The Impact of Environment
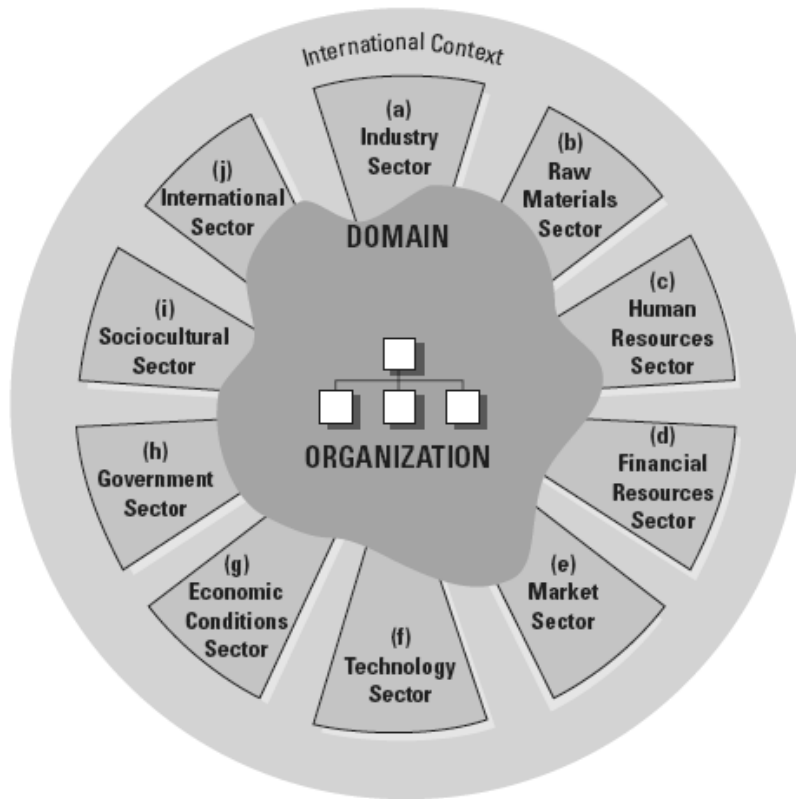
Objectives

- The Organization's Environment
  ◦ Task, General and International
- The Changing Environment
- Adapting to a Changing Environment
- Framework for Response to Environmental Change
- Dependence on External Resources
- Influencing External Resources

The Organization Environment

▶ All the elements that exist outside the boundary of the organization

▶ Potential to affect all or part of the organization
  ◦ *Domain*
    ⋅ is the chosen environmental field of action
  ◦ *Sectors*
    ⋅ or subdivisions that contain similar elements

An Organization's Environment

The Task Environment

Sectors that the organization interacts with directly to achieve goals

- Typically the "industry" and market sectors

- Human Resources

- International Sector

- Raw Materials Sector

General Environment

▸ Sectors that might not have a direct impact on the daily operations of a firm
  ◦ Government sector: *regulation*
  ◦ Sociocultural sector: *the green movement*
  ◦ Economic conditions: *global recession*
  ◦ Technology sector: *massive and constant changes*
  ◦ *Financial resources*
    • *Extremely important to entrepreneurs*

International Environment

- Can directly affect many organizations

- Has grown in importance

- Distinction between foreign and domestic operations

- All organizations face domestic and global uncertainty

The Changing Environment

- Uncertainty means that decision makers do not have sufficient information about environmental changes and have a difficult time predicting external changes.
- The dimensions of the environment range:
  ◦ Unstable – Stable
  ◦ Homogeneous – Heterogeneous
  ◦ Simple –Complex
- The dimensions boil down to:
  ◦ The need for information about the environment
  ◦ The need for resources from the environment

Organizations must cope with and manage <u>uncertainty</u> to be effective.

Dimensions of the Environment

- *Simple–complex:* relates to complexity, heterogeneity; the number of dissimilarity of external elements
  - Ex– Complex – Aerospace, Telecommunications
  - Ex – Simple – Family owned hardware store
- *Stable–Unstable:* whether elements in the environment are dynamic
- – Ex – Stable – Public Utilities
- – Ex – Unstable – Social Media, Toys , Consumer Goods
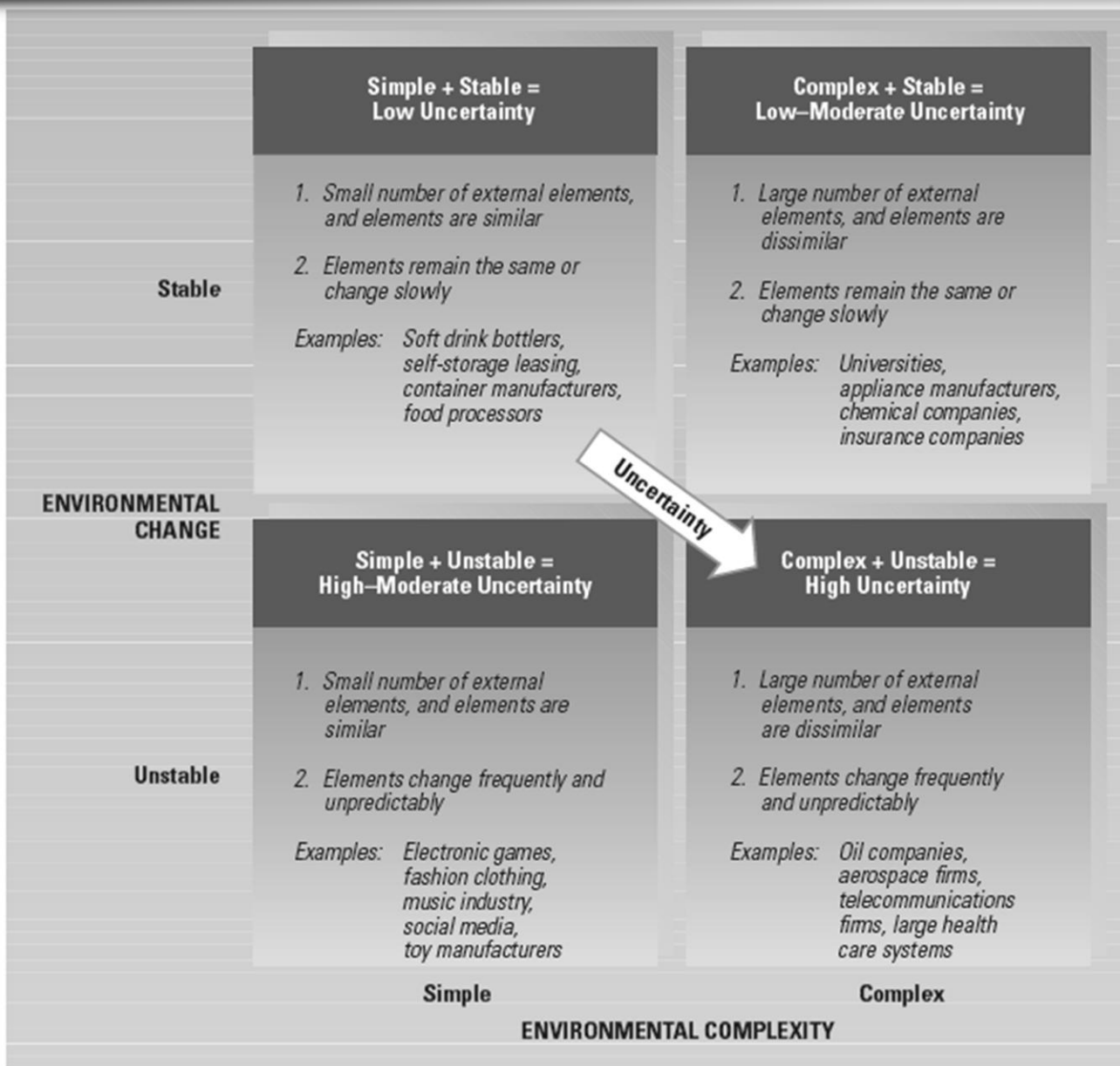
Framework for Assessing Environmental Uncertainty

Adapting to a Changing Environment

- Organizations need the *right fit* between *internal structure* and the *external environment*
  - Adding Positions and Departments
  - Building Relationships
    - Boundary-spanning roles
    - Business intelligence
  - Differentiation and Integration
  - Organic vs. Mechanistic Management Process
  - Planning, Forecasting, and Responsiveness

Differentiation and Integration

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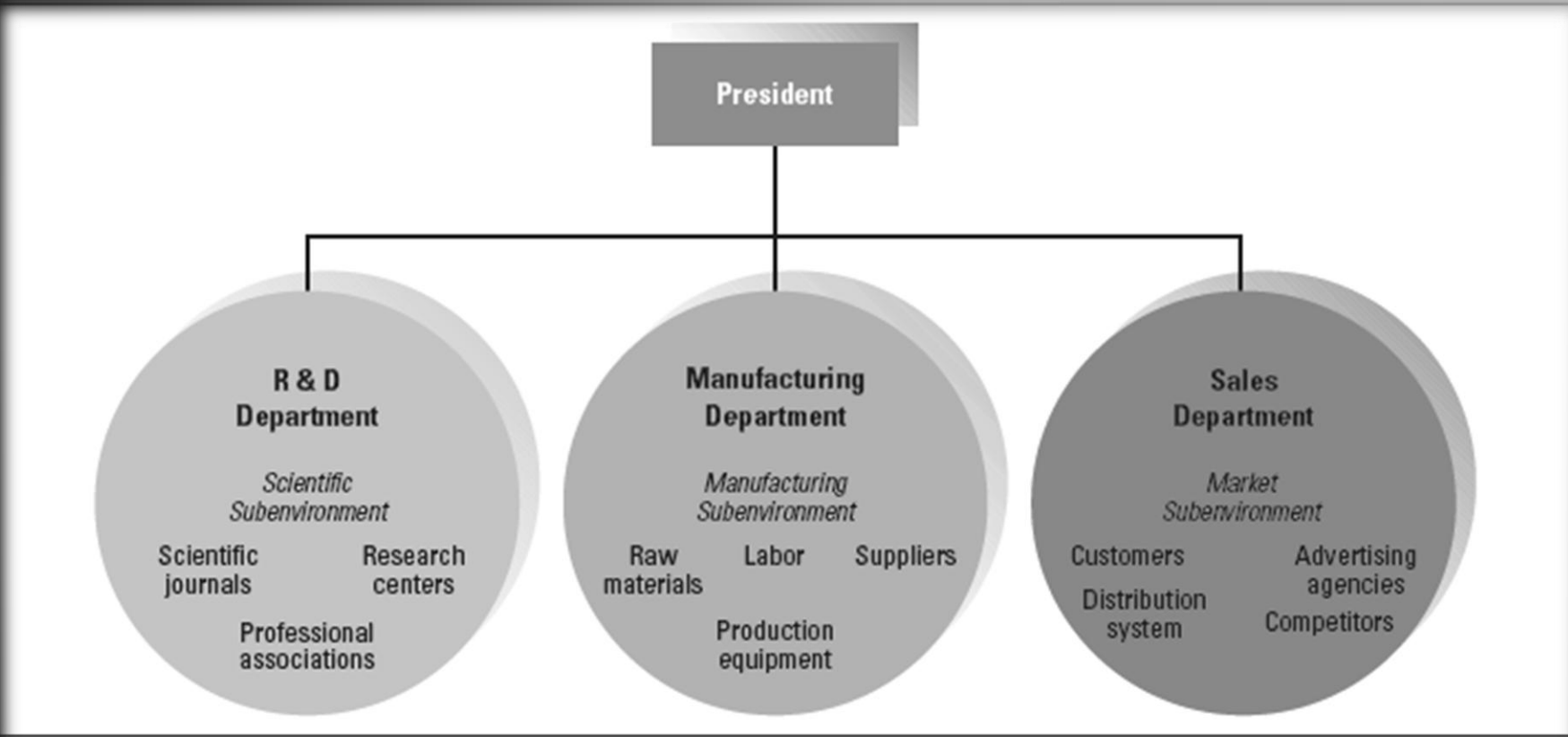
Different Goals and Orientations among Departments

Characteristic	R&D Department	Manufacturing Department	Sales Department
Goals	New developments, quality	Efficient production	Customer satisfaction
Time horizon	Long	Short	Short
Interpersonal orientation	Mostly task	Task	Social
Formality of structure	Low	High	High

Source: Based on Paul R. Lawrence and Jay W. Lorsch, *Organization and Environment* (Homewood, IL: Irwin, 1969), 23–29.

Formal Integrators are often required to coordinate departments

Environmental Uncertainty and Organizational Integrators

Industry	Plastics	Foods	Container
Environmental uncertainty	High	Moderate	Low
Departmental differentiation	High	Moderate	Low
Percent management in integrating roles	22%	17%	0%

Source: Based on Jay W. Lorsch and Paul R. Lawrence, "Environmental Factors and Organizational Integration," *Organizational Planning: Cases and Concepts* (Homewood, IL.: Irwin and Dorsey, 1972), 45.

Organizations that performed well in uncertain environments had high levels of both differentiation and integration

Mechanistic and Organic Processes – Burns and Stalker

- When the external environment was stable, the internal organization was characterized by standard rules, procedures and a clear hierarchy of authority. Organizations were formalized. They were also centralized, with most decisions made at the top. Burns and Stalker called this a mechanistic organization system

- In rapidly changing environments, the internal organization was much looser and free flowing, and adaptive. People had to find their own way through the system to figure out what to do. The hierarchy if authority was not clear. Decision make was decentralized. Burns and Stalker used the term organic to characterize this type of management structure

Mechanistic and Organic Forms

Mechanistic

- Tasks are specialized
- Tasks are rigidly defined
- Strict hierarchy of authority and control
- Knowledge and control of tasks are centralized
- Communication is vertical

Organic

- Employees contribute to the common task of the department
- Tasks are adjusted and redefined through teamwork
- Less hierarchy of authority and control
- Knowledge and control of tasks are located anywhere in the organization
- Communication is horizontal
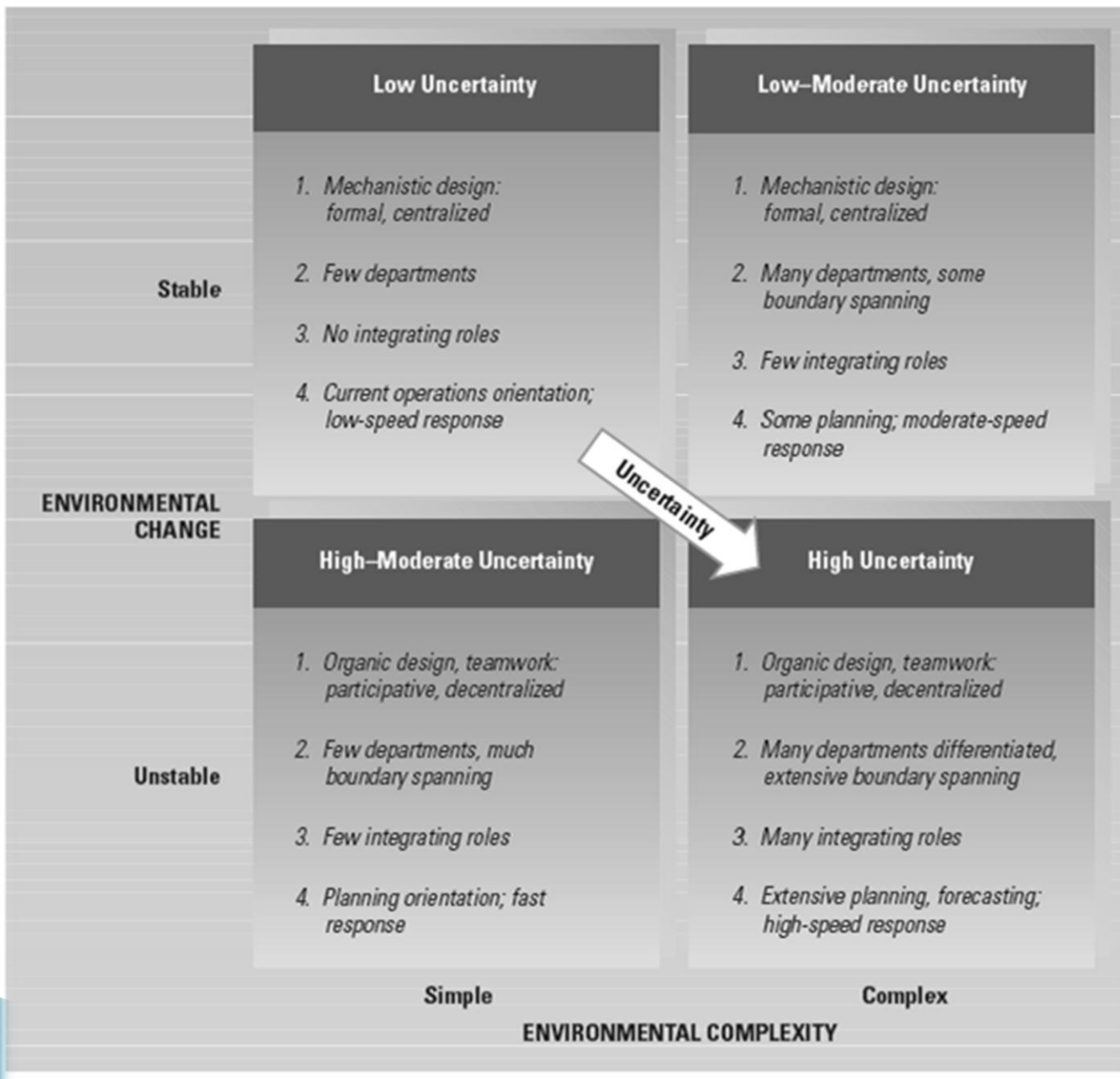
Contingency Framework for Uncertainty and Organizational Responses

Contents of the framework:

Stable / Simple — Low Uncertainty
1. Mechanistic design: formal, centralized
2. Few departments
3. No integrating roles
4. Current operations orientation; low-speed response

Stable / Complex — Low–Moderate Uncertainty
1. Mechanistic design: formal, centralized
2. Many departments, some boundary spanning
3. Few integrating roles
4. Some planning; moderate-speed response

Unstable / Simple — High–Moderate Uncertainty
1. Organic design, teamwork: participative, decentralized
2. Few departments, much boundary spanning
3. Few integrating roles
4. Planning orientation; fast response

Unstable / Complex — High Uncertainty
1. Organic design, teamwork: participative, decentralized
2. Many departments differentiated, extensive boundary spanning
3. Many integrating roles
4. Extensive planning, forecasting; high-speed response

ENVIRONMENTAL CHANGE (Stable / Unstable)

Uncertainty

ENVIRONMENTAL COMPLEXITY (Simple / Complex)

Dependence on External Resources

Resource–dependence perspective means organizations depend on the environment

- ◦ Strive to acquire control over resources to minimize dependence
- ◦ Organizations are vulnerable if resources are controlled by other organizations
- ◦ Minimize vulnerabilities
- ◦ Will team up with others when resources are scarce

Influencing External Resources

- Balance linkages and independence

- Reach out and change or control elements in the environment

    1. Establish favorable relationships with key elements of the environment

    2. Shape the environment by influencing key sectors

Organizing Strategies for Controlling the External Environment

Establishing Formal Relationships	Influencing Key Sectors
1. Acquire an ownership stake	1. Change where you do business (your domain)
2. Form joint ventures and partnerships	2. Use political activity, regulation
3. Lock in key players	3. Join in trade associations
4. Recruit executives	4. Avoid illegitimate activities
5. Use advertising and public relations	

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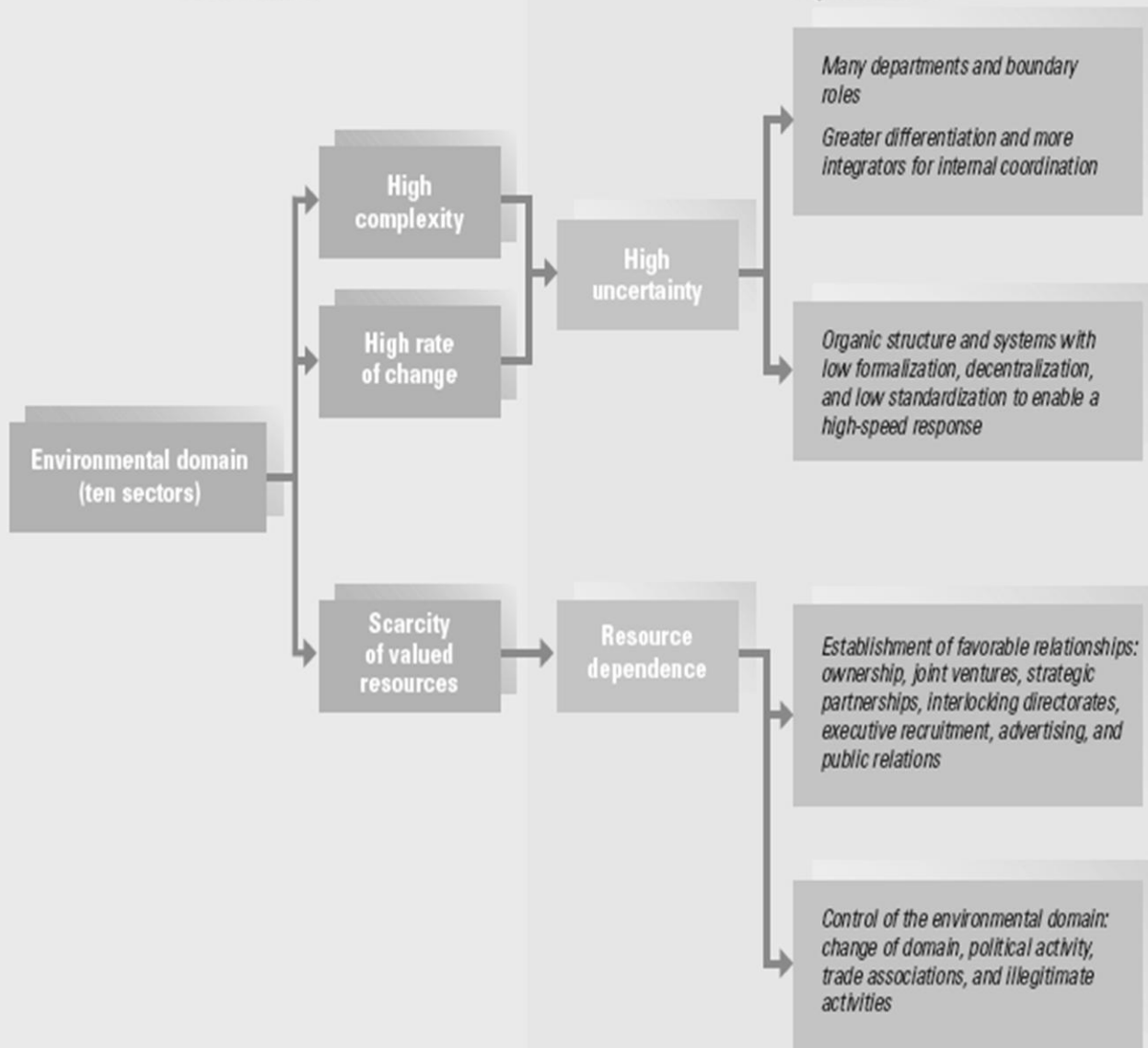
Organization – Environment Integrative Framework

Summary

- ✓ Change and complexity have major implications for organizations

- ✓ Organizational environment differs regarding uncertainty and resource dependence

- ✓ The goal for organizations is managing efficiencies and survival

- ✓ Managers must understand how the environment influences the structure of an organization

- ✓ When risk is great, organizations can attempt to change or influence the environment

- ✓ Organizations can learn and adapt to the environment