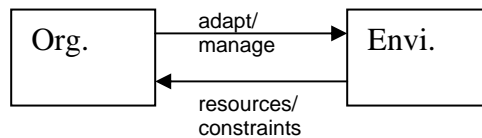

Week 2: Resource Dependence Theory

Last time, we talked about Contingency Theory, which holds that organizational design is contingent on technology, size, and environment. In this paradigm, environmental uncertainty and turbulence are noxious to organizations (Scott, 2007). According to Lawrence & Lorsch (1967), each subunit should align its organization design with its specific environment (e.g. R&D vs. Sales departments).

The contingency theory was swept aside in mid-1970s, during which there was a mini-paradigmatic revolution. Most works in major journals since 1975's have revolved around these 4 approaches. Each provides a different orienting problem.

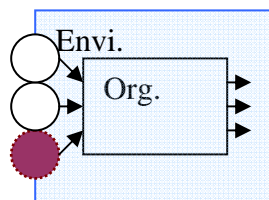
1. Pfeffer & Salancik (1978)'s External Control of Organizations - Resource Dependence Theory.
2. Williamson (1975)'s Markets and Hierarchies: Transaction Cost Economics (it reaches many similar predictions as RDT does.)
3. Meyer & Rowan (1977): Institutional Perspective
4. Hannan & Freeman (1977): Ecological Perspective - why is there so much diversity in the world?

RDT assumes that organizations are rational and adaptive; they also need resources from the environment and face constraints from the environment (Pfeffer & Salancik 1978).



This dependence leads to power imbalance and control attempts. Especially if resources are critical and high in uncertainty, organizations must do something to reduce resource dependencies and reduce uncertainty:

1. Buffering: e.g. you may try to level demand fluctuation out by making your offerings more attractive during the low-season, and more expensive in the high-season.
2. Bridging: e.g. contracting, ****cooptation****



If the resources are unique/uncertain, you need to build a bridge through cooptation, the kind of which should correspond to the level of *uncertainty*.

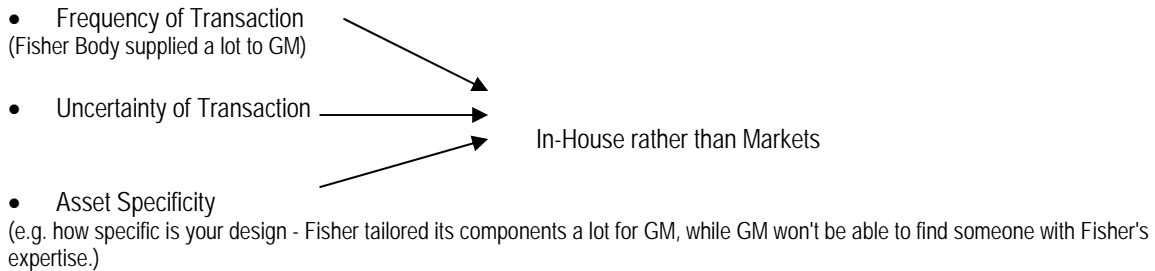
- Agreement
- Joint Ventures
- Acquisitions

Anyhow, this theory is incomplete; it's not entirely descriptive nor normative, particularly in terms of the dynamic aspects.

There isn't much difference between the above part of RDT and TCE.

TCE concerns itself with the decision of whether the transactions should be in-house or through the market mechanisms.

3 major factors:



There was a hold-up problem for both Fisher and GM, as both depended on each other a lot, and the switching costs were high. Thus, GM decided to internalize Fisher. This concept also applies to the case of the Chocolate supplier we discussed in class.

Another Example of Cooptation: PG&E

The main problem used to be whether they could generate enough power or not. Thus, they had the engineers on the board to have more control on the technology.

Since 1980's, the main problem was no longer the technology but the regulations. Thus, they had more attorneys on the board.

Networks: the analyses are usually about RDT's leverage and dependence.

Ron Burt's Structural Holes provided substance (RDT-compatible) into network analysis.

A broker spans structural holes among other actors. Brokers will have more power if adjacent actors have no direct links with one another.

Major Assumptions:

1. Maintenance of ties is costly.
2. Homophily: Similar people are more likely to interact.
3. Self-interest and Opportunistic Actors

A contrasting favorable kind of networks is *Coleman's* Dense network. Dense communities provide extreme "sanctioning power" and trust. It's characterized by high cohesion, multiplex ties, high sanctioning power, and high identity reputation.

Uzzi and *Granovetter* posited a reversal view of networks and TCE: Once people get to know each other as a person, they are less likely to exercise power against you. There's empathy.

Would globalization result in holes or dense networks? It could be both.

eBay started out as an arena of structural holes, but then introduced the ratings and community system to enhance the sanction power.

Papers:

Ingram's Shipbuilding Industry:

Collusion Benefits (in this case, the collective response against the labor market, etc.)

There are some problems with the measures - whether they really measure what you want to measure. Some of the concerns were:

ties = amount of collusion?

How effective was the collusion? Some people might not have been on board; if that's the case, the collusion couldn't have happened.

There might be declining effects of the strength of the ties as well.

Knowledge-Sharing Benefits

Measuring Issue: # of ties = more knowledge sharing among competitors? Would 200 ties always be better than 5 ties? No.

What'd you do with these data and measures?

We want the optimal number of ties, but not always the maximum number of ties.

There are maintenance costs associated with having the ties. Also, probably centrality and non-redundant ties would be better measures because they represent beneficial, informational ties without the unnecessary maintenance costs from redundant ties.

Also, connectedness provides stability, but might be harmful to your innovation. Even Microsoft doesn't have ties with every other firm. There's an optimal amount of sharing.

Hayward & Boeker's Power and Conflicts of Interests in Professional Firms:

- Issue of internal power distribution. The power of the corporate finance division is related to how much the bank's revenues come from that division. This is similar to the case of newspapers' editors, who wouldn't want to write harsh reviews on the newspapers' major clients.

Haunschild's When do Interlocks Matter?:

Assumed that information about M&A is hard to obtain. The question is whom you should take on board.

- experts, especially investment bankers.

However, this paper only takes into account the other companies' M&A activities and certain informational source variables.

The causal effects are far-fetched. Why do you have to rely so much on other companies' board members for information?