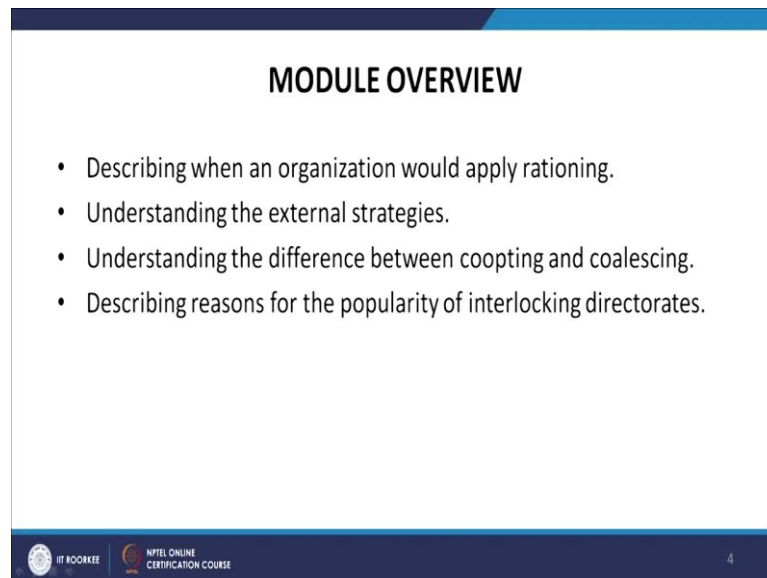


Organization Theory/Structure and Design
Prof. Zillur Rahman
Department of Management Studies
Indian Institute of Technology, Roorkee

Lecture - 32
Managing the Environment - II

Welcome to module 32 of this course on Organization Theory Structure and Design. So, we started the discussion on Managing the Environment in module 31. And we will continue this discussion and wind up in this module that is 32. So, let us look at what are the things that we will cover in this module.

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A presentation slide titled "MODULE OVERVIEW" with a blue header and footer. The slide lists four bullet points: "Describing when an organization would apply rationing.", "Understanding the external strategies.", "Understanding the difference between coopting and coalescing.", and "Describing reasons for the popularity of interlocking directorates." The footer contains the IIT Roorkee logo, the text "NPTEL ONLINE CERTIFICATION COURSE", and the number "4".

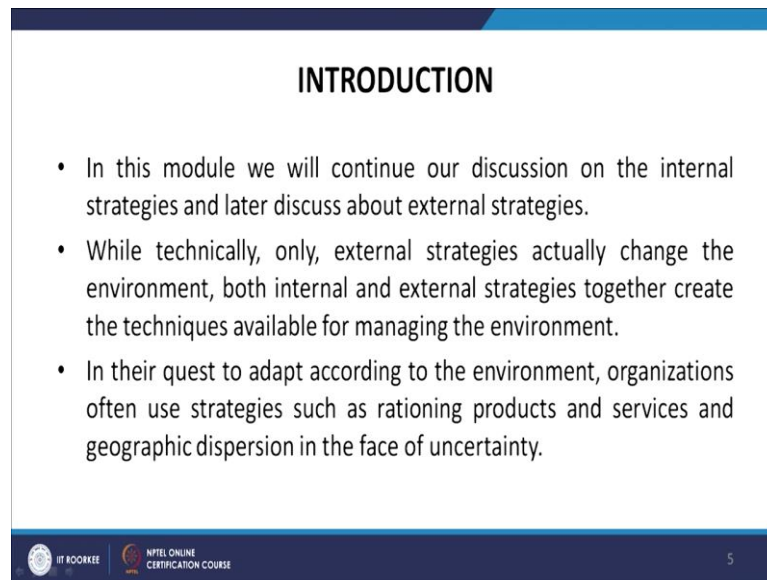
MODULE OVERVIEW

- Describing when an organization would apply rationing.
- Understanding the external strategies.
- Understanding the difference between coopting and coalescing.
- Describing reasons for the popularity of interlocking directorates.

IIT ROORKEE NPTEL ONLINE CERTIFICATION COURSE 4

We will start with describing when an organization would apply rationing, understanding the external strategies, understanding the difference between coopting and coalescing and describing reasons for the popularity of interlocking directorates.

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INTRODUCTION

- In this module we will continue our discussion on the internal strategies and later discuss about external strategies.
- While technically, only, external strategies actually change the environment, both internal and external strategies together create the techniques available for managing the environment.
- In their quest to adapt according to the environment, organizations often use strategies such as rationing products and services and geographic dispersion in the face of uncertainty.

IIT ROORKEE NPTL ONLINE CERTIFICATION COURSE 5

So, to introduce, in this module we will continue our discussion on the internal strategies and later discuss about external strategies. While technically, only, external strategies actually change the environment, both internal and external strategies together create the techniques available for managing the environment.

In their quest to adapt according to the environment, organizations often use strategies such as rationing products and services and geographic dispersion in the face of uncertainty. Now, let us look at yet another internal strategy that is rationing. When uncertainty is created by way of excess demand, management may consider rationing products or services, that is, to allocate output according to some priority system.

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INTERNAL STRATEGIES
RATIONING

- When uncertainty is created by way of excess demand, management may consider rationing products or services; that is, to allocate output according to some priority system.
- Examples of rationing can be found in hospitals, colleges, post offices, and restaurants.
- Hospitals often ration beds for non-emergency admissions.
- And when a disaster occurs such as earthquake, fire, flood or pandemic—beds are made available only to the most serious cases.

IIT ROORKEE NPTEL ONLINE CERTIFICATION COURSE 6

Examples of rationing can be found in hospitals, colleges, post offices, and restaurants. Hospital often ration beds for non-emergency admissions. And when a disaster occurs such as earthquake, fire, flood or pandemic-beds are made available only to the most serious cases.

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INTERNAL STRATEGIES
RATIONING

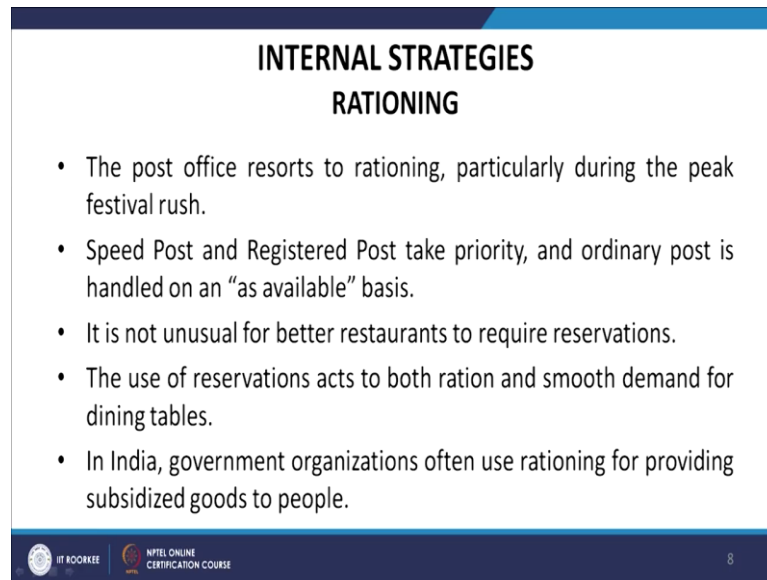
- College administrators frequently use rationing to allocate students to popular programs.
- Recently, for instance, the demand for business courses has exceeded the supply of seats available at many colleges and universities.
- In response, entrance requirements have frequently been raised as a way to limit demand.
- Setting up of extremely high cut-off percentage (such as 100%) for certain courses in Delhi University is an example of rationing.

IIT ROORKEE NPTEL ONLINE CERTIFICATION COURSE 7

College administrators frequently use rationing to allocate students to popular programs. Recently, for instance, the demand for business courses has exceeded the supply of seats available at many colleges and universities. In response, entrance requirements have

frequently been raised as a way to limit demand. Setting up of extremely high cut-off percentages such as 100 percent for certain courses in Delhi University is an example of rationing.

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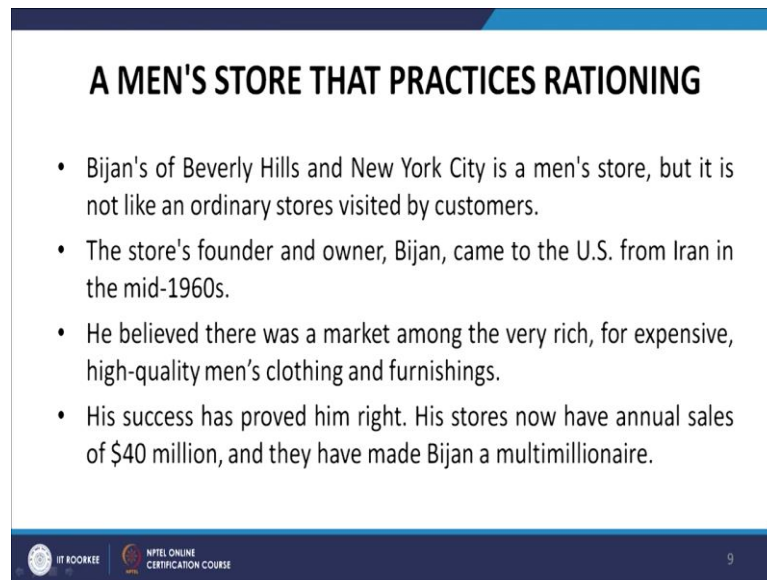
INTERNAL STRATEGIES
RATIONING

- The post office resorts to rationing, particularly during the peak festival rush.
- Speed Post and Registered Post take priority, and ordinary post is handled on an “as available” basis.
- It is not unusual for better restaurants to require reservations.
- The use of reservations acts to both ration and smooth demand for dining tables.
- In India, government organizations often use rationing for providing subsidized goods to people.

IT ROOKIE NPTEL ONLINE CERTIFICATION COURSE 8

The post office resorts to rationing, particularly during the peak festival rush. Speed Post and Registered Post take priority, and ordinary post is handled on an “as available” basis. It is not unusual for better restaurant to require reservations. The use of reservation acts to both ration and smooth demand for dining tables. In India, government organizations often use rationing for providing subsidized goods to people.

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A MEN'S STORE THAT PRACTICES RATIONING

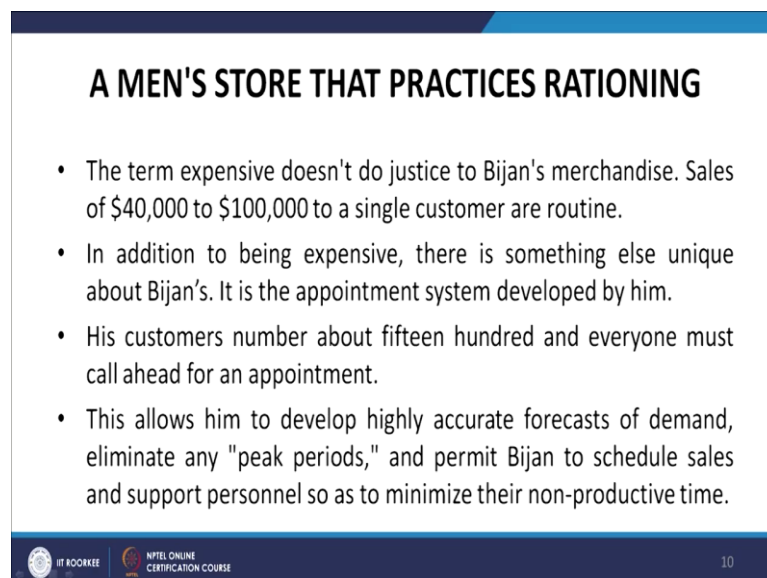
- Bijan's of Beverly Hills and New York City is a men's store, but it is not like an ordinary stores visited by customers.
- The store's founder and owner, Bijan, came to the U.S. from Iran in the mid-1960s.
- He believed there was a market among the very rich, for expensive, high-quality men's clothing and furnishings.
- His success has proved him right. His stores now have annual sales of \$40 million, and they have made Bijan a multimillionaire.

IT ROORKEE NPTEL ONLINE CERTIFICATION COURSE 9

Now, let us look at one example that is a men's store that practices rationing, Bijan's of Beverly Hills and New York city is the men's store, but it is not like an ordinary store visited by customers. The store's founder and owner, Bijan, came to the U.S. from Iran in the mid 1960s.

He believed that there was a market among the very rich, for expensive high-quality men's clothing and furnishings. His success has proved him right. His stores now have annual sales of dollar 40 million, and they have made Bijan a multimillionaire.

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A MEN'S STORE THAT PRACTICES RATIONING

- The term expensive doesn't do justice to Bijan's merchandise. Sales of \$40,000 to \$100,000 to a single customer are routine.
- In addition to being expensive, there is something else unique about Bijan's. It is the appointment system developed by him.
- His customers number about fifteen hundred and everyone must call ahead for an appointment.
- This allows him to develop highly accurate forecasts of demand, eliminate any "peak periods," and permit Bijan to schedule sales and support personnel so as to minimize their non-productive time.

IT ROORKEE NPTEL ONLINE CERTIFICATION COURSE 10

The term expensive does not do justice to Bijan's merchandise. Sales of dollar 40,000 to dollar 100,000 to a single customer are routine. In addition to being expensive, there is something else unique about Bijan's. It is the appointment system developed by him. His customers number about fifteen hundred and everyone must call ahead for an appointment.

This allows him to develop highly accurate forecasts of demand, eliminate any "peak periods," and permit Bijan's to schedule sales and support personnel so as to minimize their non-productive time.

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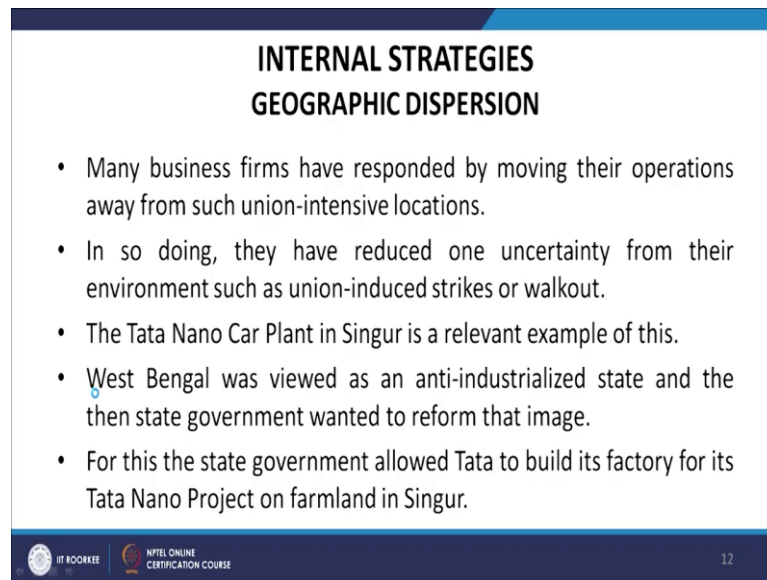
INTERNAL STRATEGIES
GEOGRAPHIC DISPERSION

- Environmental uncertainty sometimes varies with location. There is clearly more political uncertainty for a business firm operating in Beirut, Lebanon, than for one operating in Bangalore.
- To lessen location-induced uncertainty,
 - 1 – organizations can move to a different community or
 - 2 – lessen risk by operating in multiple locations.
- Historically, unions have been strongest in certain states in India such as West Bengal and weakest in others.

IT ROORKEE NPTEL ONLINE CERTIFICATION COURSE 11



Now comes yet another internal strategy, that is, geographic dispersion. Environmental uncertainty sometimes varies with location. There is clearly more political uncertainty for a business firm operating in Beirut, Lebanon, than for one operating in Bangalore. To lessen location-induced uncertainty, organizations can move to different community or - lessen risk by operating in multiple locations. Historically, unions have been strong in certain states in India such as West Bengal and weaker in others.

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INTERNAL STRATEGIES
GEOGRAPHIC DISPERSION

- Many business firms have responded by moving their operations away from such union-intensive locations.
- In so doing, they have reduced one uncertainty from their environment such as union-induced strikes or walkout.
- The Tata Nano Car Plant in Singur is a relevant example of this.
- West Bengal was viewed as an anti-industrialized state and the then state government wanted to reform that image.
- For this the state government allowed Tata to build its factory for its Tata Nano Project on farmland in Singur.

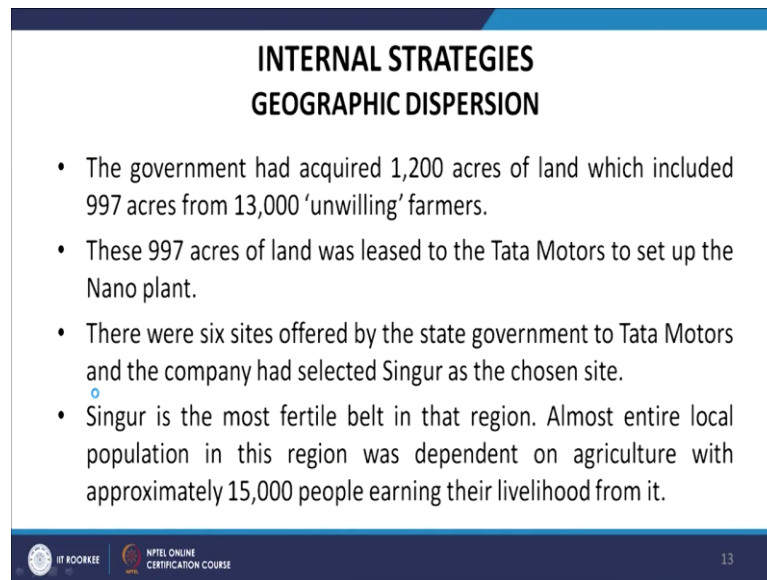
 IIT ROORKEE  NPTEL ONLINE CERTIFICATION COURSE 12

Many business firms have responded by moving their operations away from such union intensive locations. In so doing, they have reduced one uncertainty from their environment such as union-induced strikes or walkout.

The Tata Nano car plant in Singur is the relevant example of this. West Bengal was viewed as an anti- industrialized state and the then state government wanted to reform that image. For this, the state government allowed Tata to build its factory for its Tata Nano Projects on farmland in Singur.

The government had acquired 1,200 acres of land which included 997 acres from 13,000 ‘unwilling’ farmers.

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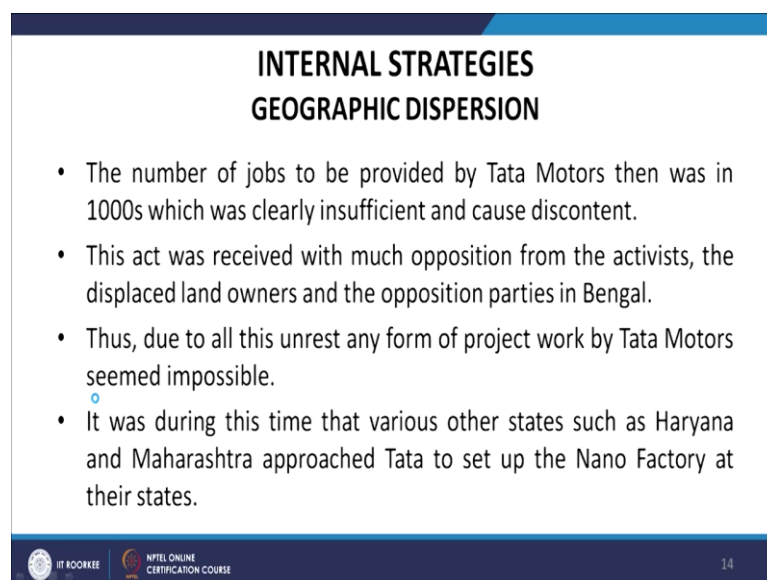
INTERNAL STRATEGIES
GEOGRAPHIC DISPERSION

- The government had acquired 1,200 acres of land which included 997 acres from 13,000 'unwilling' farmers.
- These 997 acres of land was leased to the Tata Motors to set up the Nano plant.
- There were six sites offered by the state government to Tata Motors and the company had selected Singur as the chosen site.
- Singur is the most fertile belt in that region. Almost entire local population in this region was dependent on agriculture with approximately 15,000 people earning their livelihood from it.

IT ROORKEE | NPTEL ONLINE CERTIFICATION COURSE 13

These 997 acres of land was leased to the Tata Motors to setup the Nano plant. There were six sites offered by the state government to Tata Motors and the company had selected Singur as the chosen site. Singur is the most fertile belt in that region. Almost entire local population in this region was dependent on agriculture with approximately 15,000 people earning their livelihood from it.

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INTERNAL STRATEGIES
GEOGRAPHIC DISPERSION

- The number of jobs to be provided by Tata Motors then was in 1000s which was clearly insufficient and cause discontent.
- This act was received with much opposition from the activists, the displaced land owners and the opposition parties in Bengal.
- Thus, due to all this unrest any form of project work by Tata Motors seemed impossible.
- It was during this time that various other states such as Haryana and Maharashtra approached Tata to set up the Nano Factory at their states.

IT ROORKEE | NPTEL ONLINE CERTIFICATION COURSE 14

The number of jobs to be provided by Tata Motors then was in 1000s which was clearly insufficient and that caused discontent. This act was received with much opposition from

the activists, the displaced land owners and the opposition parties in Bengal. Thus, due to all this unrest any form of project work by Tata Motors seemed impossible.

It was during this time that various other states such as Haryana and Maharashtra approached Tata to set up the Nano Factory at their state. Finally, Tata motors had to take the decision of relocating the Nano plant from Singur to Sanand in Gujarat and the Tata Nano project in West Bengal was terminated forever.

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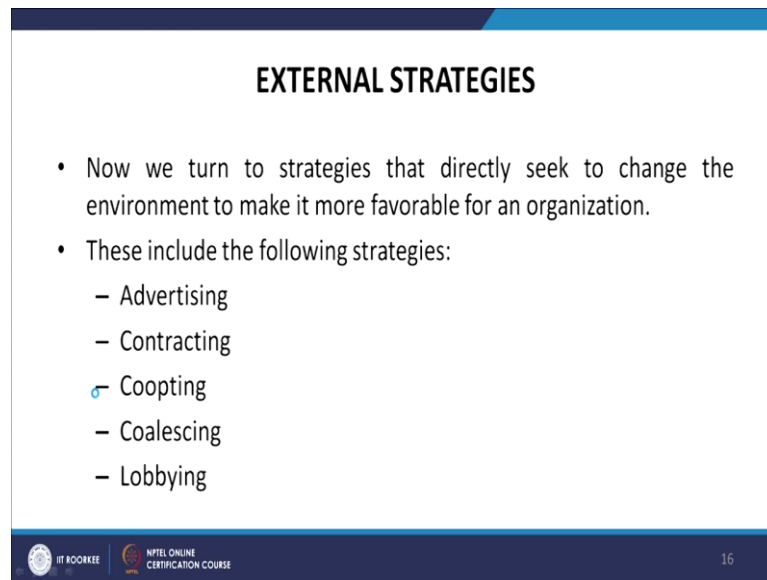
INTERNAL STRATEGIES
GEOGRAPHIC DISPERSION

- Finally, Tata Motors had to take the decision of relocating the Nano plant from Singur to Sanand in Gujarat and the Tata Nano project in West Bengal was terminated forever.
- On the international level, environmental uncertainty due to the U.S. government's changing policies on import restrictions is the primary reasons why Japanese car manufacturers like Honda, Nissan, and Mazda have built factories in the United States.

IIT ROORKEE NPTEL ONLINE CERTIFICATION COURSE 15

On the international level, environmental uncertainty due to the U.S. government's changing policies on import restrictions, is the primary reason why Japanese car manufacturers like Honda, Nissan, and Mazda have built factories in the United States.

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EXTERNAL STRATEGIES

- Now we turn to strategies that directly seek to change the environment to make it more favorable for an organization.
- These include the following strategies:
 - Advertising
 - Contracting
 - Coopting
 - Coalescing
 - Lobbying

IT ROORKEE | NPTEL ONLINE CERTIFICATION COURSE 16

Now, we have completed the internal strategies and we will start looking at the external strategies. So, now we turn to strategies that directly seek to change the environment to make it more favorable for an organization. And these include the following strategies: advertising, contracting, coopting, coalescing and lobbying. So, these are the 5 strategies that we will look at one by one. To start with, we are looking at advertising.

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EXTERNAL STRATEGIES
ADVERTISING

- Advertising is a device that management uses to reduce its dependence on fickle consumers and new alternatives offered by the competition.
- Procter & Gamble spends hundreds of millions of dollars each year to promote Tide, Ariel, Olay, and the dozens of other P&G products.
- Through extensive advertising, P&G's management seeks to reduce competitive pressures, stabilize demand, and allow it the opportunity to set prices with less concern for the response of its competitors.

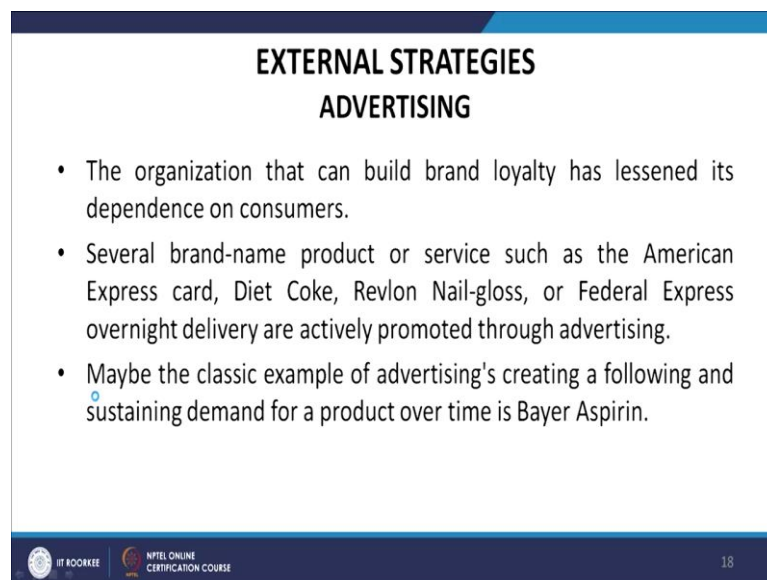
IT ROORKEE | NPTEL ONLINE CERTIFICATION COURSE 17

Advertising is a device that management uses to reduce its dependence on fickle consumers and new alternatives offered by the competition. Procter and Gamble spends

hundreds of millions of dollars each year to promote Tide, Ariel, Olay, and the dozens of other P and G products. Through extensive advertising P and G's management seeks to reduce competitive pressures, stabilize demand, and allow it the opportunity to set prices with less concern for the response of its competitors.

The organization that can build brand loyalty lessens its dependence on consumers.

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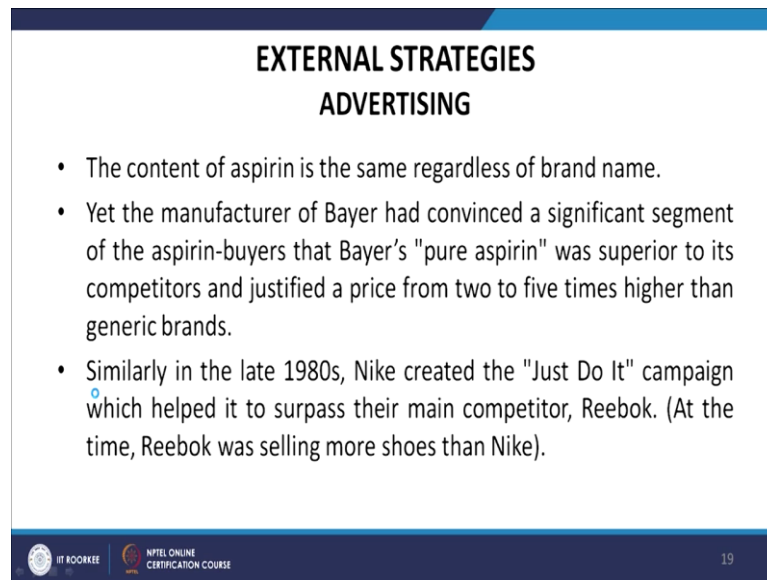
EXTERNAL STRATEGIES
ADVERTISING

- The organization that can build brand loyalty has lessened its dependence on consumers.
- Several brand-name product or service such as the American Express card, Diet Coke, Revlon Nail-gloss, or Federal Express overnight delivery are actively promoted through advertising.
- Maybe the classic example of advertising's creating a following and sustaining demand for a product over time is Bayer Aspirin.

IT ROOKIE NPTEL ONLINE CERTIFICATION COURSE 18

Several brand-name product or service such as the American Express card, Diet Coke, Revlon Nail-gloss, or Federal Express overnight delivery are actively promoted through advertising. Maybe the classic example of advertising's creating a following and sustaining demand for a product over time is Bayer's Aspirin. The content of aspirin is the same regardless of the brand name.

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EXTERNAL STRATEGIES
ADVERTISING

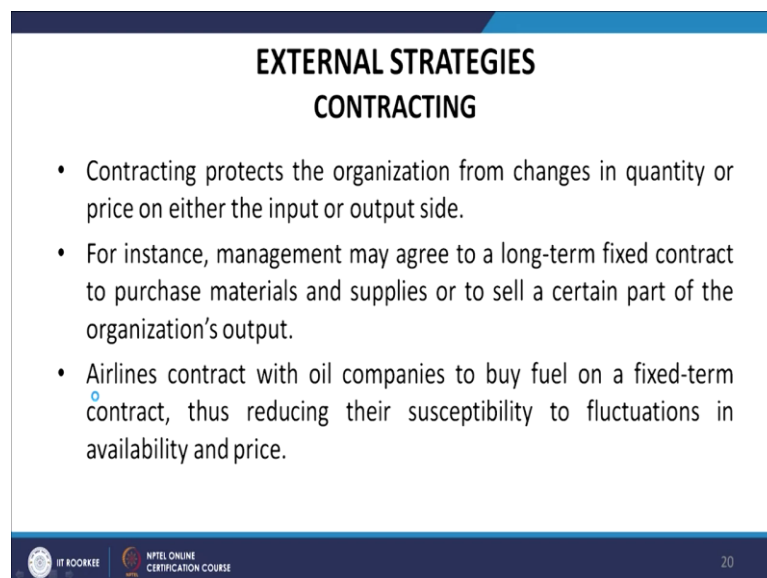
- The content of aspirin is the same regardless of brand name.
- Yet the manufacturer of Bayer had convinced a significant segment of the aspirin-buyers that Bayer's "pure aspirin" was superior to its competitors and justified a price from two to five times higher than generic brands.
- Similarly in the late 1980s, Nike created the "Just Do It" campaign which helped it to surpass their main competitor, Reebok. (At the time, Reebok was selling more shoes than Nike).

IT ROORKEE | NPTEL ONLINE CERTIFICATION COURSE 19

Yet the manufacturer of Bayer aspirin had convinced a significant segment of the aspirin-buyers that Bayer's "pure aspirin" was superior to its competitors and justified a price from two to five times higher than the generic brands. Similarly in the late 1980s Nike created the "Just Do It" campaign which helped it to surpass their main competitors Reebok. At the time, Reebok was selling more shoes than Nike.

The next type of external strategy is contracting. Contracting protects the organization from changes in quantity and price on either the input or output side.

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EXTERNAL STRATEGIES
CONTRACTING

- Contracting protects the organization from changes in quantity or price on either the input or output side.
- For instance, management may agree to a long-term fixed contract to purchase materials and supplies or to sell a certain part of the organization's output.
- Airlines contract with oil companies to buy fuel on a fixed-term contract, thus reducing their susceptibility to fluctuations in availability and price.

IT ROORKEE | NPTEL ONLINE CERTIFICATION COURSE 20



For instance, management may agree to a long-term fixed contract to purchase materials and supplies or to sell a certain part of the organization's output. Airlines contract with oil companies to buy fuel on a fixed-term contract, thus reducing their susceptibility to fluctuations in availability and price.

For instance, a major soap manufacturer contracts to sell ten thousand cases a month of its standard detergent to a large discount chain that will be marketed under the chain's private label. This assures the soap manufacturer of a certain amount of sales and reduces its dependence on the fluctuating preferences of consumers. Similarly, an almond grower enters into an output contract with an almond packer:

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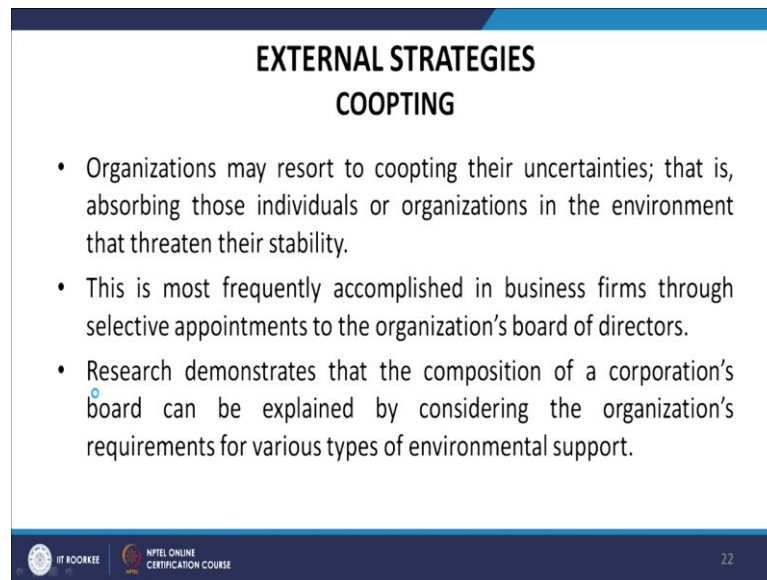
EXTERNAL STRATEGIES
CONTRACTING

- For instance, a major soap manufacturer contracts to sell ten thousand cases a month of its standard detergent to a large discount chain that will be marketed under the chain's private label.
- This assures the soap manufacturer of a certain amount of sales and reduces its dependency on the fluctuating preferences of consumers.
- Similarly, an almond grower enters into an output contract with an almond packer: thus the producer has an assured buyer for output of nuts, and the packer of nuts is happy to try the particular product.

 IIT ROORKEE  NFTEL ONLINE CERTIFICATION COURSE 21

Thus, the producer has an assured buyer for output of nuts, and the packer of nuts is happy to try the particular product.

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The slide is titled "EXTERNAL STRATEGIES" and "COOPTING". It contains three bullet points:

- Organizations may resort to coopting their uncertainties; that is, absorbing those individuals or organizations in the environment that threaten their stability.
- This is most frequently accomplished in business firms through selective appointments to the organization's board of directors.
- Research demonstrates that the composition of a corporation's board can be explained by considering the organization's requirements for various types of environmental support.

At the bottom of the slide, there are logos for "IIT ROORKEE" and "NPTL ONLINE CERTIFICATION COURSE", and the number "22" in the bottom right corner.

Another type of external strategy is, coopting. Organizations may resort to coopting their uncertainties; that is, absorbing those individuals or organizations in the environment that threatens their stability. This is most frequently accomplished in business firms through selective appointments to the organization's board of directors.

Research demonstrates that the composition of a corporation's board can be explained by considering the organization's requirements for various types of environmental support. If an organization's primary need is capital, you can expect to find a greater percentage of directors from banks, insurance companies, and other financial institutions.

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EXTERNAL STRATEGIES
COOPTING

- If an organization's primary need is capital, you can expect to find a greater percentage of directors from banks, insurance companies, and other financial institutions.
- Regulated industries are overseen by government agencies and these industries respond by disproportionately loading their boards with lawyers.
- Following this theme, one can expect organizations facing labor uncertainties to appoint union officers to their boards.

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Regulated industries are overseen by government agencies and these industries respond by disproportionately loading their boards with lawyers. Following this theme, one can expect organizations facing labor uncertainties to appoint union officers to their boards.

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EXTERNAL STRATEGIES
COOPTING

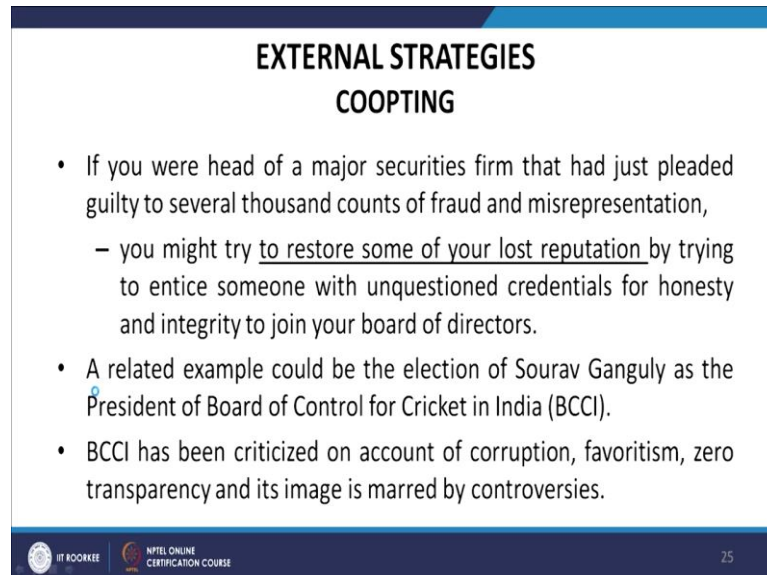
- Those firms whose survival depends on government contracts often seek former government officials for their boards.
- Organizations that are vulnerable to public sentiment respond by appointing board members who are consumer advocates, prominent women, or minority spokespersons.
- The board of organizations whose legitimacy is in question often try to include winners of the Nobel Prize, for instance, prominent military heroes, or similarly accomplished individuals.

IIT ROORKEE NPTEL ONLINE CERTIFICATION COURSE 24

Those firms whose survival depends on government contracts often seek former government officials for their boards. Organizations that are vulnerable to public sentiments respond by appointing board members who are consumer advocates, prominent women or minority's spokespersons. The board of organizations whose

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EXTERNAL STRATEGIES
COOPTING

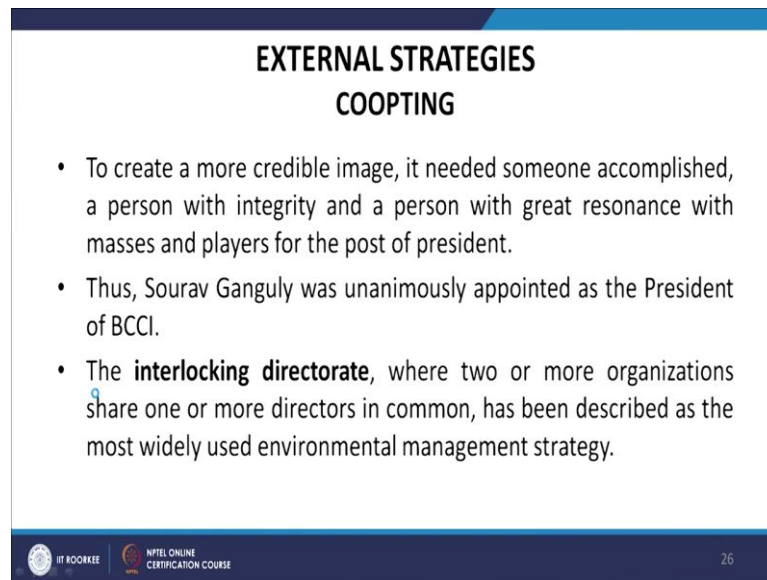
- If you were head of a major securities firm that had just pleaded guilty to several thousand counts of fraud and misrepresentation,
 - you might try to restore some of your lost reputation by trying to entice someone with unquestioned credentials for honesty and integrity to join your board of directors.
- A related example could be the election of Sourav Ganguly as the President of Board of Control for Cricket in India (BCCI).
- BCCI has been criticized on account of corruption, favoritism, zero transparency and its image is marred by controversies.

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If you were head for a major security firm that had just pleaded guilty to several thousand counts of fraud and misrepresentation, -you might try to restore some of your lost reputation by trying to entice someone with unquestioned credentials for honesty and integrity to join your board of directors.

A related example could be the election of Sourav Ganguly as the president of Board of Control of Cricket in India. BCCI has been criticized on account of corruption, favoritism, zero transparency and its image is marred by controversies. To create a more credible image, it needed someone accomplished, a person with integrity and a person with great resonance with masses and players for the post of president.

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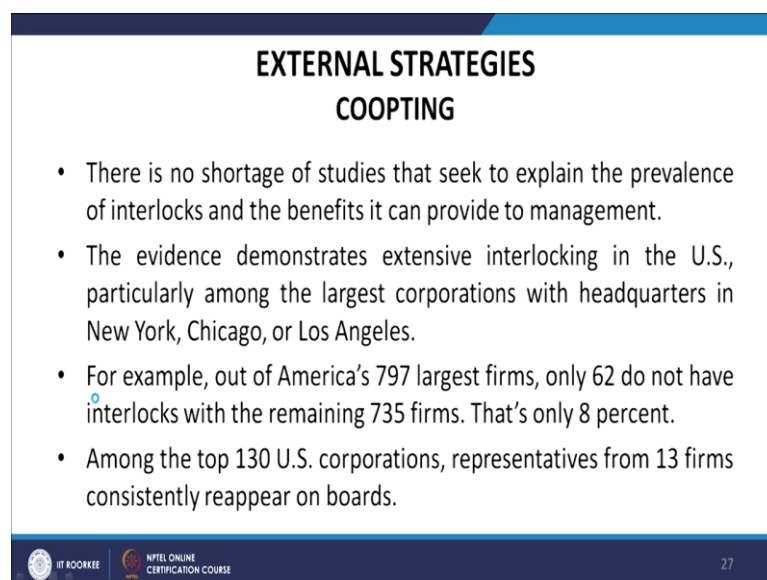
EXTERNAL STRATEGIES
COOPTING

- To create a more credible image, it needed someone accomplished, a person with integrity and a person with great resonance with masses and players for the post of president.
- Thus, Sourav Ganguly was unanimously appointed as the President of BCCI.
- The **interlocking directorate**, where two or more organizations share one or more directors in common, has been described as the most widely used environmental management strategy.

IT ROORKEE | NPTEL ONLINE CERTIFICATION COURSE 26

Thus, Sourav Ganguly was unanimously appointed as the president of BCCI. The interlocking directorate, where two or more organizations share one or more directors in common, has been described as the most widely used environmental management strategy. There is no shortage of studies that seeks to explain the prevalence of interlocks and the benefits it can provide to management.

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EXTERNAL STRATEGIES
COOPTING

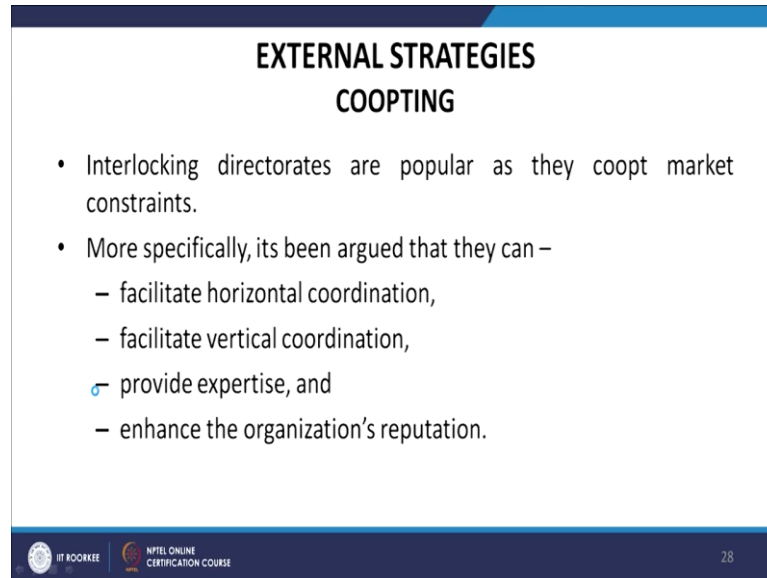
- There is no shortage of studies that seek to explain the prevalence of interlocks and the benefits it can provide to management.
- The evidence demonstrates extensive interlocking in the U.S., particularly among the largest corporations with headquarters in New York, Chicago, or Los Angeles.
- For example, out of America's 797 largest firms, only 62 do not have interlocks with the remaining 735 firms. That's only 8 percent.
- Among the top 130 U.S. corporations, representatives from 13 firms consistently reappear on boards.

IT ROORKEE | NPTEL ONLINE CERTIFICATION COURSE 27

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example, out of America's 797 largest firms, only 62 do not have interlocks with the remaining 735 firms, that is, only 8 percent. Among the top 130 U.S. corporations, representatives from 13 firms consistently reappear on boards.

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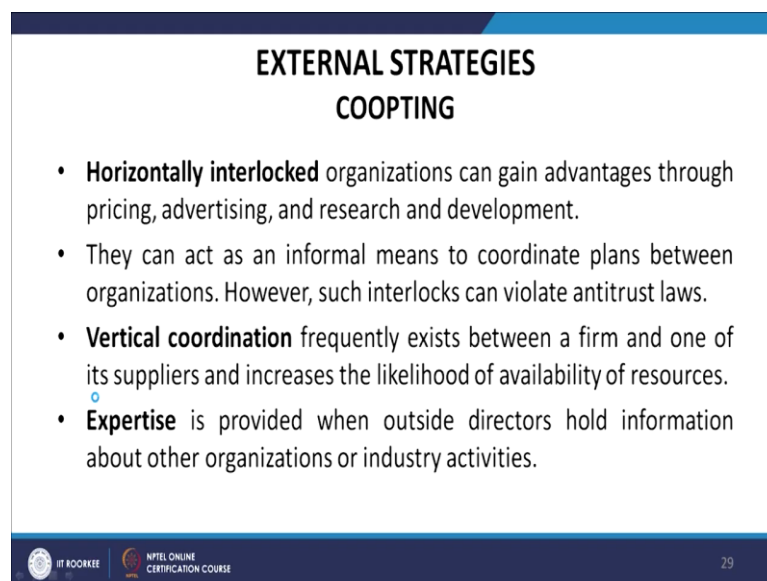
EXTERNAL STRATEGIES COOPTING

- Interlocking directorates are popular as they coopt market constraints.
- More specifically, its been argued that they can –
 - facilitate horizontal coordination,
 - facilitate vertical coordination,
 - provide expertise, and
 - enhance the organization's reputation.

IIT ROORKEE NPTEL ONLINE CERTIFICATION COURSE 28

Interlocking directorates are popular as they coopt market constraints. More specifically, it has been argued that they can- facilitate horizontal coordination, facilitate vertical coordination, provide expertise, enhance the organization's reputation.

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EXTERNAL STRATEGIES COOPTING


- **Horizontally interlocked** organizations can gain advantages through pricing, advertising, and research and development.
- They can act as an informal means to coordinate plans between organizations. However, such interlocks can violate antitrust laws.
- **Vertical coordination** frequently exists between a firm and one of its suppliers and increases the likelihood of availability of resources.
- **Expertise** is provided when outside directors hold information about other organizations or industry activities.

IIT ROORKEE NPTEL ONLINE CERTIFICATION COURSE 29

What is this horizontally interlocked? Horizontally interlocked organizations can gain advantage through pricing, advertising and research and development. They can act as an informal means to coordinate plans between organizations. However, such interlocks can violate antitrust laws.

Vertical coordination frequently exists between a firm and one of its suppliers and increases the likelihood of availability of resources. Expertise is provided when outside directors hold information about other organizations or industry activities.

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The slide is titled "EXTERNAL STRATEGIES" in bold black text, with "COOPTING" in bold black text below it. It contains four bullet points. The first bullet point is "Expertise can help the focal organization formulate its strategies more accurately." The second bullet point is "Finally, an **organization's reputation** can be affected by who serves on its board and their organizational connections." The third bullet point is "Prestigious board members provide a more favorable image for the organization." The fourth bullet point is "These can attract sought-after customers as well as avoid problems with financial institutions, government regulatory agencies, or the like." At the bottom left, there are two logos: "IIT ROORKEE" and "NPTEL ONLINE CERTIFICATION COURSE". At the bottom right, the number "30" is displayed.

EXTERNAL STRATEGIES
COOPTING

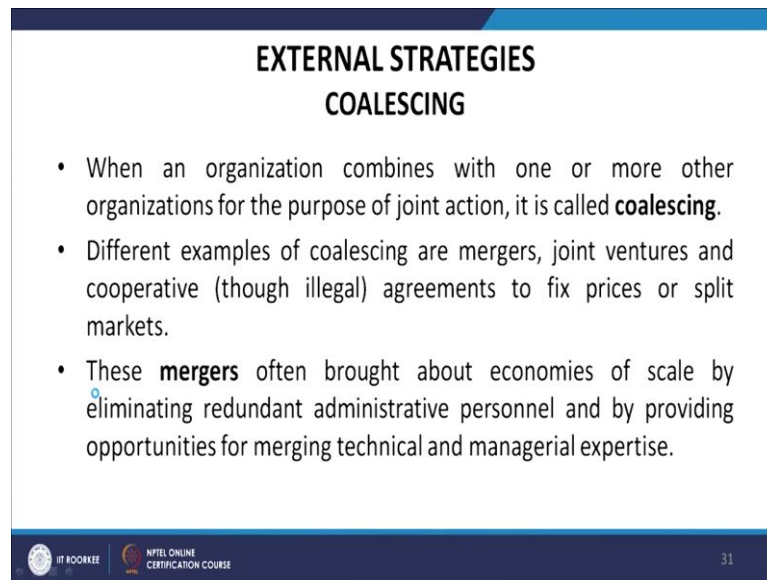
- Expertise can help the focal organization formulate its strategies more accurately.
- Finally, an **organization's reputation** can be affected by who serves on its board and their organizational connections.
- Prestigious board members provide a more favorable image for the organization.
- These can attract sought-after customers as well as avoid problems with financial institutions, government regulatory agencies, or the like.

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Expertise can help the focal organizations formulate its strategies more accurately. Finally, an organization's reputation can be affected by who serve on its board and their organizational connections. Prestigious board members provide a more favorable image for the organization. They can attract sought- after customers as well as avoid problems with financial institutions, government regulatory agencies or the like.

Now, let us look at coalescing. When an organization combines with one or more other organization for the purpose of joint action, it is called coalescing.

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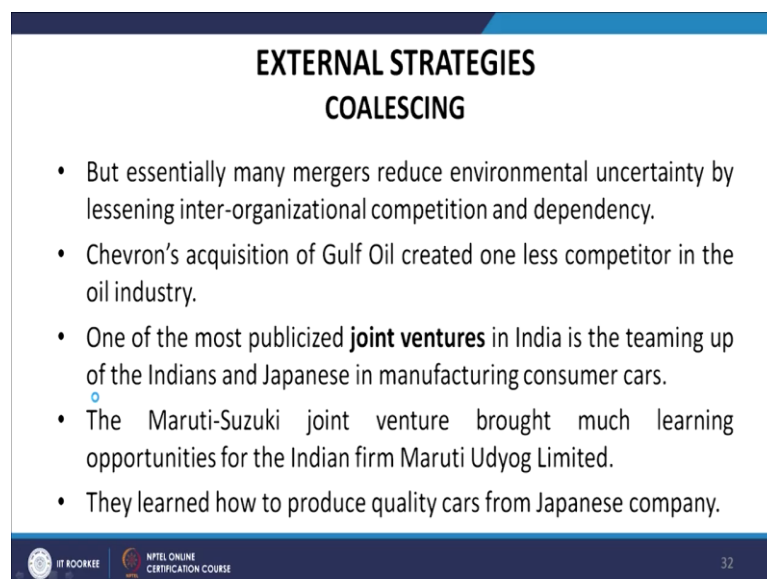
EXTERNAL STRATEGIES
COALESCING

- When an organization combines with one or more other organizations for the purpose of joint action, it is called **coalescing**.
- Different examples of coalescing are mergers, joint ventures and cooperative (though illegal) agreements to fix prices or split markets.
- These **mergers** often brought about economies of scale by eliminating redundant administrative personnel and by providing opportunities for merging technical and managerial expertise.

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Different examples of coalescing are mergers, joint ventures and cooperative agreements, to fix prices or split markets. These merges often brought about economies of scale by eliminating redundant administrative personnel and by providing opportunities for merging technical and managerial expertise. But essentially many mergers reduce environmental uncertainty by lessening inter-organizational competition and dependency.

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EXTERNAL STRATEGIES
COALESCING

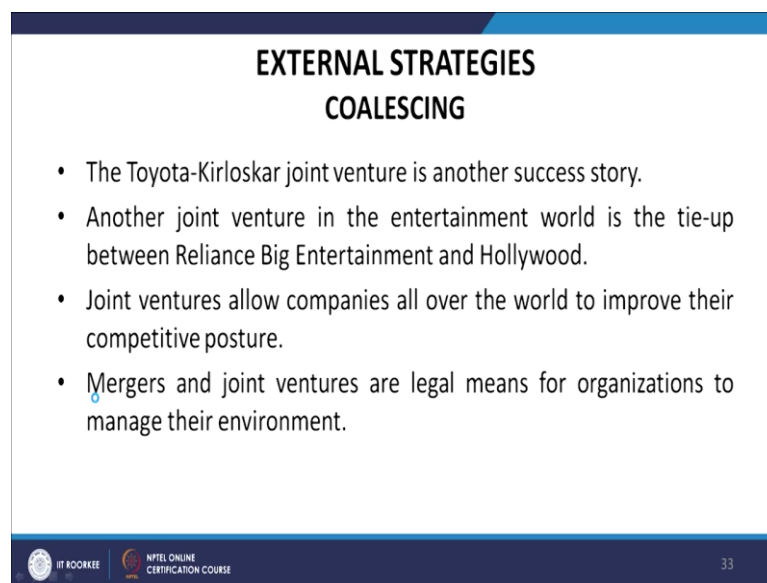
- But essentially many mergers reduce environmental uncertainty by lessening inter-organizational competition and dependency.
- Chevron's acquisition of Gulf Oil created one less competitor in the oil industry.
- One of the most publicized **joint ventures** in India is the teaming up of the Indians and Japanese in manufacturing consumer cars.
- The Maruti-Suzuki joint venture brought much learning opportunities for the Indian firm Maruti Udyog Limited.
- They learned how to produce quality cars from Japanese company.

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Chevron's acquisition of gulf oil created one less competitor in the oil industry. One of the most publicized joint venture in India is the teaming up of the Indians and Japanese in manufacturing consumer cars. The Maruti-Suzuki joint venture brought much learning opportunities for the Indian firm Maruti Udyog Limited.

They learned how to produce quality cars from Japanese company. The Toyota-Kirloskar joint venture is another success story. Another joint venture in the entertainment world is the tie-up between Reliance Big Entertainment and Hollywood.

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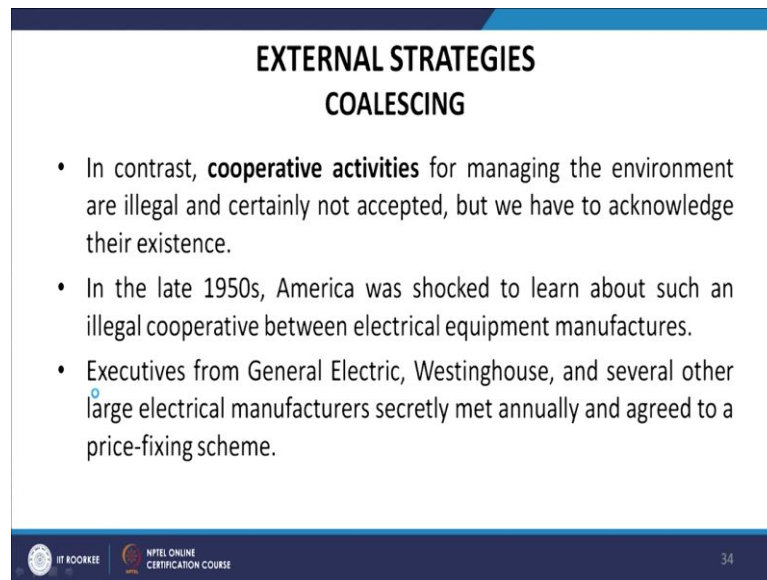
EXTERNAL STRATEGIES
COALESCING

- The Toyota-Kirloskar joint venture is another success story.
- Another joint venture in the entertainment world is the tie-up between Reliance Big Entertainment and Hollywood.
- Joint ventures allow companies all over the world to improve their competitive posture.
- Mergers and joint ventures are legal means for organizations to manage their environment.

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Joint ventures allow companies all over the world to improve their competitive posture. Mergers and joint ventures are legal means for organizations to manage their environment.

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EXTERNAL STRATEGIES

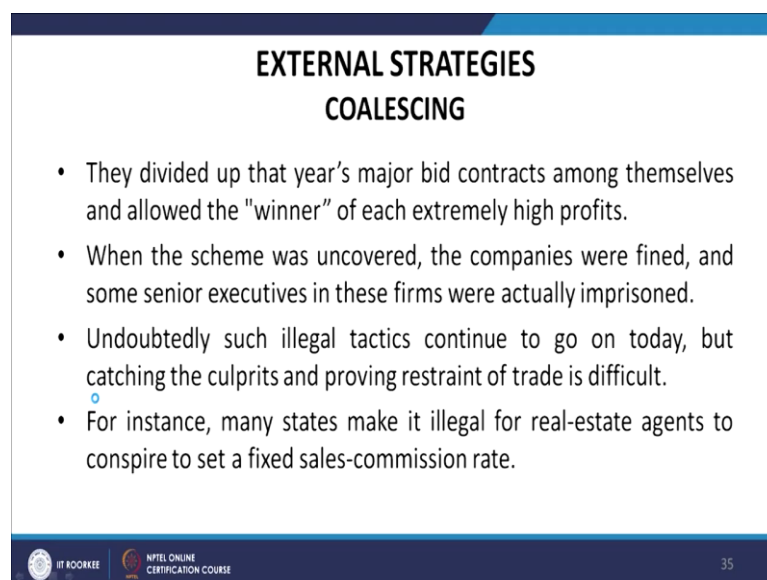
COALESCING

- In contrast, **cooperative activities** for managing the environment are illegal and certainly not accepted, but we have to acknowledge their existence.
- In the late 1950s, America was shocked to learn about such an illegal cooperative between electrical equipment manufactures.
- Executives from General Electric, Westinghouse, and several other large electrical manufacturers secretly met annually and agreed to a price-fixing scheme.

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EXTERNAL STRATEGIES

COALESCING

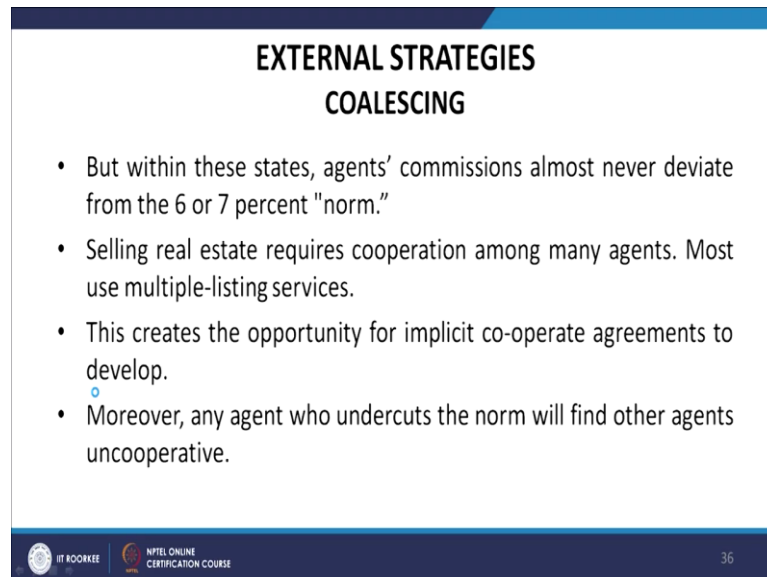
- They divided up that year's major bid contracts among themselves and allowed the "winner" of each extremely high profits.
- When the scheme was uncovered, the companies were fined, and some senior executives in these firms were actually imprisoned.
- Undoubtedly such illegal tactics continue to go on today, but catching the culprits and proving restraint of trade is difficult.
- For instance, many states make it illegal for real-estate agents to conspire to set a fixed sales-commission rate.

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companies were fined and some senior executives in these firms were actually imprisoned. Undoubtedly such illegal tactics continue to go on today, but catching the culprit and proving restraints of trade is difficult. For instance, many states make it illegal for real-estate agents to conspire to set a fixed sales commission rate.

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The slide is titled "EXTERNAL STRATEGIES" in bold, with "COALESCING" in bold below it. It contains four bullet points. The first bullet point is "But within these states, agents' commissions almost never deviate from the 6 or 7 percent 'norm.'" The second bullet point is "Selling real estate requires cooperation among many agents. Most use multiple-listing services." The third bullet point is "This creates the opportunity for implicit co-operate agreements to develop." The fourth bullet point is "Moreover, any agent who undercuts the norm will find other agents uncooperative." The slide has a blue header and footer. The footer contains the logos for "IT ROOKIE" and "NPTEL ONLINE CERTIFICATION COURSE" on the left, and the number "36" on the right.

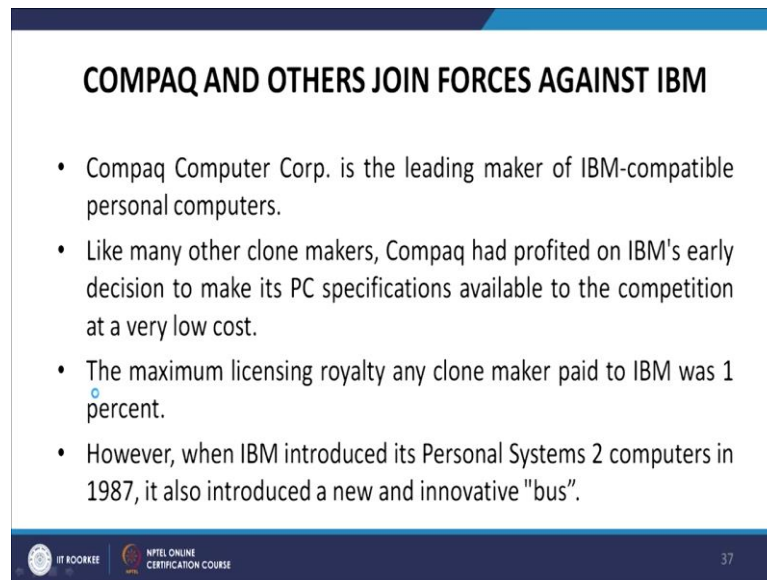
EXTERNAL STRATEGIES
COALESCING

- But within these states, agents' commissions almost never deviate from the 6 or 7 percent "norm."
- Selling real estate requires cooperation among many agents. Most use multiple-listing services.
- This creates the opportunity for implicit co-operate agreements to develop.
- Moreover, any agent who undercuts the norm will find other agents uncooperative.

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But within these states, agents' commission almost never deviate from the 6 or 7 percent "norm." Selling real estate requires cooperation among many agents. Most use multiple-listing services. This creates the opportunity for implicit co-operate agreement to develop. Moreover, any agent who undercuts the norm will find other agents uncooperative.

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COMPAQ AND OTHERS JOIN FORCES AGAINST IBM

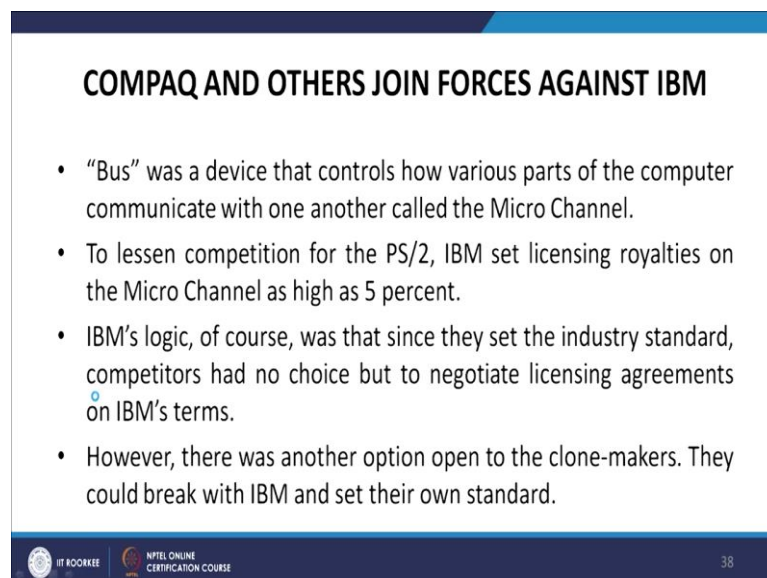
- Compaq Computer Corp. is the leading maker of IBM-compatible personal computers.
- Like many other clone makers, Compaq had profited on IBM's early decision to make its PC specifications available to the competition at a very low cost.
- The maximum licensing royalty any clone maker paid to IBM was 1 percent.
- However, when IBM introduced its Personal Systems 2 computers in 1987, it also introduced a new and innovative "bus".

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So now, we will look at an example where by Compaq and others join forces against IBM. Compaq computer corp. is the leading maker of IBM-compatible personal computers. Like many other clone makers, Compaq has profited on IBM's early decision to make its PCs specifications available to the competition at a very low cost. The maximum licensing royalty any clone maker paid to IBM was 1 percent.

However, when IBM introduced its personal system 2 computers in 1987, it also introduced a new and innovative "bus."

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COMPAQ AND OTHERS JOIN FORCES AGAINST IBM

- "Bus" was a device that controls how various parts of the computer communicate with one another called the Micro Channel.
- To lessen competition for the PS/2, IBM set licensing royalties on the Micro Channel as high as 5 percent.
- IBM's logic, of course, was that since they set the industry standard, competitors had no choice but to negotiate licensing agreements on IBM's terms.
- However, there was another option open to the clone-makers. They could break with IBM and set their own standard.

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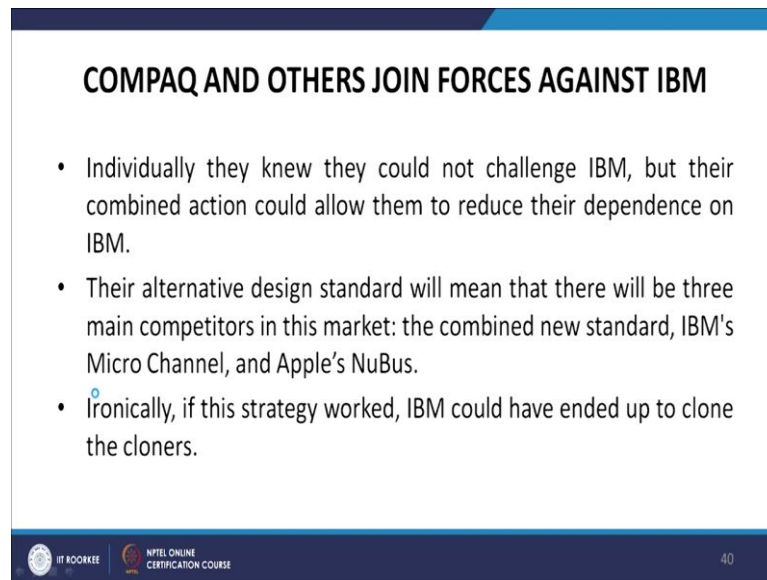
COMPAQ AND OTHERS JOIN FORCES AGAINST IBM

- In the fall of 1988, led by Compaq, nine clone-makers announced that they had agreed on standards for a bus that would meet or exceed the capabilities of IBM's Micro Channel.
- IBM controls 22 percent of the PC market.
- But the nine clone-makers— Compaq, Tandy, Zenith Data Systems, AST Research, Wyse Technology, Hewlett-Packard, Italy's Ing C. Olivetti, Japan's NEC, and Epson America—had 26.6 percent of the market.

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COMPAQ AND OTHERS JOIN FORCES AGAINST IBM

- Individually they knew they could not challenge IBM, but their combined action could allow them to reduce their dependence on IBM.
- Their alternative design standard will mean that there will be three main competitors in this market: the combined new standard, IBM's Micro Channel, and Apple's NuBus.
- Ironically, if this strategy worked, IBM could have ended up to clone the cloners.

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Individually they knew they could not challenge IBM, but their combined action could allow them to reduce their dependence on IBM. Their alternative design standard will mean that there will be three main competitors in the market: the combined new standard, IBM's micro channel and Apple's NuBus. Ironically, if this strategy worked, IBM could have ended up to clone the cloners.

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EXTERNAL STRATEGIES
LOBBYING

- Let us suppose, the Indian automobile industry wants the government to take decisions that will increase the sale of cars manufactured in India.
- In this quest, the industry can stand passively by and hope ministers will voluntarily take action to protect the interests of automobile manufacturers.
- On the other hand, it can actively take its case directly to key New Delhi decision makers.
- Most likely, the auto industry would choose to actively take the case in their hands and control the external environment.

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Another kind of external strategy is, lobbying. Let us suppose, the Indian automobile industry wants the government to take decision that will increase the sales of cars

manufactured in India. In this quest, the industry can stand passively by and hope ministers will voluntarily take action to protect the interests of automobile manufacturers. On the other hand, it can actively take its case directly to the key New Delhi decision makers.

Most likely, the auto industry would choose to actively take the case in their hand and control the external environment. The major automobile producers individually and collectively would like to influence legislators to pass laws favorable to the auto industry's interests. These lobbyists might argue, for example, for the imposition of import restrictions, the removal of safety equipment requirements,

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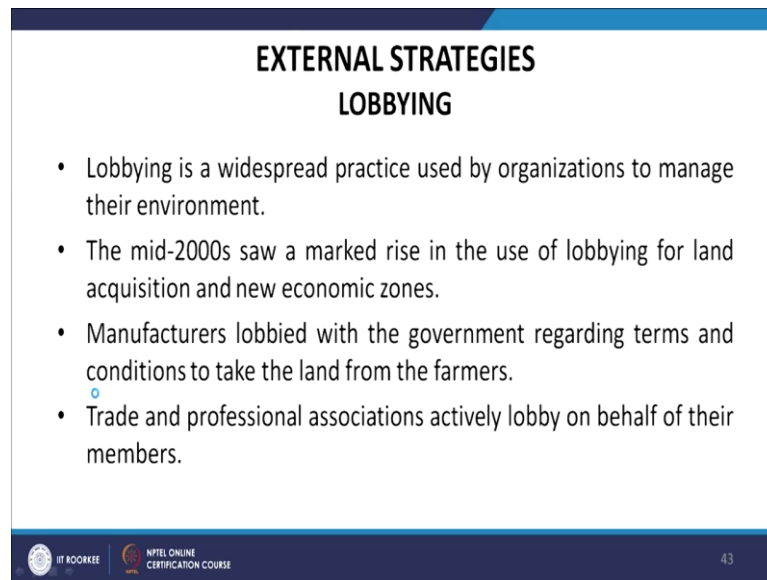
EXTERNAL STRATEGIES
LOBBYING

- The major automobile producers individually, and collectively would like to influence legislators to pass laws favorable to the auto industry's interests.
- These lobbyists might argue, for example, for the imposition of import restrictions, the removal of safety-equipment requirements and overall corporate average-fuel-economy regulations, and favorable tax treatment.
- Lobbying is thus, the use of influence to achieve favorable outcomes.

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and overall corporate average-fuel-economy regulations, and favorable tax treatment. Lobbying is thus, the use of influence to achieve favorable outcomes.

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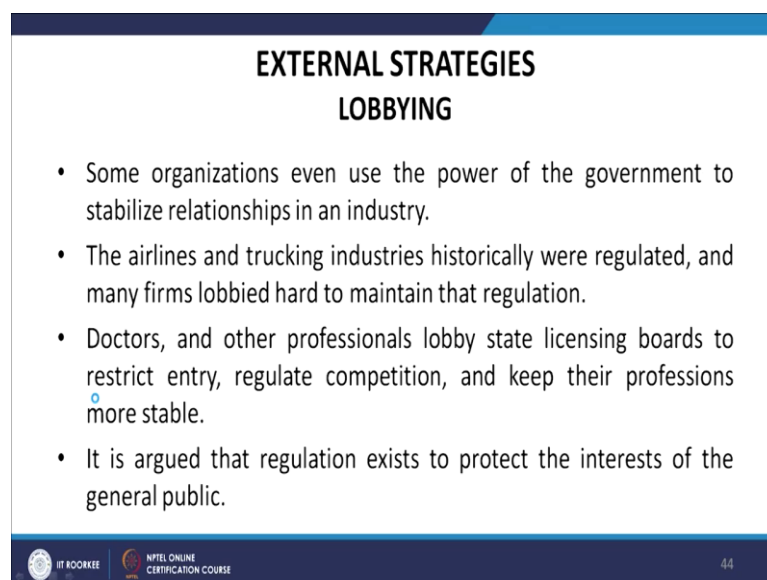
EXTERNAL STRATEGIES
LOBBYING

- Lobbying is a widespread practice used by organizations to manage their environment.
- The mid-2000s saw a marked rise in the use of lobbying for land acquisition and new economic zones.
- Manufacturers lobbied with the government regarding terms and conditions to take the land from the farmers.
- Trade and professional associations actively lobby on behalf of their members.

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EXTERNAL STRATEGIES
LOBBYING

- Some organizations even use the power of the government to stabilize relationships in an industry.
- The airlines and trucking industries historically were regulated, and many firms lobbied hard to maintain that regulation.
- Doctors, and other professionals lobby state licensing boards to restrict entry, regulate competition, and keep their professions more stable.
- It is argued that regulation exists to protect the interests of the general public.

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Some organizations even use the power of the government to stabilize relationships in an industry. The airline and trucking industry historically were regulated, and many firms

lobbied hard to maintain that regulation. Doctors and other professional lobby state licensing boards to restrict entry, regulate competition and keep their professions more stable. It is argued that regulation exists to protect the interest of the general public.

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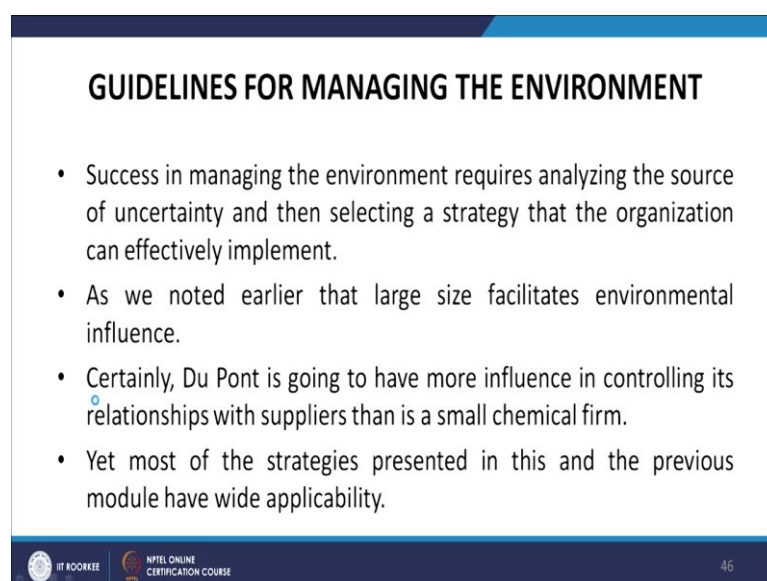
EXTERNAL STRATEGIES
LOBBYING

- A strong counter-argument can be made that government regulation maintains monopoly power and thus reduces environmental uncertainty in the hands of the regulated.

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A strong counter-argument can be made that government regulations maintain monopoly power and thus reduce environmental uncertainty in the hands of the regulated.

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GUIDELINES FOR MANAGING THE ENVIRONMENT

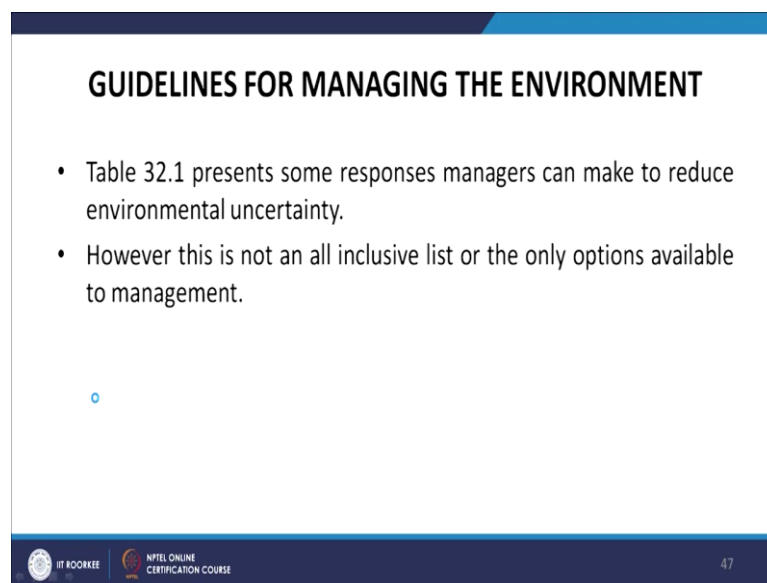
- Success in managing the environment requires analyzing the source of uncertainty and then selecting a strategy that the organization can effectively implement.
- As we noted earlier that large size facilitates environmental influence.
- Certainly, Du Pont is going to have more influence in controlling its relationships with suppliers than is a small chemical firm.
- Yet most of the strategies presented in this and the previous module have wide applicability.

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Now, let us look at some of the guidelines for managing the environment. Success in managing the environment requires, analyzing the source of uncertainty and then selecting a strategy that the organization can effectively implement. As we noted earlier, the large size facilitates environmental influence.

Certainly, Du Pont is going to have more influence in controlling its relationships with suppliers than is a small chemical firm. Yet most of the strategies presented in this and the previous module have wide applicability.

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GUIDELINES FOR MANAGING THE ENVIRONMENT

- Table 32.1 presents some responses managers can make to reduce environmental uncertainty.
- However this is not an all inclusive list or the only options available to management.

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Table 32.1 represents some responses managers can make to reduce environmental uncertainty. However, this is not an all-nclusive list or the only options available to management.

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GUIDELINES FOR MANAGING THE ENVIRONMENT	
Table 32.1: Matching sources of uncertainty with strategic actions	
Source	Examples of Strategic Actions
Government	<ul style="list-style-type: none">• Lobby for favourable treatment.• Recruit former government officials.• Relocate to different government jurisdiction.
Competition	<ul style="list-style-type: none">• Advertise to build brand loyalty.• Select a less competitive domain• Merge with competition to gain larger market share.
Unions	<ul style="list-style-type: none">• Negotiate a long-term collective bargaining agreement.• Hire professionals to keep unions out.• Appoint prestigious union officials to board of directors.
Source: Robbins, S. P. (1990). <i>Organization Theory: Structures, Designs, and Applications</i> . Pearson Education India.	
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These are the sources of uncertainty. Now this table 32.1, shows how to match source of uncertainty with strategic actions. So, when the source of uncertainty is government, then the examples of strategic actions include lobbying for favorable treatment, recruit former government officials and relocate to different government jurisdictions.

When the source of uncertainty is competition, then the example of strategic action include advertising to build brand loyalty, select a less competitive domain and merge with competition to gain larger market share. When the source of uncertainty is labor unions, then the examples of strategic actions include negotiating a long-term collective bargaining agreement, hire professionals to keep unions out and appoint prestigious union officials to the board of directors.

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GUIDELINES FOR MANAGING THE ENVIRONMENT	
Table 32.1: Matching sources of uncertainty with strategic actions	
Source	Examples of Strategic Actions
Supplier	<ul style="list-style-type: none">• Use multiple suppliers.• Negotiate long-term contracts.• Vertically integrate through mergers.
Customers	<ul style="list-style-type: none">• Advertise.• Use differentiated price structure.• Ration demand.• Change domain to where there are more customers.
Public Pressure Groups	<ul style="list-style-type: none">• Appoint critics to board or as employees.• Engage in visible activities that are socially conscious.
Source: Robbins, S. P. (1990). <i>Organization Theory: Structures, Designs, and Applications</i> . Pearson Education India.	

When the source of uncertainty are suppliers, then it is advised to use multiple suppliers, negotiate long-term contracts and vertically integrate through mergers. When it is the customers, then a strategic action includes advertising, use of differentiated price structure, ration demand and change domain to where there are more customers.

When it is the public pressure groups, then appoint critics to board or as employees, engage in visible activities that are socially conscious.

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CONCLUSION
<ul style="list-style-type: none">• We started this module with a discussion on rationing and geographic dispersion strategies employed by an organization.• Next, we discussed the external strategies such as advertising, contracting with suppliers or customers, coopting through absorption, coalescing, & lobbying to achieve favorable outcomes.• Finally, we understood the guidelines for managing the environment and the strategies employable by organizations in case of environmental uncertainty.

So, to conclude this module, we started this module with a discussion on rationing and geographic dispersion strategies employed by an organization. Next, we had discussed the external strategies such as advertising, contracting with suppliers or customers, coopting through absorption, coalescing and lobbying to achieve favorable outcomes.

Finally, we understood the guidelines for managing the environment and the strategies employable by organizations in case of environmental uncertainties.

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REFERENCES

- Robbins, S. P. (1990). *Organization Theory: Structures, Designs, and Applications*. Pearson Education India.
- Jones, G. R. (2013). *Organizational theory, design and change*. Pearson Hall.
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And these are the 4 books from which the material for this module was used.

Thank you.