Environmental uncertainty in organization essay sample

Business, Organization

Define environmental uncertainty and resource dependence. Describe the major ways in which managers can deal with high environmental uncertainty and resource dependence.

A good answer would base the analysis of environmental uncertainty on Duncan's approach, which characterises uncertainty in the stable-unstable and simple-complex dimensions. It should identify buffering, boundary spanning, organisational differentiation and integration as responses to growing uncertainties. As to management of resource dependence, the student should refer to inter-organisational linkages (ownership, strategic alliances, interlocking directorates, executive recruitment) and boundary spanning.

The modern organizations do not live in the vacuum. They are open systems, which must interact with the environment. It must continuously change and adapt to the environment.

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

The environment of an organization can also be understood by analysing its domain within external sectors. An organization's domain is the chosen environmental field of action. Domain defines the organization's niche and defines those external sectors with which the organization will interact to accomplish its goals.

The environment comprises several sectors or subdivisions of the external environment that contain similar elements. Ten sectors can be analysed for each organization: industry, raw materials, human resources, financial resources, market, technology, economic conditions, government, socialcultural an d international.

The environment influences the organization by two essential ways, first, the need for information about the environment; second, the need for resources from the environment.

The environmental condition of complexity and change create a greater need to gather information and to respond based on that information. The organization also is concerned with the scarce material and financial resources provided by the environment and with the needs to ensure the availability of resources.

Environmental uncertainty means that decision makers do not have sufficient information about environmental factors and they have a difficult time predicting external changes.

Uncertainty increases the risk of failure for organizational responses and makes it difficult to compute costs and probabilities associated with decision alternatives.

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

1. Simple and complex dimension

The simple-complex dimension concerns environmental complexity, which refers to heterogeneity, or the number and dissimilarity of external elements relevant to an organization's operations.

In a complex environment, many diverse external elements interact with and influence the organization. While in a simple environment, as few as three or four similar external elements influence the organization.

MBS is good example for the organization in a complex environment. It must cope with the customers, which is the potential students, competitors, which is the other business school such as LBS, Cranfield, and it must cope with government as well. We can also add alumni, MBA association… to this list. In a word, a large number of external elements thus make up the organization's domain, creating a complex environment. Comparing with MBS, a community middle school is rather living in a simple environment. As in the same community there are no other competitors, it also need not to attract potential students for all the students are assigned to this school.

2. Stable-unstable dimension

The stable-unstable dimension refers to whether elements in the environment are dynamic.

An environmental domain is stable if it remains the same over a period of months or years. Under unstable conditions, environmental elements shift abruptly.

Take competition for example, instability may occur when competitors react with aggressive moves and countermoves regarding advertising and new products.

The simple-complex and stable-unstable dimensions are combined into a framework for assessing environmental uncertainty. (Daft 137)

There are four kinds of external environment uncertainty.

1. A simple stable environment has low uncertainty. There are only a few outside elements to concern about and they are very stable which makes it to be easy to predict. Container manufactures are a good example under this environment. The whole market for container is

2. In a complex but stable environment the uncertainty is somewhat greater than the above one. A large number of elements have to be scanned, analysed, and acted upon for the organization to perform well. But as the external elements do not change rapidly or unexpectedly, it is not difficult for the decision maker to predict future change. Hospitals are under this

3. The simple but unstable environment has greater uncertainty than complex but stable environment. Although there are small numbers of external elements and they are similar, they are hard to predict and they react unexpectedly to organizational initiatives. Most e-commerce companies are in this kind of environment. They focus on a specific competitive niche which are not complicated. But the elements in this environment are not stable. The taste of customers is changing all the time;

the competitors will introduce new product from time to time, even the government will set some regulation unexpectedly.

4. The greatest uncertainty for an organization occurs in the complex, unstable environment. A large number of elements impinge upon the organization, and they shift frequently or react strongly to organizational initiatives. When several sectors change simultaneously the environment becomes turbulent. We have countless examples under this environment. Most of the international companies are facing

Environmental uncertainty represents an important contingency for organization structure and internal behaviours. Organizations facing uncertainty generally have a more horizontal structure that encourages cross-functional communication and collaboration to help the company adapt to changes in the environments.

Organizations need to have the right fit between internal structure and the external environment with respect to positions and departments, organizational differentiation and integration, control processes, and future planning and forecasting.

1. Positions and departments

As the complexity in the external environment increases, so does the number of positions and departments within the organization, which in turn increases internal complexity. Each sector in the external environmental sector requires an employee or department to deal with it. One of the traditional ways to cope with uncertainty is to establish buffer department, whose main task is to absorb uncertainty from the environment (this can be called buffer role) so that the technical core, which performs the primary production activity of the organization can keep relatively stable and internal efficiency. For example, the human resources department buffers the technical core by handling the uncertainty associated with finding, hiring, and training production employees. Recently a rather new approach is to drop the buffers and expose the technical core to the uncertain environment. The advocates of this approach insist that being well connected to customers and suppliers is more important than internal efficiency. While opening up the organization to the environment makes it more fluid and adaptable, the organization must have good way to keep balance between reaction to the environment and internal efficiency. It requires the organization have more efficient communication and learning system.

Another important role of organization to avoid uncertainty is boundary-spanning roles which link and coordinate an organization with key elements in the external environment. This is a two directions role, on one hand detecting and bringing into the organization information about changes in the environment, on the other hand to send information into the environment that presents the organization in a favourable light.

In this changing world, organizations have to react to environment very fast, otherwise the organization will die. One of the fastest growing areas of boundary spanning is competitive intelligence. Companies large and small are setting up competitive intelligence departments or hiring outside specialists to gather information on competitors. And then the organizations can adapt its own activity according to the information.

The boundary task of sending information into the environment to represent the organization is used to influence other people's perception of the organization. In the marketing department, advertising and sales people represent the organization to customers. If the department does not deliver the right information about organization to the external environment, the organization will meet some problems.

2. Organizational differentiation and integration

Organization differentiation is the differences in cognitive and emotional orientations among managers in different functional departments, and the difference in formal structure among these departments. The external environment and main challenge for different department within organization is different which makes organizational departments become highly specialized to handle the uncertainty in their external sector. Sometimes, those expertises even seem opposite. The conflict between sales department and finance department is not rare in our life.

This naturally introduces another important approach to uncertainty: organization integration, which is the quality of collaboration among departments. Integration mainly involves in coordination among department. As the different departments have different goals, different ways to cope with external environment, coordination between different departments become more and more important. The main role of coordinator is to improve the communication between departments, maintain common goal of the organization, and so on. Facing the highly uncertain external environment, the organization has to have a high level of differentiation and integration, which help organization keep both flexibility and efficiency. If the uncertainty level of external environment is low, the best strategy for organization is to have a relatively low level differentiation and integration which will be more efficient.

3. Control processes

Organization will perform better when the levels of differentiation and integration match the level of uncertainty in the environment. Here we come to another related issue: what kind of control processes is suitable for the organization. This depends on

The organization with a high level of differentiation and integration should has looser, free-flowing, and adaptive organization structure.

4. future planning and forecasting

Framework, (Handout 4. 6) organization design under different external environment.

Now we turn to the second way the environment affects organization: the need for scarce material resource and financial resource from the organization. Organizations need resources from environment to support development. Resource dependence means that organizations depend on the environment but strive to acquire control over resources to minimize their dependence.

Two strategies can be adopted to manage resources in the external environment:

1. Establish favourable linkages with key elements in the environment;

There are five main ways to establish favourable linkages with key elements in the environment. Namely, ownership, formal strategic alliances, interlocking directorates, executive recruitment and buffer spanning.

Ownership: companies use ownership to establish linkages when they buy a part of or a controlling interest in another company. This gives the company access to technology, products, or other resources it doesn’t currently have.

Formal strategic alliances: when there is a high level of complementary between the business lines, geographical positions, or skills of two companies, the firms often go the route of a strategic alliance rather than ownership through merger or acquisition. Such strategic alliances reduce uncertainty through a legal and binding relationship with another firm. Almost everyday we can hear the news of merge of big companies. Toshiba is one of the most successful companies, which established market strength through merge. It became the top maker of large-scale memory chips through a joint venture with Motorola.

Interlocking directorates: interlocking directorate is a formal linkage that occurs when a member of the board of directors of one company sits on the board of directors of another company. The individual is a communications link between companies and can influence policies and decisions.

Executive recruitment: transferring or exchanging executives also offers a method of establishing favourable linkages with external organizations. This provides another channel of influence and communication between organizations serves to reduce financial uncertainty and dependence for an organization.

Buffer spanning: as I mentioned above, buffer spanning role involves transfer organization information to external environment. A further effort of buffer spanning is try to establish favourable relationships with external environment so that the organization can occupy more resources.

2. Shape the environmental domain.

In addition to adapt to the environment, organization also sometimes try to change the environment. There are also four