

Organizational Design Change and Transformation
Prof. Sangeeta Sahney
Vinod Gupta School of Management
Indian Institute of Technology, Kharagpur

Module - 02
Lecture - 06
Organizational Environment

[FL]. Today, we will be beginning with our week 2 or module 2 of our course on Organizational Design, Change and Transformation.

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The slide features a blue header with the IIT Kharagpur logo and the text "NPTEL ONLINE CERTIFICATION COURSES". Below this, the course title "ORGANIZATIONAL DESIGN, CHANGE AND TRANSFORMATION" is displayed in large, bold, black letters. Underneath, it identifies the instructor as "DR. SANGEETA SAHNEY, PROFESSOR, VGSOM, IIT KHARAGPUR". A blue bar indicates "Module 2" and "Lecture 1". To the right, a circular diagram illustrates the relationship between the "Internal Environment" (comprising Managers, Workers, and Customers) and the "External Environment" (comprising Technological, Economic, Political/Legal, Demographic, and Social factors). At the bottom, a yellow box lists key topics: "Organizational environment; Forces affecting the organizational environment; Environmental uncertainty, and sources of uncertainty; Changing environment, and adaptation; Framework for responses to environmental change; Resource dependence theory; Inter-organizational strategies for managing resource dependencies; Transaction cost theory; Organization-Environment Integrative Framework; Inter-organizational relationships; E-Org."

This is lecture 1 today, which we will be starting with. And this topic will be again spread across 5 lectures, whole of this week. We will be talking about organizational environment,

factors affecting the organizational environment, environmental uncertainty, and sources of uncertainty, changing environment and adaptation.

We will be speaking about the framework for responses to environmental change, resource dependence theory, inter-organizational strategies for managing resource dependencies, transaction cost theory, organization-environment integrative framework, and inter-organizational relationships and finally, E-organization. So, that this is what we will be discussing in this module 2 or week 2 of our lectures on the subject Organizational Design, Change and Transformation.

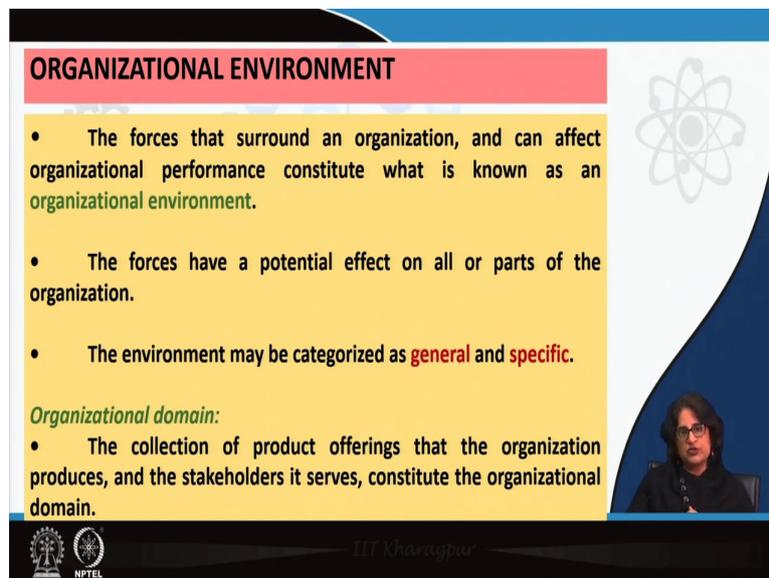
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In this particular lecture, we I will speak about the organizational environment, forces affecting the organizational environment and environmental uncertainty and sources of uncertainty. So, this is what we will be discussing in this module week 2, which is a module

on organizational environment. Under organizational environment we shall be discussing all of these various topics.

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ORGANIZATIONAL ENVIRONMENT

- The forces that surround an organization, and can affect organizational performance constitute what is known as an **organizational environment**.
- The forces have a potential effect on all or parts of the organization.
- The environment may be categorized as **general and specific**.

Organizational domain:

- The collection of product offerings that the organization produces, and the stakeholders it serves, constitute the organizational domain.

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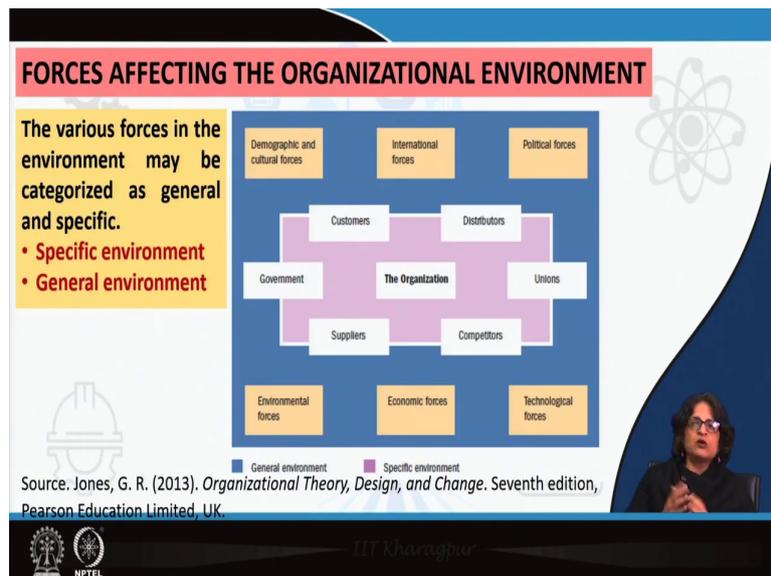
Now, what is an organizational environment? I said in my lectures to you last week as well, that forces which surround an organization and affect the performance of the organization constitute what is known as the organizational environment. Now, the forces who have a potential effect on all or parts of the organization.

The various forces which exist in the environment, either effect the organization in part or they effect the organization in totality. So, the forces have a potential effect on the entire organization or on the different parts of the organization. And this entire environment or these forces which surround the organization and effect its functioning can broadly be categorized into two, as the general environment and the specific environment.

We will be talking of the various forces which constitute the general as well as those that constitute the specific environment in the subsequent slides, in the subsequent lecture today. But before that I would like to like to talk to you about what organization what an organizational domain is.

So, the collection of product offerings that an organization produces and the stakeholders that it serves constitutes what we refer to as the organizational domain. So, when we talk about the domain we are here talking about the different, the collection of product offerings that an organization produces and the various stakeholders that it serves. Together they constitute what is referred to as the organizational domain.

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Now, what are the various factors you know in the organizational environment? As I just told you we can categorize these factors a broadly into 2, the specific and the general environment.

We will see that both of these, I mean both of these sets the specific environment as well as the general environment, they affect the organization either in part or in as a whole. And they have a deep influence on the manner in which an organization functions.

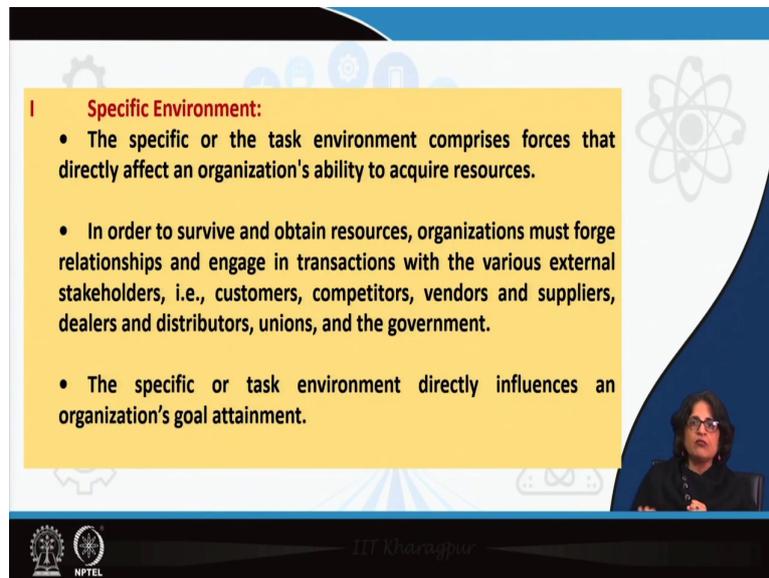
So, according to Jones, you know this categorization into specific and general environment you know will we will see has separate forces or specific forces like you has distinct forces. Like for example, in the specific environment we have the government, the customers, the distributors, the unions, the competitors, the suppliers, all of which affect the organization.

And when we talk of the general environment, we are talking of the demographic, and the cultural forces, the international forces, the political forces, the technological forces, the economic forces and the you know environmental forces which all of which constitute the forces in the general environment.

So, there are these very distinct forces in the specific environment. And there are these very distinct forces in the general environment. And both of these, you know all of these forces in the specific as well as in the general have a potential to affect the manner in which an organization functions.

So, the various forces in the environment according to Jones may be categorized as specific environmental forces or general environmental forces. And while both of them you know, all the forces within the general or all the forces within the specific have a potential to affect the functioning of the organization as a whole or can function the certain elements or parts of the organization.

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I Specific Environment:

- The specific or the task environment comprises forces that directly affect an organization's ability to acquire resources.
- In order to survive and obtain resources, organizations must forge relationships and engage in transactions with the various external stakeholders, i.e., customers, competitors, vendors and suppliers, dealers and distributors, unions, and the government.
- The specific or task environment directly influences an organization's goal attainment.

So, we will first talk now about the specific environment and the various forces in the specific environment. And then, we will talk about the general environment and various forces in the general environment. So, let us first speak about the specific forces. Now, the specific forces we also call them the task force comprises forces which directly affect an organizations ability to acquire resources.

So, in order to survive and obtain resources, organizations must enter into relationships and engage in transactions with various stakeholder groups, be they customers, competitors, vendors, suppliers, dealers, distributors, the union and the government. And all of these forces directly affect an organizations ability to perform and to achieve its goals efficiently and effectively. Those specific or the task environment directly influences the goal attainment capabilities of an organization.

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II General Environment:

- The various forces that provide shape to the specific environment and affect the ability of the various organizations in a specific environment to acquire resources constitute the general environment.
- These forces do not directly impact the daily operations of an organization but have an indirect impact.

Macroeconomic

Company

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The slide features a yellow background for the text and a blue background for the diagram. The diagram shows a central white circle labeled 'Company' surrounded by six red circles representing macroeconomic factors: Demand, Supply, Inflation, Interest Rate, Exchange Rate, and Fiscal Policy. The slide also includes logos for IIT Khanna and NPTEL at the bottom.

The second is general forces, the general forces or the general environmental forces are those forces which provide shape to the specific environment and affect the ability of the various organizations in the specific environment to acquire resources. And these forces do not impact the daily operations of an organization, but have an indirect effect, ok.

So, the various forces that provide shape to the specific environment and affect the ability of the various organizations in the specific environment to acquire resources constitute the general environment. And these forces do not directly impact the daily operations of an organization, but have an indirect impact.

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A) Economic forces:

- Type of economy, whether developed, developing, or underdeveloped; economic situation, whether boom or recession; the state of the economy; interest rates – all of these are economic factors that can affect organizational performance.
- GDP, GNP, Forex Reserves, FDI, etc., act as economic growth rate indicators.

B) Technological forces:

- A company's operations are influenced by technological forces like development in manufacturing technology; improvised production tools and techniques; advancements in information and communication technology etc.



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Now, we will discuss these forces one by one.

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The slide features a yellow background with a blue border. It contains two sections of text: 'C) Political forces:' and 'D) Demographic, cultural, and social forces:'. Each section has a bulleted list of points. The slide also includes a small inset image of a woman in the bottom right corner and logos for IIT Kharagpur and NPTEL at the bottom.

C) Political forces:

- The governmental policy pertaining to the organization and their stakeholders are affected by political forces.
- The political environment affects the government's attitude towards industrialization, privatization and globalization.

D) Demographic, cultural, and social forces:

- Age mix, gender mix, education and literacy levels, socio-economic levels, lifestyles, values, and norms, as well as other cultural elements of the people in a country also affect organizational performance.

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So, let us talk first about the economic forces. Now, talking about the economic forces, we see that you know the type of economy, whether the economy is a developed economy or a developing economy or an underdeveloped economy. The economic situation whether there is a boom or there is a recession in the, I mean overall state of economy and the interest rates. All of these are economic forces that can affect organizational performance.

So, you know whether an economy is a developed or an undeveloped or a developing one, whether it is in a state of recession or a boom or you know what are the interest rates are, all of this actually affect the can if have any bearing or can affect organizational performance.

You know the gross domestic product, gross national product, the foreign exchange reserves the foreign direct investment act as economic growth rate indicators and can actually affect

the performance of the you know organization. And they are forces which actually can affect the manner in which an organization performs.

And how; you know and not only perform, but they also affect the you know the capability of the organization to be able to achieve its objectives, achieve its goals. The second is technological forces. A company's operations are influenced by the technological forces as well, like development in manufacturing technology, improvisations in production tools and techniques, advancements in information and communication technology etcetera.

So, you know all of these also have an impact you know on how well an organization would perform. So, you know the there are important forces in the general environment which need to be taken care of. The third is political factors. The political forces or the political factors here you know again have a huge bearing on the in the way in which an organization would perform because you know various political parties you know who rule the country, have different orientations of business.

A party x may have a very different orientation to party y and another may have a very different orientation to party z. So, as and when you know as and when governments change in a country, or you know that has an impact on the way in which you know the business will function because the inclination or the orientation of different political parties towards the economy and towards business is very different.

So, the government apart from that you know so in a way what I am trying to say is that the political parties and the political environment affects you know the functioning of the organization, because you know the political parties and their orientations effects has an impact on industrialization, privatization, globalization etcetera.

So, the government policy pertaining to the organization and the stakeholders are affected by political forces. And you know and the political environment affects the government's attitude towards industrialization or globalization or privatization. So, political forces are an

important you know have a huge role to play in how well companies function, you know and how well they can move ahead in their journey towards attainment of objectives, ok.

The fourth is demographic, cultural and social forces. Now, demographic cultural and social forces also affect organizational performance. The age mix, the gender mix of the working population, the education and literacy levels, the socio economic levels, the lifestyles the values, the norms as well as other cultural elements of the people in a country also affect organizational performance.

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E) Legal:

- Laws of the land, rules and regulations, and policies and procedures impact the manner in which organizations function.
- Rules and regulations pertaining to employment, wages and compensation, social security, etc. affect overall costs and can be either an advantage or a disadvantage in terms of a competitive advantage.
- Consumer and environmental protection movements also affect organizational functioning.

F) Competitive environment:

- Organizational performance is also affected by the competitive environment i.e., the industry players and extent of competition, market potential, and power of vendors and suppliers, as well as dealers and distributors.

Dr. Khurshida

Legal forces which refer to the laws of the land, the rules, the regulations, the policies and procedures, impact the manner in which organizations function. Rules and regulations with respect to employment, with respect to social security, with respect to wages, affect the

overall costs and can either be an advantage or a disadvantage in terms of competitive advantage.

So, you know they can be either an advantage or disadvantage when it comes to a competitive advantage. And so, you know rules and regulations pertaining to employment and pertaining to compensation are very important factors. Consumer and environmental protection and movements have affected organizational functioning.

Also, the laws of the land, the rules, regulations and policies and procedures, impact not only you know the company if it is operating within the domestic frontiers, if it is crossing the borders and moving to other countries in the same continent or even in other continents, then the laws of those lands also have to be taken into account. The rules, regulations, policies, procedures of the of other countries also have to be taken into account if a company decides to go multinational.

So, what I am trying to say here is that the legal framework both you know within and outside the country have an effect. So, if you are operating within the country, it is the legal framework and the laws of the land, which are important if you are operating across countries, you also have to take into, companies also have to take into account the legal framework and the laws and rules and regulations of other countries as well.

Another important force is the competitive environment. Organizational performance is hugely affected by the competitive environment in which it operates. You know here we talk of the competitors, industry players, and the extent of competition, the overall market potential and the power of vendors and suppliers as well as of those of dealers and distributors. So, all of that you know call is has a bearing on organizational performance.

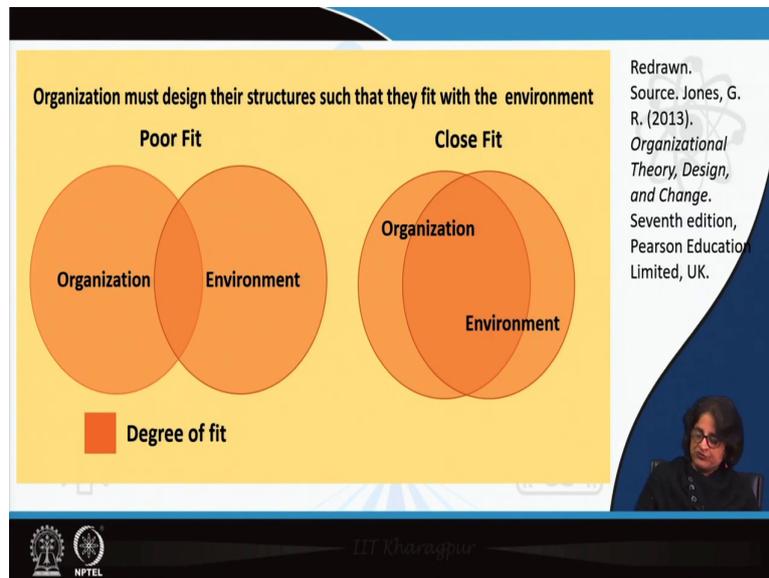
Like for example, you know when companies perform they take into account you know they are competitors. They take into account the market potential, they take into account the power of the competitor, the strength of the competitor, the extent of the competitors. They also take into account the power of the suppliers and the vendors and the dealers and the distributors.

How much of strength they put those people, those stakeholders possess with respect to organization a, which is you, and organization b, c, and d, which are your competitors. So, that; so, the entire dynamics of the competitor vis-a-vis his suppliers, dealers, distributors, and you vis-a-vis your dealers, suppliers, distributors it has to be taken into account. All of that constitutes the you know constitutes of you know the forces which can have a bearing on the competitive advantage that you have or you do not have.

So, the competitive environment in terms of your competitors as well as the dynamics of the competitors with their dealers, distributors, supplies, vendors is a matter which has to be taken care of and is something which you should be very careful about. So, it is not only the competitor, but his dynamics with his stakeholders.

And you and your dynamics with your stakeholders which has to be compared to see whether you are at an advantage or you are at a disadvantage. And all of this constitutes what we refer to as a competitive environment.

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So, organizations must design their structures such that they fit with the environment. We have been speaking about the contingency approach to management. I have spoken to you about a good fit that must happen between the company and the it is structure, its design, its culture you know with the environment.

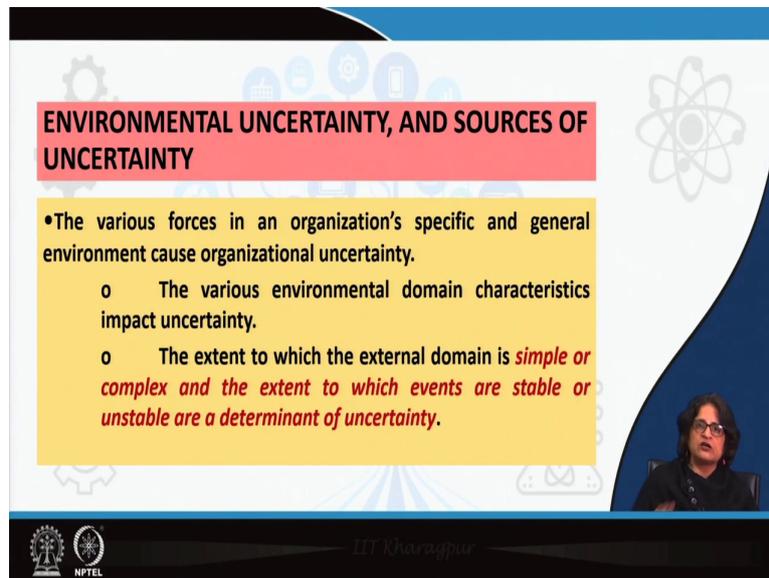
So, there has to be a proper fit. I have spoken about the contingency approach; I have spoken where it is very very important that managers realize that their internal functioning has to be in line with the external environment. There the internal structure of the organization, the culture of the organization, the entire design issue of the organization is in line or is in congruence with the needs and wants of the changing environment and the both have to be in together.

So, organizations must design their structures, such that they fit with the forces. If the environment; such that they you know fit with the environment, fit in with the challenges posed by the environment you know that, so that the, so that the organization can take advantage of the opportunities that the environment provides as well as find the threats with the environment poses.

So, a good fit or a close fit between the organization, the environment is extremely essential and a poor fit is something which must be avoided at all costs. So, organizations we have to keep in mind their environment, have to keep in mind the forces in the specific environment, the forces in the general environment and ensure that their structure, their strategy, their culture is in line with the environmental needs.

And wants, only and only then you know companies can have a good fit a close fit. And a good fit or a close fit will help organizations achieve their objectives more efficiently and effectively than the competitor, ok. So, and a poor fit can be extremely damaging to the organization.

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ENVIRONMENTAL UNCERTAINTY, AND SOURCES OF UNCERTAINTY

- The various forces in an organization's specific and general environment cause organizational uncertainty.
 - o The various environmental domain characteristics impact uncertainty.
 - o The extent to which the external domain is *simple or complex* and the extent to which events are *stable or unstable* are a determinant of uncertainty.

Dr. Khurshida

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Now, we come to the next which is environmental uncertainty and sources of uncertainty. So, when we talk of environmental uncertainty and sources of uncertainty, we actually have to be very very you know explicit about the fact that today companies indeed face uncertain environments. As I have been saying that we face a VUCA world, and the forces in the organization specific and task environment today cause organizational uncertainty.

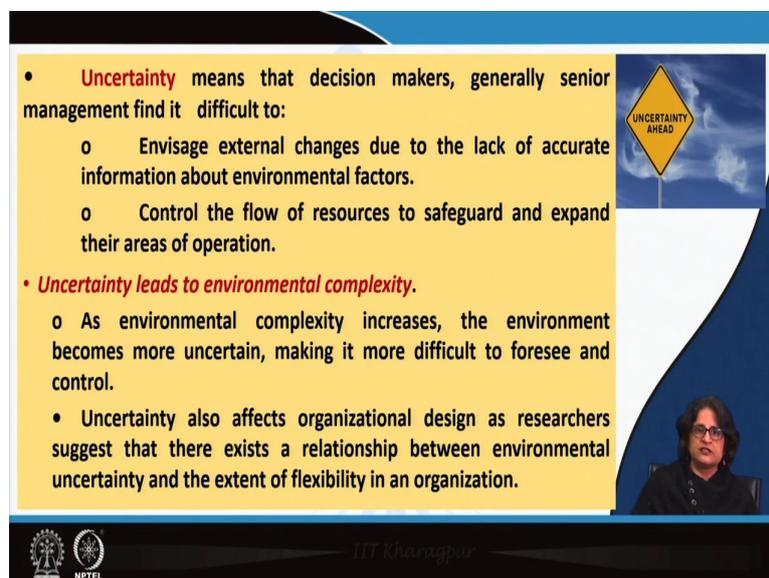
There is huge amount of uncertainty, the various environmental domain characteristics impact uncertainty, and the extent to which the external domain is simple or complex and the extent to which environment, which events are stable or unstable are a determinant of uncertainty.

So, we have various forces in the organization, specific, and task, and general environment which cause organization uncertainty. And when we talk about the organization uncertainty,

we also see here that the various environment dominant domain characteristics also impact uncertainty.

And the extent to which the external domain is simple or complex and the extent to which events are stable or unstable are actually a determinant of uncertainty. They define uncertainty. So, uncertainty will relate to the extent to which the external domain is simple or complex and the extent to which events are stable or unstable.

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• **Uncertainty** means that decision makers, generally senior management find it difficult to:

- o Envisage external changes due to the lack of accurate information about environmental factors.
- o Control the flow of resources to safeguard and expand their areas of operation.

• **Uncertainty leads to environmental complexity.**

- o As environmental complexity increases, the environment becomes more uncertain, making it more difficult to foresee and control.
- Uncertainty also affects organizational design as researchers suggest that there exists a relationship between environmental uncertainty and the extent of flexibility in an organization.

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So, what does uncertainty mean? Uncertainty means that decision makers, generally senior management, find it very difficult to envisage the external changes due to lack of information about the environmental factors. And they also find it difficult to control the flow of resources to safeguard and expand their areas of operation.

So, when we talk of uncertainty, we are actually talking of the you know the difficulty that the top management faces when it has to envisage the external changes due to lack of information about the environmental factors. And it, when also the top management finds it difficult to control the flow of resources to safeguard and to expand its areas of operation.

So, uncertainty leads to environmental complexity. And as environmental complexity increases, the environment becomes more uncertain, making it more difficult to foresee and control. So, uncertainty leads to complexity. As environmental complexity increases the environment becomes more uncertain, making it more difficult to foresee and control.

And uncertainty affects organizational design as researchers suggest that there exists a relationship between environmental uncertainty and the extent of flexibility in an organization. So, you see the matter is something which is not very simple it is very very complex, ok. We are on one hand talking of a VUCA world and uncertain world, and we are also saying that the forces that operate in an that in an organizations environment cause organizational uncertainty.

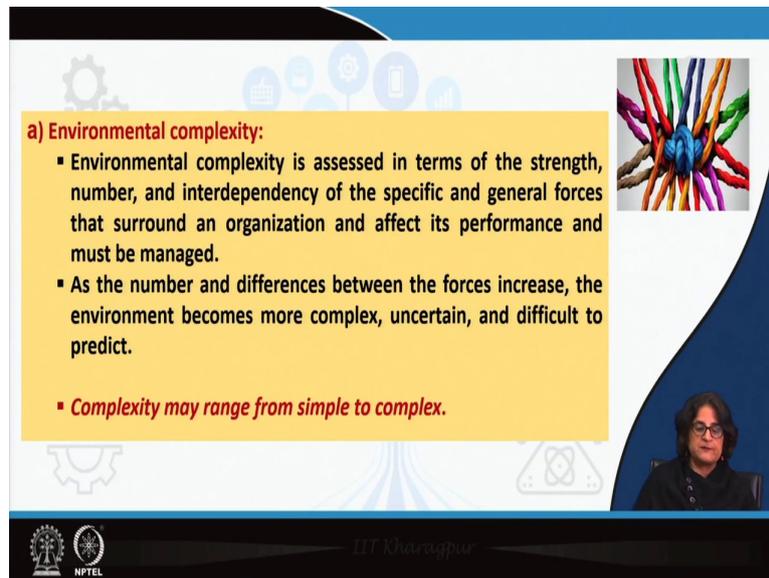
Now, the various environmental domain characteristics impact uncertainty, and the extent to which the environmental domain is simple or complex, and the extent to which, in extent to which events are stable or unstable or determine the uncertainty. Now, uncertainty leads to environmental complexity. But when does this uncertainty happen?

It uncertainty is when the top management or the decision makers, they find it difficult to envisage the environmental change, the external changes due to lack of accurate information about the environment and due to the difficulty they face in controlling the flow of resources to safeguard and expand their areas of operation.

And as environmental complexity increases, as the environment becomes more complex, more uncertain, it makes it more difficult to foresee and control. So, uncertainty affects the organizational design as researchers suggest that it exists a relationship between organization

between environmental uncertainty and the extent of flexibility that an organization should possess.

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a) Environmental complexity:

- Environmental complexity is assessed in terms of the strength, number, and interdependency of the specific and general forces that surround an organization and affect its performance and must be managed.
- As the number and differences between the forces increase, the environment becomes more complex, uncertain, and difficult to predict.
- *Complexity may range from simple to complex.*

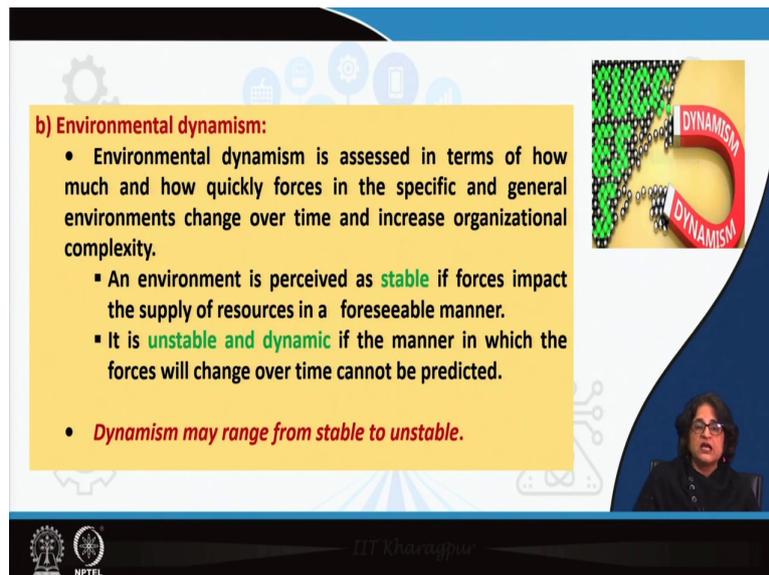
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So, when we talk of environmental complexity, it is assessed in terms of the strength, number, and interdependency of the specific and general forces that surround an organization and affects its performance and must be managed. And as the number and differences between the forces increase, the environment become more and more complex, uncertain and difficult to predict. So, complexity may range from simple to complex, ok.

When we talk of environmental complexity, we are saying it is assessed in terms of the strength of the specific and general forces. It refers to the number of specific and general forces. It also refers to the interdependency of the specific and general forces, which surround an organization and affect the performance of the organization and must be managed.

And as the number and differences amongst these forces increases, environment become more and more complex. It becomes uncertain and it becomes difficult to predict. So, complexity here can range from simple to complex.

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b) Environmental dynamism:

- Environmental dynamism is assessed in terms of how much and how quickly forces in the specific and general environments change over time and increase organizational complexity.
 - An environment is perceived as **stable** if forces impact the supply of resources in a foreseeable manner.
 - It is **unstable and dynamic** if the manner in which the forces will change over time cannot be predicted.
- **Dynamism may range from stable to unstable.**

The slide features a yellow background for the text, a small image of a globe with 'DYNAMISM' written on it, and a small video inset of a woman in the bottom right corner. The NPTEL logo is visible in the bottom left corner.

When we talk of dynamism, we talk of dynamism as you know in terms of how much and how quickly the forces in the specific environment and in the general environment change and increase organizational complexity. So, an environment is perceived as stable if forces impact the supply of resources in a predictable manner, in a forcible manner. It is unstable and undynamic sorry; it is unstable and dynamic if the manner in which the forces will change over time cannot be predicted, ok.

So, dynamism here is assessed in terms of how much and how quickly the forces in this specific and in the general environment will change over time and will increase

organizational complexity. And environment will be perceived to be stable if the forces which affect the supply of resources can be assessed in a foreseeable manner, predictable manner, ok.

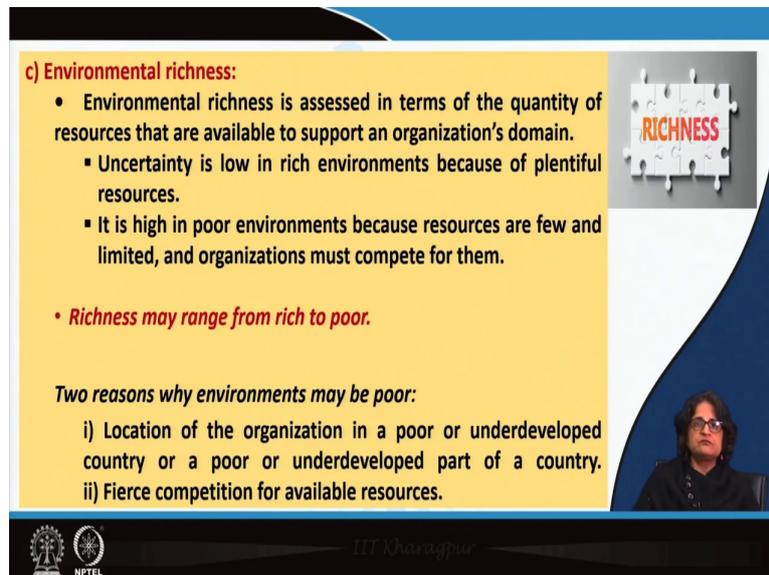
So, if the forces impact the supply of resources in a foreseeable manner, on a predictable manner, we say that the environment is stable. But if the manner in which the forces change over time cannot be predicted, ok and you know we cannot you know if how the forces impact the supply of resources you know cannot be predicted, in that case we will say that the environment is it is unstable and dynamic, ok.

So, environment is perceived as stable, if the forces which affect the supply of resources can be predicted. If it cannot be predicted we call it unstable, ok and dynamic. And dynamic may actually range from stable to unstable. So, environmental dynamism, when we talk of dynamism, it can range from stable to unstable. When we talk of complexity, it can be from simple to complex.

So, here when we talk of complexity, we are talking about the strength the number and interdependency of factors in the firms or organizations specific and general environment, which will affect its performance. If the number and differences of the forces increased, we will say it is complex.

And if it does not, we will say it is simple. So, the complexity ranges between simple to complex. But when we talk of dynamism we are talking of how quickly the changes are happening and how they affect the supply of resources. If you can predict how the forces will change, ok we say that the environment is stable. If you cannot predict it, we say it is highly dynamic and unstable. And so, environmental dynamism ranges between stable to unstable.

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c) Environmental richness:

- Environmental richness is assessed in terms of the quantity of resources that are available to support an organization's domain.
 - Uncertainty is low in rich environments because of plentiful resources.
 - It is high in poor environments because resources are few and limited, and organizations must compete for them.
- *Richness may range from rich to poor.*

Two reasons why environments may be poor:

- i) Location of the organization in a poor or underdeveloped country or a poor or underdeveloped part of a country.
- ii) Fierce competition for available resources.

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And then we have richness, now richness is in terms of the quantity of resources that are available to support the domain organizational domain. So, uncertainty is low in rich environments because of plenty of resources and it is high in poor environments because resources are few and limited. So, richness may range from rich to poor.

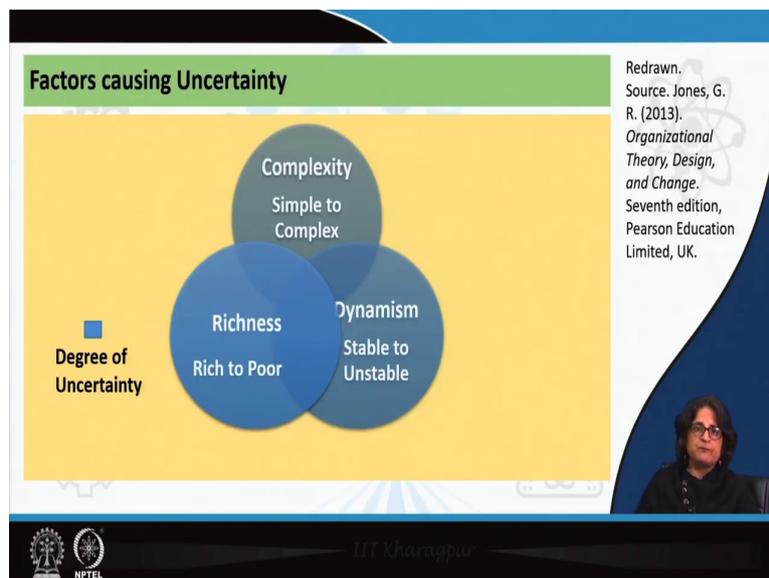
So, here we have environmental complexity which relates to the number of forces and the interdependency and the extent to which they can affect performance. We have environmental dynamism which refers to whether the changes are happening very quickly or gradually and whether they can be predicted or not. And there are environmental richness which asses in terms of the quantity of resources that are available.

Uncertainty is low in rich environments because of plentiful of resources and it is high in poor environments because the resources are few and limit and limited and companies must

compete for them. So, richness may be ranging from rich to poor. Now, two reasons why environments may be poor is, 1, there is fear the location of the organization in a poor or undeveloped country or a poor or an underdeveloped part of a country.

So, when a organization is located in a poor or an underdeveloped country or it is located in a poor or underdeveloped part of a country, you know then we will say that the environment is poor. Environment is also regarded or perceived to be poor, when the there is fierce competition for available resources, for scarce resources. So, in such a case we will say that environment is poor.

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Now, if you look at it and if you see these three factors according to Jones, complexity, richness, and dynamism, affect uncertainty right. And so, we say richness in terms of rich to

poor, we range it like that. Complexity, we range it in terms of simple to complex. And dynamism, we range in terms of stability to instability.

And if you see the degree of uncertainty wherever they are overlapping, there is huge amount of uncertainty which exists. So, the objective here is that organizations will be complex, will face complex environments, will face rich and poor environments, which also face dynamic you know environment. So, there is going to be environmental complexity, there is going to be dynamic environmental dynamism, and there is going to be environmental richness.

Environmental complexity, environmental richness, and environmental dynamism, they will all be together in the environment, they will all be together in the specific and the general forces facing an environment. And the all of these you know complexity or richness or dynamism in the environment will affect the performance of an organization, ok.

If you see here the degree of uncertainty becomes very very high when the environment is complex and when it is dynamic and or unstable and when it is poor. So, here it become it is becomes a very big cause of concern for organizations. If an organization is operating in a poor environment, it is operating in a highly complex environment, and it is operating in a highly unstable environment, the matter becomes very very you know serious for an organization.

And organizations must strive hard to bring about changes within itself to be able to meet up with environmental complexity, environmental richness, and oblique poorness and environmental dynamism. With this I come to a conclusion of this lecture.

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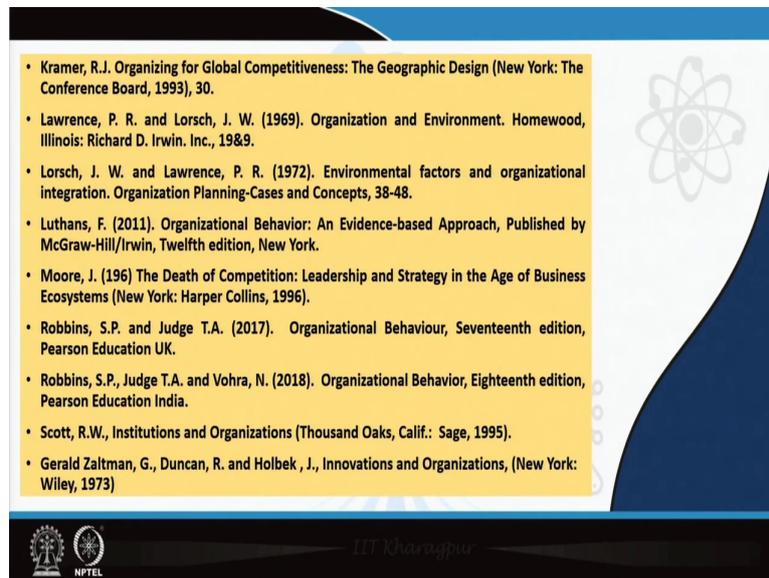
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CONCLUSION

This brings us to the end of the first lecture of Module 2.

We shall continue with the topic in the next lecture.

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So, we will continue with the topic on an Organizational Environment in the next lecture.

Thank you.