can be accomplished through manipulation of the organization's structure.

37

With the help of the current and upcoming modules we show that management concern is with reducing environmental uncertainty and that this can be accomplished through manipulations of the organization structure.

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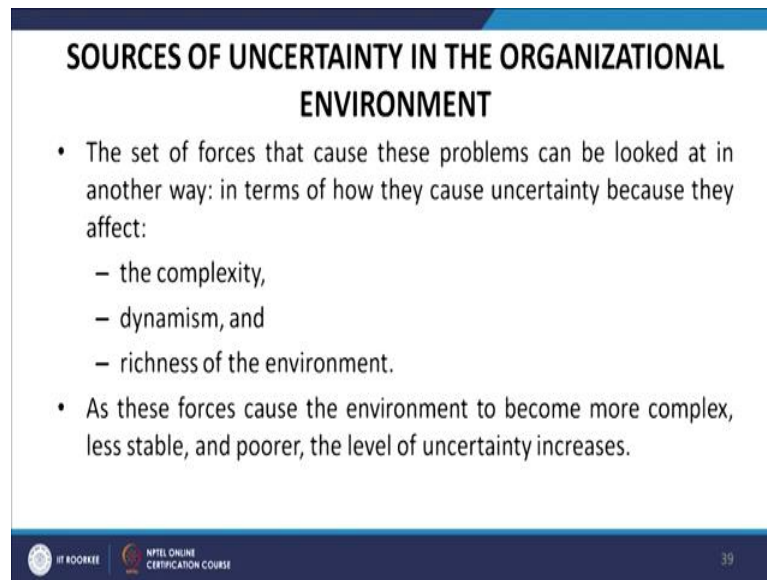
SOURCES OF UNCERTAINTY IN THE ORGANIZATIONAL ENVIRONMENT

- An organization likes to have a steady and abundant supply of resources so it can easily manage its domain and satisfy stakeholders.
- All the forces in the environment cause uncertainty for organizations, and make it more difficult for managers to control the flow of resources they need to protect and enlarge their organizational domains.

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Now, let us look at the sources of uncertainty in the organizational environment. The organization likes to have a steady and abundant supply of resources. So, it can easily manage its domain and satisfy stakeholders. All these forces in the environment cause uncertainty for organizations and make it more difficult for managers to control the flow of resources that need to protect and enlarge their organizational domains.

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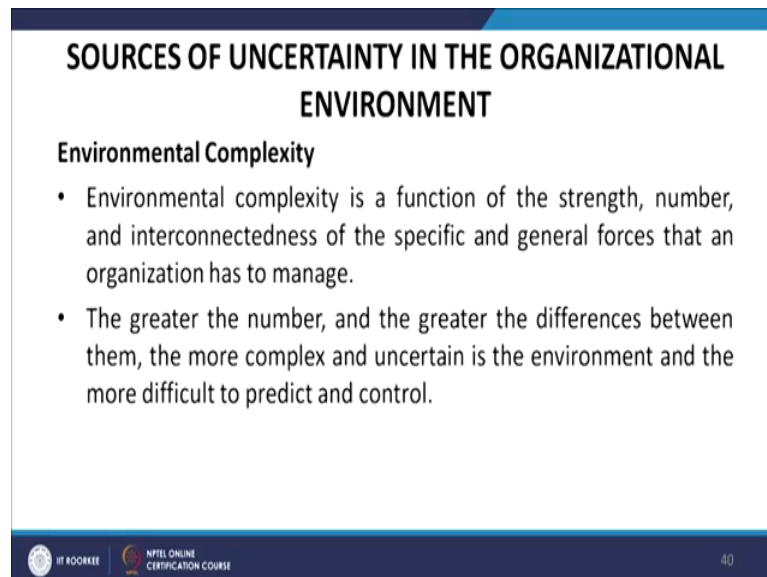
SOURCES OF UNCERTAINTY IN THE ORGANIZATIONAL ENVIRONMENT

- The set of forces that cause these problems can be looked at in another way: in terms of how they cause uncertainty because they affect:
 - the complexity,
 - dynamism, and
 - richness of the environment.
- As these forces cause the environment to become more complex, less stable, and poorer, the level of uncertainty increases.

39

The set of forces that causes these problems can be looked at in another way; in terms of how they cause uncertainty because they affect the complexity, the dynamism, and richness of the environment. As these forces cause the environment to become more complex, less stable and poorer, the level of uncertainty increases.

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SOURCES OF UNCERTAINTY IN THE ORGANIZATIONAL ENVIRONMENT

Environmental Complexity

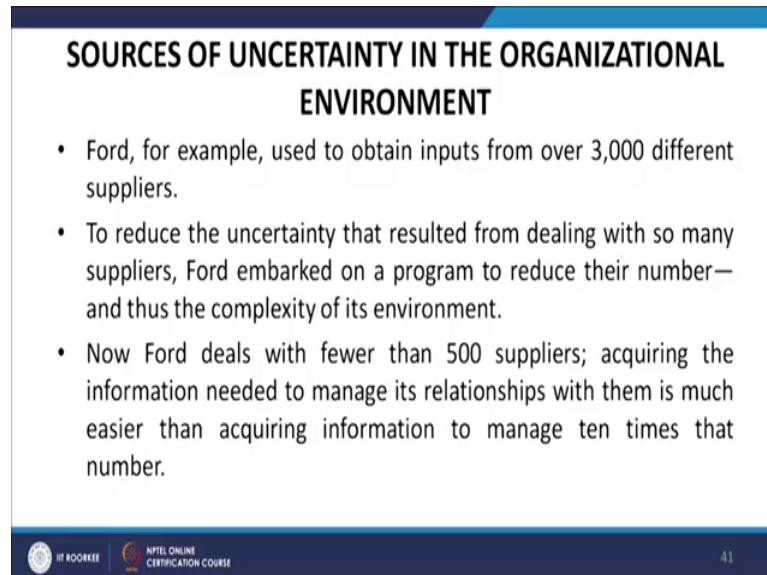
- Environmental complexity is a function of the strength, number, and interconnectedness of the specific and general forces that an organization has to manage.
- The greater the number, and the greater the differences between them, the more complex and uncertain is the environment and the more difficult to predict and control.

40

Now, we will look at what is environmental complexity. Environmental complexity is the function of the strength, number and interconnectedness of the specific and general forces that an organization has to manage. The greater the number and the greater the

differences between them, the more complex and uncertain is the environment and the more difficult to predict and control.

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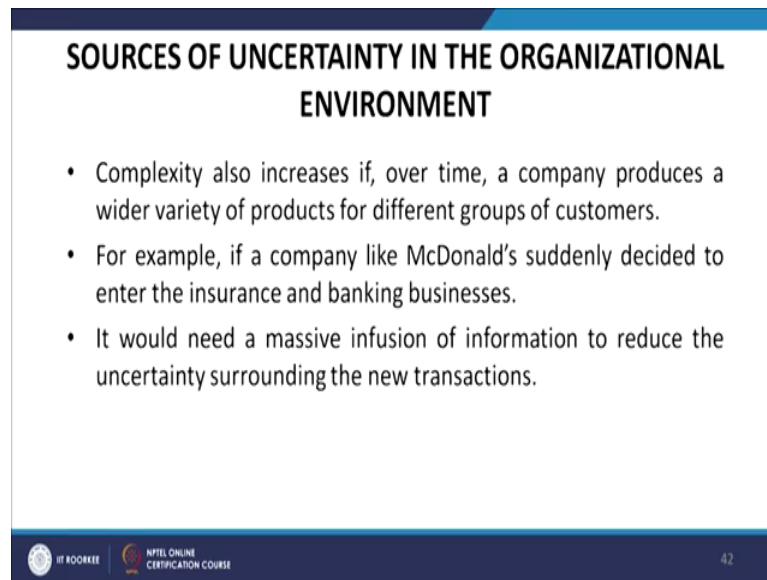
SOURCES OF UNCERTAINTY IN THE ORGANIZATIONAL ENVIRONMENT

- Ford, for example, used to obtain inputs from over 3,000 different suppliers.
- To reduce the uncertainty that resulted from dealing with so many suppliers, Ford embarked on a program to reduce their number—and thus the complexity of its environment.
- Now Ford deals with fewer than 500 suppliers; acquiring the information needed to manage its relationships with them is much easier than acquiring information to manage ten times that number.

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Ford, for example, used to obtain inputs from over 3000 different suppliers. To reduce the uncertainty that resulted from dealing with so many suppliers, Ford embarked on a program to reduce their number and thus the complexity of its environment. Now Ford deals with less than 500 suppliers; acquiring the information needed to manage its relationship with them is much easier than acquiring information to manage ten times that number.

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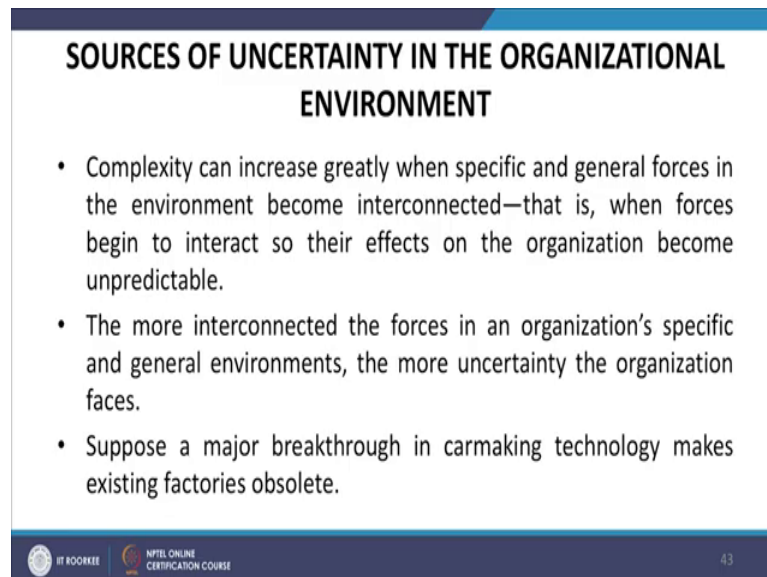
SOURCES OF UNCERTAINTY IN THE ORGANIZATIONAL ENVIRONMENT

- Complexity also increases if, over time, a company produces a wider variety of products for different groups of customers.
- For example, if a company like McDonald's suddenly decided to enter the insurance and banking businesses.
- It would need a massive infusion of information to reduce the uncertainty surrounding the new transactions.

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Complexity also increases if, over time a company produces a wider variety of products for different groups of customers. For example, if a company like McDonald's suddenly decided to enter the insurance and banking businesses. It would lead to a massive infusion of information to reduce the uncertainty surrounding the new transactions.

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SOURCES OF UNCERTAINTY IN THE ORGANIZATIONAL ENVIRONMENT

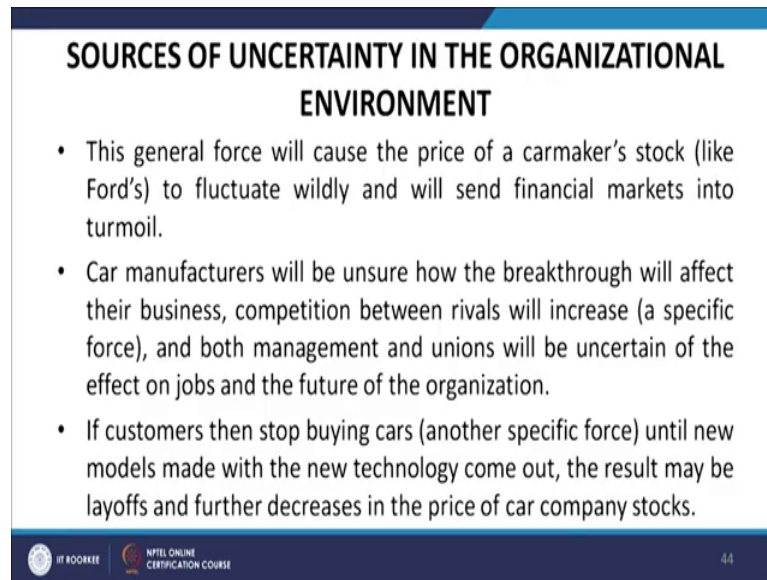
- Complexity can increase greatly when specific and general forces in the environment become interconnected—that is, when forces begin to interact so their effects on the organization become unpredictable.
- The more interconnected the forces in an organization's specific and general environments, the more uncertainty the organization faces.
- Suppose a major breakthrough in carmaking technology makes existing factories obsolete.

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Complexity can increase greatly when specific and general forces in the environment become interconnect that is when forces begin to interact so, their effects on the organization becomes unpredictable. The more interconnected the forces in an

organization's specific and general environments, the more uncertainty the organization faces. Suppose a major breakthrough in car making technology makes existing factories obsolete.

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SOURCES OF UNCERTAINTY IN THE ORGANIZATIONAL ENVIRONMENT

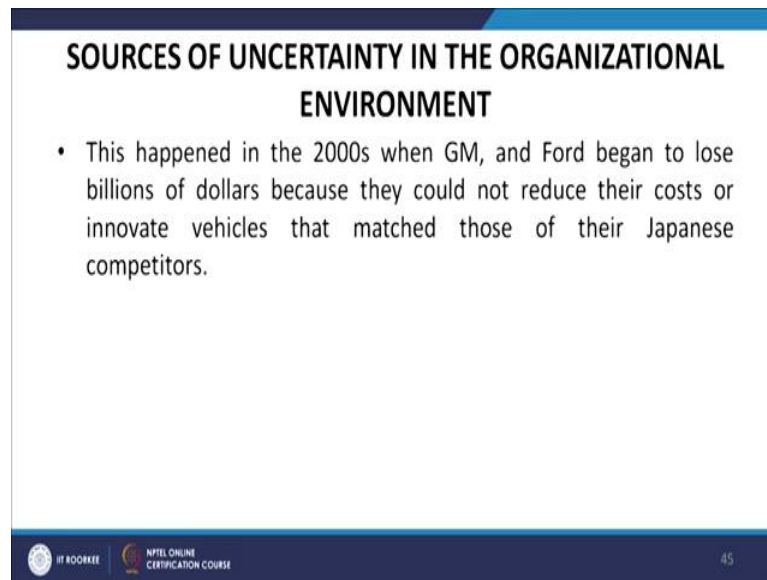
- This general force will cause the price of a carmaker's stock (like Ford's) to fluctuate wildly and will send financial markets into turmoil.
- Car manufacturers will be unsure how the breakthrough will affect their business, competition between rivals will increase (a specific force), and both management and unions will be uncertain of the effect on jobs and the future of the organization.
- If customers then stop buying cars (another specific force) until new models made with the new technology come out, the result may be layoffs and further decreases in the price of car company stocks.

IT ROOKIE NPTEL ONLINE CERTIFICATION COURSE 44

This general force will cause the price of a carmaker's stock like Ford's to fluctuate wildly and will send financial markets into turmoil. Car manufacturers will be unsure how the breakthrough will affect their businesses, competition between rivals will increase (a specific force) and both management and unions will be uncertain of the effect on jobs and the future of the organizations.

If customers then stop buying cars (another specific force) until new models made with the new technology come out, the result may be layoffs and further decrease in prices of car companies stocks.

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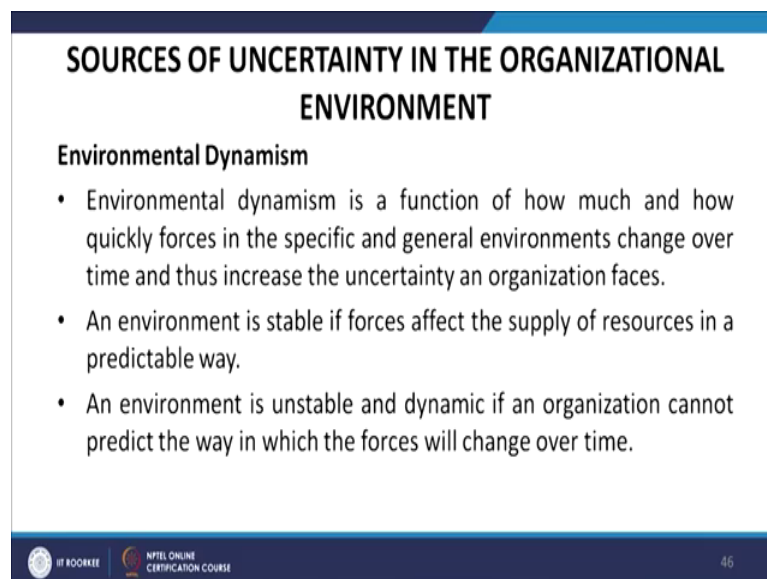
SOURCES OF UNCERTAINTY IN THE ORGANIZATIONAL ENVIRONMENT

- This happened in the 2000s when GM, and Ford began to lose billions of dollars because they could not reduce their costs or innovate vehicles that matched those of their Japanese competitors.

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This happened in 2000s when GM and Ford began to lose billions of dollars because they could not reduce their costs or innovate vehicles that matched those of their Japanese competitors. Now, we will talk about environmental dynamism. Environmental dynamism is the function of how much and how quickly forces in the specific and general environment change over time and thus increase the uncertainty an organization faces. An environment is stable if forces affect the supply of resources in a predictable way.

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SOURCES OF UNCERTAINTY IN THE ORGANIZATIONAL ENVIRONMENT

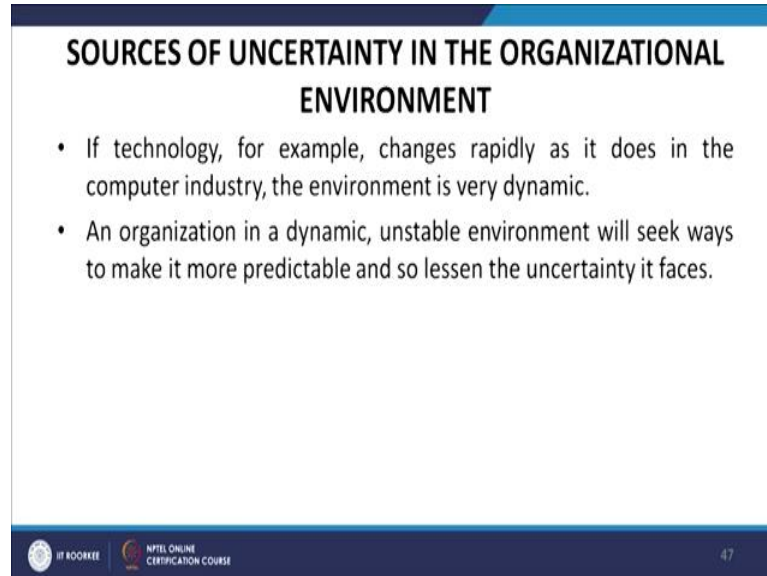
Environmental Dynamism

- Environmental dynamism is a function of how much and how quickly forces in the specific and general environments change over time and thus increase the uncertainty an organization faces.
- An environment is stable if forces affect the supply of resources in a predictable way.
- An environment is unstable and dynamic if an organization cannot predict the way in which the forces will change over time.

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An environment is unstable and dynamic if an organization cannot predict the way in which the forces will change over time.

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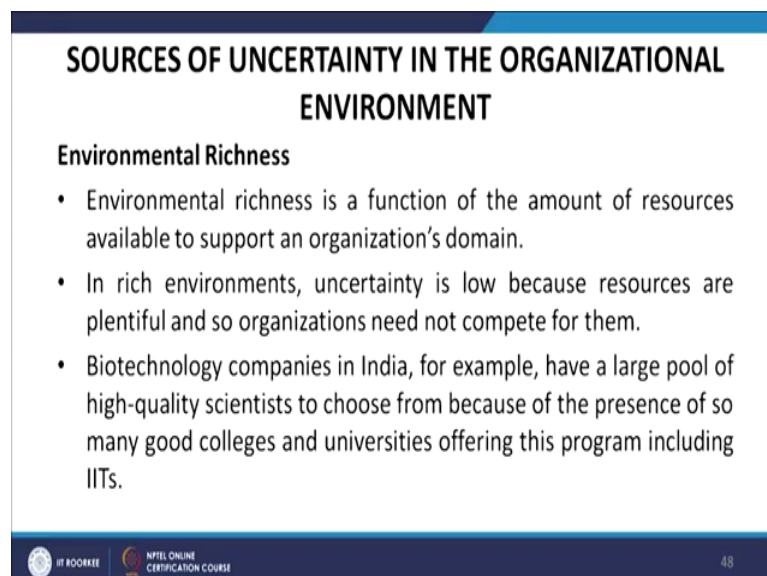
SOURCES OF UNCERTAINTY IN THE ORGANIZATIONAL ENVIRONMENT

- If technology, for example, changes rapidly as it does in the computer industry, the environment is very dynamic.
- An organization in a dynamic, unstable environment will seek ways to make it more predictable and so lessen the uncertainty it faces.

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If technology for example, changes rapidly as it does in the computer industry, the environment is very dynamic. An organization in our dynamic unstable environment will seek ways to make it more predictable and so, lessen the uncertainty it faces. Then we come to environmental richness. Environmental richness is the function of the amount of resources available to support an organization's domain.

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SOURCES OF UNCERTAINTY IN THE ORGANIZATIONAL ENVIRONMENT

Environmental Richness

- Environmental richness is a function of the amount of resources available to support an organization's domain.
- In rich environments, uncertainty is low because resources are plentiful and so organizations need not compete for them.
- Biotechnology companies in India, for example, have a large pool of high-quality scientists to choose from because of the presence of so many good colleges and universities offering this program including IITs.

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In rich environments, uncertainty is low because resources are plentiful and so, organizations need not compete for them. Biotechnology companies in India for example, have a large pool of high quality scientists to choose from because of the presence of so many good colleges and universities offering this program including IITs.

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SOURCES OF UNCERTAINTY IN THE ORGANIZATIONAL ENVIRONMENT

- In poor environments, uncertainty is high because resources are scarce and organizations do have to compete for them.
- Environments may be poor for two reasons:
 - An organization is located in a poor country or poor region of a country; and
 - there is a high level of competition and organizations are fighting over available resources.
- In poor environments, organizations face greater problems in managing resource transactions.

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In poor environments, uncertainty is high because resources are scarce and organizations do have to compete for them. Environments may be poor for two reason; one an organization is located in a poor country or a poor region of a country and there is high level of competition and organizations are fighting over available resources. In poor environments organization face greater problems in managing resource transactions.

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SOURCES OF UNCERTAINTY IN THE ORGANIZATIONAL ENVIRONMENT

- Organizations have to battle to attract customers or to obtain the best inputs or the latest technology.
- These battles result in uncertainty for an organization.
- In an environment that is poor, unstable, and complex, resources are especially hard to obtain and organizations face the greatest uncertainty.
- By contrast, in a rich, stable, and simple environment, resources are easy to come by and uncertainty is low.

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Organizations have to battle to attract customers or to obtain the best inputs or the latest technology. These battles result in uncertainty for an organization. In an environment that is poor, unstable and complex, resources are especially hard to obtain and organizations face the greatest uncertainty. By contrast, in a rich, stable and simple environment resources are easy to come by and uncertainty is low.

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CONCLUSION

- In this module we learnt about organizational environment.
- We learnt about the differences among specific from the general environment with the help of examples.
- Finally we learnt about key sources of uncertainty.

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Therefore, to conclude this module, in this module we learnt about organizational environment, we learnt about the differences among specific and the general

environment with the help of examples. And finally, we learnt about key sources of uncertainty.

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And these are the 4 books from which the material for this module was used.

Thank you.