

Management Course I- Resource Dependence

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I was asked by an enthusiastic reader, who was long time ago a very good student of mine, if I could write a few articles synthesizing the complex field of organization theory and design. My first reaction was that he was asking for a formal course on the topic. His response was affirmative and suggested that I do such a task in three or four articles that he can later share with his working group. So my friend, Miguel Cruz, here is the short course of six articles, as you requested. The purpose is to see and understand organizations and make the case for the integration of different perspectives as necessary for full comprehension of the challenge of designing organizations. Each approach, model or perspective yields useable insights for managing and designing competitive organizations.

In these forthcoming six articles, I am fully using the foundation and work platform of the following scholars: Derek Pugh, *Modern Organization Theory: A Psychological and Sociological Study*; Clegg Stewart and David Dunkerley, *Organization and Control*; George Huber and William Glick, *Organizational Change and Redesign*; Oliver E. Williamson, *Organization Theory*; Charles Perrow, *A Sociological Theory of Organizations*; and Robert Hall, *Organizations*.

The Resource-Dependence Model is associated with the work of Jeffrey Pfeffer and Gerald R. Salancik in *The External Control of Organizations: A Resource Dependence Perspective*. This approach has strong ties to what is known to researchers as the political-economy model and to the dependence-exchange approach. A core argument here is that decisions are made within the internal political context of the organization. The decisions deal with the environmental or market conditions faced by the organization. They will attempt to manipulate external forces and realities to their own advantage. The external role of leaders is vital in this undertaking.

A basic assumption is that no organization is able to generate all the various resources that it needs, not every possible activity can be performed within a single organization to make it self-sustaining. The fundamental point is that organizations are dependent on the external environment for resources. Even apparent self-sustaining organizations, such as monasteries, have to recruit new members or they will go out of existence. The resources

that are needed can be in the form of raw materials, finances, human capital, services, operations or distributions that the organization cannot perform alone. Resources would also include technological innovations. The sources of resources in the environment are other organizations, thus the resource-dependence approach can be conceptualized as an interorganizational theory of management.

Since the resource-dependence approach portrays organizations as active participants in their relationships with the environment, the working proposition is very powerful: **Leaders and managers should manage their environments as well as their organizations and units.** The former activity may be more important than the later. This is what my great professor Talcott Parsons (*Structure and Processes in Modern Society*) meant when stressing that in this dynamic, organizations are linked to the social structure by the undertakings of their leaders and top executives.

A key element of the resource-dependence model is strategic choice, meaning that a decision is made among a set of alternatives in regard to the strategy that the organization will utilize in its dealings with the environment. Then, the criteria by which choices are made and by which structure, design or arrangement are determined are both important and problematic. This model stresses the importance of internal power arrangements in the determination of choices made. Both internal arrangements and the demands of external groups are central to the decision-making.

This theory of management recommends that organizations get very active in influencing their environments. This will contribute to their adaption among other organizations by way of fairly planned responses to environmental contingencies (things that occur and cannot be specifically anticipated).

The challenge is for managing the costs of interdependence, ambiguity and uncertainty. This is done through mergers, cooperation and sharing projects, and human capital.

The conglomerate corporation is an example of an organizational design brought about by strategic choices. However, this design has been disappearing or selected out due to its large scale, decision-making concentration, slowness, distance to the customer, and so on.

There are, at least, three ways for making choices with respect to the environment.

1. Decision-makers in organizations have autonomy. This autonomy is always much greater than what it seems when relating to the environment.

This is the case when leaders make the decision to try new markets or abandon old ones.

2. Attempting to manipulate the environment by creating a demand for products and services. They may enter into arrangements with other organizations to regulate competition.
3. Defining reality in terms of their culture, values and backgrounds.

An additional striking proposition is the following: **The environment or the market is perceived, interpreted, evaluated, and influenced by leaders within organizations. The perceptions become the reality, and the environmental conditions are important only as they are perceived by leaders.** Here the condition of homogeneity vis a vis heterogeneity of backgrounds and disciplines of decision-makers become key dimensions for designing and managing organizations. Different or diverse actors can perceive the same reality in a different manner. The environment is acted upon by leaders on the basis of their perceptions, interpretations, and evaluations.

Different organizations will act differently toward the same environmental conditions, if the perceptions are different!

Another aspect of the resource-dependence approach is the manner in which the preservation of the design or the administrative structure takes place. The mechanisms to retain previous successful structures are the following:

- Bureaucratization pointing toward rules, regulations, policies, performance protocols for ensuring that the past forms are retained.
- Socialization processes making people to experience certain rituals and ceremonies. Part of the culture thing involves folk wisdom and operating traditions that persist over time.
- When the leadership structure of the organization tends to be consistent over time, providing in this way prolonged or predictable continuity.

The resource-dependence perspective focuses on the manner in which organizations deal with the environment, the market and their surprises!

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