

Evaluation of Organization-Environment Interaction in the Context of Organization Theories

JEYHUN TALIBOV

DOKKUZ EYLUL UNIVERSITY, GRADUATE SCHOOL OF SOCIAL SCIENCES, IZMIR, TURKEY

Abstract: To achieve a common purpose, organizations as the systems are composed of individuals whose activities are coordinated deliberately. Both affecting the activity of organization and locating outside of organization's boundaries, an environment consists of political, economic, technological and social factors. The long term activity of an organization depends on the interrelated relations with the environment. In other words, for the survival and continual activity, an organization must adapt to its environment, and must agree its interest and target with the environmental factors. Therefore, the organization has to meet the requirements and demands of environment. Regarding this, the main purpose of this review article is to indicate the importance of organization-environment relations. Article has theoretical and practical value for academic and management practitioners as it encompasses literature that theoretically explains organization-environment relations.

Keywords: organization, environment, contingency theory, population-ecology, resource dependence theory, institutional theory.

1. INTRODUCTION

Since old times the organizations have been occurring as a result of cooperative work of people to reach some purposes. There are many examples of those purposeful, cooperative works such as an old pyramid and temples that were built by people B.C 3500. Although it might sound exaggerated that the organizations had been existed at the same time as the old societies and civilizations existed in an ancient times. Being one of existing subjects in the society, the organizations have some environment that encompasses everything out of their boundaries. The events and factors that arise in this environment affect the organizational activity both negatively and positively that creates some advantage and disadvantage to the organization. Those factors might be political, economical, cultural, social and technological. The organizational activity itself has also some impact on the environment in the community. Hence, the effect of organization and environment interaction has positive and negative results for the society. There are some theoretical approaches on organization-environment relationships. For instance, contingency approach claims that the contingency variables — environment, technology and size — determine organizational structures of companies; resource dependence theory states that an environment has an impact on the organization and the long term activity of organization depends on achieving resources and controlling those resources; population ecology tries to answer why there are different types of organizations in the environment; and institutional theory explores institutional issues of organizations. All these theories and approaches represent valuable applications or means on solving different issues of organization-environment relationships. Hence, in the context of this article the definition of organization, different aspects of environment, and various theoretical approaches on organization-environment relationships will be reviewed.

2. THE DEFINITION OF ORGANIZATION

Selznick (1948), defines formal organizations as a system whose activity are consciously coordinated and they are formed by two or more people's power [Selznick, 1948: 25]. The organizations are not physical buildings or entities that are registered to exist in the economy. They consist of interacting people who want to achieve some goals in the society [McShine & Glinow, 2008: 5]. Griffin (2012), explains that the organizations try to coordinate and structure the activity of people who want to reach common goal. Goals can involve concepts such as, profit (company), discovery of knowledge (university), national security (army), social satisfaction or various coordinated charity activity (charity organization) [Griffin, 2012: 4]. All organizations have individual character, culture and identity and they differ in feature, process and work methods [Mullins, 2010: 78]. Although there are some differences among those organizations, all organizations have three common characteristics [Robbins & Coulter, 2012: 6].

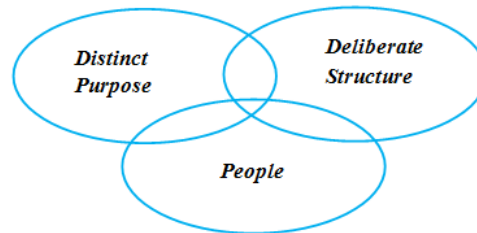


Fig. 1 Characteristics of Organizations

(Source: Adapted from Stephen P. Robbins & Mary Coulter, *Management, 11th Edition* 2012)

- 1) Organization has unique goal. This unique goal usually is achieved through the other goals that the organization hopes to realize.
- 2) All organizations consist of people. People perform required works in the organization so that the organizations can reach its goal.
- 3) Organization creates some purposeful structures so that workers can perform normally.

Generally speaking, people—who research the organizations—imagine the organizations as the social structures that the primary activity of those organizations is to keep people together to achieve some meaningful aims. Regarding this, the organizations itself should define goals. The organizations have to gather people and promote their activity. In other words, all organizations have to have staff to perform in the society. Moreover, all organizations must coordinate and monitor workers' who want to achieve some goals inside the organization. In addition, in order to achieve all these things, all organizations must find resource in the industrial environment. All organizations have to sell its products to the environment so that they can continue their long-term activity (Otherwise they cannot get resource from the environment and they can die) [Leblebici, 2008: 116]. The organizations which are open systems consisting of connected elements interact with the environment. The general framework of organization (which is part of environment) is depicted in the Figure 2 [Griffin & Mooread, 2013: 17]. Open systems have to interact with the environment in order to survive in the competitive industry. Closed systems do not need such interaction with their environment [a] Daft, 2010: 47].

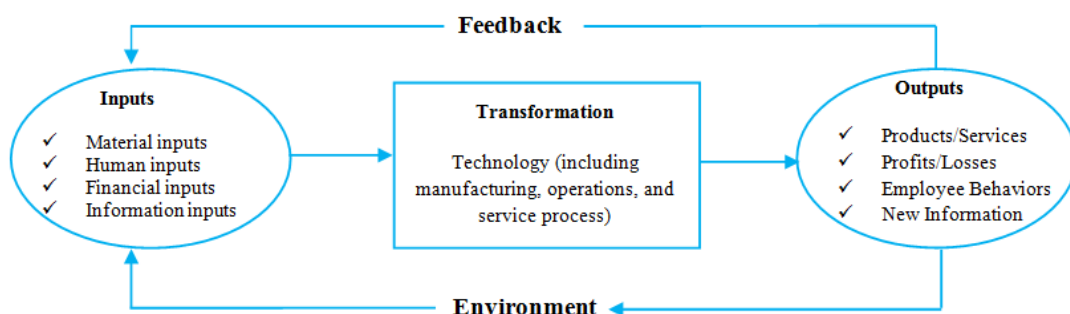


Fig. 2 The system approach to the organizations

(Source: Adapted from Ricky W. Griffin & George Moorhead, *Organizational Behavior, Managing People and Organizations, 11th Edition* 2013)

The organizations accept four kinds of inputs from the environment: material, human, finance and information. Then, the managers and workers combine and transform those inputs into products or information, behaviour of worker, profit/loss and extra information. After this transformation process, the organization releases them to the environment and gets feedback from the environment.

Hence, if everything goes smoothly from the perspective of system approach, the suppliers will appreciate the organizations as their customer and will provide the organization with the required resources, the workers will appreciate the opportunities in the organization and they will spend their energy and intellect in the transformation process, and the customers will value the outputs of the organization and they will demand those outputs [Schermerhorn et al, 2007: 10].

3. THE DIMENSIONS OF ENVIRONMENT

External environment concept involves factors, powers, situations and events that affect organizational performance. The quantity of uncertainty in the environment is the limitation that has an effect on the outputs of organization. The uncertainty of environment is characterized with the degree of complexity and change that exist in the environment. These two dimensions are depicted in the matrix in Figure 2. [Robbins et al, 2013: 30-35]. The events in the uncertain environment are more complex— that is, there is limited information to predict future events. As the uncertainty increases in the environment, it is difficult to analyze future and environmental conditions [Schermerhorn, 2013: 93].

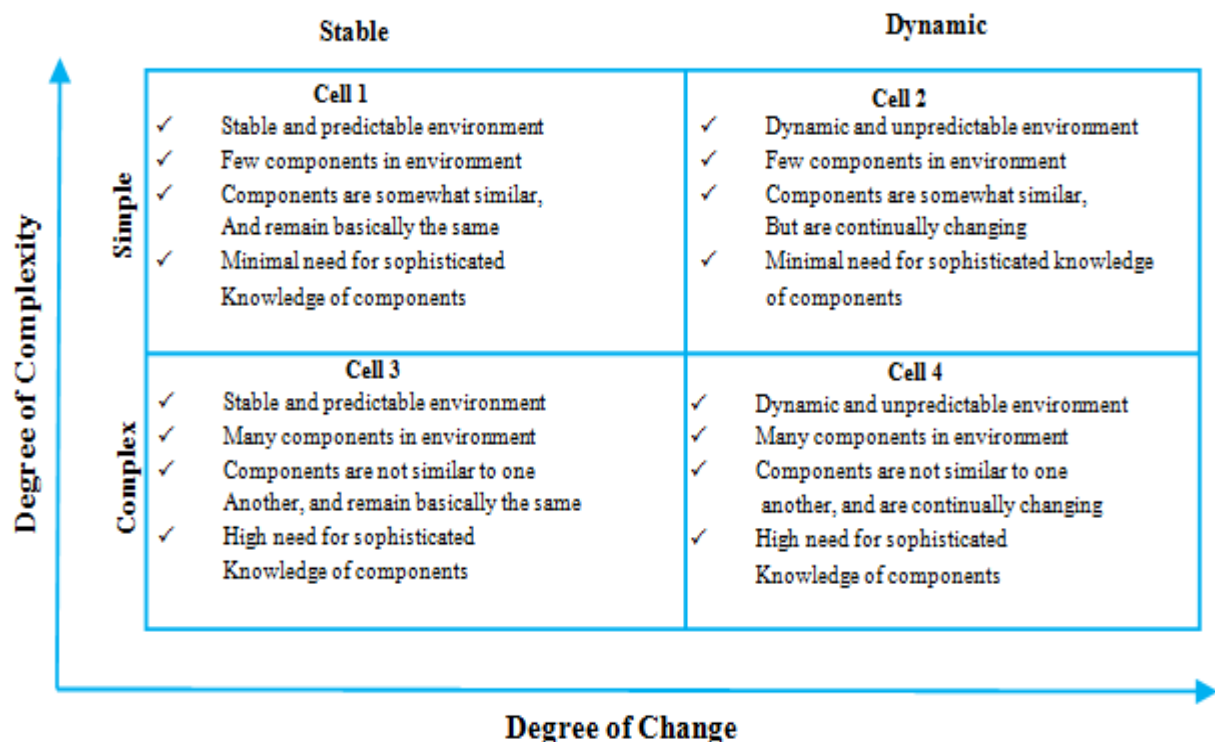


Fig. 3 Environmental Uncertainty Matrix

(Source: Adapted from Stephen P. Robbins, David A. Decenzo, M. Coulter, *Fundamentals of Management (8th Edition, 2013)*)

If we closely look at the matrix above we can answer the question “how an uncertain environment affects the managers?” This matrix is the combination of degree of complexity and change in the environment. In this matrix, Cell 1 (stable and simple) represents the low-level of uncertainty and Cell 4 (dynamic and complex) shows high degree of uncertainty in the environment. No doubt the managers would prefer to work in Cell one rather than in Cell four. The reason for this choice is that the low-level of uncertainty in the environment creates minimal effect to the performance of organization and it is easy to make decisions in those environments [Robbins & Coulter, 2012: 50].

As mentioned above the environment covers external powers and institutions that potentially affect organizational performance. We can see from the Figure 4 that in reality there are two external environments: general and work environment. Internal environment involves the conditions and powers that occur within the organizations. Of course, not all parts of environment are equally important for the organizations [Griffin, 2012: 60-61].

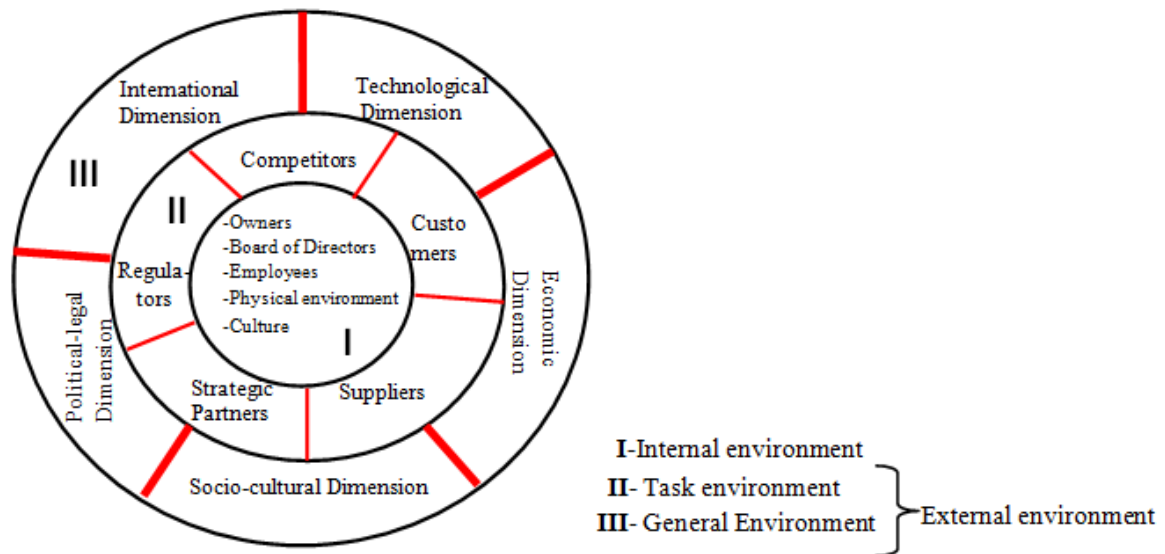


Fig. 4 The Organization and Its Environments

(Source: Adapted from Ricky W. Griffin, *Management, 11th Edition, 2012*)

By involving broad aspects and collection of powers, the general environment of organization forms general context of organizational environment. The general environment of some organizations consists of economy, technology, social-cultural, political-legal and international aspects. Work environment, which has specific effect on the organization, covers foreign companies or groups. This environment encompasses competitors, customers, suppliers, strategic partners, and regulators. And finally, the internal environment involves owners, board of directors, workers, physical work conditions, and culture. All these dimensions that directly and indirectly affect the organizational performance reflect conditions and events occurring in the environment [Griffin, 2012: 61].

4. ORGANIZATION-ENVIRONMENT INTERACTION

Since 1960s contemporary organization theoreticians and practitioners have been paying more attention to the importance of environment and there were occurred paradigm shift explaining the effects of environment on the organization. Hence, the first theories—contingency theory, resource dependence theory, population ecology and institutional theory— have been occurred on the organization-environment relationships.

Contingency theory do not accept the “single best way” view which most academicians and managers are looking for in the organizations. That view in the contingency theory are replaced with the view that the structure and operations in the organizations depend on contingency variables such as, environment, technology and size [Burnes, 2009: 87]. Contingency theory claims that individual organizations adapt to their environment. If there were incompatibility between the structure and contingency variables there would be low performance of organization. According to contingency theory, the organization would be effective if its structure compatible with the contingency factors and thus, the organization is adaptive to its environment [Soylu, 2008: 18]. Burns and Stalker (1961) states that in a stable environment internal organization is based on pure hierarchical procedures and the organizations become more formal. All decisions are made by centralized administration. They called this type of structure mechanical structure. But, in a changeable environment the internal organization is more loose and adaptive. The formal procedures are usually not taken into consideration by workers and managers. The responsibility hierarchy is usually not clear in an unstable environment. Burns and Stalker (1961) called this type of structure as an organic structure [Daft, 2010: 153].

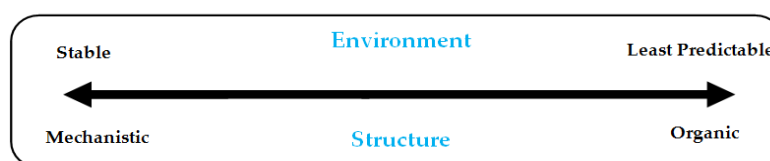


Fig. 5 The environment–structure continuum

(Source: Adapted from Bernard Burnes, *Managing Change, 5th Edition, 2009*)

The resource dependence theory characterizes the organization as an open system and the organizations depend on the outside situations that occur in the environment [Hillman et al, 2009: 1404]. This theory claims that the organization has to interact with the environment in order to get long-term survival. An environment has huge effect on the organization. Although the theory is based on the idea that the organization is controlled by the environment, the managers can use main elements of environment for their own benefit. By keeping control over resources such as raw materials, workforce, investment, supply, and information, the organization can get intervening power on environment, competitive prices, products and services, effective structures and activities in other organizations. The importance and scarcity degree of resources determine the quality and extend of dependence of organization from its environment [Yücel et al, 2006: 214]. In general, resource dependence theoreticians view the relationships among the organizations as an interchange of resources based on the collection of power. The organizations try to minimize their dependence through changing dependence relations or make other organization to depend from them [Ulrich & Barney, 1984: 472].

Another theory that considers organization-environment relationship is population ecology. This theory mainly based on "Darwinist" idea that "most healthy" deserves to survive. The bear idea of this theory is that the organizations can survive if it has control over resources in the environment. The organizations that have required resources they can grow; the organizations which cannot gain resources would be "expelled" by the environment [Pinto, 2005: 1]. Based on biological concepts, the population ecology views the organization as an open system that is monitored by the environment [Ulrich & Barney, 1984: 474]. The population ecologists do not interested in how the organizations compete over scarce resources to survive, but they are more curious about the behaviors of organizations that would be either successful or unsuccessful in the ecological niche. As is in C. Darwin's theory the variation, selection and retention determine the dynamics of natural selection [Hatch & Cunliffe, 2013: 72].

The population-ecology model assumes that the new organizations always appear in the population. So, the population is usually subject to continual change. The change process in the population of organization take place in three stages variation, selection and retention [b]Daft, 2010: 189-190]. This process can be generalized in Figure 6.

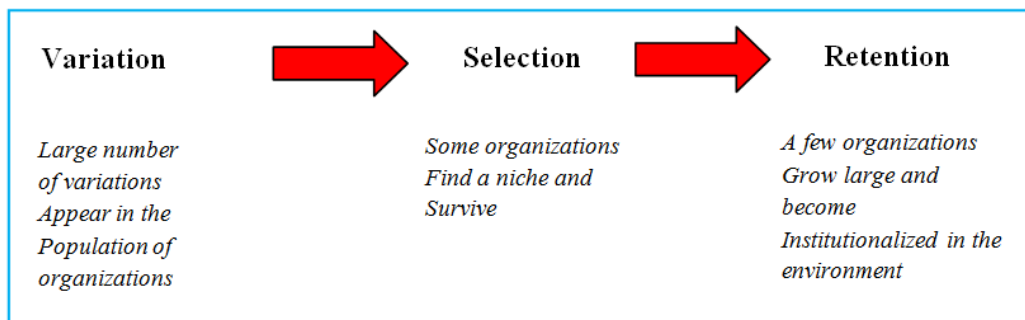


Fig. 6 Elements in the Population–Ecology Model of Organizations

(Source: Adapted from Richard L.Daft, *Organization Theory and Design, 10th Edition, South-Western Cengage Learning, 2010*)

The last theory that explains the organization-environment interaction is institutional theory. Institutional theoreticians support the idea that the longer term survival of organizations is related to the adaptation of organization to their institutional environment and getting legitimacy in that environment [Duman, 2012: 12]. In other words, institutional theory accept the idea that the organizations depend on both resources from the environment and legitimacy in the society in order to survive long-term in the industry [Hatch & Cunliffe, 2013: 74]. The institutional environment consists of norms and values of stockholders (customers, investors, partnerships, councils, government, society, etc.). Thus, for institutional view the organizations adopt the structures and process in order to satisfy others who are outside of their borders [b]Daft, 2010: 192].

In the context of institutional theory the organization-environment relationship could be explained by Isomorphism (similarity of organization in the population). Such that, the organizations need to look legitimate. To do this, their activities such as, structures and behaviors must refer to gaining the approval from the environment rather than to the internal technical effectiveness. Thus, the relations among organizations in the population of organizations are characterized by the power that makes the organizations to be similar to one another. Isomorphism in the literature is a common structures and approaches of organizations in the same industrial sector. Isomorphism is a similarity process of organizations that face the same conditions in the population (environment). Institutional adaptation process take places

through three means: mimetic forces occur to face uncertainty; coercive forces stem from political reasons; normative forces result from common professional training by university or colleges [b]Daft, 2010: 194].

	Mimetic	Coercive	Normative
Reason to become similar: Events:	Uncertainty Innovation visibility	Dependence Political law, rules, sanctions	Duty, obligation Professionalism— certification, accreditation
Social basis: Example:	Culturally supported Reengineering, benchmarking	Legal Pollution controls, school regulations	Moral Accounting standards, consultant training

Fig. 7 Three Mechanisms for Institutional Adaptation

(Source: Adapted from Richard L. Daft, *Organization Theory and Design, 10th Edition, South-Western Cengage Learning, 2010*)

Mimetic isomorphism is an impersonation of organization to mimic other successful organizations which very well have adapted to the environment. In this moment, the uncertainty in the environment is the key factor to realize the mimetic activity by the organization. When the technologies are not enough, targets are not clear and the environment puts pressure to the organization, then organization goes for taking less risk by decreasing expenses and mimicking the behavior of other organizations. The organizations mimic other organizations which are from the same population and have the same structures, strategies, resources and limitations. In other words, the equal sized organizations are alike in terms of structures and strategies; those organizations depend on the same environmental resources and affected by the same structural limitations. Coercive forces arise from formal and informal expectation of cultural aspect of society. In the context of coercive forces, the organizations have to pay attention to the elements and values of institutional environment in order to achieve long-term activity. From the point of view of organizations, the normative isomorphism is to behave according to professional standards and adapt to the innovations of educational organizations. The universities are the main sources of coercive isomorphism [Bolat & Seymen, 2006: 244-248]. I want to point out that the organizations do not have use all three mechanism—mimetic, coercive, normative—at the same time in order get legitimacy in the institutional environment.

5. CONCLUSION

As an open systems and social structures the organizations consist of people to achieve some common goals. The common features of organizations are that they have people whose aim are to help the organization to get its targets, and also the organizations have some structures that make possible people to work within the organization. According to system theory the organizations have to interact with their environment for the long-term survive. The organizations take inputs from the environment, after transformation process the environment give feedback to the organizations. This cyclic is a process that the organizations deal with during their activity in the community. So, we can say that there is continual interaction between environment and the organization.

The organizations have the environment that has multiple dimensions affecting their organizational activities. The surrounding environment might be simple or complex. The uncertainty is the key factor affecting the organizational performance because it is difficult to predict uncertainty in the future and create suitable strategies. Hence, all organizations have to deal with different aspects and uncertainties of environment.

According to the organizational literature, we can talk about two period of time which is crucial to the development of organization-environment relation theory. First, by the end of 1950s the systematic approach made possible to include environmental factor to the organizational studies. The first theory on environment-organization relations was contingency theory which was cause of many disputes among organizational researchers. This theory claims that the environment has impact on organizational structures and the organizations depend on contingency variables. Second, the theoretical approaches (resource dependence theory, population ecology and institutional theory) that have started since 1970s support the idea that the environment has tremendous effects on the organization and the theoretician of those theories focused their attention on those effects.

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