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have changed during the period 1995–2003 as its managers have changed its business to better manage its environment (Table 1-2).

**Operative goals** are specific long- and short-term goals that guide managers and employees as they perform the work of the organization. The goals listed in Table 1-1 are operative goals that managers can use to evaluate organizational effectiveness. Managers can use operative goals to measure how well they are managing the environment. Is market share increasing or decreasing? Is the cost of inputs rising or falling? Similarly, they can measure how well the organization is functioning by measuring how long it takes to make a decision or how great conflict is between organizational members. Finally, they can measure how efficient they are by creating operative goals that allow them to “benchmark” themselves against their competitors—that is, compare their competitors’ cost and quality achievements with their own. GM used Toyota’s cost and quality as benchmarks for what it sought to achieve in its Saturn plant.

**Operative goals**  
Specific long and short-term goals that guide managers and employees as they perform the work of the organization.

An organization may be effective in one area but not in others.<sup>37</sup> For example, in 1975 GM was a very efficient producer of full-size cars. Few other companies could produce a full-size car at as low a cost per unit. GM, however, was not an effective organization, because it was not producing cars that people wanted and thus was not managing its external environment. Nobody wanted to buy a full-size gas guzzler when oil cost \$35 a barrel and gasoline prices were soaring. Thus, GM was very ineffective when judged by measures of being innovative or quick in responding to customers’ changing needs. Customers did not want GM cars, GM dealers and suppliers were suffering, and the company’s performance was declining rapidly. How did GM get into this unfortunate position?

One possibility is that GM was ineffective on the internal systems/innovation dimension of effectiveness. GM was a successful global company at this time. Its European operation, which had an extensive history of innovation in small-car production, was one of Europe’s largest automobile companies. Why then did GM not transplant its skills and competences in small-car production to the United States? The answer is that GM failed to coordinate and utilize its internal resources effectively. The company was dominated by a few powerful top managers who had no background or expertise in small-car production and who would not heed the message being sent by U.S. consumers, who were buying large numbers of small foreign cars. The dominant

**Table 1-2** Amazon.com’s Mission and Goals, 1995–2003

**Where We Started**

Amazon.com opened its virtual doors in July 1995 with a mission to use the Internet to transform book buying into the fastest, easiest, and most enjoyable shopping experience possible. While our customer base and product offerings have grown considerably since our early days, we still maintain our founding commitment to customer satisfaction and the delivery of an educational and inspiring shopping experience.

**Where We Are Today**

Today, Amazon.com is the place to find and discover anything you want to buy on line. We’re very proud that millions of people in more than 220 countries have made us the leading online shopping site. We have Earth’s Biggest Selection of products, including free electronic greeting cards, online auctions, and millions of books, CDs, videos, DVDs, toys and games, electronics, kitchenware, computers and more.



huge increase in the price of drugs during the 1990s, however, the government moved to control drug prices. That move increased the complexity of the environment and thus made pharmaceutical organizations less certain about it. To manage complexity and slow the pace of change, the industry successfully lobbied Congress to safeguard its interests. Throughout the rest of this chapter, we discuss in more detail the strategies that organizations pursue to manage their environments. First, however, it is useful to examine the nature of the environment that confronted Jeff Bezos after he founded Amazon.com.<sup>11</sup> (See Focus on New Information Technology.)

### FOCUS ON NEW INFORMATION TECHNOLOGY: Amazon.com, Part 2

The book distribution and book selling industry was changed forever in July 1995 when Jeff Bezos brought virtual bookseller Amazon.com on line. His new company changed the whole nature of the environment. Previously, book publishers had sold their books either indirectly to book wholesalers who supplied small book stores or directly to large book chains like Barnes & Noble or Borders, or to book-of-the-month clubs. There were so many book publishers and so many book sellers that the industry was relatively stable, with both large and small bookstores enjoying a comfortable niche in the market. In this relatively stable, simple, rich environment uncertainty was low and all companies enjoyed good revenues and profits.

Amazon.com's electronic approach both to buying and selling books changed all this. First, since it was able to offer customers quick access to all of the over 1.5 million books in print and it discounted the prices of its books, this led to a higher level of industry competition and made the industry environment poorer. Second, since it also negotiated directly with the large book publishers over price and supply because it wanted to get books quickly to its customers, this led to an increase in the complexity of the environment: all players—book publishers, wholesalers, stores, and customers—became more closely linked. Third, as a result of these factors, and continuing changes in information technology, the environment became more unstable and resources harder to secure.

What have been the results of the increase in uncertainty in the environment these changes have brought? First, these changes directly threatened the prosperity of small bookstores, many of which have closed their doors and left the business because they can't compete with on-line bookstores. Second, the large book sellers like Barnes & Noble and Borders have started their own

on-line bookstores to compete with Amazon.com. Third, Amazon.com and the other on-line bookstores have been engaged in a price war. The prices of books have been further discounted, resulting in an even more competitive and uncertain environment.

IT is not specialized to any one country or world region. Access to the Internet and the World Wide Web means that an on-line company can sell to customers around the world, providing of course that its products are suitable or can be customized to the needs of overseas competitors. Jeff Bezos was quick to realize that his U.S.-based Amazon.com IT could be profitably customized and transferred to other countries to sell books. However, his ability to enter new overseas markets was limited by one major factor: Amazon.com offers its customers the biggest selection of books written in the English language; he had to find overseas customers who could read English. Where to locate them?

An obvious first choice would be the United Kingdom, since its population speaks English, then other English-speaking nations such as Australia, New Zealand, India, and Germany. Germany? Of probably of any nation in the world, Germany has the highest proportion of English as a second language speakers because English is taught in all its high schools.

So far, Bezos has replicated its value-creation functions and customized its IT for two nations: In the United Kingdom it bought the company Bookpages, installed its proprietary technology and renamed it Amazon.co.uk in 1996. In Germany, it acquired a new on-line venture ABC Bücherdienst/Telebuch.de and created Amazon.de in 1998.<sup>12</sup> Analysts wonder which nations will be next, especially if Bezos decides to customize Amazon.com's technology for other languages such as Spanish or Chinese. Already Amazon.com ships its English language books to anywhere in the world.



## FOCUS ON NEW INFORMATION TECHNOLOGY

### Amazon.com, Part 3

How did Jeff Bezos address these design challenges given his need to create a structure to manage an e-commerce business which operated through the Internet and never saw its customers, but whose mission was to provide customer's great selection at low prices? Since the success of his venture depended upon providing high quality customer responsiveness it was vital that customers found Amazon.com's 1-Click (SM) information system Internet software easy and convenient to use and his service reliable. So his design choices were driven by the need to ensure his software linked customers to the organization most effectively.

First, he quickly realized that customer support was the most vital link between customer and organization, so to ensure good customer service he decentralized control and empowered his employees to find a way of meeting customers needs quickly. Second, realizing that customers wanted the book quickly he moved quickly to develop an efficient distribution and shipping system. Essentially, his main problem was handling inputs into the system (customer requests) and outputs (delivered books). So, he developed information systems to standardize the work or throughput process to

increase efficiency, but also encouraged mutual adjustment at the input or customer end to improve customers responsiveness—employees were able to manage exceptions such as lost orders or confused customers as the need arose. (Note that Amazon's information systems also play the dominant role in integrating across functions in the organization; they provide the backbone for the company's value creation activities.) Third, because Amazon.com employs a relatively small number of people—about 2,500 worldwide—Bezos was able to make great use of socialization to coordinate and motivate his employees. All Amazon.com employees are carefully selected and socialized by the other members of their functions so that they quickly learn their organizational roles and—most important—Amazon's important norm of providing excellent customer service. Finally, to ensure Amazon.com's employees are motivated to provide the best possible customer service, Bezos gives all employees stock in the company. Employees currently own 10 percent of their company. Amazon.com's rapid growth suggests that Bezos has designed an effective organizational structure.

## MANAGERIAL IMPLICATIONS

### The Design Challenges

1. To see whether there is enough integration between your department and the departments that you interact with the most, create a map of the principal integrating mechanisms in use. If there is not enough integration, develop new integrating mechanisms that will provide the extra coordination needed to improve performance.
2. Determine which levels in the managerial hierarchy have responsibility for approving which decisions. Use your findings to decide how centralized or decentralized decision making is in your organization. Discuss your conclusions with your peers, subordinates, and superior to ascertain whether the distribution of authority best suits the needs of your organization.
3. Make a list of your principal tasks and role responsibilities, then list the rules and SOPs that specify how you are to perform your duties. Using this information, decide how appropriate the rules and SOPs are, and suggest ways of changing them so that you can perform more effectively. If you are a manager, perform this analysis for your department to improve its effectiveness and to make sure the rules are necessary and efficient.
4. Be aware of the informal norms and values that influence the way members of your work group or department behave. Try to account for the origin of these norms and values and the way they affect behavior. Examine whether they fulfill a useful function in your organization. If they do, try to reinforce them. If they do not, develop a plan for creating new norms and values that will enhance effectiveness.

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were grouped into the dining-room function, and chefs and kitchen staff were grouped into the kitchen function (see Figure 4-1). Similarly, research and development scientists at companies like Amazon.com and Johnson & Johnson are grouped in specialized laboratories because they use the same skills and resources, and accountants are grouped in an accounting function.

Functional structure is the bedrock of horizontal differentiation. An organization groups tasks into functions to increase the effectiveness with which it achieves its principal goal: providing customers with high-quality products at reasonable prices.<sup>1</sup> As functions specialize, skills and abilities improve, and the core competences that give an organization a competitive advantage emerge. Different functions emerge as an organization responds to increasingly complex task requirements (see Figure 6-1). The owner of a very small business, for example, might hire outside specialists to handle accounting and marketing. As an organization grows in size and complexity, however, it normally develops those functions internally because handling accounting and marketing itself becomes more efficient than hiring outside contractors. This is how organizations become more complex as they grow: They develop not only more functions, but also more specialization within each function. (They also become vertically differentiated and develop a hierarchy of authority, as we saw in Chapter 5.) A good example of the way in which horizontal differentiation leads to the development of a functional structure is provided by Amazon.com.

## FOCUS ON NEW INFORMATION TECHNOLOGY

### Amazon.com, Part 4

As we saw in Chapter 1, Jeff Bezos, the founder of Amazon.com, achieved phenomenal success with his concept for an on-line bookstore. In large part, his success has been due to the functional structure that he created for his company that has allowed Amazon.com's proprietary Internet software to be used so effectively to link employees to customers (see Figure 6-1).

First, Bezos created the research and development department to continue to develop and improve the in-house software that he had initially developed for Internet-based retailing. Then, he established the information systems department to handle the day-to-day implementation of these systems and to manage the interface between the customer and the organization. Third, he created the materials management/logistics department to devise the most cost-efficient ways to obtain books from book publishers and book distributors and then to ship them quickly to customers. (Currently, the department is trying to develop new

information systems to ensure one-day shipping to customers.) Finally, as Amazon.com grew, he created a separate financial department and a strategic planning department to help chart the company's future. As we will see in later chapters, these departments have helped Amazon to expand into providing many other kinds of products for its customers such as music CDs, electronics, and gifts.

By focusing on the best way to divide into functions the total task facing the organization (the creation of value for his customers), and recruiting experienced functional managers from other organizations like Walmart to run them, Bezos created core competences that allowed his on-line bookstore to compete effectively with bricks and mortar bookstores. Many stores are going out of business because they can't provide customers with the sheer range of books and convenient service as Amazon.com. Amazon.com is able to do this because of the way it has developed a structure to effectively manage its new information technology.



pursue both strategies simultaneously and produce differentiated products at low cost.<sup>26</sup> Doing so is extremely difficult and requires an exceptionally strong set of core competences. McDonald's is an organization that has successfully pursued both strategies simultaneously. McDonald's has developed a unique brand-name reputation by means of sophisticated advertising and marketing and has developed low-cost skills in its manufacturing and distribution functions. Moreover, McDonald's has used many of the interorganizational strategies discussed in Chapter 3 to pursue both strategies simultaneously. It has formed strategic alliances with suppliers and obtains bread, rolls, and restaurant fittings (tables, chairs, lights, and so on) from companies with which it has long-term contracts or in which it has a minority ownership interest. McDonald's uses franchising to maintain the reliability and efficiency of its retail outlets and owns many of the sources of its inputs, such as herds of cattle in Brazil.

Over time, an organization has to change its business-level strategy to match changes in its environment. New technological developments, foreign competitors, and changes in customer needs and tastes may all affect the way an organization tries to compete for resources. Amazon.com offers an interesting example of the way changes in information technology affect a company's choice of business-level strategy.

### FOCUS ON NEW INFORMATION TECHNOLOGY

#### Amazon.com, Part 5

Before the advent of online bookstores, competition among bookstores was limited at best. The market was essentially divided between two kinds of competitors: (1) large bookstore chains such as Barnes & Noble and Borders whose stores were often located in malls and which offered customers the latest lines of best-selling books and (2), independent bookstores that in large cities could be very large and offer a huge selection of books, or could be the small, specialized bookstores found in most cities in the United States. The large bookstore chains used their huge purchasing power to negotiate low prices with book publishers and they pursued a low-cost strategy, often offering price discounts. Bookstores which offered a large selection of books (compared to the chains) or which specialized in some way pursued a differentiation strategy. Thus, the different kinds of bookstores were not in competition and all were able to make comfortable profits.

Jeff Bezos's idea of using new Internet information technology to sell books on line made it possible to develop a simultaneous low-cost and differentiation strategy and thus outperform existing bookstore com-

petitors. First, on the differentiation side, the ability of a computerized on-line catalogue to both describe and make available to customers every book in the English language offered customers a selection that could not be rivaled even by the largest bookstores in cities like New York and San Francisco. Second, on the low-cost side, his use of information technology to interface inexpensively with book publishers, distributors and customers allowed him to offer these customers books at discounted prices, and to get them quickly to customers as well.

Small wonder then that this new low-cost/differentiation strategy has given Amazon.com a competitive advantage over its rivals. Many small and large stand-alone bookstores have exited the market; the large chains have responded by opening up book superstores and by going on line themselves. However, they have yet to repeat Amazon.com's success story; Amazon.com has over 18 million customers in its database and claims that over 45 percent of its business is from repeat customers. Its share price has soared, as investors believe it possesses the business-level strategy that will dominate in the years ahead.

As Amazon.com's strategy suggests, organizations have to defend, protect, and sometimes alter the sources of their competitive advantage if they are to successfully control their environment in the long run. Industry leaders, such as Amazon.com,

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tions to exploit new niches or find new ways of serving existing niches more efficiently. Over time, entrepreneurship leads to a continuous cycle of organizational birth as new organizations are founded to exploit new opportunities in the environment. Amazon.com offers a good illustration of this process.

### THE INSTITUTIONAL THEORY OF ORGANIZATIONAL GROWTH

If an organization survives the birth stage of the organizational life cycle, what factors affect its search for a fit with the environment? Organizations seek to change themselves to obtain control over scarce resources and reduce uncertainty. They can increase their control over resources by growing and becoming larger.

**Organizational growth** is the life cycle stage in which organizations develop value-creation skills and competences that allow them to acquire additional resources. Growth allows an organization to increase its division of labor and specialization and thus develop a competitive advantage. An organization that is able to acquire

**Organizational growth** The life-cycle stage in which organizations develop value-creation skills and competences that allow them to acquire additional resources.

#### FOCUS ON NEW INFORMATION TECHNOLOGY Amazon.com, Part 6

Jeff Bezos was the first entrepreneur both to realize that the Internet could be used to effectively sell books and to act on the opportunity by establishing Amazon.com. As such he gave his company a first-mover advantage over rivals, which has been an important component of its strong position in the marketplace. Being early, Amazon.com was able to capture customer attention, and keep their loyalty—45 percent of its business is repeat business. Moreover, Amazon.com's very success has made it difficult for new competitors to enter the market and the birth rate into the industry has tapered off substantially.

First, new "unknown" competitors face the major hurdle of attracting customers to their Web sites rather than to Amazon.com's. Second, even "known" competitors such as Barnes & Noble and Borders, which have imitated Amazon's strategy and developed their own on-line bookstores, have faced the problem of luring away Amazon's customer base and securing their position. Being late entrants, these organizations essentially followed a K-strategy, while Amazon.com followed an r-strategy. This delay in going on-line has cost them dearly in the current highly competitive environment.

Indeed, the process of natural selection has been operating in the book selling industry. As we have seen in earlier chapters, many small, specialized bookstores

have closed their doors. Even large bricks and mortar bookstores that may carry hundreds of thousands of books have been unable to compete with an on-line bookstore that can offer customers all 1.5 million books in print at a 10 percent price discount.

In the spring of 1999 a new round of competition took place in the book-selling industry when Amazon.com and its competitors announced a 50 percent discount off the price of new best selling books in the attempt to keep and grow their market share. Amazon.com and its largest competitors, Barnes & Noble and Borders, were locked in a fierce battle to see who would dominate the book-selling industry in the new millenium.

Amazon.com won the on-line book-selling war when Barnes & Noble gave up the struggle and withdrew from the market. However, this did not provide Amazon with enough additional resources to survive and become profitable. Amazon.com was forced to change its strategy and to try to find more market niches in which to compete. It expanded its offerings, and as we saw in an earlier chapter, it started to sell every kind of product and moved from being a specialist on-line bookstore to a generalist on-line retailer. The changes to its strategy and structure have allowed it to survive; however, in 2002 it was still only marginally profitable and its future is still in doubt.



IT also allows for an increase in **boundary-spanning activity**—interacting with individuals and groups outside the organization to obtain valuable information and knowledge from the environment—that helps promote innovation. IT allows an employee to search for and absorb new knowledge that is relevant to a problem at hand.<sup>43</sup> For example, in complex organizations employees working on one task or project may wish to obtain useful knowledge residing in other operating units, but the employees may not know whether or not this knowledge exists and where it might reside. IT, through knowledge management systems, allows employees to search their network for information.

IT has many other useful properties that can promote incremental and quantum technological change. IT allows researchers and planners to communicate more easily and less expensively across time and geographic location; to communicate more rapidly and with greater precision to targeted groups; to more selectively control access and participation in a communication event or network; to more rapidly and selectively access information created outside the organization; to more rapidly and accurately combine and reconfigure information; and to more concisely store and quickly use experts' judgments and decision models. All these qualities can enhance creativity and make project management more effective. Amazon.com is a company using IT to make creative decisions and broaden its product line, becoming a consultant itself and selling its own creative ideas.

## FOCUS ON NEW INFORMATION TECHNOLOGY

### Amazon.com, Part 7

Jeff Bezos's use of the Internet to sell books can probably be regarded as a quantum innovation in this industry. However, innovation at Amazon.com has not stopped there. Bezos and his top-management team have engaged in a series of incremental innovations to grow and expand Amazon.com's core competences as an on-line retailer.<sup>44</sup>

While Bezos initially chose to focus on selling books, he soon realized that Amazon.com's information technology could be used to sell other kinds of products. He began to search for products that could be sold profitably over the Internet. First, he realized CDs were a natural product extension to offer customers, and Amazon.com announced its intention of becoming the "earth's biggest book and music store." Then Amazon opened a holiday gift store to entice customers to send gifts as well as books and CDs as presents, and offered a gift-wrapping service as well as launched a free electronic greeting card service to announce the arrival of the Amazon gift. Finally, realizing the popularity of on-line auctions, Bezos moved to enter this market by purchasing Livebid.com, the Internet's only provider of live on-line auctions, and

then in 1999 entered into an agreement with Sotheby's, the famous auction house.

Since 2000, Bezos has moved aggressively to use Amazon.com's developing expertise in the virtual storefront to forge alliances with companies like Toys R Us, Office Depot, Circuit City, Target and many others to allow their customers to buy at Amazon.com but to pick up purchases from their stores. It has also offered a consulting service to organizations that wish to develop the customer-friendly storefront that Amazon.com is famous for. As discussed in previous chapters, it has also used its IT competences to widen its product line, and to keep its line up to date with regard to the ongoing changes in electronics and digital technology that are constantly altering the mix of products it offers in its virtual store.

As a result of these incremental innovations to Amazon.com's business, Bezos has transformed his company from "on-line book seller" to "leading Internet product provider." The company's share price rose by 40 percent in 2002, after plunging during the dot.com bust, as investors believed that Amazon.com was poised to become profitable in the on-line retail business.