

SUSTAINABLE ENTREPRENEURSHIP PROJECT

Organizational Design: A Global Survey of Theory and Research

**SUSTAINABLE ENTREPRENEURSHIP PROJECT
RESEARCH PAPER SERIES**

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Organizational Design: A Global Survey of Theory and Research

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The Sustainable Entrepreneurship Project (www.seproject.org) engages in and promotes research, education and training activities relating to entrepreneurial ventures launched with the aspiration to create sustainable enterprises that achieve significant growth in scale and value creation through the development of innovative products or services which form the basis for a successful international business. In furtherance of its mission the Project is involved in the preparation and distribution of Libraries of Resources for Sustainable Entrepreneurs covering Entrepreneurship, Leadership, Management, Organizational Design, Organizational Culture, Strategic Planning, Governance, Corporate Social Responsibility, Compliance and Risk Management, Finance, Human Resources, Product Development and Commercialization, Technology Management, Globalization, and Managing Growth and Change.

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§1:1 Introduction

An organization does not simply appear on its own; in fact, organizations are contrived social systems that are created by like-minded groups of persons in order to pursue and hopefully achieve a stated goal or purpose. Organizational design is concerned with the factors and issues that must be considered, and the rules and processes that must be implemented, with respect to the design, development, implementation and maintenance of a successful and effective organization. Organizational design is more than simply organizational structure—the boxes and lines that are normally found on a traditional organization chart—and extends outward to include a variety of other factors including information and reward systems; management and decision making processes; organizational culture, including mission, vision, values and norms; strategy, including the goals or purposes for which the organization exists; and the human resources who will do the work necessary for the organization to operate, survive and thrive. The creativity involved in the design process has led some to refer to the field as “organizational architecture”.¹

A wide range of methods and models have been used to identify and depict the elements that must be considered in the organizational design process. One of the most popular is the “Star Model”, which was first developed by Galbraith in 1977 and which emphasizes the following five major components: tasks, structure, information and decision processes, compensation and reward systems and people (i.e., human resources management). Each component presents the organizational designer with several key choices. With respect to tasks, the organization must decide upon the correct scope of diversity, difficulty and variability to meet its performance objectives. Structural choices include identifying the appropriate division of labor, departmentalization, configuration, and distribution of power. With respect to information and decision processes, the choices include selection of the decision mechanism, the frequency and formalization of information collection and decision making, and design of the database. When focusing on choices regarding the people who will be integrated into the organization, important factors include selection, training and development, promotion and transfer. Finally, the choices with respect reward systems include the compensation system, basis for promotion, leadership style and job design.²

Organizational structure, one of the key issues for the organizational designer, is the way in which the members of the organization and their job responsibilities are arranged. The organizational structure typically consists of various business units formed around functions (e.g., research and development, manufacturing, sales and marketing, finance, human resources, etc.), products, markets or customers that are arranged in a hierarchical fashion. The organizational structure determines how power, authority and accountability are formally distributed throughout the organization and obviously has a strong influence on how members (i.e., executives, managers and employees) and different business units

¹ For further discussion of organizational design, see “Organizational Design: A Library of Resources for Sustainable Entrepreneurs” prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

² J. Galbraith, *Organization Design* (Reading, Mass.: Addison-Wesley, 1977), 31.

interact with one another and the degree to which they will share information and collaborate to achieve the overall goals and objectives of the organization.

There is no single structure that works best in all cases and the structure will continuously change as the organization grows and evolves with emphasis shifting from one dimension to another as circumstances dictate. In most cases an organization will initially choose a function-based organizational structure that divides work activities into functional groups such as research and development, production, sales and marketing, finance and administration (including human resources). As the organization grows it will shift the primary dimension of its structure to products or markets, either geographic or customer-based, through creation of divisions for each key product line or market. Other structures based on two or more of the dimensions—matrix or hybrid—may be used in appropriate cases when the activities of the organization have expanded into multiple product lines and/or markets.

Optimally, the strategy selected for the organization will have the strongest influence on its organizational structure since research indicates that the most effective organizations are those that have been able to tightly align strategy and structure. As with the other elements of organizational design, organizational structure must be aligned with strategy. For example, if the strategy is based on identifying and satisfying the needs of a particular target group of customers the human and other resources of the organization should be grouped in the way that is most effective for creating and delivering the outputs demanded by the customers. In addition, however, factors other than strategy have been found to have a significant influence on organizational structure including the preferred styles of leaders and managers of the organization, the organizational climate and culture, the size and complexity of the organization, the skill capabilities of the members of the organization, the level of uncertainty in the organization's external operating environment, the cultural values and norms of the broader society in which the organization is operating, the technology used in organizational activities, the geographic dispersion of the organization's activities, the origin and history of the organization, the type of ownership and control of the organization, and the degree of interdependence on other organizations.³

Two main hypotheses dominate the discussion of, and research on, the influence of culture on organizational structure across nations. The first hypothesis is often referred to as the "culture-free" hypothesis and suggests, in the words of Holt, "that culture has no influence on the way organizations are structured and is supported with significant research showing organizations within many nations around the world reflect the same relationships between size, specialization, formalization, and decentralization".⁴ In

³ For detailed discussion of these factors, see R. Burton and B. Obel, *Strategic Organizational Analysis and Design: The Dynamics of Fit* (3rd Ed) (2004) and D. Pugh, D. Hickson, C. Hinings and C. Turner, *Dimensions of Organization Structure*, 13 *Administrative Science Quarterly* 65 (1968).

⁴ M. Holt, "Culture-Free or Culture-Bound?: Two Views of Swaying Branches", *International Journal of Business, Humanities and Technology*, 1(3) (November 2011), 80. Holt noted that the culture-free hypothesis is best represented by the research of Hickson et al., who were among the first to take advantage of a framework developed by researchers originally affiliated with the University of Aston that became widely used as the basis for standardized cross-national analysis of both organizational structure and

contrast, the “culture-bound” hypothesis, which also enjoys significant support from research evidence, holds that there are indeed differences among cultures as to many internal organizational features. The debate between the proponents of the two hypotheses has been succinctly summarized as follows: “[d]o countries at approximately the same stage of industrial development, and having similar industrial structures, adopt the same approach to the organization and management of their institutions? Or are their distinctive cultural heritages sufficiently entrenched to mean that each society fashions its own unique administrative philosophy?”⁵

The proponents of the culture-free hypothesis were quite active and argued firmly and persuasively for a universal explanatory model of organizational structure that applied to all kinds of organizations in all parts of the world and which was based on positive correlations between organization size and both specialization and formalization and negative correlations between organization size and centralization. However, other researchers had significant questions. For example, a study of oil refineries in Britain and France conducted by Gallie in 1978 failed to support the culture-free position and, in fact, Gallie discovered differences in attitudes and relations with managers between the British and French workers that were so substantial that he was led to conclude that such difference could only be understood by taking into account cultural influences.⁶ Other studies conducted over a number of decades have also concluded that the culture-free hypothesis was incomplete and that it was necessary to take the cultural context of the organization into account to explain decisions about organizational structure.⁷ Some examples of these studies included the following:

- Since group identification was stressed and more important in Japanese society, workers in that culture tended to be more subservient to higher authority levels and

context. For more information on the Aston Program, see D. Hickson and C. McMillan, *Organizations and nations: The Aston Program IV* (Westmead, England: Gower, 1981); D. Hickson, C. Hinings, C. McMillan and J. Schwitter, “The culture-free context of organization structure: A tri-national comparison”, *Sociology*, 1974, 59-80; D. Pugh, D. Hickson and the Open University Course Team, “Organizational context and structure in various cultures” in T. Weinsall, *Societal culture and management* (New York: Walter de Gruyter, 1993), 425-435.

⁵ L. Child and A. Keiser, “Organizational and managerial roles in British and West German companies: An examination of the culture-free thesis” in C. Lammers and D. Hickson (Eds), *Organizations alike and unlike* (London: Routledge and Kegan Paul, 1979).

⁶ D. Gallie, *In search of the new working class: Automation and social integration within the capitalist enterprise* (Cambridge, England: Cambridge University Press, 1978).

⁷ See, e.g., J. Child and A. Kieser, “Organizational and managerial roles in British and West German Companies: An examination of the culture-free thesis” in T. Weinsall, *Societal culture and management* (New York: Walter de Gruyter, 1993), 455-477; P. Clark, “Cultural context as a determinant of organizational rationality: A comparison of the tobacco industries in Britain and France” in C. Lammers and D. Hickson, *Organizations alike and unlike: International and interinstitutional studies in the sociology of organization* (London: Routledge & Kegan Paul, 1979), 272-286; G. Hofstede, “Hierarchical power distance in forty countries” in C. Lammers and D. Hickson, *Organizations alike and unlike: International and interinstitutional studies in the sociology of organization* (London: Routledge & Kegan Paul, 1979), 97-119; G. Hofstede and G.J. Hofstede, *Cultures and Organizations: Software of the mind* (New York: McGraw-Hill, 2005); M. Tayeb, “Japanese management style” in R. Daily, *Organisational Behaviour* (London: Pitman, 1990), 257-282; and M. Tayeb, “Organizations and national culture: Methodology considered”, *Organization Studies*, 1994, 429-446.

more willing to assume that authority would be exercised benignly for the greater good of the group or collective.⁸

- Studies conducted by Crozier led him to suggest that there were differences between workers in Britain, France and US as to how they used rules and procedures.⁹
- Stevens studied the way that MBA students from France, Germany and Britain responded to case assignments and found enough variation to construct distinguishable cultural profiles for each of the countries. Specifically, the French were described as the “pyramid of people”, akin to a traditional bureaucracy due to an approach that Stevens felt was more formalized and centralized. In contrast, the German penchant for formalization and decentralization was characterized as a “well-oiled machine”. Finally, Stevens labeled the British as practicing a “village market” approach that was neither formalized nor centralized and which was flexible enough to allow the selection of the structure that fit the best with the particular situation.
- Other studies confirmed the results achieved by Stevens and his conceptualization and concluded that “French firms were more centralized and formalized with less delegation than the British firms; German firms were more likely to be decentralized, specialized, and formalized and were more likely to cite structure as key factors for success; British firms showed a greater concern for flexibility and were more decentralized and less formalized; and Asian firms were more autocratic and paternalistic than their European counterparts”.¹⁰
- Schneider and Barsoux felt that culturally-based differences were so important that they coined and described “Viking Management”, Brazilian Management and Indonesian Management.¹¹

Holt and others have actually found support for the creative proposition that the culture-free and culture-bound hypothesis can be true at the same time. For example, a study of German and British firms conducted by Child and Kieser supported the culture-free hypothesis (i.e., the size of the firms was positively associated with specialization, formalization and decentralization in both countries); however, significant differences, as might be predicted by the culture-bound hypothesis, could be found when closer examination was made of attitudes toward authority and operational decisions in marketing, production and purchasing.¹² In their study of various issues relating to organizational structures of large European manufacturing firms Pugh et al. found both support for the culture-free hypothesis at a “macro level” and indications that cultural

⁸ See J. Abegglen, *The Japanese Factory* (Glencoe, IL: The Free Press, 1958); and K. Azumi, *Higher Education and Business Recruitment in Japan* (New York: Teachers College Press, Columbia University, 1969).

⁹ See M. Crozier, *The Bureaucratic Phenomenon* (London: Tavistock, 1964).

¹⁰ M. Holt, “Culture-Free or Culture-Bound?: Two Views of Swaying Branches”, *International Journal of Business, Humanities and Technology*, 1(3) (November 2011), 82.

¹¹ S. Schneider and J.-L. Barsoux, *Managing across cultures* (2nd Ed.) (Upper Saddle River, NJ: Pearson, 2002).

¹² J. Child and A. Kieser, “Organizational and managerial roles in British and West German Companies: An examination of the culture-free thesis” in T. Weinshall, *Societal culture and management* (New York: Walter de Gruyter, 1993), 455-477.

differences did have a significant influence on the integration and coordination mechanisms selected for ensuring that the chosen structural type performed efficiently.¹³

There have been a variety of attempts to suggest models of organizational structures that might be used for comparisons across national or cultural borders. For example, the Aston researchers suggested a topology of organizational structure that included the following four forms based on two key dimensions—the degree of concentration of authority and the degree of structuring activities: workflow bureaucracies; personnel bureaucracies; full bureaucracies; and non-bureaucracies/implicitly structured.¹⁴ Later, Hofstede and others appeared with their ideas of a model of organizations based on empirical measures of a country's place on the power distance and uncertainty avoidance dimensions of Hofstede's broader scheme for describing and contrasting societal cultures. Power distance was assumed to correlate with the degree of organizational hierarchy—the higher the power distance the more hierarchical the organization—and uncertainty avoidance was assumed to correlate with the degree of formalization—a higher desire for avoiding uncertainty led to more formalization within the organizational structure.

Hofstede began by referring to a then unpublished work of Stevens as a source of interesting insight on how a country's placement along the dimensions of power distance and uncertainty avoidance might predict the preferences of firms from those countries with respect to the centralization and formality in their organizational structures and, in turn, the processes used by those firms to identify and resolve problems that might arise during day-to-day operations.¹⁵ Stevens surveyed graduate business students from three different European countries—France, Germany and Great Britain—and asked them for ideas about how to deal with issues in a case study that involved a conflict between the product development and sales departments at a hypothetical firm. Interestingly, most of the students from France advised that resolution of the conflict required attention and intervention from the highest level of the organizational hierarchy (i.e., the president); however, the Germans and British had other ideas about the reasons for the problem and the suggested solution—the Germans pointed to a lack of written policies to guide each of the departments and recommended that such policies be drafted while the British felt that the conflict was a product of poor interpersonal communication that required more training for the parties involved.

Based on these results Stevens proposed “implicit models” of organization for the three countries and other countries that occupied the same quadrant with them on the cultural map that had uncertainty avoidance and power distance as its two dimensional axis. For French firms (high power distance/high uncertainty avoidance) the preferred organizational structure resembled a pyramid and responsibility and authority for making decisions was centralized and the rules of operation were formalized. German firms (low

¹³ D. Pugh, T. Clark and G. Mallory, “Organization structure and structural change in European manufacturing organizations”, *Verhandelingen Letterkunde, Nieuwe Reeks*, 168 (1996), 225-238, 235.

¹⁴ See D. Hickson and D. Pugh, *Management Worldwide: Distinctive Styles Amid Globalization* (2d Ed) (2001).

¹⁵ G. Hofstede, “Motivation, Leadership and Organization: Do American Theories Apply Abroad?”, *Organization Dynamics*, 9 (1980), 42-63, 60. Hofstede was referring to the work of O.J. Stevens at INSTEAD.

power distance/high uncertainty avoidance) strived for a “well-oiled machine” efficiently directed by formal procedures although not necessarily centralized. British firms (low power distance/low uncertainty avoidance) tended to opt for what was referred to as a “village market” that was neither formalized nor centralized. As for the four Asian countries—Hong Kong, India, the Philippines and Singapore—in the remaining quadrant of his mapping of countries on the power distance and uncertain avoidance dimensions, Hofstede suggested that the appropriate implicit model of organization for these high power distance/low uncertainty avoidance countries should be the “family”, which he described as centralized with respect to how and by whom decisions are made and formalized with respect to relationships among persons within the hierarchy (high power distance) but not overly formalized as to the rulemaking on how the day-to-day workflow is conducted (low uncertainty avoidance).¹⁶

Studies performed by Schneider and Barsoux appeared to confirm the conceptual model developed by Hofstede and Stevens and they suggested a fuller description of a typology of organizational structures based on these dimensions¹⁷:

- Village Market (Low Uncertainty Avoidance/Low Power Distance): Low formalization and hierarchy and specific characteristics that include decentralized; generalist; people as “free agents”; entrepreneurial; flexibility; more delegation; coordination through informal, personal communication; and output control. Generally associated with the Anglo and Nordic country clusters.
- Well-Oiled Machine (High Uncertainty Avoidance/Low Power Distance): High formalization but low hierarchy and specific characteristics that include decentralized decision making; narrow span of control; specialist, technical competence; discretion limited by expertise; strong role of staff “experts”; top management team; industry and company knowledge; organized by function; compartmentalized (i.e., “chimneys” or “silos”); coordination through routines and rules; structural solutions; throughput control; and emphasis on efficiency. Generally associated with the Germanic and Central European country clusters.
- Family (or “Tribe”) (Low Uncertainty Avoidance/High Power Distance): Hierarchical structure with low formalization and specific characteristics that include centralized; paternalistic leadership style; strong role of “generalists”; strong social versus task roles; importance of loyalty and personal relationships; and social control. Generally associated with Confucian Asian and African cultures, India and Malaysia.
- Traditional Bureaucracy (or “Pyramid of People”) (High Uncertainty Avoidance/High Power Distance): Hierarchical structure accompanied by high formalization and specific characteristics that include centralized decision making and coordination at the top of the hierarchy; less delegation; “cloisonne” highly specialized; strong role of staff; a value of analytic abilities; informal relationships; elitist (power and authority);

¹⁶ Id. Hofstede compiled “culture maps” that plotted countries based on their scores for different dimensions of societal culture including uncertainty avoidance and power distance and this map should be consulted to determine where particular countries fell in the typology discussed in the text. See Id. at 51-54; and G. Hofstede, *Cultures and Organizations* (Maidenhead, UK: McGraw Hill, 1991), 54.

¹⁷ S. Schneider and J.-L. Barsoux, *Managing across cultures* (2nd Ed.) (Upper Saddle River, NJ: Pearson, 2002).

and input controls. Generally associated with Latin and Near Eastern cultures. Japan and France.

§1:2 United States (“Silicon Valley”)

Historians have cited and described an egalitarian social environment in Silicon Valley and have argued that the lack of rigid hierarchies extended to the firms operating in the area and that “[t]he traditional delineations between employers and employees were not so sharp as on the East Coast, and in some cases they disappeared entirely”.¹⁸ Saxenian’s intensive comparative studies of Silicon Valley and Route 128 during the 1990s uncovered widespread evidence of decentralization within the organizational structures of Silicon Valley companies accompanied by the grant of large amounts of autonomy to major divisions of firms.¹⁹ In sharp contrast, however, researchers analyzing hierarchies within the organizational structures of Route 128 firms have generally found them to be much more rigid and centralized than their counterparts in Silicon Valley and also found that communications were typically more formal, and status differences more pronounced, within Route 128 firms than in Silicon Valley.²⁰

Much has been written about the distinguishing characteristics of the organizational structures deployed in Silicon Valley. In some cases, the formal boundaries of the organizational chart have not been very different than those used for decades by companies outside of the Valley. For example, Thompson reported that Google’s corporate structure was relatively traditional, apart from a few unique top-level positions such as Chief Culture Officer and Chief Internet Evangelist, and featured an executive management group at the top of the organizational chart that oversaw the usual functional-based departments such as engineering, products, legal, finance and sales.²¹ The functional-based departments each had their own smaller, more specialized, units and the internationalization of sales activities was based on geographically organized branches focusing on the Americas, Asia Pacific, and Europe, the Middle East and Africa. In general, however, scholars and managers have been fascinated by several distinguishing characteristics of Silicon Valley organizational culture including flatter hierarchies, greater decentralization and autonomy, flexibility and adaptability, and tight and intentional linkages between organizational structure and culture.

In the 1990s Teece described a “high flex ‘Silicon Valley-type firm’” as a company that would have shallow hierarchies, significant local autonomy and a resistance to hierarchical accouterments of seniority and rank and functional specialization.²² According to Teece, decision making processes in these companies were usually simple and informal, with key decisions typically being made by the founders during the early stages of development, and an effort was made to ensure that communication and

¹⁸ P. Mackun, *Silicon Valley and Route 128: Two Faces of the American Technopolis*.

¹⁹ A. Saxenian, *Regional Advantage: Culture and Competition in Silicon Valley and Route 128* (1994).

²⁰ P. Mackun, *Silicon Valley and Route 128: Two Faces of the American Technopolis*.

²¹ S. Thompson, *Google's Business Leadership and Organizational Culture*.

²² D. Teece, “Firm Organization, Industrial Structure and Technological Innovation”, *Journal of Economic Behavior and Organization*, 31 (1996), 193, 212-213.

coordination among functional-based groups was relatively quick and open. Teece noted that while these companies were likely to be highly innovative they often labored under severe resource constraints, particularly with respect to availability of capital, and the most successful companies were those able to strategically overcome those constraints through effective use of outsourcing and alliances. A preference for flatter structures within organizations that thrive and survive on innovation is understandable given that hierarchies typically create bottlenecks that can slow the pace of progress and persons that have reached a comfortable position on one of the higher floors of a tall organizational structure may be reluctant to permit and promote initiatives that might make the existing way of doing things, including current products and services, obsolete.

Commentators have also noted the strong link between organizational structure and culture among Silicon Valley companies. Apple, for example, has been held up for the way that it accentuated the importance it placed on being product- and engineering-driven by moving its design group out of the lower levels of the organizational hierarchy where it is often placed and positioning it near the top with a direct reporting line to the CEO.²³ In the same vein Meyer explained in the late 1990s that “[i]n contrast to traditional firms where organizational structure defines the framework within which work occurs, Valley firms use the work to define organization's structure” and then went on to note that organizational structures in Silicon Valley could best be described as flat, flexible, permeable, and fluid.²⁴

The researchers at the Stanford Project on Emerging Companies (“SPEC”) believed that organizational structure, as determined by the means selected by founders and non-founder CEOs of early-stage technology companies in Silicon Valley to coordinate and control the flow of work within their companies, was one of the three crucial dimensions that could be used to categorize how those companies created a blueprint for creating and maintaining a relationship with their employees that fostered reliability and accountability.²⁵ The SPEC researchers found that the most commonly used method relied heavily on informal controls through peer pressure and, eventually, organizational culture; however, at least three other approaches were also identified. First, some companies relied on “professional control,” which was grounded in the assumption that employees were professionally socialized to diligently perform outstanding work based on their formal education and training. Employees in these companies, which tended to have a recruiting preference for high-potential individuals from elite institutions, were given significant autonomy and independence. Second, some companies chose to implement formal procedures and systems to control employees. Finally, some founders preferred to directly oversee the activities of their employees to control and coordinate the work flow within the company.²⁶ SPEC researchers also found that companies receiving venture capital were more likely to bureaucratize more often and at an earlier

²³ T. McKinnon, *How to Build a Great Company Culture* (October 4, 2013).

²⁴ C. Meyer, *Relentless Growth* (1998).

²⁵ J. Baron and M. Hannan, “Organizational Blueprints for Success in High-Tech Start-Ups: Lessons from the Stanford Project on Emerging Companies”, *California Management Review*, 44(3) (Spring 2002), 8.

²⁶ J. Baron and M. Hannan, *Entrepreneurship: Lessons from the Stanford Project on Emerging Companies* (September 2003), 4-5.

stage and that the most commonly attempted changes to the original organizational structure as companies in the SPEC study evolved were related to attempts to control coordination.²⁷

Kashen argued that while technology and product innovation have certainly been important and impressive outputs from Silicon Valley, firms in that region have also been innovators in identifying and implementing new ways for groups of people to organize themselves and work together.²⁸ For example, he described one company that had abandoned the traditional functional-based organizational structure in favor of autonomous “pods” with at least one representative from each discipline that worked on its own scope of product and set and followed its own set of metrics and goals. Leadership within each pod rotated based on the stage of product development so no one person had a management title. Another alternative described by Kashen was referred to as “Holacracy” and relied not on top-down authority but on a “set of explicit processes and structures designed to achieve the company’s purpose”. Kashen explained: “In a Holacracy, every role in the organization has an explicit, documented purpose and set of accountabilities, and roles exist separately from the individuals who happen to be filling them at the time. The core operating processes include two distinct meetings that occur on a regular (typically weekly) basis: Tactical (actions) and Governance (structure), each with a clear set of procedures. The Governance meeting is what most distinguishes Holacracy: it allows for explicitly changing the organizational structure on a weekly basis! If a project or set of tasks is proposed that does not clearly fit into the explicit accountabilities of any current role in the organization, then the Governance meeting will resolve the ambiguity by assigning it to a particular role. This leads to much more clarity throughout the organization around who owns what, and who makes which decisions.” Kashen also mentioned that some companies have apparently done away with formal management and hierarchy completely and allow leadership of projects to be determined organically based on whoever steps up. In this type of environment there are no titles, reviews or promotions and raises and bonuses are determined through peer reviews.

Adaptability and flexibility have also been popular themes in descriptions of Silicon Valley organizations. According to Lam, the “new economy companies” focusing on technology sectors that were launched during the late 1990s in Silicon Valley “drew their innovative capabilities from the dynamic integration of technical and entrepreneurial skills within highly flexible, open network organizations”.²⁹ Lam focused on those firms as “learning organizations” that operated through organizational structures somewhat akin to the “adhocracy” identified by Mintzberg and that “tend[ed] to rely more upon

²⁷ J. Baron, M. Burton and M. Hannan, “Engineering Bureaucracy: The Genesis of Formal Policies, Positions, and Structures in High-Technology Firms”, *Journal of Law, Economics, and Organization*, 15(1) (1999), 1, 41 (as cited in J. Baron and M. Hannan, *Entrepreneurship: Lessons from the Stanford Project on Emerging Companies* (September 2003), 9).

²⁸ The discussion in this paragraph is adapted from D. Kashen, [Flat is the New Up: Why are Companies Using Organizational Structures that Are Thousands of Years Old?](#) (April 27, 2013).

²⁹ A. Lam, *Innovative Organizations: Structure, Learning and Adaptation*, in *Innovation Perspectives for the 21st Century* (2010), 163, 168 (citing W. Lazonick, “The Innovative Firm”, in J. Fagerberg, D. Mowery and R. Nelson (Eds.), *The Oxford Handbook of Innovation* (2004), 29; and W. Lazonick, “The Chandlerian Corporation and the Theory of Innovative Enterprise”, *Industrial and Corporate Change*, 1 (2010), 317).

individual specialist expertise organized in flexible market-based project teams capable of speedy responses to changes in knowledge and skills, and integrating new kinds of expertise to generate radical new products and processes.”³⁰ Bahrami and Evans argued that organizational structures of successful and prototypical Silicon Valley-type companies were dynamic, entrepreneurial and adaptive.³¹

Stefanović et al. argued that Silicon Valley companies often exhibited characteristics of what they referred to as “reconfigurable organizations” including active leadership, knowledge management, learning, flexibility, integration, employee commitment and change readiness.³² They noted that the description of organizational structures used in Silicon Valley provided by Bahrami—“structured and yet chaotic . . . between stability on the one hand and flexibility on the other”—was a good example of a reconfigurable organization and explained that Bahrami had argued that Silicon Valley organizations consisted of two components: “The first component is a substrate of the formal structure which only periodically undergoes major transformation. This provides a formal mechanism for grouping skills, clustering activities, and assigning reporting relationships, as well as a base unit, which gives many employees an anchor of stability. However, due to inertial forces, these bedrock structures cannot be changed as frequently as may be warranted by internal and external changes. Many firms compensate for the relative inflexibility of the bedrock structure by using overlays of temporary project teams and multi-functional groups whose members are drawn from various operating units. These enable a firm to focus on critical assignments without causing major disruptions.”³³

§1:3 Western Europe

As discussed further in the following sections covering specific countries in Western Europe, Pugh et al. examined the structuring of manufacturing operations by the largest firms, based on volume of sales, in each of Britain, France, Germany, Italy, the Netherlands and Spain.³⁴ The firms from each of the countries were classified by reference to the type of organizational structure they had selected using “a scheme

³⁰ A. Lam, *Innovative Organizations: Structure, Learning and Adaptation*, in *Innovation Perspectives for the 21st Century* (2010), 163, 171 (citing H. Mintzberg, *The Structuring of Organization* (1979)).

³¹ H. Bahrami and S. Evans, “Flexible Recycling and High-Technology Entrepreneurship”, in K. Martin (Ed.), *Understanding Silicon Valley: The Anatomy of an Entrepreneurial Region* (2000), 166.

³² I. Stefanović, S. Prokić and D. Vukosavljević, “The Response to the Changing Landscape of Tomorrow: Reconfigurable Organizations”, *African Journal of Business Management*, 5(35) (2011), 13344, 13346 (noting that the characteristics were originally developed and popularized in J. Galbraith, D. Downey and A. Kates, *Designing Dynamic Organizations: A Hands-on Guide for Leaders at All Levels* (2002)).

³³ Id. at 13350 (citing H. Bahrami, “The Emerging Flexible Organization: Perspectives from the Silicon Valley”, *California Management Review*, 34(4) (1992), 33, 39).

³⁴ The data was drawn from the International Organizational Observatory Project on the characteristics of manufacturing companies in Europe, which was overseen by a group of organizational researchers based in seven European business schools. The firms operated in a diverse array of industries including chemicals, pharmaceuticals, electronics, mechanical engineering, automobile production and food and drink. Pugh et al. analyzed data from a total of 370 firms, with the largest samples coming from Italy (115 firms) and Spain (95) and the small samples coming from the Netherlands (15) and Britain (24). For discussion of the methodology used in collecting and presenting the data, see D. Pugh, T. Clark and G. Mallory, “Organization structure and structural change in European manufacturing organizations”, *Verhandeligen Letterkunde, Nieuwe Reeks*, 168 (1996), 225-238, 227-228.

derived from the ways in which organizations differentiate their overall task at the level below the CEO”. The aforementioned “scheme” included several familiar structural types described in detail elsewhere in this Library including a “pure functional” form, in which all like administrative activities (e.g., marketing) are grouped within one department; a “predominantly functional” form, in which a majority of the organizational units are function-based but a few autonomous units exist based on other dimensions (e.g., a regional marketing division); a matrix structure; a “predominantly divisional” form, in which most of the organizational units are based on non-functional dimensions such as products or markets but a few function-based units still exist (e.g., finance and/or human resources) and, finally, a “fully divisional” form, in which all activities are organized on a non-functional basis using dimensions such as products, product group, geographical territories, markets or customers/clients.³⁵ In presenting the results of their classification, Pugh et al. provided the following explanatory observations³⁶:

- In general, the dominant forms of structural type, with limited exceptions, were the functional and divisional forms (including both “pure” and “predominant” sub-forms when making such determination).
- No divisional structural types were reported among the small sample, 15 companies, of Dutch firms. 80% of the Dutch firms used a functional structural type and the remaining 20% used a matrix structural type.
- The divisional structural types were quite prevalent among both the French (47%) and Spanish (45%) firms in the sample.
- Among the Italian firms in the sample there were a significant number of functional structural types (61%).
- Reliance on functional and divisional structural types was split fairly evenly in Britain with percentages for the 24 companies in the sample for that country being 46% and 45%, respectively.
- All countries other than Spain has firms that used the matrix structural type; however, its popularity was limited (i.e., 7% to 10% of the respective samples except for 20% of a small sample in the Netherlands—three firms out of a total of 15 from that country).

The data indicated that the picture of structural types in each of the countries was different; however, Pugh et al. wondered whether differences in societal cultural had a meaningful influence in the decisions made regarding the selection of structural type. They made two propositions: first, if decentralization of decision making was the desired approach it was reasonable to expect that divisional structural types would be selected in order to facilitate a greater degree of decentralization of decision making than what would be possible in a functional structural type; and second, decentralization, as reflected through a preference for divisional structural types, would be more likely to occur in societal cultures that were conducive to such an approach, namely countries with a low score on Hofstede’s power distance dimension. However, when they tested the

³⁵ Id. at 229-230.

³⁶ Id. at 230. Data was missing for almost a quarter of the German firms and as to those for which data was available the divisional structural type (40% of all firms in the sample) was more prevalent than the functional structural type (23% of all firms in the sample).

hypothesis “that countries with a low power-distance index will have a greater preponderance of divisional structures over functional structures, compared with those cultures with a high PDI” it was rejected and Pugh et al. concluded that “the occurrence of both types of structure appears to be equally likely across the whole range of the POI cultural dimension” and then went on to note that “the data indicate an apparent similarity of structural types across 6 countries and thus support in a rough and ready fashion the convergence approach”.³⁷

Pugh et al. went on, however, to suggest that the “processes” of the apparent convergence in structural type preferences among the six countries could provide interesting support for the argument that non-cultural contextual factors, such as strategy, do matter and lead to structural variations between seemingly similar firms in different countries. They reviewed their analysis of data on “recent structural changes taking place within the previous year in the sample of organizations and the reasons why such changes took place”.³⁸ They approached their analysis with the expectation that changes in form would likely be related to changes in strategy, such as a decision made by one of the firms from Britain to transition from a matrix (geographic and product) to divisional (product-focused) type of structure “in order to emphasize the product lines and to encourage customer focus and downplay regional differences”.³⁹ Their analysis revealed that a number of reasons for changing the type of structure were relevant to the firms that were studied, albeit with different degrees of strength across countries. The list of “change drivers”, referred to by Pugh et al. as “contingencies affecting the structures”, including change of ownership, change of management, change of strategy, increased diversification, new market entry, change in manufacturing technology and change in distribution methods. They concluded by noting: “The table [describing the types and frequency of changes] underlines how inappropriate it is to regard all national differences in organization structures as being due to the effects of national cultures, without taking account of the particular contingency changes.”⁴⁰

The focus by Pugh et al. on the reasons for structural changes does not necessarily undermine with the culture-free or culture-bound hypothesis but rather highlights the facts that various contextual factors play a significant role in the structural type adopted by a specific firm at any given point in time and it would seem that firms in a single country, confronted with a unique “contextual” environment determined by local factors the size of the domestic market and availability of manufacturing technologies, might follow a similar path with respect to the evolution of their organizational structures that differs from firms in other countries. In fact, Pugh et al. found evidence of varying patterns of structural change among the countries surveyed. For example, in countries where the economy was expanding, such as France and Germany at the time that the data was collected, there was a tendency to shift away from the functional structure to the division structure type. Changes in manufacturing technology might also be expected to have a substantial influence on the choice of organizational structure and, of course, the

³⁷ Id.

³⁸ Id.

³⁹ Id. at 231.

⁴⁰ Id. at 234.

notion that “structure follows strategy” has been deeply embedded in the theories and models of organizational design for decades.⁴¹

Finally, Pugh et al. speculated that perhaps cultural differences would have a significant influence on the integration and coordination mechanisms selected for ensuring that the chosen structural type performed efficiently.⁴² They posited that “the use of recurrent regular coordination mechanisms will reflect a greater need to reduce uncertainty than the use of ad hoc mechanisms, called into action only irregularly” and “that regularity of use is more likely to be congruent with those cultures who score highly on Hofstede’s Uncertainty-Avoidance Index (UAI) than with those countries score low”.⁴³ They then tested, and found some support for, the hypothesis that countries with a high UAI will have a greater preponderance of use of regular coordination mechanisms compared to ad hoc ones than in those cultures with a low UAI. Specifically, they found that while most firms in all of the surveyed countries, both low and high UAI cultures, used regular weekly meetings widely but that the frequency of ad hoc meetings increased as the UAI score declined. They also found that monthly meetings, while found in all countries, were more widely used in low power distance countries and commented that perhaps this was due to a greater openness in those countries that drove a desire for more frequent and larger monthly meetings that include a wider range of involved managers.⁴⁴ Supporting this proposition was the finding that the use of task forces increased as the level of power distance declined.

§1:4 Britain

In his cross-country study and comparative analysis of managerial “control practices” in France, Britain and Germany, Horovitz found that such practices in Britain were characterized by the following features⁴⁵:

- Financial controls were emphasized and the controls used were “sophisticated”.
- At the top managerial levels the controls were not detailed and instead focused on handling exceptions and “early warning systems”.
- Controls were used mainly as guiding instrument rather than as policing or surveillance tools.
- Product/market units were generally granted a good deal of autonomy and freedom from intervention by central staff.

⁴¹ For further discussion of the influence of technology and strategy on organizational design issues, see the chapters on “Organizational Design and Technology” and “Organizational Design and Strategy” in this Library.

⁴² For further discussion of integration and coordination mechanisms, see the chapter on “Integration Strategies” in this Library.

⁴³ D. Pugh, T. Clark and G. Mallory, “Organization structure and structural change in European manufacturing organizations”, *Verhandelingen Letterkunde, Nieuwe Reeks*, 168 (1996), 225-238, 234.

⁴⁴ *Id.* at 235.

⁴⁵ J. Horovitz, “Management Control in France, Great Britain and Germany” in T. Weinsall, *Societal culture and management* (New York: Walter de Gruyter, 1993), 445-454, 446.

In addition, Horowitz observed that most of the British firms practicing some form of long-term planning and had established a separate and specialized department at the corporate level tasked with collecting and analyzing the strategic plans prepared at the subsidiary level.⁴⁶ Horowitz described the planning process in Britain as being “bottom-up”, involving a substantial number of people and conducted in accordance with planning procedures laid out in a standard planning manual that specified the contents of each of the plans prepared and submitted by the subsidiaries. Plans were expected to be comprehensive and address not only strategic issues for the particularly subsidiary but also detailed aspects of subsidiary operations.

Horowitz noted that most of the British companies in his sample were “holding companies” and suggested that this organizational pattern influenced the strategies used in Britain with respect to control patterns. The central office staffs of the British enterprises tended to be small while multiple subsidiaries were vested with substantial authority for the strategic and operational decisions associated with their businesses (i.e., a strong degree of “decentralization”). The subsidiaries, each of which were headed by their own managing director, had responsibility for selection of products, brands and markets and associated operational and logistical plans (i.e., administration, accounting and personnel matters). Horowitz explained that “the central office staff and directors shape[d] policy decisions at the group level, act[ed] as bank for the subsidiaries, and monitor[ed] the performance of the subsidiaries”.⁴⁷ Top executives at both the group and subsidiary level convened monthly to review performance and discuss policy; however, in general the British organizational scheme was described as one that “allows for flexibility, autonomy of operations, and entrepreneurship at the operational level, while orientation and loose control are supplied by group executives and a small staff”.⁴⁸

Child and Kieser were particularly interested in comparing and contrasting the values and preferred management practices of British and German managers and found that British managers were less concerned about perceived “authority” and tended to be less “directive” than their counterparts in Germany and more willing to delegate decisions to lower levels of the organizational hierarchy, which was consistent with their finding that British firms were less centralized than German firms.⁴⁹ They cited the work of other researchers as support for their findings. For example, Haire et al. found that British managers perceived the terms “direct” and “persuade” as having relatively little difference as to meaning, thus implying that British managers understood that it would be necessary for them to couple their instructions with a less than fully authoritarian approach.⁵⁰ The need to seek cooperation with others was also revealed in another

⁴⁶ Id. at 449.

⁴⁷ Id. at 448.

⁴⁸ Id.

⁴⁹ J. Child and A. Kieser, “Organizational and managerial roles in British and West German Companies: An examination of the culture-free thesis” in T. Weinshall, *Societal culture and management* (New York: Walter de Gruyter, 1993), 455-477. See also D. Granick, *The European Executive* (New York: Doubleday, 1962) (noting that British managers appeared to enjoy and prefer a relatively high degree of decentralization).

⁵⁰ M. Haire, E. Ghiselli and L. Porter, *Managerial Thinking: An International Study* (New York: Wiley, 1966).

survey involving British middle managers that found that they believed that achievement and challenge were important and that they placed a high value on “benevolence towards and receiving recognition from others”.⁵¹ All in all, when compared to their managerial counterparts in Germany, British managers have scored lower on measures of respect for authority, fear of displeasing superiors and desire for explicit and stable relationships.⁵²

Hofstede described an unpublished work of Stevens describing the results of his survey of graduate business students from three different European countries—France, Germany and Great Britain—that included questions regarding their ideas about how to deal with issues in a case study that involved a conflict between the product development and sales departments at a hypothetical firm.⁵³ Stevens found that the British felt that the conflict was a product of poor interpersonal communication that required more training for the parties involved and based on this feedback, as well as different responses from the students from the two other countries, proposed a preferred “implicit model” of organizational structure for British companies based on the low power distance and low uncertainty avoidance in the societal level culture of that country that Stevens referred to as a “village market” that was neither formalized nor centralized and which depended on continuous attention to maintaining open interpersonal communications between different departments and their members. Studies performed by Schneider and Barsoux appeared to confirm the Hofstede/Stevens conceptual model and they suggested that the “village market” structure was based on low formalization and hierarchy and had specific characteristics that included decentralized; generalist; people as “free agents”; entrepreneurial; flexibility; more delegation; coordination through informal, personal communication; and output control.⁵⁴ Taken together, these studies argued for the proposition that people from the UK are less concerned about risk and power distance and thus are comfortable interacting in organizations that are less hierarchical and formal and which follow the “village market” model.

Mintzberg developed a typology of “preferred configurations of organizations” that corresponded with the Hofstede/Stevens model and could also be fit into a matrix created using the uncertainty avoidance and power distance dimensions.⁵⁵ One of his structural types, referred to as the “adhocracy”, corresponded to the “village market” model and was suitable for low power distance/low uncertainty avoidance societies such as Britain and for firms seeking to engage in innovative activities. The key part of the organization for this structural type was the administrative support staff providing indirect, but necessary services such as clerical and maintenance; and the preferred coordination

⁵¹ G. Hofstede, *Nationality and Espoused Values: Working Paper 74-78* (Brussels: European Institute for Advanced Studies in Management, 1974). The same survey provided evidence that German managers attached relatively greater value to having authority to direct other people.

⁵² J. Child and A. Kieser, “Organizational and managerial roles in British and West German Companies: An examination of the culture-free thesis” in T. Weinsall, *Societal culture and management* (New York: Walter de Gruyter, 1993), 455-477, 458.

⁵³ G. Hofstede, *Motivation, Leadership and Organization: Do American Theories Apply Abroad?*, *Organization Dynamics*, 9 (1980), 42, 60. Hofstede was referring to the work of O. Stevens at INSTEAD.

⁵⁴ S. Schneider and J.-L. Barsoux, *Managing Across Cultures* (2nd Ed.) (2002).

⁵⁵ The framework was initially presented and described in the early 1980s. See H. Mintzberg, *Structures in Fives: Designing Effective Organizations* (1983).

mechanism was mutual adjustment, which relied on communication among people in various parts of the organizational structure. A final example of “implicit models of organization” that closely followed the principles of Stevens, Hofstede and Mintzberg and used all of the dimensions of societal culture included in the Hofstede framework was offered by the ITIM Culture and Management Consultancy, which suggested that British companies would rely on a “contest”, or “winner takes all”, model consistent with a competitive societal culture characterized by low power distance, high individualism and masculinity and a relatively low score on uncertainty avoidance.⁵⁶

§1:5 Germany

The traditional form of organizational structure among German companies has been quite hierarchical with the duties and responsibilities of each role or job within the hierarchy clearly and strongly defined. The preference for defined roles leads to situations where employees are reluctant to deviate beyond what is expected of them and employees tend to simply follow the rules and directives established and communicated by senior management. The hierarchical organizational structures are accompanied by a “top-down” chain of command in which the major decisions are made by senior management and passed down to lower levels of the hierarchy for execution. Senior management makes the strategic decisions and middle and lower management are responsible for day-to-day operations. However, “teamwork” and “consensus-building” are important factors in making and implementing decisions within German companies. As explained by Gorrill, the desire among Germans to achieve their own goals and successes is coupled with a keen sense of responsibility for the communal good and this explains why business decisions are based not only on financial factors but also on how they might impact employees and the community in which the company is operating.⁵⁷ The desire to reach consensus also means that it takes longer to reach decisions in German firms.

Germany has been famously described as the prototype for the “well-oiled machine” included in the matrix of culture-based profiles for organizational structures developed by Stevens, Hofstede and others.⁵⁸ Influenced by relatively small power distance and strong uncertainty avoidance, Germany and countries with Germanic cultural characteristics tend to prefer organizational structures that are capable of operating smoothly and efficiently based on adherence to clear rules and procedures. Leaders of the “machine” are respected for their expertise in the knowledge areas applicable to the organization’s tasks activities; however, their main job is to ensure that solutions to work issues are readily available in organizational rules and procedures. In other words, the guiding principle was “management by exception” with the expectation that the formal rules and procedures would provide most of the answers. Work is carried out in accordance with a clearly defined plan that is continuously reviewed and monitored and success is defined as meeting the performance goals outline in the plan, from a group perspective, and as

⁵⁶ For further discussion, see H. Wursten, Culture and Change Management, ITIM Culture and Management Consultancy.

⁵⁷ J. Gorrill, Doing Business In Germany: Communicaid (February 16, 2006).

⁵⁸ G. Hofstede, “Motivation, Leadership and Organization: Do American Theories Apply Abroad,” Organization Dynamics, 9 (1980), 42-63, 60.

development of competence, from an individual perspective. As explained by Wursten: “In principle, people in these countries feel autonomous and want to perform tasks independently. The condition is that all uncertainty around expectations with respect to task completion and task-description are reduced. Clarity in the structure and explicit procedures form the core of the internal discussion about the organization.”⁵⁹

Child and Kieser reviewed the research and commentaries on the attitudes and preferences of German managers and noted that “[w]ithin the Western world, the Germans have often been singled out for having a supposedly greater respect for authority and an inclination towards directive rather than participative relationships”.⁶⁰ In their own studies, Child and Kieser found that German managers had a high regard and respect for authority, more so than British managers, and thus tended to be more directive than the British. Child and Kieser conducted an analysis and comparison of similar German and British firms and concluded that German firms were more centralized than British firms. For example, with respect to higher level decisions managers in German and British firms tended to be fairly similar; however, with respect to operational decisions (i.e., marketing, production, purchasing and some personnel decisions), Germans were more likely to take decisions to a higher level than the British. Another group of researchers found indications that “general features of German culture” were likely to be found in the organizational structure of German firms and noted that German managers tend to adopt “the traditional and culturally ingrained view of organizations as authority structures, requiring explicit, stable and strong hierarchical relationships with ‘ultimate’ authority at the top”.⁶¹ Hartmann also noted that German managers were extremely concerned with authority and that their authority was based not on knowledge and technical ability but on value-oriented elements such as “charisma, calling or trusteeship” that also led German executives to see themselves as being distinct from, and superior to, their subordinate departmental managers.⁶²

In Horovitz’s cross-country study and comparative analysis of managerial “control practices” in France, Britain and Germany, he identified the following practices for Germany, many of which contrasted quite sharply from those that were being used in Britain at the time⁶³:

- At the top managerial levels the controls were very detailed and it was required that all variances be reported to top management rather than just highlights and exceptions.

⁵⁹H. Wursten, Mental images: The influence of culture on (economic) policy, <http://unpan1.un.org/intradoc/groups/public/documents/un/unpan002455.pdf>

⁶⁰ J. Child and A. Kieser, “Organizational and managerial roles in British and West German Companies: An examination of the culture-free thesis” in T. Weinsall, *Societal culture and management* (New York: Walter de Gruyter, 1993), 455-477, 457.

⁶¹ Id. at 458 (citing A. Ruedi and P. Lawrence, “Organizations in Two Cultures” in J. Lorsch and P. Lawrence (Eds.), *Studies in Organization Design* (Homewood, IL: Irwin & Dorsey, 1970), 81).

⁶² H. Hartmann, *Authority and Organization in German Management* (Princeton, NJ: Princeton University Press, 1959).

⁶³ J. Horovitz, “Management Control in France, Great Britain and Germany” in T. Weinsall, *Societal culture and management* (New York: Walter de Gruyter, 1993), 445-454, 446.

- A good deal of emphasis was placed on production controls with a particular focus on achieving and maintaining operational efficiencies.
- Centralization of control was quite important and achieved through reliance on a large central office staff that was involved in performance measurement, variance analysis and compilation of detailed quantitative reports for senior executives.
- Controls were heavily used as policing and surveillance tools.

Planning practices among German firms were aligned with their preferences regarding controls and focused more on operation rather than strategic issues. The planning horizon was shorter (i.e., three years) than among British firms and the planning process was overseen by the controller's office at the corporate level as part of that office's broader responsibilities for budgeting and controlling.⁶⁴ In line with great importance they placed on production controls, German firms emphasized detailed short-term planning including preparation and use of "stringent and detailed one-year production plans . . . [with] . . . key objectives, tasks, responsibilities and deadlines".⁶⁵

Preferences regarding organizational structure in Germany were closely aligned with the dominant managerial control practices and Horovitz noted that "hyper-specialization" was perhaps the best way to describe how German firms were organized, even at the level of the executive suite. Among the surveyed firms from Germany, half of them followed a function-driven structure and the other half used divisions built around products and/or markets and regardless of the structure chosen the "chief executive" was generally a team of functionally specialized executives. Horovitz noted that delegation of authority below the central staff level was uncommon in Germany and that the central staff retained centralized control over a number of decisions, such as procurement, and imposed tight and frequent controls in the production area. The central staff also provided extensive support to each of the divisions. The "executive teams" of German firms met frequently, generally once a week, to coordinate functional specialization and Horovitz concluded that with respect to German enterprises "[t]he overall impression is not one of flexibility, but of operational efficiency".⁶⁶

Peterson and Garrison argued that German companies were highly structured and that great deference was given to those in authority, thus creating an organizational and managerial structure characterized by a larger number of organizational levels with close supervision; many formal rules and regulations, including highly specific job descriptions and requirements; highly centralized decision-making; and a strong emphasis on position-based authority.⁶⁷ Gorrill agreed that German business culture followed set rules and had a well-defined and strictly observed hierarchy with clear responsibilities and distinctions between roles and departments, low degrees of flexibility and spontaneity, and rank and

⁶⁴ See J. Horovitz, "Management Control in France, Great Britain and Germany" in T. Weinsall, *Societal culture and management* (New York: Walter de Gruyter, 1993), 445-454, 446.

⁶⁵ Id. at 450.

⁶⁶ Id. at 448.

⁶⁷ R. Peterson and J. Garrison, "Culture As An Intervening Variable In the Technology Organization Structure Relationship", *The Academy of Management Journal*, XIV(1) (1971), 139 (as cited in E. Arnaud, J. Camp, M. DeAngelo, K. Parsons, and J. Sturm, *A Business Outtake On Germany: Cultural, Organizational, and Management Characteristics* (August 11, 2010)).

status allocated on the basis of individual achievement and expertise in a given field.⁶⁸ Gorrill also observed that decision-making in Germany relies heavily on objective facts, logic and analysis of information, rather than on intuition and opinions collected from well-developed personal networks.

Hofstede described an unpublished work of Stevens describing the results of his survey of graduate business students from three different European countries—France, Germany and Great Britain—that included questions regarding their ideas about how to deal with issues in a case study that involved a conflict between the product development and sales departments at a hypothetical firm.⁶⁹ Stevens found that the Germans pointed to a lack of written policies to guide each of the departments and recommended that such policies be drafted and based on this feedback, as well as different responses from the students from the two other countries, proposed a preferred “implicit model” of organizational structure for German companies based on the low power distance and high uncertainty avoidance in the societal level culture of that country that Stevens referred to as a “well-oiled machine” that was efficiently directed by formal procedures although not necessarily centralized. Hofstede noted that this was consistent with the views of the well-known German management theorist Max Weber, whose theory of bureaucracy included a high level of formalization in management systems but with rules that were intended to protect persons at lower levels in the hierarchical structure from attempts by their superior to abuse their power.⁷⁰ Studies performed by Schneider and Barsoux appeared to confirm the Hofstede/Stevens conceptual model and they suggested that the “well-oiled machine” structure was based on high formalization but low hierarchy and had specific characteristics that included decentralized decision making; narrow span of control; specialist, technical competence; discretion limited by expertise; strong role of staff “experts”; top management team; industry and company knowledge; organized by function; compartmentalized (i.e., “chimneys” or “silos”); coordination through routines and rules; structural solutions; throughput control; and emphasis on efficiency.⁷¹ Taken together, these studies argued for the proposition that Germans understand and accept that activities and relationships should be carried out in accordance with formalized rules and procedures and this reduces the need for a tall hierarchy since everyone knows their place and what is expected of them.

Mintzberg developed a typology of “preferred configurations of organizations” that corresponded with the Hofstede/Stevens model and could also be fit into a matrix created

⁶⁸ J. Gorrill, *Doing Business In Germany: Communicaid* (February 16, 2006).

⁶⁹ G. Hofstede, “Motivation, Leadership and Organization: Do American Theories Apply Abroad”, *Organization Dynamics*, 9 (1980), 42, 60. Hofstede was referring to the work of O. Stevens at INSTEAD.

⁷⁰ According to Weber’s theory of bureaucracy persons in a position of authority within the organizational structure did not have power in their own right but could give directions that were consistent with the authority vested in their position in the formal written rules and procedures that described the approved management systems for the firm. In short, as Hofstede said “the power is in the role, not in the person (small Power Distance)”. G. Hofstede, “Motivation, Leadership and Organization: Do American Theories Apply Abroad”, *Organization Dynamics*, 9 (1980), 42, 60.

⁷¹ S. Schneider and J.-L. Barsoux, *Managing Across Cultures* (2nd Ed.) (2002).

using the uncertainty avoidance and power distance dimensions.⁷² One of his structural types, referred to as the “professional bureaucracy”, corresponded to the “well-oiled machine” model and was suitable for low power distance/high uncertainty avoidance societies such as Germany and for firms that employed relatively high skilled workers producing complex products. The key part of the organization for this structural type was the operating core, the people who actually performed the work, and the preferred coordination mechanism was standardization of skills through training. A final example of “implicit models of organization” that closely followed the principles of Stevens, Hofstede and Mintzberg and used all of the dimensions of societal culture included in the Hofstede framework was offered by the ITIM Culture and Management Consultancy, which suggested that German companies would rely on a “well-oiled machine model” that was based on order, not much hierarchy and a carefully balanced set of rules and procedures.⁷³

§1:6 France

Hierarchy has been an important characteristic of French business and political life for a long time. In the early 1990s, Barsoux and Lawrence reported that French managers created tall organizational hierarchies and preferred quantitative expression and putting directions and communications into writing.⁷⁴ *The Economist* has also noted that organizational structures in France tended to be centralized, rigid, hierarchical, and based on respect for the authority of the intellectual senior executives at the top of pyramid and that French managers rarely delegated authority downward or otherwise empowered lower level employees to make decisions.⁷⁵ Similarly, Taleghani et al. found that “French organizations have centralized structure and emphasize on hierarchy of will and respect for validity of authority”, “[m]anagers of the organizations have full power of decisions making and control on the organization” and “[i]n France, participatory methods in decision making and aiming are not common”.⁷⁶

Other commentators have observed that French companies have traditionally embraced paternalistic, or “family” models of organizational structure and inter-company relationships and that senior managers in France prefer to use a directive, rather than collaborative, management style wherein decisions and overall directions come from the top and are disseminated downward into the organizational hierarchy for implementation by junior management.⁷⁷ The tall and rigid hierarchical structures found in many French companies have been attributed, at least in part, to the high aversion to risk in France and workers are tightly focused on avoiding trouble by making sure that they produce what is

⁷² The framework was initially presented and described in the early 1980s. See H. Mintzberg, *Structures in Fives: Designing Effective Organizations* (1983).

⁷³ For further discussion, see H. Wursten, *Culture and Change Management*, ITIM Culture and Management Consultancy.

⁷⁴ J. Barsoux and P. Lawrence, “The Making of a French Manager”, *Harvard Business Review*, 69(4) (July – August 1991), 58.

⁷⁵ “Schumpeter: The French Way of Work”, *The Economist* (November 19, 2011).

⁷⁶ G. Taleghani, D. Salmani and A. Taatian, “Survey of Leadership Styles in Different Cultures”, *Iranian Journal of Management Studies*, 3(3) (2010), 91, 102-103.

⁷⁷ France: *Management Styles* (February 1, 2011).

expected of them by their superiors. As a result, one finds among French companies an abundance of formal plans, methods and reports, which can be time-consuming to prepare and create a process that often undermine efficiency and the ability of the company and its workers to meet deadlines.⁷⁸ Information, in the form of the plans and reports referred to in the previous sentence, flows upward from subordinates to superiors in French companies; however, downward communication of information from superiors back down to subordinates regarding the reasons for their decisions is limited.

As discussed above, Hofstede described an unpublished work of Stevens describing the results of his survey of graduate business students from three different European countries—France, Germany and Great Britain—that included questions regarding their ideas about how to deal with issues in a case study that involved a conflict between the product development and sales departments at a hypothetical firm.⁷⁹ Stevens found that most of the students from France advised that resolution of the conflict required attention and intervention from the highest level of the organizational hierarchy (i.e., the president) and based on this feedback, as well as different responses from the students from the two other countries, proposed a preferred “implicit model” of organizational structure for French companies based on the high power distance and high uncertainty avoidance in the societal level culture of that country that resembled a pyramid with centralized responsibility and authority for making decisions and formalized rules of operation. This model came to be referred to as the “pyramid of people” featuring a general manager at the top of the organizational hierarchy and the remaining managers and workers at their appropriate places on successively lower levels of the hierarchical ladder.

Studies performed by Schneider and Barsoux appeared to confirm the Hofstede/Stevens conceptual model and they suggested that the “pyramid” structure, which Schneider and Barsoux actually referred to as the “Traditional Bureaucracy”, was based on high formalization and hierarchy and had specific characteristics that included centralized decision making and coordination at the top of the hierarchy; less delegation; “cloisonne” highly specialized; strong role of staff; a value of analytic abilities; informal relationships; elitist (power and authority); and input controls.⁸⁰ Mintzberg developed a typology of “preferred configurations of organizations” that corresponded with the Hofstede/Stevens model and could also be fit into a matrix created using the uncertainty avoidance and power distance dimensions.⁸¹ One of his structural types, referred to as the “machine (or full) bureaucracy”, corresponded to the “pyramid” model and was suitable for high power distance/high uncertainty avoidance societies such as France and for firms that employed relatively unskilled works producing low complexity products. The key part of the organization for this structural type was the “techno structure”, which included persons in staff roles, such as engineers, researchers and analysts, who supplied ideas for planning and controlling the technical core of the organization; and the

⁷⁸ Id.

⁷⁹ G. Hofstede, “Motivation, Leadership and Organization: Do American Theories Apply Abroad”, *Organization Dynamics*, 9 (1980), 42, 60. Hofstede was referring to the work of O. Stevens at INSTEAD.

⁸⁰ S. Schneider and J.-L. Barsoux, *Managing Across Cultures* (2nd Ed.) (2002).

⁸¹ The framework was initially presented and described in the early 1980s. See H. Mintzberg, *Structures in Fives: Designing Effective Organizations* (1983).

preferred coordination mechanism was standardization of work processes (i.e., specifying the contents of the work). A final example of “implicit models of organization” that closely followed the principles of Stevens, Hofstede and Mintzberg and used all of the dimensions of societal culture included in the Hofstede framework was offered by the ITIM Culture and Management Consultancy, which suggested that French companies would rely on a “solar system model” that was based on hierarchy and impersonal bureaucracy and that was similar to the pyramid model yet with greater individualism.⁸²

Referring to the results of a study of comparable factories in France and Germany conducted by Maurice et al., Pugh reported that those researchers had found that French firms tended to have a larger number of staff personnel employed in areas not directly related to production activities and that the number of levels in production hierarchy was greater among the French firms because those firms employed more mid-level managers.⁸³ Interestingly, Maurice et al. related these differences to the educational systems, and resulting career paths for managers, in France and Germany. They noted that top managers in France typically held higher degrees from “elite” institutions whose graduates were routinely slotted into upper management positions within French firms following graduation. The need to find jobs for these graduates led to expansion of the organizational hierarchies at French companies while not necessarily improving the overall quality of management. In contrast, German managers were usually promoted from within based on their professional expertise derived from the knowledge and skills learned while training as junior employees. The end result was the conclusion that “French firms [tended] to be run more bureaucratically, with orders and procedures set from above”.⁸⁴

In a study of French and Swedish enterprises operating in Poland conducted to identify and analyze cross-cultural differences in internal relations between managers and their subordinates that might be included by the level of power distance, Biatas found the French enterprises to be “very hierarchical”, consistent with the high power distance found in French societal culture.⁸⁵ Inzerilli and Laurent, who conducted a comparative study of managerial views of organizational structure in France and the US, also found that French companies tended to create and follow strictly established hierarchies in which each subordinate had only one supervisor, a tradition and practice that explained why matrix organizational structures were not popular among French firms.⁸⁶ Biatas reported that only a small amount of information, such as information connected with

⁸² For further discussion, see H. Wursten, *Culture and Change Management*, ITIM Culture and Management Consultancy.

⁸³ D. Pugh and the Open University Course Team, “Cultural Differences in Organizational Behavior” in T. Weisshull, *Societal culture and management* (New York: Walter de Gruyter, 1993), 125-133, 126 (citing M. Maurice, “For a Study of Societal Effect: Universality and Specificity in Organizational Research” in C. Lammers and D. Hickson (Eds.), *Organizations Alike and Unlike* (London: Routledge and Kegan Paul, 1979)).

⁸⁴ *Id.* at 126.

⁸⁵ S. Biatas, “Power Distance as a Determinant of Relations between Managers and Employees in the Enterprises with Foreign Capital”, *Journal of Intercultural Management*, 1(2) (November 2009), 105.

⁸⁶ G. Inzerilli and A. Laurent, “Managerial Views of Organization Structure in France and USA”, *International Studies of Management and Organization*, 11 (1983), 104.

production indicators, was transferred downward to employees in the French companies, and others have found internal communication in French firms to be quite formal and horizontal and that senior managers in those firms disliked passing information to, and empowering, subordinates and limited downward communications to directives that were to be carried out without question or debate.⁸⁷ Not surprisingly, the employees of the French enterprises that Biatas studied felt they had little influence over the way in which their companies were managed and few opportunities for meaningful participation in decision making.

Stevens and Hofstede argued that the implicit organizational model most typically found among French firms can be described as the “pyramid of people” featuring a general manager at the top of the organizational hierarchy and the remaining managers and workers at their appropriate places on successively lower levels of the hierarchical ladder. Consistent with the views of well-known French management theorist Henri Fayol, the general manager of a French firm was expected to demonstrate personal authority through his or her intelligence, knowledge, experience, values and leadership skills. In other words, the leader provided coordination at the top, rarely delegated authority and expected that those below him or her in the hierarchy would carry out their activities in accordance with formal rules as principles of coordination. Studies have shown that French managers view organizations as political and authority-based and value role formalization and the use of hierarchical relationships.⁸⁸ Reporting relationships within French firms must remain simple and clean and, in fact, researchers have reported that French workers strongly resist reporting to more than one supervisor, thereby undermining the prospective use of matrix structures in France.⁸⁹

After studying France, Britain and Germany, Horovitz observed that the control systems used by managers in France were “more like those used in Germany than the British”.⁹⁰ French managers tended to rely on controls as policing and surveillance tools rather than as guiding instruments and were particularly focused on production controls. As was the case in Germany, French managers relied on centralized staff for administration of their control systems; however, Horovitz opined that “the typical French practice [was] less systematic and less sophisticated than the usual German system”.⁹¹ French companies tended to be organized by functions and generally had large central staff and extensive centralized services, similar to the situation among German firms. Many decisions were left to be made at the highest levels of the organizational hierarchy; however, rather than relying on committee management the tendency was for the chief executive to be given sole and final control over decisions required to resolve problems that might arise among

⁸⁷ S. Biatas, “Power Distance as a Determinant of Relations between Managers and Employees in the Enterprises with Foreign Capital”, *Journal of Intercultural Management*, 1(2) (November 2009), 108.

⁸⁸ A. Laurent, “The cultural diversity of Western conceptions of management” in *International Studies of Management and Organization* (Vol. XIII, Nos. 1-2, Cross-Cultural Management II: Empirical Studies (Spring-Summer 1983) 75-96.

⁸⁹ A. Laurent, “Matrix Organizations in Latin Cultures, A Note on the Use of Comparative Research Data in Management Education”, *International Studies of Management and Organization*, X(4) (1981), 101-114.

⁹⁰ J. Horovitz, “Management Control in France, Great Britain and Germany” in T. Weinsall, *Societal culture and management* (New York: Walter de Gruyter, 1993), 445-454, 446.

⁹¹ *Id.* at 447.

the various functions.⁹² As opposed to their counterparts in Britain and Germany, French firms studied by Horovitz placed less emphasis on long-range planning activities and those firms that were active in this area typically created plans that were “often more like 3-year financial forecasting rather than being decisions today which [could] change the normal course of actions for tomorrow”.⁹³

§1:7 Japan

In general, the organizational structure found among Japanese firms features a large number of vertical levels and substantial overlap between departments and business units. Schneider and Barsoux suggested that the preferred “implicit model” of organizational structure for companies in Japan was the model they referred to as the “Pyramid of People”, or “Traditional Bureaucracy”, which was based on high formalization and hierarchy and had specific characteristics that included centralized decision making and coordination at the top of the hierarchy; less delegation; “cloisonne” highly specialized; strong role of staff; a value of analytic abilities; informal relationships; elitist (power and authority); and input controls.⁹⁴

Many have observed the value, respect and status traditionally given to age in Japanese society including within business organizations and, until recently, compensation and promotion has been tightly aligned with seniority.⁹⁵ Job performance was relatively unimportant in evaluating employees and bonuses were based on company-wide, rather than individual, achievements. Pugh et al. noted that these practices had some interesting influences on organizational structure in Japan. For example, they observed that Japanese “organization structures are ‘softer’” because the responsibilities of specific roles and jobs are not precisely defined since persons are assigned to a department, rather than a particular position, and “expected to do whatever is required”.⁹⁶ They pointed out that while this situation created a risk of overlapping responsibilities it also drove managers and employees toward greater communication and “decision-making by consensus”, something that was highly valued within Japanese organizations. While such a process could easily extend the time required to reach a decision the implementation phase was expected to play out with greater efficiency and harmony since, in theory, all parties involved had participated in the decision and were committed to implementing it.

Li-Ping et al. investigated differences in perceptions of Japanese organizational structure between 156 non-unionized employees of one Japanese-owned automobile plant and 144 unionized employees of one US-owned automobile plant in the US and found that the employees in the Japanese-owned plant had higher scores for family orientation and loyalty, open communication, team approach, manager knowledge, organizational

⁹² Id. at 448.

⁹³ Id. at 450.

⁹⁴ S. Schneider and J.-L. Barsoux, *Managing Across Cultures* (2nd Ed.) (2002).

⁹⁵ Id. at 129-130.

⁹⁶ Id. at 130.

commitment, organization-based self-esteem, organizational instrumentality, intrinsic satisfaction, and extrinsic satisfaction than those in the US-owned plant.⁹⁷

§1:8 Israel

Antal et al., who had noted that the Israeli economy was undergoing a significant transformation during the 1980s and 1990s due to deregulation, privatization and coping with globalization, sought to analyze the changes in organizational learning among a group of 43 large Israeli companies—over 500 employees—and provided interesting insights into the organizational structures traditionally used by those companies and the changes in those structures that were underway.⁹⁸ Their data, collected in 1994, led them to suggest that there were three typologies of organizational structure at work among large Israeli companies. The first group included companies that were, or had recently been, owned by the state or Histadrut, the country's powerful labor union, were characterized as being “centralistic” with clear hierarchical structures and concentration of decision making in the hands of top management. The second group was at the other end of the spectrum from the centralistic organizations and included a handful of companies that had adopted “decentralized” organizational structures which were operated with an emphasis on teamwork and using decision making processes with broad inputs and participation. The situation among the companies in the third group, which was the largest, mirrored the transition in the general Israeli economy at that time in that their organizational structures were slowly evolving away from being “centralistic” to structures that were described as “hybrids” and reflected real attempts to reduce hierarchical levels, create flatter structures and decentralize decision making. One of the interviewees from a hybrid company explained: “We are convinced that, in our business at least, the fewer the rules, the more room for creativity and non-conformism, the better the business will fare. In a world of such fierce global competition, the rules of the game need to be redefined constantly in order to survive.”⁹⁹

Antal et al. illustrated one of the key differences among the three typologies of organizational structure by looking at how each group handled monitoring and identifying signals from their external environment and communicating that information throughout the organization. Predictably, all of the important information at the “centralistic” companies was collected at the top of the organizational hierarchy by the CEO through personal contacts and activities and the CEO maintained control over how the information was distributed and used by the company. In contrast, companies in the other two groups took a very different approach by consciously distributing responsibility for information gathering throughout their organizations. For example, managers and employees involved in marketing and service-related roles that put them into direct

⁹⁷ T. Li-Ping Tang, J. Kim and D. O'Donald, “Perceptions of Japanese Organizational Culture: Employees in Non-Unionized Japanese-Owned and Unionized US-Owned Automobile Plants”, *Journal of Managerial Psychology*, 15(6) (2000), 535.

⁹⁸ A. Antal, M. Dierkes and L. Marz, “Organizational Learning in Transformation Societies”, *Journal of General Management*, 25(1) (1999), 17.

⁹⁹ Id. See also D. Grotzky, “Globalized Clustering”, *MIT Entrepreneurship Review* (April 28, 2010) (emerging companies in Israel have a long-standing tradition of flat organizational structures and informality in the workplace.).

contact with customers were perceived as valuable sources of information on changes in the company's external environment and some of the "decentralized" and "hybrid" companies had created special staff functions focusing on business intelligence that collected and distributed information throughout their organizations. Some of the centralistic companies had also experimented with business intelligence units; however, the information collected by those companies was not widely disseminated and reports were typically limited to the CEO and board of directors.

§1:9 Nordic Europe

Studies performed by Schneider and Barsoux provided evidence that people from the countries in the Nordic culture cluster were less concerned about risk and power distance and thus were comfortable interacting in organizations that were less hierarchical and formal and which operated under the "village market" model of organizational structure, which was based on low formalization and hierarchy and had specific characteristics that included decentralized; generalist; people as "free agents"; entrepreneurial; flexibility; more delegation; coordination through informal, personal communication; and output control.¹⁰⁰ Another example of "implicit models of organization" was offered by the ITIM Culture and Management Consultancy, which suggested that countries in Scandinavia and the Netherlands would rely on a "network model" in which consensus was sought based on broad participation in decision making.¹⁰¹

Lamsa suggested that the low power distance found in Finland and Sweden contributed to the preference among companies in those countries for a flat organizational structure in which authority and responsibilities were more equally distributed throughout business organizations.¹⁰² In a survey conducted among 42 representatives of Finnish and Swedish companies working in management positions, the Swedish respondents generally felt that the organizational structures typically found in Finland were much more hierarchical than the flat organizations preferred in Sweden.¹⁰³

Gibson selected Scandinavia, specifically Norway and Sweden, along with Australia for a comparative study of the implications of national culture for organizational structure.¹⁰⁴ Gibson noted at the outset that Norwegians and Swedes have been recognized as valuing collectivism, power sharing and participation, and went on to conduct interviews with

¹⁰⁰ S. Schneider and J.-L. Barsoux, *Managing Across Cultures* (2nd Ed.) (2002). A "village market" was one of several "implicit models" of organizational structure that had been identified in previous work conducted by Hofstede and Stevens. See G. Hofstede, "Motivation, Leadership and Organization: Do American Theories Apply Abroad", *Organization Dynamics*, 9 (1980), 42, 60.

¹⁰¹ For further discussion, see H. Wursten, *Culture and Change Management*, ITIM Culture and Management Consultancy. Wursten's work closely followed the principles of Hofstede and Stevens, as well as Mintzberg, and used all of the dimensions of societal culture included in the Hofstede framework

¹⁰² The discussion of economic conditions in the Nordic countries, particularly Finland and Sweden, in this paragraph is adapted from T. Lamsa, "Leadership Styles and Decision-Making in Finnish and Swedish Organizations", *Review of International Comparative Management*, 11(1) (March 2010), 140, 144.

¹⁰³ *Id.* at 146-147 (March 2010) (citing J. Hakkarainen, *Management by perkele vai management by ack herreguuden? Tutkimus suomalaisen ja ruotsalaisen johtajuuden kulttuurieroista* (2006)).

¹⁰⁴ C. Gibson, "The Implications of National Culture for Organization Structure", *Advances in International Comparative Management*, 9 (1994), 3.

managers from each of those countries that included fundamental questions with respect to describing their positions and what they did on a daily basis, the processes followed for making decisions during the course of their day, and the determinants of the methods that they used to satisfy the responsibilities of their positions. Gibson found evidence to support the general proposition that organizational structures used, preferred and accepted in both Scandinavia and Australia coincided with the theoretical research perspective that Gibson had described as “organization structure as a manifestation of culture values”, meaning that the influence of culture on decisions about organizational structure is relatively pervasive and that individuals are not really “rational ‘adopters’ who are free to interpret cultural rules and take them into consideration when designing or redesigning organization structure”.¹⁰⁵ Gibson explained that proponents of this perspective, which included Hofstede, believed that organizational structure was a manifestation, or “symptom”, of cultural values and that these values were “embedded within individual members and groups of members in a society rather than phenomena external to those individuals or groups”.¹⁰⁶

Gibson continued by describing how statements made by the respondents in her survey indicated that cultural values dictated various dimensions of organizational structure in Norway and Sweden.¹⁰⁷ For example, with respect to formalization, most of the responses confirmed a tendency toward formality and bureaucratization. With respect to specialization, the respondents noted that there was a tradition of allowing individuals a large amount of freedom with respect to how they conducting their jobs, but that it was expected that managers would still know what was going on within their groups or teams. As for standardization, the respondents felt that Swedes generally preferred to follow rules and not pursue new, perhaps more creative, ways of doing things. The responses regarding centralization tracked the findings of other researchers by indicating a preference for a “softer style” of decision making that included broad participation in discussions prior to decisions in an effort to gain acceptance and support for the direction to be taken by the organization. Some respondents believed that there was a trend toward decentralization of decision making. Finally, with respect to configuration of the organizational structure, respondents believed that companies established multiple, but equal, functional units as a means for creating and managing the multiple capabilities needed to solve different types of problems.

Bialas studied foreign subsidiaries of French and Swedish companies in Poland to determine the influence of the societal culture in the parent company’s home country—on the the organizational structure of their subsidiaries established and operating in Poland.¹⁰⁸ Bialas was particularly interested in the extent to which power distance determined relations between managers and employees in those subsidiaries and chose France and Switzerland specifically as contrasting examples of high (France) and low (Sweden) power distance cultures. Bialas began by summarizing some of the literature

¹⁰⁵ Id. at 10.

¹⁰⁶ Id.

¹⁰⁷ Id. at 21-23.

¹⁰⁸ S. Bialas, “Power Distance as a Determinant of Relations between Managers and Employees in the Enterprises with Foreign Capital”, *Journal of Intercultural Management*, 1(2) (2009), 105.

on Swedish management practices and noted, for example, that researchers had found high levels of employee participation and high autonomy in Sweden coupled with direct communications and transfer of large amounts of information to employees that they could presumably use in carrying out the duties of their positions.¹⁰⁹ Bialas noted that these characteristics were consistent with the low power distance in Swedish societal culture. Bialas then collected data from two Swedish manufacturing plants and two French manufacturing plants operating in Poland using interviews, documentation analysis and questionnaires and found evidence to support two hypotheses: in the Swedish enterprises the relations between managers and employees would be more direct, the power should be based on competencies, and less connected with the status symbols than in French enterprises; and the Swedish enterprises should be characterized by larger dimension of employee involvement and participation than French enterprises. Bialas was unable to confirm a third hypothesis that the communication in Swedish enterprises should be characterized by mutual exchange of experiences between managers and employees and upward communication should be present in larger degree than in French enterprises.

§1:10 Switzerland

Jacob referred to the traditional notion of organizational structure in Switzerland as being bureaucratic and mechanistic, characteristics thought to be the best means of operationalizing the notion of “Swiss-efficiency”.¹¹⁰ Researchers such as Hofstede have argued that there were clear differences between German- and French-speaking Switzerland with regard to the characteristics of the preferred organizational structure in those language regions.¹¹¹ In German-speaking Switzerland, one was likely to find an organizational structure form commonly referred to as a “well-oiled machine”, which is characterized by a systematic and structured approach to operations (a “workflow bureaucracy”), high esteem for expertise and a need for status symbols to demonstrate success. The well-oiled machine is thought to be the appropriate response to the small power distance and strong uncertainty avoidance found in German-speaking Switzerland, a combination that creates a strong internal need for structure that explains the emphasis on expertise, quality, objectivity, reliability and accuracy. In order to effect change in a company operating under the well-oiled machine model it is necessary for the change agent to develop credibility as an expert in the areas that are relevant to the proposed change. In addition, the small power distance means that employees in a well-oiled machine expect to be allowed to participate in decision making processes and work in an

¹⁰⁹ See, e.g., B. Czerniawska-Joerges, “Swedish Management”, *International Studies of Management and Organization*, 1(23) (1993), 17; P. Lawrence, *Management in Western Europe* (2000), 47; and M. Lindell and J. Arvonel, “The Nordic Management Style in a European Context”, *International Studies of Management and Organization*, 16(3) (1996), 85.

¹¹⁰ N. Jacob, “Organizational Structure and Cross-Cultural Management: The Case of Credit Suisse’s Project Copernicus in Singapore”, *Vikalpa*, 32(4) (December 2007), 63.

¹¹¹ See, e.g., G. Hofstede, *Culture’s Consequences* (2001). Certain aspects of the discussions of the “well-oiled machine” and the “solar system” included in this section are adapted from P. Banks, B. Walsfisz, L. Conelissen and Y. Slotboom, *Intercultural Competencies: Turning Global Strategy into Tangible Reality* (July 2005); H. Wursten, *Culture and Change Management*; and H. Wursten and T. Fadrhonc, *International Marketing and Culture* (2012).

empowered way; however, they understand the role that expertise plays in discussions and the need to restrict autonomy in order to work within the agreed system and structure.

Banks et al. explained that while structure and predictability are valued and pursued within the well-oiled machine, members of the organization will not passively accept authority imposed upon them simply by structure and will demand that authority be accompanied by competence and expertise and that everyone has a fair opportunity to participate in the creation and maintenance of the organizational systems.¹¹² In a well-oiled machine, leaders are expected to be competent experts who are willing and able to convince others to act through factors and thorough analysis of the situation. Once decisions are made, senior management is expected to lay out objective “rules of the game” and freely disseminate information about operations so that everyone involved is able to check progress and procedures against objective standards. The systems and structure used in a well-oiled machine are all designed to free people to focus on pursuing and achieving high quality using their own competencies and acting autonomously. Senior managers should exercise their expertise only through infrequent interventions if needed to resolve unforeseen or ambiguous situations and not by excessive controlling that is likely to de-motivate employees. However, in order for this approach to work, employees must also be willing to share detailed information about their activities so that senior management can track progress from afar.

In contrast, the organizational structure of firms in French-speaking Switzerland, where individualism and power distance are both much stronger than in German-speaking Switzerland, has often been described as a “solar system” characterized by an expert and intellectual approach, more hierarchical “top-down” management, style, formality, reference to the individual and an emphasis on status. The solar system model places authority for making decisions and establishing the strategy of the firm at the top of the organizational hierarchy, based on the implicit belief that the persons at the top have the expertise and information necessary to make the most appropriate decisions. However, when overseeing how decisions are executed the senior manager must be mindful of the strong individualism among employees and this means avoiding too much control and trusting that employees will take pride in their work and autonomously carry out the instructions they have been given.

When discussing and explaining the solar system model, Banks et al. emphasized that it was based on a clear and unmistakable hierarchy, not surprising based on the high power distance, but that persons within the organization did not necessarily have a strong loyalty to it and often felt strong affiliations to their professional group, academic peer group or their department.¹¹³ Banks et al. pointed out that while senior managers were both respected and feared within solar system firms, the individualistic need for self-realization among employees made the controlling process somewhat challenging. Senior managers were expected to be competent technocrats, and respected for their expertise; however, they need to avoid meddling too much in the details of the work

¹¹² P. Banks, B. Walsfisz, L. Conelissen and Y. Slotboom, *Intercultural Competencies: Turning Global Strategy into Tangible Reality* (July 2005), 11.

¹¹³ Id.

being performed by their subordinates and rely on their intrinsic motivation to do a good job in accordance with their professional standards. The affiliation system describe above also increases the likelihood of disputes between departments and makes coordination more difficult for senior management since departments often pursue their own interests and everyone in the organization is reluctant to bring inter-departmental conflicts to the attention of senior management.

Banks et al. also found that expression by employees, and employee participation in decision making, also varies and one finds situations where employees are content to simply execute directives handed down by senior managers and cases where employees are strong engaged in developing and implementing business strategies and processes.¹¹⁴ In the more traditional organizational settings, final decisions are generally made by the person at the top of the hierarchy, usually after consultation with appropriate subordinates. In larger firms, important decisions usually require consultation and consensus among the members of the senior management team. Once decisions are made, managers are expect to provide subordinates with explicit directions regarding implementation and ensure that everyone has the proper materials and understands the procedures that are to be followed in carrying out the decisions. The aversion to risk in Switzerland, coupled with the desire to adhere to high quality standards and pursue perfection, makes it essential that subordinates understand exactly what is expected of them. The high uncertainty avoidance in Switzerland, and the perceived negative ramifications of failure on both individuals and groups, tends to make change and acceptance of new ideas slow and difficult and managers need to invest a lot of time and effort in convincing workers that a new idea will be good for the group and should be accepted by them.¹¹⁵

§1:11 Brazil

Brazil is noteworthy for the diverse range of ethnic backgrounds found among its residents. In fact, six major groups make up the Brazilian population: the Portuguese, who colonized Brazil in the 16th century; Africans brought to Brazil as slaves; various other European, Middle Eastern, and Japanese and other Asian immigrant groups who settled in Brazil since the mid-19th century; and indigenous peoples of Tupi and Guarani language stock. The sheer size of Brazil, as well as the distinguishable differences around the country with respect to colonial experience and historical and economic development, predicts the findings of various researchers of substantial cultural and economic diversity among the geographic regions of Brazil; however, Ferreira et al., among others, have argued that it is possible to identify “strong similarities in the national values, beliefs, norms, customs, and general behavioral patterns of Brazilians”.¹¹⁶ An assessment of Brazilian societal culture using the Hofstede dimensions leads to a profile that includes high power distance, strong uncertainty

¹¹⁴ Id.

¹¹⁵ Id.

¹¹⁶ M. Ferreira, E. Assmar, K. Estol and M. Helena, *Organizational Culture in Brazilian Public and Private Companies*, in B. Setiadi, A. Supratiknya, W. Lonner and Y. Poortinga (Eds.), *Ongoing Themes in Psychology and Culture* (2004).

avoidance and high long-term orientation and collectivist values.¹¹⁷ DaMatta examined Brazilian culture using the two dimensional model developed by Dumont to compare values and patterns of social relationships across societies—hierarchy and equality and holism and individualism—and concluded that Brazil falls between the two ideal polar extremes suggested by the Dumont model (i.e., hierarchical/holistic and egalitarian/individualistic).¹¹⁸ DaMatta emphasized that one could find evidence of both tendencies on Dumont’s dimensions when examining social groups, institutions and practices in Brazil. Garibaldi de Hilal summarized DaMatta’s conclusions by explaining that “Brazilians are constantly negotiating between a modern, egalitarian code and a traditional one”.¹¹⁹

As with most South American countries, Brazilian companies tend to be organized along strictly hierarchical lines with information flowing in a very structured way up and down the various chains of command. As in most structured hierarchies, key decisions are made at the most senior levels of an organization.¹²⁰ In their study of organizational structure among small and medium-sized enterprises in Brazil Xavier and Martin concluded that there was an interrelationship between family participation in company management, its organizational structures, centralization of decision-making processes and the formalization of planning.¹²¹ Specifically, those companies in which there was greater family participation in management generally did not have segmented organizational structures; however, companies in which there was a low rate of family participation in management typically had decentralized and professional organizational management structures and managers have no family relationship to the owner-founder. Xavier and Martin also found that as companies matured they were more likely to

¹¹⁷ G. Hofstede, *Motivation, Leadership and Organization: Do American Theories Apply Abroad*, 9 *Organization Dynamics* 42, 51-54 (1980). Hofstede’s findings were later confirmed by O’Keefe & O’Keefe, who used Hofstede’s dimensions to compare Brazilian and US managers and found Brazilian managers to be relatively collectivistic, higher on power distance and uncertainty avoidance than US managers and lower on masculinity than US managers. See H. O’Keefe and W. O’Keefe, *Business Behaviors in Brazil and the USA: Understanding the Gaps*, 31(5/6) *International Journal of Social Economics* 614 (2004) (cited in G. Islam, *Between Unity and Diversity: Historical and Cultural Foundations of Brazilian Management* (2010)).

¹¹⁸ R. DaMatta, *Carnavais, Malandros e Heróis: Para uma Sociologia do Dilema Brasileiro* (1997). The summary of DaMatta’s findings in the text is derived from A. Garibaldi de Hilal, *Brazilian National Culture, Organizational Culture and Cultural Agreement: Findings from a Multinational Company*, 6 *International Journal of Cross-Cultural Management* 139 (2006). For further explanation of the Dumont model, see L. Dumont, *Homo Hierarchicus: The Caste System and its Implications* (1980).

¹¹⁹ A. Garibaldi de Hilal, *Brazilian National Culture, Organizational Culture and Cultural Agreement: Findings from a Multinational Company*, 6 *International Journal of Cross-Cultural Management* 139 (2006). Garibaldi de Hilal specifically noted that Brazilians may act differently depending on whether they are in the “home” or the “street”, two concepts popularized by DaMatta. While home and street often overlap in Latin America, Garibaldi de Hilal noted that, in general, “the home, and institutions modeled on the home, such as the workplace, are places where relations among family members and servants or among superiors and subordinates institute hierarchies of race, class, age and gender” while, in turn, “[t]he street is the place where the egalitarian and individualistic principles of the marketplace or legal system are in operation”. *Id.*

¹²⁰ *Brazilian Business Structures, World Business Culture*, <http://www.worldbusinessculture.com/Brazilian-Business-Structures.html>.

¹²¹ W. Xavier and R. Martins, *Logistic Strategy and Organizational Structure in Brazilian Small and Medium-Sized Enterprises*, 2/2(4) *Organizations and Markets in Emerging Economies* 91, 113 (2011).

introduce professional, decentralized management; however, there were instances where the owner-founder retained decision-making authority through the later stages of development while preparing to turn over control to the next generation. Finally, Xavier and Martin observed that those companies with more professional management were also more likely to engage in formal planning and deliberate global strategies while the strategies among companies with more family participation in management evidenced less planning and tended to be reactive.

Ferreira noted that Brazilian organizations tended to have paternalistic patterns and highly centralized hierarchical organizational structures as well as a strong emphasis on bureaucratic processes feature regimental rules.¹²² Facanha and Resende conducted an econometric study of organizational structure tendencies among a large group of Brazilian manufacturing firms seeking information on relationships between organizational structure and various external factors such as technology managerial innovation and incentive mechanisms.¹²³ Based on their analysis they concluded that the number of hierarchical levels increased with size and concentration and that the organizational structures of firms were more hierarchical in technology intensive sectors. Facanha and Resende also found that the introduction of micro-computers, intra-firm and inter-firm communications systems contributed to the decrease of hierarchical levels. Finally, they found indications that the need for hierarchy and close controls may be declining as incentive methods were introduced that motivated employees to assume greater personal responsibility for the actions.

§1:12 China

A number of researchers relying on dimensional models of societal culture have suggested that the appropriate implicit model of organization in high power distance/low uncertainty avoidance countries, such as China, should be the “family” (or “tribe”) model, which Hofstede described as centralized with respect to how and by whom decisions are made and formalized with respect to relationships among persons within the hierarchy (high power distance) but not overly formalized as to the rulemaking on how the day-to-day workflow is conducted (low uncertainty avoidance).¹²⁴ The version of the family model suggested by Schneider and Barsoux as applicable in Confucian Asian cultures, including China, was based on a hierarchical structure with low formalization and specific characteristics that include centralized; paternalistic leadership style; strong role of “generalists”; strong social versus task roles; importance of loyalty and personal relationships; and social control.¹²⁵ Wursten’s version of a family model was based on loyalty and hierarchy and suitable for societies that score high on power distance and collectivism and that have powerful “in-groups” and paternalistic leaders, such as China,

¹²² M. Ferreira, E. Assmar, K. Estol, M. Helena and M. Cisne, *Organizational Culture in Brazilian Public and Private Companies*, in N. Bernadette et al., *Ongoing Themes in Psychology and Culture* (2004).

¹²³ L. Facanha and M. Resende, *Hierarchical Structure in Brazilian Industrial Firms: An Econometric Study* (2007).

¹²⁴ G. Hofstede, *Motivation, Leadership and Organization: Do American Theories Apply Abroad?*, 9 *Organization Dynamics* 42, 60 (1980).

¹²⁵ S. Schneider and J.-L. Barsoux, *Managing Across Cultures* (2nd Ed.) (2002).

Hong Kong and other Confucian Asian countries.¹²⁶ The key feature of the “simple structure” organizational type identified by Mintzberg, which corresponded to the family model, was the strategic apex, or top management, and the preferred coordination mechanism in the simple structure was direct supervision relying heavily on centralization and the autonomous control of a strong leader.¹²⁷

Based on their own assessment of structural dimensions of Chinese organizations and a review of the findings of others, Redding and Wong suggested that a list of the typical structural elements of a Chinese organization should include the following¹²⁸:

- Centralization of the power of decision making, usually to a single dominant owners, manager, entrepreneur, founder or father figure;
- A basic tendency toward smaller scale operations (and even when the firm is larger centralization remains the preferred approach to organization)¹²⁹;
- A low level of specialization, with fewer and/or less detailed job specifications, less breaking up of the organizational structure into specialized functional departments and more people assuming “generalist” responsibilities for a wider range of activities across a number of fields;
- Less standardization of activities which means fewer routine procedures and less need for formalization of procedures;
- A relative lack of ancillary departments such as research and development, human resources, public relations and market research, which means that employees tend to be involved in all aspects of the development and commercialization of the products and services of the company; and
- A strong overlap between ownership and control, with private family businesses being the predominant form.

Related observations included a comment that “leadership style within Chinese companies is directive and authoritarian” and the observation that, not surprisingly, establishment of goals for the company are generally an “internal family matter” that is often accompanied by secrecy with respect to information relating to the financial condition and overall profitability of the firm, each of which are well-known indicators of performance among Western firms.¹³⁰ An interesting byproduct of the apparent

¹²⁶ For further discussion, see H. Wursten, Culture and Change Management, ITIM Culture and Management Consultancy, <http://www.itim.org/articleonchangemanagement.pdf>

¹²⁷ H. Mintzberg, Structures in Fives: Designing Effective Organizations (1983).

¹²⁸ S. Redding and G. Wong, The Psychology of Chinese Organizational Behavior, in T. Weinsall, Societal Culture and Management 243, 252 (1993). Redding and Wong cited the results of a comparison of Hong Kong Chinese and British organizations using the Aston researchers’ instrument that showed a lower level of structuring in Chinese companies, less definition of organizational roles in Chinese companies and less reliance on standard procedures and “staff” personnel in Chinese companies. Id. at 251.

¹²⁹ Redding and Wong commended that “[o]verseas Chinese organizations are virtually all family businesses, and even the largest of them, although technically public companies, have rarely become professionally managed bureaucracies of the Western kind, and still commonly display heavy family influence if not absolute dominance”. See S. Redding and G. Wong, The Psychology of Chinese Organizational Behavior, in T. Weinsall, Societal Culture and Management 243, 250 (1993).

¹³⁰ S. Redding and G. Wong, The Psychology of Chinese Organizational Behavior, in T. Weinsall, Societal Culture and Management 243, 254 (1993).

overconcentration of authority at the top of the organizational hierarchy in Chinese organizations, and the accompanying paternalistic leadership approach, is that lower level managers often feel that they lack the authority to fulfill their responsibilities and are continuously vulnerable to being bypassed by superiors, generally persons who assumed their position due to their familial relationship with the owner, who go directly to subordinates with instructions. Lower level managers in Chinese companies lack many of the tools that might be useful in influencing those who report to them since the top managers in those companies retain control over decisions relating to hiring, compensation, promotion, discipline and retention.¹³¹

In his commentaries Redding repeatedly emphasized that “the most important factor relating to Chinese business is that it is a ‘family business’”, which means that their organizational structures tend to revolve around a “paternalistic owner/manager”.¹³² This not only narrows the scope of ownership and managerial participation and discretion it also means that decision making is often based on family interests rather than the broader interests of the firm as might be identified using Western standards. In another article, Redding claimed that it was possible to identify the following distinct management practices among family businesses in China and throughout Southeast Asia: an intuitive, immediate kind of decision-making, without resort to logical analysis and rationality, and usually highly centralized decision-making; informal organizational structure; minimal management control of individual performance; and the existence and acceptance of nepotism, cliques and patronage systems within the firm.¹³³ Redding also commented that the large power distance between the owner and employees makes it impractical to consider the inclusion of democracy in management systems.

As to the organizational structure of the Chinese business, Redding described it as “non-bureaucratic” to emphasize a sharp contrast to the organizing and controlling mechanisms typically found in Western firms. He noted that the “structure is usually informal, its internal relationships are shot through with connections of family, clan, friendship or some other sources of obligation . . . [i]ts interpersonal relationships are not neutral and the structuring of its work does not reflect cold objective analysis”.¹³⁴ Redding observed that Chinese companies generally do not bother with created detailed job definitions or formal organizational charts and “reporting relationships are often diffuse and changeable”. Redding cryptically describes “control” within Chinese firms as being “a matter of sensing out and responding to the expectations of top management” and the realization and expectation among employees that top management will always be watching all operations within the company closely. Control over employees, in the sense of monitoring and evaluating their performance, is “more personal and objective” in China, which is consistent with the overall social context. Redding and Wong posited the interesting forecast that the lack of examples within the Chinese business community

¹³¹ Id. at 256 (citing F. Deyo, Chinese Management Practices and Work Commitment in Comparative Perspective, in L. Gosling and L. Lim (Eds.), *The Chinese in South-East Asia: Volume II: Identity, Culture and Politics* 215, 216 (1983)).

¹³² S. Redding, Cultural Effects on the Marketing Process in South-east Asia, in T. Weinsall, *Societal Culture and Management* 217, 224 (1993).

¹³³ Id.

¹³⁴ Id.

of “highly sophisticated company structures” would lead to a continuation of the practice of relatively simply organizational structuring in the majority of companies since subsequent managers would not have ready access to a repository of managerial know-how that would assist them in adopting “advanced” techniques of organizational structure and operational processes.¹³⁵

Redding’s findings as to the degree of reliance on bureaucratic measures among Chinese firms were contradicted by Weihrich, who concluded from his studies of organizational practices in China as of the late 1980s that organizational structures in that country tended to be formal and bureaucratic and thus not able to respond quick and efficiently to changes in the environment.¹³⁶ He attributed that situation to the long history of state ownership of enterprises in China and operation of those enterprises by government officials who exercised strong authority in a top-down leadership fashion. Weihrich did find, however, a mix of collective and individual responsibility. He also found that there had been attempts to introduce a factory responsibility system, which delegated authority to individual factories and even allowed them to pursue and generate profits at the factory level. Like Japan, organizational culture is strong in China. Chinese firms, however, have yet to develop competitiveness with other enterprises as is the case in Japan.

Lockett found strong evidence of inadequate integration of differentiated activities within Chinese organizations, a situation that invariably led to an overloading of the organizational hierarchy.¹³⁷ Lockett noted that there was a high degree of differentiation within Chinese organizational structures, particularly divisions between persons performing staff and line functions. Based on visits and observations at various sites Lockett concluded that Chinese organizations often had large staff sections with responsibilities that overlapped substantially with personnel in “line units” referred to as “production workshops”. As a result, staff and line personnel were often confused about their respective responsibilities and inefficiencies developed in the form of duplication of efforts and conflicts between staff and line personnel. Unable to form lateral relationships and hampered by bottlenecks in processing and sharing information, managers at lower levels of the hierarchy were stymied and left with little choice but to pass even the smallest of decisions up to the top of the organizational hierarchy.¹³⁸ As if this wasn’t bad enough, decisions were further delayed by an unclear definition of responsibilities among the members of the senior management team, in effect duplicating the issues confronting staff and line personnel. Lockett’s overall conclusion was that “[o]rganizational structure and responsibilities . . . [posed] significant problems in China . . . [due to] extensive differentiation of activities, as in the proliferation of staff sections,

¹³⁵ S. Redding and G. Wong, *The Psychology of Chinese Organizational Behavior*, in T. Weinsall, *Societal Culture and Management* 243, 250 (1993).

¹³⁶ H. Weihrich, *Management Practices in the United States, Japan and the People’s Republic of China*, *Industrial Management* 3 (March/April 1990).

¹³⁷ M. Lockett, *Culture and the Problems of Chinese Management*, in T. Weinsall, *Societal Culture and Management* 279, 280-283 (1993).

¹³⁸ See also O. Laaksonen, *The Management and Power Structure of Chinese Enterprises Before and After the Cultural Revolution; With Empirical Data Comparing Chinese and European Enterprises*, *5/1 Organizational Studies* 1 (1984) (noting that Chinese foremen and middle managers had less power and authority with respect to decisions than their counterparts in Western firms).

combined with inadequate integrative mechanisms [led] to efficiency problems”¹³⁹ and that “senior managers [were] overloaded with routine decisions”.¹⁴⁰

§1:13 India

Nigam and Su have observed that the management system in India “is based upon centuries of rules and regulations from various dominating empires; different religions; a very influential caste system that, knowingly or unknowingly, intentionally or unintentionally, influences the organizational system of Indian enterprises; the British Raj who ruled India for about 200 years; and more recently, the globalization of world economies and its influence on the Indian management system”.¹⁴¹ Chatterjee has argued that the sources for the emerging management style in India are “strong national pride in the tradition and history of the country; existing bureaucratic institutional infrastructure and regulatory framework; commitment and vision to achieve a global identity by becoming engaged in the region and beyond; and new levels of confidence in innovation, enterprise and knowledge networks”.¹⁴² In addition, Grainger and Chatterjee have noted that “[m]anagers in India retain a strong orientation towards the cultural legacy of an ancient but continuously living and evolving civilization. However, in recent years this legacy has been impacted by the changing economic and managerial contexts... The contemporary managerial elite in India are more pragmatically than ideologically driven than in the past.”¹⁴³

According to Nigam and Su societal culture in India has traditionally been described as collectivist, high power distance, high masculinity and high uncertainty avoidance.¹⁴⁴ The large power distance score for India is consistent with the long-standing tradition of recognizing and enforcing caste systems. Large power distance also correlates with Hinduism, which is practiced by about 80% of the population of India — the only country with over 50% of its population embracing the Hindu religion. Large power distance provides the underpinnings for a strong respect for hierarchy that necessarily influences organizational structure within Indian firms. Researchers such as Kumar and Shankaran have observed that a “hierarchical mindset” permeates all aspects of Indian life including people, relations and ideas.¹⁴⁵ As a result, it is not surprising that

¹³⁹ M. Lockett, *Culture and the Problems of Chinese Management*, in T. Weinsall, *Societal Culture and Management* 279, 283 (1993).

¹⁴⁰ *Id.* at 289.

¹⁴¹ R. Nigam and Z. Su, *Management in Emerging versus Developed Countries: A Comparative Study from an Indian Perspective*, 4(1) *Journal of CENTRUM Cathedra* 121, 122 (2011). The authors based their research on an extensive review of relevant journals, particularly “articles with a special focus on management, Asian management, and Indian management”. *Id.*

¹⁴² S. Chatterjee, *Bridging the Gap between Potential and Performance: The Challenges of Indian Management*, in S. Chatterjee and A. Nankervis (Eds.), *Asian Management in Transition: Emerging Themes* 83 (2007).

¹⁴³ R. Grainger and S. Chatterjee, *Chinese and Indian Systems: Divergent in the Midst of Global Trends*, 1 (2007).

¹⁴⁴ R. Nigam and Z. Su, *Management in Emerging versus Developed Countries: A Comparative Study from an Indian Perspective*, 4(1) *Journal of CENTRUM Cathedra* 121, 124 (2011).

¹⁴⁵ M. Kumar and S. Sankaran, *Indian Culture and the Culture for TQM: A Comparison*, 19(2) *The TQM Magazine* 176 (2007).

researchers have found evidence of a preference for, and acceptance of, centralized “top down” decision making in Indian business organizations.¹⁴⁶

In the past, most Indian companies were run by family members and thus the organizational structures for these firms have predictably resembled the “family” (or “tribe”) model developed by various researchers including Hofstede, Schneider and Barsoux and Wursten and characterized by the following features: hierarchical and centralized with respect to how and by whom decisions are made and formalized with respect to relationships among persons within the hierarchy (high power distance) but not overly formalized as to the rulemaking on how the day-to-day workflow is conducted (low uncertainty avoidance); paternalistic leadership style; strong role of “generalists”; strong social versus task roles; importance of loyalty and personal relationships; powerful “in-groups”; and social control.¹⁴⁷ Chatterjee described the behavior of Indian managers as a combination of collectivism on the outside and individualism on the inside.¹⁴⁸ Nigam and Su explained this to mean that “power is considered important in the Indian culture, and obtaining more power is a strong motivational factor”.¹⁴⁹

Several commentators have discussed various factors in the competitive environment confronting larger Indian firms that are likely to lead to changes in organizational design and structure. Both Ghoshal et al and Ahmad and Chopra confirmed much of what was mentioned above with respect to the characteristics of the organizational structure of Indian companies during the transition period following independence of the country in 1947: high levels of centralization and command and control styles of management and concentration of power and decision-making authority at the top of the organizational hierarchy with either senior executives and/or members of the family that owned the business.¹⁵⁰ However, they noted that the pressures associated with internationalization and competing in a global market place have triggered a shift, at least among the more innovative firms in India, toward delayering and relying on a more lateral organizational structure with fewer intermediate levels, greater reliance on cross-unit and cross-

¹⁴⁶ R. Nigam and Z. Su, Management in Emerging versus Developed Countries: A Comparative Study from an Indian Perspective, 4(1) Journal of CENTRUM Cathedra 121, 126 (2011).

¹⁴⁷ G. Hofstede, Motivation, Leadership and Organization: Do American Theories Apply Abroad”, 9 Organization Dynamics 42, 60 (1980); S. Schneider and J.-L. Barsoux, Managing Across Cultures (2nd Ed.) (2002); and H. Wursten, Culture and Change Management, ITIM Culture and Management Consultancy, <http://www.itim.org/articleonchangemanagement.pdf>.

¹⁴⁸ S. Chatterjee, Human Resource Management in India: ‘Where From’ and ‘Where To?’, 15(2) Research and Practice in Human Resource Management 92 (2007); M. Kumar and S. Sankaran, Indian Culture and the Culture for TQM: A Comparison, 19(2) The TQM Magazine 176 (2007).

¹⁴⁹ R. Nigam and Z. Su, Management in Emerging versus Developed Countries: A Comparative Study from an Indian Perspective, 4(1) Journal of CENTRUM Cathedra 121, 126 (2011). In the same vein, Morris et al. found that the value of power was rated much more highly by managers in China, India and the Philippines than by managers in the US. M. Morris, K. Williams, K. Leung, R. Larrick, M. Mendoza, D. Bhatnager, et al., Conflict Management Style: Accounting for Cross-National Differences, 29(4) Journal of International Business Studies 729 (1998).

¹⁵⁰ See S. Ghoshal, G. Piramal and C. Bartlett, Managing Radical Change: What Indian Companies Must Do to Become World-Class (2000); and A. Ahmad and O. Chopra, Passion to Win: How Winning Companies Develop and Sustain Competitive Edge (2004).

functional task forces and swifter communications and information flows.¹⁵¹ Oswal studied a larger number of Indian companies and found evidence confirming that the greater strategic emphasis on internationalization among those companies has been accompanied by a movement toward greater decision-making decentralization over the last few years, especially in important customer contract-focused areas such as marketing and communications.¹⁵² Oswal also reported a trend toward increased interest in India on recruiting professional managers with business school training. Finally, Oswal suggested that the operational complexity associated with international operations will likely push Indian firms away from the rigid structural characteristics relied upon for solely domestic activities toward flexible processes such as cross-functional teams.

§1:14 Indonesia

Based on Hofstede's measures of various dimensions of societal culture Indonesia evidences high power distance and low uncertainty avoidance and is one of the most collectivist societies in the world.¹⁵³ With respect to organizational structures the high power distance is reflected in a tendency toward extreme hierarchy with a strong paternalistic leader, generally male, make all the key decisions¹⁵⁴; however, collectivism plays a role to the extent that leaders seek to achieve a consensus, and maintain group harmony, through a discussion of different points of view before making the decisions. Once the leader makes a decision the leader is expected to convey them in detail, to subordinates who are then expected to carry out those instructions to the letter (no more and no less), even if it is obvious that the instructions or decisions are flawed.¹⁵⁵ The sense of hierarchy permeates the whole organization with employees preferring the manager to make decisions and allocate tasks. Initiative, proactive thinking, etc. are not really viewed as positives or even desirable as they could be seen as an implied criticism of managers and organizational structures. Management practices in Indonesia are often based more along relationship lines than on pure performance criteria (as viewed from the Western perspective.) Thus, nepotism is rife in Indonesia and viewed with little or no

¹⁵¹ A. Ahmad and O. Chopra, *Passion to Win: How Winning Companies Develop and Sustain Competitive Edge* 186-187 (2004) (as cited and described in P. Oswal, *The Internationalization of Indian Firms: Strategic Issues, Organizational Transformation and Performance* 53-61 (2010)).

¹⁵² P. Oswal, *The Internationalization of Indian Firms: Strategic Issues, Organizational Transformation and Performance* 53-61 (2010).

¹⁵³ The discussion of elements of Indonesian societal culture in this paragraph is based on The Hofstede Centre, *What About Indonesia?* (2013). An extensive analysis and assessment of societal culture in Indonesia can be found in D. Irawanto, *An Analysis Of National Culture And Leadership Practices In Indonesia*, 4(2) *Journal of Diversity Management* 41 (2009).

¹⁵⁴ Indonesian Business Structures, World Business Culture, <http://www.worldbusinessculture.com/Indonesian-Business-Structures.html> [Accessed January 26, 2013]. In the case of family-owned businesses decisions are made by a senior family member and in the case of non-family-owned businesses control is generally vested in a small group of senior managers. For further discussion of the paternalistic leadership style found in Indonesia, see H. Antlov and S. Cederroth, *Leadership on Java: Gentle hints, authoritarian rule.* (1994); D. Gani, *Leadership in Indonesia: A Case for Managing Relationship within Organizations*, in D. Tjosvold and K. Leung, *Leading in High Growth Asia: Managing Relationship for Teamwork and Change* (2004); and B. Widyahartono, *Telaah Kepemimpinan Efektif*, 2007.

¹⁵⁵ Indonesian Business Structures, World Business Culture, <http://www.worldbusinessculture.com/Indonesian-Business-Structures.html> [Accessed January 26, 2013].

concern. It is worth noting that Indonesia contains several divergent ethnic groups and that this likely causes differences in management perceptions and practices.¹⁵⁶

Subroto and Subroto investigated organizational structure and culture in Indonesia by analyzing a group of 165 companies involved in the automotive component industry.¹⁵⁷ Among the companies they surveyed they found that a majority of them relied on a hierarchical organizational structure managed by authoritarian-style leadership (a “one man show”) based on the premise that subordinates could not be trusted and that organizational leaders needed to act as parents overseeing or supervising the children that worked for them. Organizational leaders were typically the founders or owners of the company who took full and final responsibility for decisions (i.e., centralized decision making) and relied on a top-down management approach with little or no effort to encourage employee involvement or participation in deliberations leading up to decisions. Subroto and Subroto argued that performance issues among Indonesia companies were usually addressed by “quick fixes” in strategy as opposed to leaders taking the time to get deeply involved in root causes that might be embedded somewhere within the organizational culture of the company. In fact, according to Subroto and Subroto, the strong orientation toward paternalism in Indonesia inhibited the development of unique and dynamic organizational culture.

§1:15 Korea

Several studies of organizational structure among Korean firms have confirmed that the high levels of both power distance and uncertainty avoidance observed in Korean societal culture impact the degree of centralization and formalization in those firms. For example, Self et al. observed that Korea’s high power distance score is reflected in the centralized structure of many South Korean companies¹⁵⁸ and Chen asserted that “usually 80 percent of the authority lies in the upper management level, with middle or lower management having very limited authority”.¹⁵⁹ Not surprisingly, the concentration of decision making authority at the top of the hierarchy within Korean firms has impacted the willingness and motivation of subordinates to contribute ideas to their managers. Hargittay and Kleiner found that “as one goes farther down the hierarchy of a Korean firm the more passive the employees are, leading to very few suggestions coming from the bottom”.¹⁶⁰ With regard to the strong uncertainty avoidance in Korea, Self et al. argued that the high degree of formalization in the organizational structure of Korean

¹⁵⁶ M. Kelly, Comparison of Human Resource Management Practices and Perceptions of Agri-Business Employees Across Three Indonesian Subcultures (2008).

¹⁵⁷ S. Subroto and A. Subroto, Organizational Culture and Leadership Role for Improving Organizational Performance: Automotive Components Industry In Indonesia, 2(5) International Journal of Innovation Management and Technology 383 (October 2011).

¹⁵⁸ R. Self, D. Self and J. Bell-Haynes, Intercultural Human Resource Management: South Korea and the United States (2010).

¹⁵⁹ M. Chen, Asian Management Systems (1995).

¹⁶⁰ P. Hargittay and B. Kleiner, Effectively Managing Korean-American Businesses, 28(6) Management Research News 55, 60 (2005).

firms and their reliance on rules, policies and regulations are both driven by the desire to reduce uncertainty.¹⁶¹

Another issue relating to organizational structure is the degree to which firms prefer specialization. Chen found that Korean firms placed great importance on functional specialization such as planning, finance and human resource management.¹⁶² For their part, Morden and Bowles found that “many Korean companies have a combined organizational structure placing a vertical concentration of decision-making power at the senior levels of management and a horizontal concentration of functional control in staff departments”.¹⁶³ Self et al. observed that since Korean firms tended to concentrate authority at the highest levels of management, the typical organizational structure for larger Korean companies was a tall hierarchy with many levels.¹⁶⁴

§1:16 Mexico

The traditional high power distance in Mexico and expectations of paternalistic and authoritarian management by those higher in the organizational structure to a large extent determine the structure of companies in Mexico. They are also impediments to change, including implementing any sort of participative decision making processes in Mexico.¹⁶⁵ Schneider and Barsoux observed that the “traditional bureaucracy”, or “pyramid of people”, organizational structure has traditionally been used in countries like Mexico where both uncertainty avoidance and power distance were high and described it as a hierarchical structure accompanied by high formalization and with specific characteristics that included centralized decision making and coordination at the top of the hierarchy; less delegation; “cloisonne” highly specialized; strong role of staff; a value of analytic abilities; informal relationships; elitist (power and authority); and input controls.¹⁶⁶ Wursten identified a “pyramid” model of organizational structure based on a combination of loyalty, hierarchy and implicit order, and suggested that it was suitable for collective societies with high scores on power distance and uncertainty avoidance such as Mexico and other Latin American countries.¹⁶⁷ When comparing management differences in Mexico with Canada and the US, Kraus observed that the traditional management style in Mexico was autocratic, although some younger managers were beginning to try limited delegation of responsibilities; subordinates were used to be assigned to carry out tasks but not being asked to exercise authority; there were strong loyalties among subordinates to their superior, rather than to the organization; managers

¹⁶¹ R. Self, D. Self and J. Bell-Haynes, *Intercultural Human Resource Management: South Korea and the United States* (2010).

¹⁶² M. Chen, *Asian Management Systems* (1995).

¹⁶³ T. Morden and D. Bowles, *Management in South Korea: A Review*, 36/5 *Management Decisions* 316, 321 (1998).

¹⁶⁴ R. Self, D. Self and J. Bell-Haynes, *Intercultural Human Resource Management: South Korea and the United States* (2010).

¹⁶⁵ Resource for Business Management, *Comparative Motivation in Mexico: Management in Focus*, <http://www.businessmanagementclassonline.com/businessmanagement-285-resource-for-business-management-comparative-motivation-in-mexico-management-in-focus.html>

¹⁶⁶ S. Schneider and J.-L. Barsoux, *Managing Across Cultures* (2nd Ed.) (2002).

¹⁶⁷ For further discussion, see H. Wursten, *Culture and Change Management*, ITIM Culture and Management Consultancy, <http://www.itim.org/articleonchangemanagement.pdf>

preferred hiring and promoting friends and family members due to trustworthiness; and planning, to the extent that it was done, was generally short term due to the uncertainty of the environment and a time orientation among Mexicans that emphasized “now” rather than the future.¹⁶⁸

As confirmation of the structural hierarchy found in Mexican companies, work conducted on the viability of self-managed work teams in Mexico has noted the challenges confronting this strategy as a result of the reluctance of Mexican workers to accept responsibility and their reliance on paternalistic management style and hierarchical organizational structure. Another issue that undermines the use of self-managed work teams is the relatively low levels of education, training and technical skills among Mexican workers. However, there are certain cultural factors, notably mutual respect and strong sense of loyalty to recognized groups, which could provide a foundation for the team spirit necessary for work teams to operate successfully. It has been recommended that self-managed work teams could be established in Mexico if appropriate support is provided from leaders at the top of the organization and sufficient training is made available to team members to give them the tools necessary to communicate with other members and work collaboratively. If they are to succeed, steps must also be taken to create a culture of individual responsibility among team members to fulfill their commitments to the team and support the efforts of other team members. Finally, reflecting the organizational paternalism found in Mexican companies, respect for the dignity of Mexican workers means that managers must be careful to craft disciplinary actions in a way that does not unduly shame or embarrass a worker; but, instead, should rely on training and cooperation.¹⁶⁹

§1:17 Russia

The study of organizational structure in Russia requires an understanding of the influence of a long history of state control, remnants can still be seen within former government owned and controlled enterprises that have been privatized, and the emergence of a new entrepreneurial class of managers with ideas and motivations that are strikingly Western.¹⁷⁰ Societal culture appears to have a strong explanatory value when assessing preferences regarding organizational structure among Russian enterprises and the unpredictability in the economic and political environment also plays a role. Researchers have typically found Russian culture to be high on both “power distance” and “uncertainty avoidance”, a situation which has led to a preference for vertical organizational structures characterized by top-down management and communications channels and complex and formal bureaucracies. Traditionally governmental power and influence, as well as the location of investment opportunities, has been centralized within Russia and the high power distance found in firms is mirrored in the large gaps in wealth

¹⁶⁸ E. Kraus, *Comparing Management Differences in Mexico with Canada and the US* (1997).

¹⁶⁹ Resource for Business Management, *Comparative Motivation in Mexico: Management in Focus*, <http://www.businessmanagementclassonline.com/businessmanagement-285-resource-for-business-management-comparative-motivation-in-mexico-management-in-focus.html>

¹⁷⁰ A limited survey of influences on organizational structure is available from T. Dahlen and A-C. Forsman, *Organizational Structures in Emerging Markets: Cases from Multinational Telecommunications Firms in Russia* (2004).

found within the broader Russian society. When searching for clues regarding Russian preferences with respect to organization structure Wursten identified a “pyramid” model based on a combination of loyalty, hierarchy and implicit order, and suggested that this model was suitable for collective societies with high scores on power distance and uncertainty avoidance such as Russia.¹⁷¹

An interesting study by Denis and Chun-sheng identified the following eight organizational structures in Russia, China and Canada: vertical functional structure, simple matrix approach, network structure, command approach, virtual horizontal team, learning organization and reengineering.¹⁷² For Russia, they found that the vertical organizational structure prevailed (57%), followed by the vertical divisional structure (30%), and that there was little interest in any of the other alternatives. The researchers speculated that one reason for this was that the contemporary Russian organizational system was inherited from the Soviet model, in which administrative planning prevailed. In 1990s, there were a number of attempts to introduce the American model, but the majority of them were far from successful, in large part because of the Russian mentality, which resists copying and transfer (as was successfully done in China) and the absence of theoretical bases rooted in market economy.

The strong centralization of power continues to be reflected in the organizational structure of Russian companies, where even very minor issues tend to be solved by direct participation of top management. This is one reason why innovative and perspective organizational schemes, such as simple matrix approach, command approach, learning organization and reengineering are little used by Russian companies. A second reason could be absence of performance indicators at enterprises. Another reason is that most offices and departments that create or control organizational structure in Russian enterprises have not been ruled by professional managers. Instead, they are typically managed by old-style human resource offices (cadre departments), or, in other cases, by senior managers who have been with the companies for a long period of time.

Kyrki and Kortelainen found the Russian economy to be “insider-dominated” and noted that this applied to Russian enterprises, which they described as manager-dominated.¹⁷³ Kyrki and Kortelainen also observed that Russian managers have become an important owner group due to the privatization program that has been underway in Russia over the last few decades and that owner-managers have generally adopted a cautious attitude toward outside investors and bank credit due to concerns about how financing from these sources might limit managerial power and discretion. Sutela commented that this

¹⁷¹ For further discussion, see H. Wursten, Culture and Change Management, ITIM Culture and Management Consultancy, <http://www.itim.org/articleonchangemanagement.pdf>. Measures of Russian societal culture generally find evidence of “collectivism” based on scores on the individualist-collectivist dimensional pole.

¹⁷² P. Denis and S. Chun-shen, Comparing Organizational Structure of Management in Canadian, Russian and Chinese Enterprises (2009).

¹⁷³ A. Kyrki and S. Kortelainen, The Key Success Factors in Distributed Product Development—Case Russia, *Frontiers of E-Business Research* (2006).

situation has resulted in limited outside equity and debt as well as a lack of structural change and growth.¹⁷⁴

In a 2013 article in *The Moscow Times* it was reported that top recruitment consultants in Russia continued to see remnants of historical practices of reliance on a single, dominating boss who made almost every decision regarding firm operations.¹⁷⁵ The consultants expressed concern that while this approach might be appropriate and effective for smaller businesses it was becoming less and less suitable for rapidly growing companies reliant on the skills and satisfaction of a new generation of talented and knowledgeable workers who could be expected to chafe under an organizational structure where there were large gaps between decision makers and others in the company, a lack of authority among middle managers to create and maintain productive conditions and delays and misunderstandings due to miscommunication and lack of feedback. Middle managers often responded to their lack of authority by abandoning efforts to assume responsibility and take the initiative and relationships between senior executives and managers were characterized as “tenuous” in all types of enterprises—owner-operated, privatized firms and state corporations. An interesting observation was that top managers in Russia often had divided loyalties and interests that distracted them from focusing on the best interests of their firms and employees. Specifically, Russian executives, particularly among the state corporations, were often more concerned with their place within the administration of the Russian Federation and took orders from political officials in order to ensure their personal advancement and survival within the broader political-economic ecosystem. Other factors in play included a long tradition of low levels of trust between superiors and subordinates and the inexperience of Russian with developing and maintaining a business culture.

§1:18 South Africa

Societal culture in South Africa is an interesting mix that creates challenges for managers in designing their organizational structure.¹⁷⁶ South Africans are generally accepting of some form of hierarchical order and the level of power distance in the country falls in the upper range among societies around the world. Organizational structures in South Africa are typically hierarchical and feature centralization and oversight by a strong leader acting as a benevolent autocrat. Benevolent autocracy is accompanied by formal rules relating to behavior consistent with a relatively high level of uncertainty avoidance in South Africa. Little tolerance is shown for unorthodox behavior and ideas, innovation is often resisted and security is emphasized. At the same time, however, South Africans are prone toward individualism and this means that decisions regarding hiring, promotion and rewards are expected to take into account the specific skills and achievement of

¹⁷⁴ P. Sutela, Economic Transition in Russia, in K. Liuhto (Ed.), *Ten Years of Economic Transformation*, Volume 1 – The Economies in Transition and EU Enlargement, 16 Lappeenranta University of Technology, *Studies in Industrial Engineering and Management* 187 (2001).

¹⁷⁵ M. Gay, Vertical Power Structure May Prove a Weak Point for Russian Companies, *The Moscow Times* (April 18, 2013).

¹⁷⁶ The discussion of elements of South African societal culture in this paragraph is based on The Hofstede Centre, *What About South Africa?* (2013). An extensive analysis and assessment of societal culture in South Africa can be found in P. van den Bergh, *South Africa: A Study in Conflict* (1967).

workers. South Africa is also characterized as a masculine society, which means that managers are expected to be decisive and assertive and that an emphasis is placed on equity competition and performance. As with many African cultures, South African firms often evidence a preference for some form of the “family model” suggested by Schneider and Barsoux, which is based on a hierarchical structure with specific characteristics that include centralized; paternalistic leadership style; strong role of “generalists”; strong social versus task roles; importance of loyalty and personal relationships; and social control.¹⁷⁷

The challenges presented by societal culture in South Africa can be traced to historical factors. The influence of colonialism is significant in South Africa, most notably the enduring impact of the British on South African cultural heritage and formal legal systems (e.g., South Africa has a well-developed and formally regulated company law regime which is based on English company law). In addition, economic relations between South Africa and American, Dutch and German traders have impacted the ways in which economic enterprises and governmental units are organized and operated. As a result, it is easy and commonplace to study South African organizations from a perspective that is largely Western; however, such an approach is severely flawed in that it generally ignores the fact that the workforce is still, and will remain, largely African and that most of the employees in these organizations have little or no understanding of European or American managerial values and customs and thus have trouble identifying with organizational systems, structure and processes that have their roots in the West. The realities of the composition of the workforce also play havoc with the societal culture profile discussed above. For example, while expatriates from Britain and other European countries have brought individualistic tendencies with them their African co-workers are generally believed to prefer a more humanistic approach and to be more comfortable with collectivist practices.

Beakman reminded that decisions regarding organizational structure among South African enterprises must be made with an understanding appreciation of significant differences between Anglo-European and African cultural values and norms.¹⁷⁸ Specifically, Africans among the South African workforce are used to living in a “communalistic” culture, as opposed to the individualism so often found in the West, and their beliefs are based on the notion that “the community comes before the individual”.¹⁷⁹ Key characteristics of the communalistic culture likely to influence preferences regarding organizational structure include interdependency, survival of the group, group security, group satisfaction, cooperation and harmony, affiliation and common duties. While some have argued that a strong tilt toward Afrocentrism is necessary for organizational effectiveness in South Africa the consensus seems to be that “going back to the past” is not the solution for a country that is now firmly involved in a modern world and inextricably tied to the Western economy and culture. The solution likely lies in achieving the appropriate mix of “old” and “new”. An example is the recommendations

¹⁷⁷ S. Schneider and J.-L. Barsoux, *Managing Across Cultures* (2nd Ed.) (2002).

¹⁷⁸ T.L. Beukman, *Culture, Values and Work-Related Values* (2005).

¹⁷⁹ *Id.* at 59 (citing and quoting from B.J. Van der Walt, *Afrocentric or Eurocentric: Our Task in a Multicultural South Africa* (1997)).

made by the Department of Public Service and Administration of the Government of the Republic of South Africa for shifts in the organizational design and structure of public sector organizations in South Africa: recognition of teams as the basic unit with the organization, with team roles being fluid and based on multi-skilled individuals; horizontal and vertical information flows; decentralization of decision-making to levels where appropriate information reside; flatter organizational hierarchies; and flexibility.¹⁸⁰ Outside of the public sector there is a slow but discernible shift away from autocratic leadership toward increasing collaboration and organizational designs are changing to take advantage of the cultural predisposition toward collaboration and teamwork.¹⁸¹

§1:19 Turkey

Societal culture in Turkey is high on power distance, which explains the traditional preference among organizational structures in Turkey for hierarchy, centralization, selective vertical communications—downward but not upward—and benevolent autocracy as the leadership style.¹⁸² Turkish managers have tended to rely heavily on directions from, and decisions by, their superiors and control within organizations has been exercised through formal rules and procedures. Turkey is also considered to be a relatively collectivistic society and great emphasis is placed on membership within “in-groups”, group loyalties and group harmony. Relationships are more important than completing tasks and communications and feedback are indirect. Consensus and avoidance of conflict is consistent with Turkey mid-range score on the masculinity-femininity dimension of societal culture. A final, and extremely important, characteristic of Turkish societal culture is extreme uncertainty avoidance which leads to strong and continuous reliance on rituals, rules and procedures.

Berkman and Özen emphasized the enduring influence of the Ottoman socio-political system on Turkish societal culture and, in turn, the structure and culture of Turkish organizations.¹⁸³ Noting, in particular, that the Ottoman political system was “a highly centralized and autocratic system where the ruling class was extremely dominant and whose subjects had no say or control in this structure except to fully obey to their rulers” Berkman and Özen argued that it is therefore little surprise that Turks came to accept high power distance, prevalence of autocratic and paternalistic leadership styles, lack of individualism and criticism.¹⁸⁴ They then went on to provide the following summary of

¹⁸⁰ Department of Public Service and Administration/Republic of South Africa, Guide and Toolkit on Organizational Design.

¹⁸¹ See also, e.g., D. Ndletyana, The Impact of Culture on Team Learning in a South African Context, 5(1) *Advances in Developing Human Resources* 84 (2003) (arguing that teams can be used in South African organizations to build on the tradition of *Ubuntu* to establish a balance between dialogue and discussion and focus on participation as form of power redistribution and giving voice).

¹⁸² The discussion of elements of Turkish societal culture in this paragraph is based on The Hofstede Centre, *What About Turkey?* (2013). An extensive analysis and assessment of societal culture in South Africa can be found in P. van den Bergh, *South Africa: A Study in Conflict* (1967).

¹⁸³ U. Berkman and S. Özen, *Culture and Management in Turkey: State-Dependency and Paternalism in Transition*, in E. Davel, J-P. Dupuis and J-F. Chanlat (Eds.), *Gestion en contexte interculturel : approches, problématiques, pratiques et plongées* (2008).

¹⁸⁴ Id.

the some of the basic assumptions about life, social structure and the human that have formed the basis for traditional values in Turkish society¹⁸⁵:

- “The universe is extremely complex and humans can neither understand nor control events (which may explain “the external locus of control” of individuals, which is dominant in Turkey);
- Therefore, fate and destiny should be accepted (which may explain “the lack of long term orientation”);
- Therefore change is not desirable (which may explain the “high uncertainty avoidance” commonly seen in Turkish managers and employees);
- Therefore traditions and customs should be closely followed; conformity is the golden rule (which may also explain “high power distance”, submission to authority and the reliance on excessive formalities in Turkish organizations); and
- Individuals are expected to behave in a manner set for them, which basically does not tolerate differences, individualism and competition (which may explain the “collectivist” nature of Turkish culture).”

Schneider and Barsoux observed that the “traditional bureaucracy”, or “pyramid of people”, organizational structure would be suitable for a country such as Turkey, meaning that Turkish organizations are likely to adopt hierarchical, highly formal structures with specific characteristics that included centralized decision making and coordination at the top of the hierarchy; less delegation; “cloisonne” highly specialized; strong role of staff; a value of analytic abilities; informal relationships; elitist (power and authority); and input controls.¹⁸⁶ Berkman and Özen noted that historical factors, as well as the long-standing domination of family-controlled business groups, contributed to the creation and preservation of organizational structured centered around paternalism, collectivism and uncertainty avoidance; however, they commented that “recent studies indicate that as Turkey and its companies have become more internationalized, Turkish managerial culture has gradually become less paternalistic and collectivistic, and more masculine and risk-taking”.¹⁸⁷

Various factors appear to impact the structure and function of organizations in Turkey. For example, larger private organizations, as well as organizations that have greater exposure to strategic arrangements with foreign partners from the US, Europe and Japan (i.e., joint ventures or acting as local representative offices of foreign multinationals), tend to have more developed organizational structures. In contrast, family-owned businesses generally take an informal and paternalistic approach. In some cases, there may be no organizational chart and great emphasis is placed on ensuring and facilitating inter-generational transfers of control within the family although this does not necessarily preclude introduction and use of professional management techniques including

¹⁸⁵ Id. (citing D. Cüceloğlu, *Yeniden insan insana* (1997) 241).

¹⁸⁶ S. Schneider and J.-L. Barsoux, *Managing Across Cultures* (2nd Ed.) (2002).

¹⁸⁷ U. Berkman and S. Özen, *Culture and Management in Turkey: State-Dependency and Paternalism in Transition* 22-23, in E. Davel, J-P. Dupuis and J-F. Chanlat (Eds.), *Gestion en contexte interculturel: approches, problématiques, pratiques et plongées* (2008).

managers from outside of the family able to provide specific skills and experience.¹⁸⁸ There are also variations among industries with respect to structure. Organizations in the finance and information technology industries tended to have the more Western-style organizational structures than other industries in Turkey.¹⁸⁹

§1:20 Vietnam

Many surveys have assessed differences among the various types of business enterprises operating in Vietnam with respect to their organization. For example, in a small survey of state-owned enterprises (SOEs) and multinational companies operating in Hanoi, Kamoche found that the SOEs tended to rely on fairly conservative organizational structure, clinging to traditional welfare paternalism while largely ignoring any need to adopt formal human resources practices, while the multinational companies were making an effort to change traditional management systems to introduce and accommodate Western style practices.¹⁹⁰

Zhu examined a number of different enterprises in Ho Chi Minh City generally thought to offer a more market-oriented environment than Hanoi, and found significant variations among them with regard to adoption of modern organizational structures. The differences could be tied to an array of factors including ownership, sector (high-tech versus labor-intensive), size and market orientation (export versus focus on domestic market).¹⁹¹ When focusing on ownership characteristics, the researchers found that Western organizational structures were more likely to be found and used in joint ventures and multinational companies than in local enterprises; however, they also found that multinational companies understood the need to localize the imported human resources techniques to fit the circumstances unique to Vietnam. Also, not surprisingly, former SOEs that had been restructured and converted into joint stock companies were more likely than the remaining SOEs to have replaced traditional structures with modern organizational structures. Finally, upon review of non-ownership factors the researchers concluded that large, export-oriented enterprises engaged in high-tech activities were especially attracted to techniques associated with modern organizational structure.

Zhu also analyzed labor flexibility strategies in Vietnam through the creation of concepts of numerical flexibility and functional flexibility and measuring the intensity of their adoption among the enterprises included in a survey of different enterprises in Ho Chi Minh City.¹⁹² The conclusion was that organizational flexibility strategies had not been

¹⁸⁸ A. Buğra, *State and Business in Modern Turkey: A Comparative Study* 214 (1994).

¹⁸⁹ Z. Aycan, *Human Resource Management in Turkey: Current Issues and Future Challenges*, 22(3) *International Journal of Manpower* 252, 255 (2001).

¹⁹⁰ K. Kamoche, *Human Resource in Vietnam: The Global Challenge*, 43 *Thunderbird International Business Review* 625 (2001) (cited in Y. Zhu, N. Collins, M. Webber and J. Benson, *New Forms of Ownership and Human Resource Practices in Vietnam*, 47(1) *Human Resource Management* 157, 162 (Spring 2008)).

¹⁹¹ Y. Zhu, *Economic Reform and Human Resource Management in Vietnam*, 8 *Asia Pacific Business Review* 115 (2002) (cited in Y. Zhu, N. Collins, M. Webber and J. Benson, *New Forms of Ownership and Human Resource Practices in Vietnam*, 47(1) *Human Resource Management* 157, 162 (Spring 2008)).

¹⁹² *Id.*

fully adopted among the surveyed enterprises, a finding that Zhu attributed to an array of political, cultural, legal and economic hurdles in Vietnam. For example, Vietnamese laws and regulations make it extremely difficult for firms to reorganize and adjust their headcount of permanent employees, such as downsizing to reduce costs during periods in which demand for outputs is declining. Zhu also commented that full use of functional flexibility strategies in Vietnamese enterprises is hampered by the need to honor and observe local cultural values that emphasize enterprise, personal commitment and maintenance of a harmonious working environment.

Zhu et al. conducted detailed studies of organizational practices among manufacturing enterprises in Vietnam selected based on type of ownership, location, product market, labor intensity and size.¹⁹³ In order to specifically measure the potential impact of location and ownership, the researchers selected equal numbers of enterprises from Hanoi and its surrounding areas in the North and from Ho Chi Minh City and its surrounding areas in the South. Each of these groups included an equal number of the following types of ownership forms: SOEs; multinational companies, which were wholly-owned foreign invested companies (MNCs); joint ventures, which were companies formed and managed jointly by foreign investors and local SOEs (JVs); and privately owned enterprises (POEs).¹⁹⁴ The stated goal of the research was to identify and analyze variations among the surveyed enterprises with respect to their strategies on eight different dimensions of organization and, specifically, where the chosen strategies fell on a continuum of the following three stages of people-management transformation defined and described by the researchers: the socialist traditional model, which includes an extensive amount of external control over enterprises, lifetime employment and uniformity between industries within a system of SOEs; the personnel management (PM) model, which allows for more internal organizational control and determination of many employment conditions at the local level through the use of collective bargaining and features extended job security for workers; and the human resources management (HRM) model, which places line managers in control of people management issues, makes employment contingent and features rewards systems that are performance based.¹⁹⁵

The researchers found that ownership and location strongly predicted the intensity of adoption of the organizational model. For example, the researchers reported: “. . . SOEs have the highest frequency of adopting socialist traditional practices and MNCs the lowest; POEs and, to a lesser extent, JVs are the most likely to adopt dimensions of the PM model; and MNCs and, to a lesser extent, JVs, are the most likely to adopt

¹⁹³ Id.

¹⁹⁴ Y. Zhu, N. Collins, M. Webber and J. Benson, *New Forms of Ownership and Human Resource Practices in Vietnam*, 47(1) *Human Resource Management* 157, 163-164 (Spring 2008). An effort was also made to have representative samples of large and small enterprises, high and low labor-intensive enterprises and export and domestic product market oriented enterprises.

¹⁹⁵ Id. at 159. The eight dimensions were first developed and defined in J. Storey, *Developments in the Management of Human Resources: An Analytical Review* (1992) and included employment status, job allocation, wage determination, wage relations, training and development, recruitment and staffing, union presence and activities and labor-management relationship. Id. The “socialist traditional” model was developed by Zhu et al. while the “personnel management” and “human resources management” models were derived from Storey’s work.

dimensions of the HRM model. In terms of location, enterprises from Hanoi are more likely to adopt dimensions of the PM model and less likely to adopt dimensions of the HRM model than firms from Ho Chi Minh City.”¹⁹⁶ However, there was no statistically significant evidence that the scores of the organizations with respect to the various variables measured were affected by other characteristics such as nature of the market, intensity of labor use or enterprise size.¹⁹⁷

¹⁹⁶ Y. Zhu, N. Collins, M. Webber and J. Benson, New Forms of Ownership and Human Resource Practices in Vietnam, 47(1) Human Resource Management 157, 168 (Spring 2008).

¹⁹⁷ Id.