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Information systems organizations and strategy

Chapter 3: Information Systems, Organizations, and Strategy - A Study on Building and Using IS Successfully The chapter highlights the crucial relationship between information systems and organizations, focusing on how managers can leverage this connection to drive business success. The main topics include: 1. Understanding organizational features that are essential for building and using information systems effectively. 2. Exploring the impact of information systems on organizations. 3. Analyzing how strategic frameworks like Porter's competitive forces model, value chain model, synergies, core competencies, and network economics help companies develop competitive strategies using information systems. Additionally, the chapter delves into challenges posed by strategic information systems and offers insights on addressing these issues. Organizations interact with the environment by producing goods and services, which in turn provide inputs for future production. This cyclical process is shown in Figure 3-2, highlighting the technical microeconomic definition of an organization. The behavioral view of organizations focuses on group dynamics, values, and structures, as depicted in Figure 3-3. Key characteristics of organizations include: * Hierarchical structure * Impartial decision-making processes * Adherence to efficiency principles * Established routines and business processes * Organizational politics, culture, environments, and structures Routines are standardized operating procedures that handle expected situations, while business processes are collections of routines that make up the organization's workflow. A collection of business processes constitutes a business firm. Organizations comprise individual routines and behaviors, which combine to form business processes and ultimately the entire business firm. To achieve high performance, new information systems must adapt existing routines and business processes. The presence of organizational politics can hinder change, as divergent viewpoints lead to conflict and competition. Organizational culture defines goals, products, and production methods, serving as both a unifying force and a constraint on change. Organizations interact with their environments in a reciprocal relationship, influencing and being influenced by the social and physical environment. Information systems play a crucial role in environmental scanning, acting as a lens to navigate changing external conditions. FIGURES 3-2 TO 3-4 AND TABLES 3.8 TO 3.15 ILLUSTRATE THESE KEY CONCEPTS IN THE CONTEXT OF MANAGEMENT INFORMATION SYSTEMS. Information Systems play a crucial role in shaping organizational capabilities and influencing environmental changes. Organizations have the power to adapt their environments and make deliberate decisions to transform them entirely. Technology is instrumental in helping organizations recognize environmental shifts and take action on their surroundings. Organizations and their environments have a reciprocal relationship, with each influencing the other. Disruptive technologies, such as personal computers and the Internet, can revolutionize businesses and industries, forcing companies to adapt quickly or risk being left behind. First movers, who develop innovative technologies, must balance their need for innovation with the potential risks of disrupting existing markets. Organizations exhibit various structural forms, including entrepreneurial, machine bureaucracy, divisionalized bureaucracy, professional bureaucracy, and adhocracy. These structures are shaped by factors such as goals, leadership styles, and surrounding environments. The economic impacts of information systems technology include changes in relative costs, the economics of information, and the ability to reduce transaction costs through outsourcing. Transaction cost theory posits that firms seek to minimize costs associated with participating in markets. Information systems can lower these costs, making it more efficient for companies to transact with other firms rather than expanding their workforce. Agency theory suggests that firms are composed of self-interested parties requiring supervision, and that technology can help reduce agency costs by increasing efficiency without adding employees. ### Information systems can transform organizations by flattening structures, increasing decision-making authority, and promoting knowledge-based work. This shift enables faster decision-making, reduces the need for managers, and empowers lower-level employees with more autonomy. However, implementing information systems also introduces organizational and political resistance to change, which is often the primary reason for large project failures. The Internet further amplifies these effects by increasing information accessibility, storage, and distribution, while lowering transaction and agency costs. As organizations adopt new technologies, they must consider various factors, including their environment, structure (hierarchy, specialization, routines, business processes), culture and politics, type of organization and leadership style, main interest groups affected, attitudes of end-users, tasks, decisions, and business processes the system will support. To succeed in today's competitive landscape, firms need to adapt their strategies and structures to remain industry leaders, as exemplified by Michael Porter's competitive forces model, which provides a general view of a firm, its competitors, and environment through five competitive forces: threat of new entrants, bargaining power of suppliers, bargaining power of buyers, threat of substitute products or services, and rivalry among existing competitors. Traditional competitors, new market entrants, substitute products and services, customers, and suppliers shape the fate of a firm, according to Porter's competitive forces model. This framework recognizes that the strategic position of a company is influenced by five external factors: existing competition, newcomers to the market, alternative offerings, buyer preferences, and supplier power. The model proposes four generic strategies for dealing with these competitive forces: low-cost leadership, product differentiation, focus on a specific market niche, and strengthening relationships with customers and suppliers. These strategies can be enabled through the use of information systems, which allow companies to analyze their competitive environment, identify opportunities, and develop effective responses. For instance, firms like Walmart have leveraged IT to achieve cost leadership by streamlining operations and improving supply chain management. Product differentiation has been a hallmark of companies such as Google, Nike, and Apple, which have used technology to create innovative products that change the customer experience. In the automotive industry, software is adding value to automakers' products by enabling advanced features like autonomous driving, smart infotainment systems, and improved safety. Automakers are benefiting from these software-enhanced cars through increased efficiency, reduced costs, and enhanced product offerings. Customers benefit from more convenient, connected, and safe driving experiences. Hilton Hotels' OnQ System Utilizing Information Systems to Enhance Market Focus Companies are increasingly leveraging information systems to gain a competitive edge in specific market niches. By concentrating on a single area, firms can develop tailored strategies that cater to the unique needs of their customers and suppliers. Example: Hilton Hotels' OnQ system This system enables targeted marketing efforts by analyzing customer data. Moreover, the company has strengthened its ties with suppliers to create stronger loyalty programs for their customers. This approach increases switching costs, making it more difficult for competitors to poach customers. Netflix and Amazon are examples of companies that have successfully used information systems to develop competitive strategies. These firms focus on customer and supplier intimacy, using data analytics to drive business decisions. Their efforts aim to enhance operational efficiency and create strong relationships with customers and suppliers. Information systems play a crucial role in enabling businesses to respond rapidly to changes in supply and demand, promoting synergies, and leveraging core competencies. Companies can improve overall performance by pooling markets and expertise through mergers or acquisitions, as seen in the merger of Bank of NY and JPMorgan Chase, or by acquiring subsidiaries like YouTube by Google. Information systems can also be used to develop competitive strategies by focusing on core competencies, such as Procter & Gamble's intranet and directory of subject matter experts. Network-based strategies take advantage of a firm's ability to network with other companies, leveraging concepts like network economics, virtual company models, and business ecosystems. This approach can lead to significant benefits, including low marginal costs for adding new participants and a growing value of the community and software as the installed customer base expands. The virtual company strategy involves using networks to ally with other companies to create and distribute products without traditional organizational boundaries or physical locations. Li & Fung is an example of a successful virtual company that manages production, shipment, and outsourcing to over 7,500 suppliers for major fashion companies. Business ecosystems refer to industry sets of firms providing related services and products. Microsoft's platform is used by thousands of firms, while Walmart's order entry and inventory management serve as keystone firms, creating platforms used by other firms. Individual firms can consider how IT can help them become profitable niche players in larger ecosystems. The boundaries between industries, companies, and suppliers must be viewed in a more dynamic manner, with competition arising among industry sets within a business ecosystem. In this model, multiple industries collaborate to deliver value to the customer. IT plays a crucial role in facilitating a dense network of interactions among participating firms. FIGURE 3-11 AN ECOSYSTEM STRATEGIC MODEL. Sustaining competitive advantage requires adapting to changing circumstances, as competitors can retaliate and copy strategic systems. Systems may become essential tools for survival. Aligning IT with business objectives necessitates performing strategic systems analysis. The structure of an industry, firm value chains, and managing strategic transitions are key considerations when adopting strategic systems that require changes in business goals, relationships with customers and suppliers, and processes. The internet and World Wide Web have significantly impacted the relationship between firms and external entities, influencing the organization of business processes within a firm. Michael Porter's competitive forces model provides a general view of the firm, its competitors, and environment. All firms operate in market space shared with other competitors who continually develop new products, services, and branding strategies to attract customers by imposing switching costs. Supply chain management systems coordinate resource flow into the firm, while customer relationship management systems synchronize sales and support activities with customers, resulting from business value chain analysis. Managers must devise new processes for coordinating their firms' activities with those of customers, suppliers, and other organizations.

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