

SUSTAINABLE ENTREPRENEURSHIP PROJECT

Organizational Studies

**SUSTAINABLE ENTREPRENEURSHIP PROJECT
RESEARCH PAPER SERIES**

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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. Each of the Libraries include various Project publications such as handbooks, guides, briefings, articles, checklists, forms, forms, videos and audio works and other resources; management tools such as checklists and questionnaires, forms and training materials; books; chapters or articles in books; articles in journals, newspapers and magazines; theses and dissertations; papers; government and other public domain publications; online articles and databases; blogs; websites; and webinars and podcasts. Changes to the Library are made on a continuous basis and notifications of changes, as well as new versions of this Research Paper, will be provided to readers that enter their names on the Project mailing list by following the procedures on the Project's website.

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Preface

An organization is any group of persons with a common objective. Simply put, two or more people may band together to form an organization because they determine that working together is a more effective means for creating value than if each of them continued to work separately. While the primary focus of the work in which the Sustainable Research Project is involved is on situations where the members have come together to pursue for-profit business activities, the term “organization” is broad enough to include any and all associations, institutions, companies and other groups that have been formed and are being operated for a specific purpose. This Research Paper provides a brief introduction to the theory and study of organizations, sometimes referred to as organizational studies. The field of organizational studies is based on pursuing a better understanding of the structured processes that emerge within organizations to guide how the members interact with one another to pursue their mutually agreed goals and objectives. Among the key topics covered in this Research Paper are popular definitions of the term “organizations” and theories regarding the purposes of organizations; how organizations create value for the members of the organization and society as a whole; descriptions of the various internal and external stakeholders of an organization, including a review of their contributions and expectations; the fundamental elements of organizational management, including structure, culture, design and environmental factors; an overview of the academic foundations for organizational studies; a description of some of the key determinants of organizational effectiveness; and an introduction to popular methods for measuring organizational effectiveness. This Research Paper also includes an extensive discussion of the important “culture-free/culture-bound debate” which 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?” In addition, the Research Paper identifies and describes various typologies of organizational structures that have been suggested for use in making comparisons across national or culture borders.

Chapter 1

Definitions and Purposes of Organizations

§1:1 Definitions of organization

Obviously one of the threshold questions in the field of organizational studies is defining exactly what is meant by the term “organization.” There are a wide variety of definitions with the words and emphasis changing depending upon the particular academic school of thought. The simple neoclassical definitions of an organization include a group of persons with a common objective and a structured process in which individuals interact to pursue and achieve common objectives. There is a subtle, yet very important, difference between these definitions, both of which include common group objectives, in that the latter formulation includes the necessary assumption that an organization must have a “structured process” relating to the interactions among its members beyond the members simply coming together to pursue a shared interest or purpose. In fact, other definitions place even greater emphasis on the processes that are part of organizations by mentioning relationships, power, objectives, roles, activities, communications and other factors that come into play whenever persons work together. For example, in Galbraith’s view organizations are (i) composed of people and groups of people, (ii) formed to pursue and achieve some shared purpose, (iii) through a planned and coordinated division of labor, (iv) integrated by information-based decision processes, and (v) based on activities and activities within the organization that exist continuously through time.¹

Organizations are also defined by reference to the way that interpersonal relationships between the individuals in the organization are structured. For example, an organization has been described as a system for differentiating among its members with respect to authority, status and roles so that outputs can be predicted and controlled and ambiguity and unforeseen consequences can be minimized. While recognizing that some aspects of organizational operations are informal, it is generally acknowledged that organizations can be distinguished from other collections of people by the fact that an organization is based on a formal and explicit commitment among its members to use a specific structure of roles and responsibilities to pursue the common goals of the members. Finally, another useful way to look at an organization is as a system consisting of inputs, conversion or transformation processes, outputs, feedback and an external environment.

Putting all this together an organization can be thought of as a group of people that share a common goal or set of goals who intentionally come together to organize themselves so they can cooperate with each other and coordinate their activities in such a way that allows them to achieve their common goals and create something that is of value. In most cases references to an organization include the entire group, such as all of the employees of a corporation; however, there may be various sub-groupings that are their own organizations such as a business unit within the corporation. Organizations can be difficult to understand and explain because they are intangible and while it is generally easy to see the specific outputs, such as products and/or services, that are produced by an

¹ J. Galbraith, *Organization Design* (Reading, Mass.: Addison-Wesley, 1977), 3

organization it is not apparent to outsiders how the organization controls, influences and motivates its members to create those outputs. Organizations can range in size from two people to tens of thousands of persons and can arise whenever there is a focused desire on the part of the members to satisfy a particular need or address a condition within the broader environment in which the members are living. For example, the need for security drives nations, states, towns and other communal units to organize armies and other types of policing forces. Organized churches and charities are formed in order to satisfy the needs of their members for spiritual and social support. New business organizations are created to satisfy the ever-changing tastes of consumers or to satisfy the need of society to develop products and services, such as new drugs, that can improve the overall human condition. In fact, a popular term for the process of establishing an organization is “entrepreneurship,” which has been defined in a number of ways including the process by which people recognize opportunities to satisfy needs and then gather and use resources to meet those needs.²

Our working definition of an organization suggests and reinforces the close relationship between human needs and the viability of organizations. While an organization is initially formed to respond to a specific human need that exists at the time that the organization is launched subsequent events, such as the satisfaction of the need or a diminution of its importance, may cause the organization to become obsolete or if the organization is to survive it must undergo a substantial transformation in order to retain its usefulness in its larger environment. One common example of this phenomenon occurs whenever there is a new technological breakthrough that fundamentally changes the way that consumers view their “needs.” In that situation, new business organizations will be formed to create and distribute products and services based on the new technology that addresses the changes in the marketplace and, at the same time, existing business organizations that base their activities on the older and soon to be outdated technology will be faced with a crisis of survival unless they can move quickly to adapt. In fact, the formation of emerging companies is based on the decision of entrepreneurs, technical experts and investors to organize a new business to create value based on new technologies. As this process occurs, established companies whose position in the market may be challenged by these new entrants must ponder appropriate changes in their organizational structure to ensure that they are able to incorporate the new technology into their product and services. As we know, the answer for both new entrants and incumbents is often collaboration in some form of strategic alliance or merger.

§1:2 Reasons for the existence of organizations

Organizations often come together almost by accident or with little, if any, prior introspection and discussion as to the reasons for organizing or the goals and objectives of the organization members. While this is understandably the preferred approach before forming a new organization, such a for-profit business, or expanding the operations and membership of an existing organization (e.g. a company adding more employees and/or

² I.M. Kirzner, *Competition and Entrepreneurship* (Chicago: University of Chicago Press, 1973). For further discussion of entrepreneurship, see “Entrepreneurship: A Library of Resources for Sustainable Entrepreneurs” prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

entering new markets), it is important to carefully consider the following major reasons for the existence of organizations:

- Organizations allow members to be more productive and efficient through division of labor and specialization. One of the most important roles of the management of an organization is dividing up the work of the members so that they can focus on what they do best and develop specialized skills and expertise that can be turned into a competitive advantage for the entire organization. The opportunities for specialization are obviously related to the size of the organization. For example, in smaller businesses a manager or senior engineer may be completely responsible for design of a particular product, even those aspects of the product that are not familiar to him or her; however, in larger companies it is possible to break up design issues among groups that include specialists in each of important aspects of the design.
- Organizations create opportunities for cost savings and higher productivity by realizing the advantages of economies of scale. Economies of scale are derived by businesses from being able to produce goods in large volume and this is more likely to occur in larger companies, as opposed to proprietorships, since they have the resources to implement large-volume production processes and generate sufficient demand for the product to justify the investment in those processes.
- Organizations create opportunities for cost savings and higher productivity by realizing the advantages of economies of scope. Economies of scope are cost advantages that result when businesses are able to provide a variety of products rather than specializing in the production of a single product. If an organization has only one product it may not be fully utilizing its production resources; however, if those resources can be shared by multiple products the organization can reduce costs and justify investment in new equipment and production technologies.
- Organizations are in a better position to manage and influence the external environment in which they must operate. Organizations have the resources to assign members to monitor, and advise the organization about responding to, opportunities and changes in the external environment in which the organization conducts its activities. In addition, larger organizations in particular are better situated than individuals to influence economic and political factors in the environment and the actions of suppliers, distributors and customers.
- Organizations can reduce and control the transactional costs associated with exchanges between persons involved in the activities necessary for the organization to create its goods and services. Organizations provide a formal structure and rules of reference for members that minimize the difficulties that might arise if they had to continuously negotiate their relationships and the specific activities that they would be expected to complete. In addition, organizations assume responsibility for monitoring the performance of their members to ensure that work flows smoothly and that relationships between members are productive.
- Organizations can increase production efficiency through their ability to control the activities of the members and exert pressure on them to conform to the standards and requirements established by the management of the organization. For example, businesses can establish expectations regarding work schedules, behavior in the workplace, and adherence to the authority and decisions of managers and can enforce

those expectations through discipline (including termination) and reward systems. Organizations can also develop other strategies, including development of an organizational culture, to define and enforce its expectations regarding the way in which members act toward one another and other stakeholders.

§1:3 Organizations and value creation

An organization is not an end in itself; instead it is the vehicle that will be used by the members of the organization to satisfy their human needs and create value for themselves. Organizational opportunities for value creation appear at several different stages including the points where the organization first collects inputs from its environment, the periods during which the organization transforms those inputs and adds value to them, and the points where the organization has completed the transformation process and actively releases the outputs to interested stakeholders in its specific environment—finished goods and services, compensation for its employees (i.e.. salary and bonuses) and dividends for its owners. Much of what is modern management theory and commentary focuses on steps that can be taken by business organizations to improve their value creation processes and this includes identifying and implementing the most effective organizational structures and building and maintaining an organizational culture that encourages all managers and employees to remain focused on value creation.

§1:4 --Value creation at the input stage

Organizations have an opportunity to create value even before they complete production of their products and services if they are skillful in the manner that they select and obtain various inputs from their surrounding environment. Generally speaking, inputs can be broadly described to include cash, human resources, capital assets, raw materials and intangible assets such as information and knowledge. Still another type of input is feedback from potential customers regarding their unmet needs and the best way for an organization to satisfy those needs. The exact types, amounts and relative proportions of the inputs required by a particular organization will depend on its proposed activities. For example, when developing and marketing products to consumers it will generally be important to recruit designers who can create simple and easy-to-use products and hire salespeople who are trained in, and will to provide, top-quality service and support for the products. Failure with respect to either of these two crucial inputs may doom the success of the product regardless of how well the organization anticipated a particular need in the marketplace. Value creation at this stage is not limited to designers and salespeople and functional specialists throughout the organization can make significant contributions. Consider for a moment the importance of obtaining working capital on the best possible terms with respect to interest and/or dividends since the cost of capital can significantly impact the overall profitability of a project.

§1:5 --Value creation at the conversion stage

Once the inputs have been selected and collected the next step in the value creation process is the conversion or transformation of those inputs into the outputs (i.e., products

and services) that the organization will ultimately release into its environment. The conversion process involves several key elements—human resources, machinery and manufacturing skills, technology and sales and marketing strategies—and the success of the conversion process, and the amount of value created, depends on such things as the skills of the employees and the ability of the organization to quickly and efficiently make changes in the conversion process based on feedback received from customers and other stakeholders. As such, it follows that organizations must be concerned about making sure that the quality of the conversion process remains high and thus must be prepared to invest in employee training, information systems and modern cost-effective production technology. Note also that the conversion process will be influenced by environmental factors such as the impact of governmental health and safety regulations.

§1:6 --Value creation at the output stage

The last step in the value creation process is the organization's release of its outputs into its environment. It is important to understand that organizations actually generate several different types of outputs, each of which are of specific interest to particular stakeholders. Obviously the most important outputs for a business organization are the finished products and services that have been developed to satisfy the needs upon which the organization operates. Cash generated from sales of these products and services can be used to replenish the original supply of inputs and even expand the pool of inputs to increase the volume of finished products and services if there is sufficient demand. The cash can also be used for other outputs—sales and bonuses for employees and dividends for investors. Success in selling products and services also generates intangible value for the organization and its stakeholders in the form of goodwill, branding and an expanded knowledge base that allows the organization to gain access to additional resources on favorable terms in the future.

§1:7 Complete and partial organizations

Ahrne and Brunsson believed that an organization could be understood as a type of decided social order in which one or more of the following five elements existed: membership, hierarchy, rules, monitoring and sanctions.³ This framework made it possible to identify two distinct types of organizing that “organizers” could use when pursuing a specific strategic or business objective: a “complete” organization, which is feasible when the organizers have access to all of the above-mentioned elements needed to achieve organized orders; and a “partial” organization, which is used in instances when the organizers do not have access to all of the organization elements. Organizers can include not only the board of directors and senior executives of a corporation but also the leaders of non-governmental organizations (“NGOs”), governments and standard-setters.

The Complete and Partial Organization Framework

³ G. Ahrne and N. Brunsson, “Organization outside organizations: The significance of partial organization”, *Organization*, 18(1) (2011), 83.

Sustainable entrepreneurs should use the five elements of the framework of “complete” and “partial” organization proposed by Ahrne and Brunsson (i.e., membership, hierarchy, rules, monitoring and sanctions) to create guidelines for relationships with initial employees—skills and anticipated contributions, behaviors, property rights, communications, authority, standards and rewards—and generate ideas for accessing and integrating valuable knowledge and other support from outside their organizations.

Much of the research on organizational design and structure has traditionally focused on what happens inside the boundaries of formal organizations⁴, such as corporations, that possess all five of the above-mentioned elements and thus could be characterized as “complete” organizations⁵:

- Formal organizations make formal decisions about who can or cannot become members of the organization, such as decisions about which persons to hire as employees and long-term independent contractors. The composition of the organization’s membership defines its “identity”, described by Ashforth and Mael as a “perceived oneness with the group”⁶, which is important to the identification and development of organizational activities that are congruent with how members view themselves and the organization.⁷
- Formal organizations generally establish a hierarchy based on explicit assignments of authority to certain individuals or groups of individuals to make decisions on certain matters related to the operation of the organization and related rights to oblige others to comply with central decisions. The rights associated with hierarchy can be exercised in both formal and informal ways and are generally disbursed among various individuals and/or groups within the organization.⁸
- Formal organizations coordinate their activities through the issuance of rules and procedures that members are expected to follow in carry out their day-to-day activities on behalf of the organization. These rules are intended to serve a number of important purposes including maximizing “consistency” throughout the organization (i.e., decisions that are made in one part of the organization will be executed in the expected manner in other parts of the organization and decisions on similar issues will be made in consistent manner regardless of where in the organization a decision maker is sitting) and alerting and educating members as to what will be considered to be responsible behavior in the context of the organization.⁹ Larger organizations often adopted codes of conduct or ethics; however, organizations can establish rules

⁴ Well-known works of formal organizations include J. March and H. Simon, *Organizations* (New York: Wiley, 1958); H. Mintzberg, *The structuring of organizations*, (Englewood Cliffs: Prentice Hall, 1979); and K. Weick, *The social psychology of organizing* (Reading: Addison-Wesley, 1979).

⁵ A. Rasche, F. de Bakker and J. Moon, “Complete and Partial Organizing in Corporate Social Responsibility”, *Journal of Business Ethics*, 115 (July 2013), 651, 652-653.

⁶ B. Ashforth and F. Mael, “Social identity theory and the organization”, *Academy of Management Review*, 14(1) (1989), 20, 35.

⁷ A. Rasche, F. de Bakker and J. Moon, “Complete and Partial Organizing in Corporate Social Responsibility”, *Journal of Business Ethics*, 115 (July 2013), 651, 654.

⁸ Id. at 655.

⁹ Id.

using other formal and informal mechanisms including “standard operating procedures” and contracts.¹⁰

- Formal organizations supplement their rules and procedures by establishing formal and/or informal monitoring mechanisms to ensure that members are complying with the codes and rules and to measure the effectiveness of those codes and rules. Organizations use a variety of tools for monitoring including internal audits, “whistleblower” procedures and accounting systems and self-monitoring can be encouraged by setting the appropriate culture of compliance within the organization.
- Formal organizations seek to motivate members to comply with the rules and procedures through the implementation of positive (i.e., rewards for complying with the codes and rules) and negative (i.e., termination of employment, fines, verbal warnings and legal actions) sanctioning mechanisms. Codes and rules do not themselves sanction the actions of organizational members, but only contain warnings and promises of sanctions in the event that a violation of the code or rule is discovered. It is up to the organization itself to impose the sanctions and it is the enforcement record of the organization—or at least the perception of the members regarding the enforcement record—that will impact the efficacy of this element.

While complete organizations are characterized as such because they have the ability to draw upon on all five elements as they design their formal organization, in practice there are differences among them with respect to the extent to which each of the elements were deployed and/or the overall balance of the elements in the organizational design chosen to address a particular organizational task.¹¹

While formal organizations are obviously important, not all types of organization that can be identified occur within the boundaries of formal organizations, nor is it necessary for all of the five elements mentioned above to be available to organizers in order to launch and maintain an organization. The concept of “partial” organization includes organizations that only use selected elements (i.e., one or several of the five elements of formal organizations are missing) and which are forged outside and among formal organizations.¹² One example provided by Rasche et al. was organizations, such as associations, organized by formal organizations. In those instances, organization occurs through membership and members will be expected to adhere to certain rules; however, many associations dispense with monitoring of members’ behavior and sanctioning members for failure to comply with the rules of the association.¹³ Another example of a partial organization is the rankings of schools that have become so popular. These rankings are based on efforts to monitor and measure schools’ behavior based on explicit rules and a drop in performance against any of the metrics results in sanctions to a school in the form of a drop in its ranking; however, the schools included in a ranking scheme

¹⁰ Id.

¹¹ Id. at 653.

¹² Id..

¹³ W. Coleman, “Associational governance in a globalizing world: Weathering the storm”, in J. R. Hollingsworth and R. Boyer ((Eds.), *Contemporary capitalism: The embeddedness of institutions* (Cambridge: Cambridge University Press. 1997), 127.

are not organized and connected through formal membership or hierarchical controls.¹⁴ Rasche et al. noted that while it is arguably difficult to distinguish partial organizations from networks and institutions, both of which also develop and flourish outside the boundaries of formal organizations, the difference is that networks and institutions are “emergent social orders” while partial organizations, like complete organizations, come into being as a result of deliberate decisions by their organizers (i.e., individuals and/or other organizations).

In Practice

Using the Complete and Partial Organization Framework

Sustainable entrepreneurs should use the five elements of the framework of “complete” and “partial” organization proposed by Ahrne and Brunsson (i.e., membership, hierarchy, rules, monitoring and sanctions) to create guidelines for relationships with initial employees—skills and anticipated contributions, behaviors, property rights, communications, authority, standards and rewards—and generate ideas for accessing and integrating valuable knowledge and other support from outside their organizations.

Ahrne and Brunsson’s framework provides sustainable entrepreneurs with reference points for some of the priority issues that need to consider when launching and organizing their businesses. As a practical matter, the five elements in the framework raise the following issues and questions for the founders and other leaders of the company:

- What is to be the preferred “identity” of the company and what skills and personal characteristics among the executives, managers, employees and contractors of the company will be needed in order to achieve that identity? There is arguably no more important task for the founders than making sure that the composition of the company’s “membership” is aligned with its business and social purposes.
- What formal and informal rules will be needed in order for the company to perform its activities smoothly and for managers and employees to understand their scope of authority and to whom they are accountable? In spite of the talk about, and popularity of, “flat organizations”, some degree of hierarchy will emerge in every company; however, the process can be managed to some degree by

Founders can also seek reputational advantages, and often much needed financial support, through business competitions and incubator and accelerator programs organized by others. These competitions and programs allow the founders to continue to operate independently; however, they provide access to advice, facilities, investors and strategic partners that are invaluable during the early stages of a new company. Being accepted to one of the programs, or achieving success in a competition, sends a sign out into the new company’s external environment that it is to be taken seriously. At the same time, however, the founders will need to be prepared to sacrifice some degree of autonomy by agreeing to the covenants imposed on them as a condition of the support. Some of these covenants make it more difficult for the companies to change course as quickly as they might like, but others (i.e., developing and implementing procedures for protecting intellectual property rights) should be done in any case and the affiliation with the competition or program serves as a reasonable and important standard for the company. Competitions and programs also facilitate stakeholder engagement as many of them require the companies that they accept to participate in conferences and other events that bring them in contact with parties that may be interested in other types of partial organizations such as joint ventures or informal groups that share information on emerging technologies that the competitions and programs have identified in the criteria they have used for selection.

Another way that partial organization appears within fledgling companies is through the adoption, or more often adaptation, of guidelines and principles promulgated by respected external standards setting organizations. For example, sustainable entrepreneurs may embrace broadly

¹⁴ M. Sauder and W. Espeland, “The discipline of rankings: Tight coupling and organizational change”, *American Sociological Review*, 74(1) (2009), 63.

paying careful attention to how each new member of the company fits into the hierarchy that already exists and the structure that the founders have in mind for the future.

- Sustainable entrepreneurship often involves an explicit or implicit promise to “break all the rules” or “throw the old rules out”; however, companies will not be effective in the long run in achieving their economic and social goals without some guidelines for organizing their day-to-day activities. As they ponder some of the questions posed above, particularly what type of identify they hope to create for their businesses, founders should create a simple set of standards that can be explained to new members and continuously referred to as a source of guidance for expected and responsible behavior.
- While monitoring in larger organizations is often focused on compliance, the founders of a new company should be more concerned with monitoring as a communications and feedback tool. While the founders are certainly interested in making sure that their initial standards for behavior are being observed, the launch phase is an important time for the founders to proactively seeking feedback from members on what is working and not working and collecting ideas from the members as to how best to organize the company.
- While their web of standards will generally be relatively modest, founders must nonetheless consider appropriate incentives and rewards for following and achieving those standards and consider and explain the consequences of failing to fulfill the standards. When the company is very small, the founders can and should personally discuss rewards and negative sanctions with each new member as part of the process of explaining the specific role that they member is expected to have in developing the company’s skills and pursuing the company’s initial economic, technological and social milestones.

It is important to remember that while an organization is “complete” because the founders, as the organizers, have the ability to draw upon on all five elements as they design their companies, there are no hard and fast rules as to the extent to which each of the elements are deployed and/or the overall balance of the elements in the organization design and, in fact, the mix can and should change as the company evolves and new organizational tasks and priorities are identified. All of this suggests that

defined principles such as the United Nations Global Compact and/or use “size appropriate” versions of ISO 26000 to establish basic and simple rules and procedures to integrate social responsibility into the day-to-day activities of their companies. The advantages of this approach include not having to go through a certification process as a condition to “standards membership”; however, founders must understand that most of the standards are intended to be “universal” and thus require customization to the needs and activities of their specific businesses. In addition, standards are of little value unless there is some accountability and founders must invest time and effort in developing internal monitoring and auditing processes. Another thing to consider is that while standards can be selected and adopted by founders on their own, the better way is to engage the company’s stakeholders in the process. This can be another drain on the founders’ energies; however, engaging with employees and customers not only makes the standards more valuable and realistic but also contributes to the success and integrity of the company’s business development plans.

Finally, founders, as well as the initial members of their new companies, can tap into alternative organizational structures, such as communities of practice, to collect new ideas from outside their companies that can be quickly disseminated and implemented internally. While there is an understandable tendency within new companies to avoid sharing new products or technologies with actual or potential competitors, communities of practice provide opportunities for skills development that small firms cannot offer due to their limited resources. Communities of practice can be used to solve problems that inevitably crop up during the development of the first product or service and are perhaps most valuable as vehicles for developing standards of practice for the new company. Founders should proactively encourage engagement in communities of practice by their employees, but care should be taken to instruct employees about the need for caution in exchanging information that might compromise the company’s proprietary rights in technologies and ideas.

Sources: G. Ahrne and N. Brunsson, “Organization outside organizations: The significance of partial organization”, *Organization*, 18(1) (2011), 83; and A. Rasche, F. de Bakker and J. Moon, “Complete and Partial Organizing in Corporate Social Responsibility”, *Journal of Business Ethics*, 115 (July 2013), 651, 652-653.

while companies may eventually need or want formal and legalistic contracts with their employees that cover various aspects of the employment relationship, including an understanding of ownership rights in the company's intellectual property, the wiser course for the first few weeks or months should be a clear and simple exchange of expectations regarding skills and contributions (i.e., where the new member "fits" into the organization today and in the future), behaviors, property rights, communications, authority, standards and rewards that gets the relationship and the company moving forward in the desired direction.

Ahrne and Brunsson's conceptualization of a "partial" organization is also important for the founders as they search for important organizational building blocks that can be integrated into their new companies quickly without a significant drain on what is typically a limited base of resources. For example, while founders are often criticized for relying too much on credentials from a small group of educational institutions as a condition for employment, certain degrees do serve as a valuable requirement for membership in new companies and thus reduce the search costs and risks associated with building the initial team. In fact, efforts of insurgents to break the grip of universities on providing employees with the desired technical skills to new companies depend heavily on their ability to produce graduates who can meet the standards set by employers. If they cannot succeed, as has been the case with many of the "hack schools" and "coding boot camps" launched to meet the strong demand for software developers with promises of turning students in IT professionals in just six to eight weeks, founders will ignore them in their searches for new talent.

§1:8 Organizational stakeholders

Organizations exist in order to create value for various groups that have an interest or stake in the activities and performance of the organization. These groups are often referred to as the "stakeholders" of the organization. These stakeholders provide different types of inputs, or contributions, to the organization with the expectation that their contributions will be converted or transformed into outputs that are sufficient to reward the stakeholders for their investment of tangible and intangible resources in the organization. Assuming that the stakeholders are able to realize a satisfactory return on their investment the expectation would be that they would continue to support the organization. However, if the stakeholders are disappointed in what they receive from their involvement with the organization they will likely attempt to exert pressure on the

way that the organization is operated or perhaps even withdraw their support altogether. Since there is a wide array of contributions that stakeholders might make, as well as significant variation in their expectations regarding returns on their investment, the managers of an organization face a real challenge in balancing the needs of the stakeholders of the organization.¹⁵

§1:9 --Internal stakeholders

It is useful to distinguish between two classes of organizational stakeholders—internal and external. Assuming the organization is a business operating as a corporation, the internal stakeholders generally include the shareholders (“owners”) of the corporation, the directors of the corporation, the managers of the business operated by the corporation, and the employees of the corporation. In addition, separate consideration should be given to the interests and influence of the members of the core group who originally identify a “need” that is being underserved and who believe that they have the necessary skills, knowledge and access to resources to create and manage an organization that can ultimately produce the products or services that can satisfy the need. These pathfinders are often referred to as the “founders” of the organization and while they may be found in other internal stakeholder categories such as owner, director and/or managers their influence on the structure and culture of the organization is substantial. In fact, founders play a critical role in the initial trajectory of the organization by virtue of the fact that they typically seek to grow the organization by identifying new members that share common interests and beliefs and provide complimentary resources.¹⁶

Each group of internal stakeholders makes their own specific and unique contribution to a business organization and, in turn, has their own particular requirements with respect to return on their investment. Shareholders provide capital that can be used to acquire other resources and expect to receive dividends from the corporation and realize additional wealth through appreciation in the value of their stock. Directors, managers and employees each provide their skills, expertise and experience to perform particular roles and responsibilities with respect to the business of the corporation. In return, director and managers seek status and power and managers also bargain for monetary rewards in the form of salaries, bonuses and stock awards. Employees also look for cash compensation in the form of salaries and bonuses but also have a need for recognition, in the form of good reviews and promotions, and stability (i.e., a reasonable expectation of long-term employment and a defined career path).

§1:10 --External stakeholders

The range and importance of external stakeholders depends on the activities of the organization; however, it is likely that the external stakeholder group for a business organization would include customers, suppliers, governmental entities, trade unions, and

¹⁵ See T. Donaldson and L.E. Preston, “The Stakeholder Theory of the Corporation: Concepts, Evidence, and Implications,” *Academy of Management Review*, 20 (1995), 65-91.

¹⁶ For further discussion, see “Entrepreneurship: A Library of Resources for Sustainable Entrepreneurs” prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

the local communities in the areas where the company operates business facilities. As is the case with internal stakeholders, each of these groups has its own set of expectations with respect to inputs to, and outputs from, the company. For example, when customers purchase the goods and services of the company they provide the company with cash that can be used to acquire other resources and satisfy the expectations of other stakeholders (e.g., salaries for managers and employees and dividends for shareholders); however, customers have their own expectations of the company in the form of the requirements that they impose on the quality and price of the company's goods and services. Suppliers are selected for their ability to provide the company with raw materials that meet or exceed the company's quality requirements and which can be purchased at a cost that fits within the company's budget. In return, the company provides the suppliers with cash that the suppliers can use for their own activities, including rewards for their stakeholders. Governmental entities provide businesses with rules and standards that need to be followed in exchange for fair competition in the marketplace, safety in the workplace, and fair and non-discriminatory treatment of workers. Local communities offer businesses a social and economic infrastructure to support their activities including access to talented employees, utilities, academic institutions, other businesses and logistical resources (e.g., roads and ports) and businesses are expected to make contributions back to their communities in the form of taxes and employment for citizens within the communities.

§1:11 --Reconciling the goals and objectives of stakeholder groups

In order to be successful an organization must have the appropriate type and amount of contributions from all of its stakeholders. Unfortunately, each of the stakeholder groups have different goals and expectations with regard to what they expect to receive from the organization in the form of outputs and it can be expected that there will often be conflicts between the goals of the stakeholders. For example, the shareholders of a corporation may expect to receive distributions of a certain amount of dividends from the profits generated by the business of the corporation; however, the managers may prefer to reduce the amount of dividends and increase the salaries and bonuses that they receive as part of their compensation arrangement. Similarly a push by management to increase productivity by requiring employees to work longer hours will usually have a significant impact on how employees perceive their conditions of employment with the company. In order to resolve and manage these potential conflicts the stakeholders must be prepared to engage in a continuous dialogue with one another to ensure that a balance is achieved with respect to how the outputs of the organization's activities are allocated and distributed. Certainly a dominant stakeholder or group of stakeholders will emerge with sufficient leverage to impose an allocation scheme on the other stakeholders; however, those in control must be mindful of the need to satisfy the minimum requirements of each of the stakeholders lest a disenchanting stakeholder group decides to withdraw its support and deprive the organization of a needed input or contribution that cannot be provided by any of the remaining stakeholders.

A classic example of the difficult problems with balancing the goals of the various stakeholders of a business organization is the tension that often arises between the

interests of the ownership group, the shareholders in the case of a corporation, and the managers of the company. It is generally accepted that the primary objective in operating a business in the corporate form is to maximize the wealth of, and return on investment to, the shareholders of the corporation since they are the parties that have provided the capital used by the corporation to launch its activities and who, by law, are entitled to the net residual value of assets of the corporation. However, problems with executing the proposition follow from the fact that the shareholders, with the exception of small closely-held corporations, are generally not involved in the day-to-day operations of the business and delegate those responsibilities to professional managers who exercise actual control over the resources and assets of the corporation. While the managers are presumably chosen for their skills in asset management and under the assumption that they understand and accept the goal of maximizing shareholder value it is common for managers to adopt strategies that fit their own personal objectives. For example, while shareholders may derive maximum value from investment of company assets in long-term research and development projects that will lead to a steady stream of new products and technologies over a period of years the managers prefer to focus on generating short-term profits that bring them additional current compensation in the form of bonuses and meet the expectations of capital markets participants who tend to emphasize meeting short-term goals and severely penalize companies and their managers who fail in that respect even if the failure is due to selecting attractive long-term investment projects over profitability in the current fiscal quarter.

In addition to determining the best way to ensuring that the minimum requirements of all necessary internal stakeholder groups with regard to distribution of outputs are satisfied decisions need to be made regarding how “excess profits” (i.e., profits that are still left over once all the minimum requirements have been satisfied) should be allocated among, and within, each of those groups. For example, should all excess profits generated by a corporate business be distributed to the shareholders based on the proposition that this is the response that is most consistent with maximization of shareholder value or should managers and/or employees receive rewards in excess of their base salaries in the form of bonuses? If bonuses are to be paid a decision needs to be made about how those bonuses will be determined. In many cases bonuses are payable based on whether the firm achieves certain goals and objectives that are tied to “organizational effectiveness”; however, this approach raises a number of additional questions as just what tests should be used to measure the effectiveness of the organization and the performance of its managers. The choices that are made will directly impact the way in which managers exercise their control over the resources of the firm—if effectiveness is measured by short-term profitability the managers will focus on strategies that maximize current profits perhaps at the expense of long-term viability of the business.

The bottom line is that the executives of any organization, acting under the watch and stewardship of the board of directors or other oversight body, need to continuously make difficult decisions regarding the allocation of value created by the operational activities of the organization. This requires a keen understanding of what motivates each of the stakeholders to enter into a relationship with the organization and the specific requirements of those stakeholders with regard to their investment of time, skills, capital

and other tangible and intangible assets. It also requires that the directors and senior managers give serious consideration to the types of incentives they are willing to offer to prospective stakeholders. For example, what quantitative and qualitative incentives should be provided to employees to induce them to stay with the organization and make a positive contribution toward innovative activities? The answer is generally far from simple and may require a delicate mix of bonuses, stock options, challenging work assignments and organizational stability. With respect to outside investors the rewards package will usually include both dividends and long-term stock appreciation. Senior executives of large corporations often realize significant bonuses if the business does well; however, a case can be made that a large portion of these bonuses should actually be distributed among all of the employees.

Chapter 2

Fundamental Elements of Organizational Management

§2:1 Introduction

While one of the simplest definitions of an organization is a group of people that has come together because they share the same objective or point of view it is clear that organizations are best studied with a realistic appreciation that they are far more complex. In fact, an organization can be seen as a holistic system that binds and controls the members who are committed or obligated to it and that the activities of the system can and will be influenced by the way in which it is structured and the norms and values that take hold among the members. Organizational management is a complex subject; however, much can be understood by recognizing the importance of certain fundamental elements such as organizational structure; organizational culture; organizational design, which is the process of creating the structure and culture; and the organizational environment, which includes internal stakeholders and universal factors that impact all organizations including economic forces; technological forces; political and environmental forces; and demographic, cultural and social forces. Also important is the concept of organizational change, which is the process of monitoring and modifying the structure and culture to take into account changed circumstances including new and different environmental factors.

§2:2 Organizational structure

The term “organizational structure” refers to the formal systems and procedures that an organization establishes in order to define the tasks of its members and the authority relationships that have been created and formalized in order to control and coordinate the activities of the members and the way in which the resources of the organization are used in order to achieve its goals and objectives.¹⁷ The decisions that are made regarding organizational structure will obviously have a direct and substantial impact on the how the members in the organization act and the types of experiences that the members will have on a day-to-day basis as they complete their tasks. Organizational structure is determined by many factors; however, the most important influences are the external environment in which the organization operates, the technology that is used by the organization to produce its goods and services and for communications among members, and the human resources of the organization. The structure of an organization is not static and fixed and should be constantly monitored and realigned as environmental conditions change and the organization grows and looks to further differentiate the activities of its members.¹⁸

¹⁷ A. Etzioni, *Modern Organizations* (Upper Saddle River, NJ: Prentice Hall, 1964).

¹⁸ For further discussion of the factors to be considering in designing the organizational structure, see “Designing the Organizational Structure” in “Organizational Design: A Library of Resources for Sustainable Entrepreneurs” prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

Organizational structure is created through a process of organizational design.¹⁹ Organizational theory has been around for a long time and there has hardly been a uniformity of views with respect to how organizations should be viewed, studied and structured. When management theorists speak of organizational structure they are referring to how a variety of managerial issues are addressed in establishing and operating the organization—the degree and type of horizontal and vertical differentiation; the methods selected for coordinating and controlling the activities of the members of the organization; the level of reliance on formal rules and procedures; and the balance struck between autonomy and centralization of authority. Classical management theorists, such as Taylor, Fayol and Weber, believed that it was possible to identify the best way to structure all organizations; however, modern management theorists have abandoned this notion and recognize that organizational structure must be tailored to the specific attributes of the organization particularly its size, the technology involved in the activities of the organization and, of course, the demands of particular environment in which the organization has elected to operate. This modern perspective is generally referred to as “contingency theory.”

In order to provide some basic background for the study and discussion of organizational structure it is useful to list the following alternatives that have been developed over the years as management theorists have discussed and debate issues in this area:

- A “pre-bureaucratic” structure is commonly associated with smaller organizations that have yet to reach the point where tasks have been standardized. In general the structure is completely centralized with all important decisions being made by a strategic leader, such as the founder of an entrepreneurial venture, which are then conveyed to members in one-to-one conversations. This type of structure is best suited for situations where the founder seeks full control over the development of the organization.
- A “bureaucratic” structure evolves when an organization begins to grow, its activities become more complex and standardization of some type is necessary in order for the organization to operate efficiently. A bureaucratic structure is often referred to as “mechanistic” and distinguished from an “organic” structure in which members are given more latitude to determine how to perform their specific tasks and activities.
- A “functional” structure organizes members and activities in accordance with specified skills and places them into separate units referred to as functions, such as research and development, sales and marketing, manufacturing, finance and human resources. A functional structure is often selected in the early stages of development of a business organization since there is usually on one key product at that point and it is important ensure that each product unit meets or exceeds specified performance criteria and that production and sale proceeds efficiently. A functional structure permits rapid refinement of necessary skills; however, problems often arise due to difficulties in facilitating communications between functions and the lack of

¹⁹ For a fuller introduction to organizational design, see “Organizational Design” in “Organizational Design: A Library of Resources for Sustainable Entrepreneurs” prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

flexibility that may be needed in order to quickly adapt to market and environmental changes.

- A “product” structure organizes members and activities around a specific product or groups of related products and each product unit would have its own dedicated set of functional resources to work only on the products that have been allocated to the unit. A product structure generally emerges in response to growth of the organization and the problems associated with trying to have functional units work on multiple products at one time. A product structure improves communication among functional specialists once they have been placed in the same product unit; however, there is a risk that functional resources may be underutilized from time-to-time since they cannot easily be shifted between product units.
- A “geographic” structure, sometimes referred to as a “market” structure,” organizes members and activities around a specific geographic area such as a specific country or a group of countries in the same region. Each geographic unit would be responsible for overseeing all of the products and services offered in particular country or region and would have dedicated functional resources to achieve its objectives. The scope of the functional resources will vary depending on the circumstances and in many cases the geographic units focus mainly on sales and marketing while other functions such as manufacturing and finance are centralized at the organizational headquarters.
- The term “matrix” structure refers to the organization that is created when a decision is made to overlay two of the other organizational structure in order to attempt to simultaneously realize the advantages of each. For example, as business organizations expand globally they will often create a matrix structure that includes product and geographic units. The product unit allows the organization to seek the benefits of economies of scale while the geographic units allow the organization to tailor its sales and marketing activities to the local requirements in each market. When a matrix organization is used each member has multiple reporting obligations (e.g., a product-based manager and a market-based manager) and rules must be established to determine how authority over a member’s daily tasks and activities is to be allocated between two managers.
- A “divisional” structure is generally reserved for large organizations that have a diversified range of product and/or market activities. A division may be product-focused or market-focused. Each division in this type of structure is essentially autonomous and the executives of the division are given broad authority to make decisions relating to the division, including the organizational structure used within the division and are held accountable for the profitability of its activities. Many business organizations opt to centralizing certain key functions, such as planning and/or finance, at the headquarters office rather than ceding responsibility for those activities to the divisions.

While the list above touches upon most of the major structural models for organizations it is not necessarily all-inclusive nor does it capture the myriad range of nuances that can be found in any particular situation. For example, much has been made of the pro-active use of “project teams” as an easy and efficient way to promote flexibility within an organization without embarking on whole changes in the overall structure that are costly

and time-consuming to implement and often far out of proportion to the specific problems that the organization needs to address at a particular moment. A project team is a form of matrix structure used when the prevailing structural model is functional. Members from different functional units are temporarily assigned to cross-functional project teams formed to pursue and achieve very specific objectives such as development of a new product. Project teams would include specialists from engineering, manufacturing, sales and marketing and would be led by a project manager. In most cases the team members will continue to work with their regular functional units, and report to their managers in those units, while participating in the project. As with the formal matrix structure close attention must be made to how team members interact with their functional and team managers and how priorities between functional and team activities are set.²⁰

§2:3 Organizational culture

The term “organizational culture” refers to the values and norms that are known and shared by the members of an organization which become part of the foundation for how the members deal with one another and interact with important constituencies outside of the organization including customers and suppliers. As is the case with organizational structure, organizational culture can play an important role in coordination of the activities of the members and in motivating the members to act in a manner that is in the best interests of the organization. Several important factors come into play in defining the culture of an organization—the values, backgrounds and personalities of the members themselves; the ethical standards established and followed by the leaders of the organization; the human resources policies of the organization; and the structure selected by the organization.²¹

The day-to-day behavior and attitude of the members in the organization is strongly influenced by the culture established inside the organization. In the case of emerging companies, it is likely that an effort will be made to make entrepreneurship and sensible risk taking an accepted response to a particular problem or opportunity confronting the company so that employees come to believe that innovation is valued by the organizational culture of the company. The spirit of entrepreneurship and innovation can also be encouraged through the use of structural strategies—small teams with constant exchanges of information—that increase opportunities for expanding the knowledge base of the company and quickly disseminating new ideas. Research conducted on emerging companies provides a strong sign that the seeds for many elements of their organizational culture are sown very early in the life cycle of the company and are strongly influenced by the preferences of the founding group. Nonetheless, organizational culture can evolve

²⁰ For further discussion, see “Project Management” and “Team Management” in “Organizational Design: A Library of Resources for Sustainable Entrepreneurs” prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

²¹ For a fuller introduction to organizational culture, see “Organizational Culture: A Library of Resources for Sustainable Entrepreneurs” prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

over time, albeit slowly, and can be influenced and managed as part of the same organizational design processes that lead to changes in organizational structure.

§2:4 Organizational design

The structure and culture of an organization are the main tools that the organization uses to establish the course to be followed in order for the organization to achieve its goals and objectives. The important process of selecting and managing the elements of organizational structure and culture, and evaluating and changing the structure and culture as time goes by, is referred to as “organizational design.”²² The decisions made by organizational designers will determine how the activities of the members are defined and controlled and how members interact with each other and with customers, suppliers and other interested stakeholders outside of the organization. Organizational designers seek to achieve the proper balance between external and internal pressures so that the organization is able to both respond to changes in its external environment and maintain stability and harmony within the organization. For example, emerging companies are, by definition, involved in markets that are dynamic and constantly changing as a result of new technologies and sudden innovations by competitors. As a result, the design decisions made regarding the organizational structure and culture of emerging companies must address the need for those companies to be flexible and able to respond quickly to changes in their environment.²³ At the same time, however, the organizational designer must be sure that the structure and culture of the company encourage stable working relationships and cooperation among employees so that the company is able to focus its activities on quickly and efficiently identifying and developing the products and services necessary to keep up with current conditions in the marketplace. In contrast, companies in more stable industries where customer requirements and technologies change more slowly can be expected to select organizational structures and cultures that emphasize things such as control and reduction of costs as opposed to flexibility and risk taking.

In light of the fast-changing business environment, including new technologies and competitive pressures from all around the world, organizational design has become one of the most important issues and concerns for managers of all organizations, particularly emerging companies. Managers must continuously search for opportunity to organize their businesses in such a way that they are able maximize the value that can be created from available resources. Some of the more important reasons for focusing on organizational structure and culture are the following:

- The choices made regarding the design of an organization have a strong influence on how the organization is able to respond to changes in its environment and obtain the resources necessary to create greater value. For example, changes in how employee

²² For a fuller introduction to organizational design, see “Organizational Design” in “Organizational Design: A Library of Resources for Sustainable Entrepreneurs” prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

²³ For further discussion of emerging companies, see “Entrepreneurship: A Library of Resources for Sustainable Entrepreneurs” prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

responsibilities and relationships are defined, as well as changes in the organizational culture, can increase the likelihood that the organization will be able to attract and retain skilled workers. Also, if a company needs to internationalize its business in order to broaden its markets and/or access new resources, a new structure must be created to manage global expansion and the organizational culture must be changed in order to take into account the attitudes and experiences of managers and workers in foreign countries.

- Advances in information technology (“IT”) have changed the way that persons within an organization can communicate with one another and have also transformed expectations regarding the exchange of information with suppliers, customers and other business partners. Companies must be prepared to redesign the organizational structures to take the best advantage of IT and should monitor the impact that new technologies have on the culture of the organization. For example, to the extent that IT facilitates outsourcing, telecommuting and the use of global networks linked only through electronic communications tools, managers must be mindful of the impact on employee morale and interpersonal relationships.
- Being successful with organizational design, which means consistently identifying and implementing the most effective mix of structure and culture to address the then-current environmental conditions, is becoming a recognized core competency for business that can be used as a tool in the overall strategies used by the company to achieve a competitive advantage. New technologies and innovations in product design and performance can create short-term competitive advantages; however, strong and effective organizational structures and cultures are more difficult to replicate and provide a foundation that supports needed coordination among managers and employees to quickly develop new products and services and implement the strategies required for the organization to remain competitive.
- Organizational design has become the engine for creating and sustaining innovative businesses. Organizational structure contributes to the processes that a company uses to coordinate the activities of multiple departments to commercialize new products and use new technologies to become more efficient and reduce production costs and maximize the return-on-investment in other areas such as marketing and customer service. Organizational designers can also suggest ways to change the culture of the business to provide incentives for managers and employees to think and act as entrepreneurs and take on reasonable risks in order to leapfrog competitors.
- Organizational structure and culture have become primary tools in managing an increasingly diverse workforce that includes differences in race, gender and national origin and employees from countries around the world that each has their own unique social and cultural norms. The task for organizational designers is to create a structure and nurture a culture that encourages employees with different backgrounds to work together for the common good of the company and its business. These issues are particularly important as firm expand globally since the overall firm culture must be synchronized with differences that might come up in particular countries.

Business organizations that develop the ability to make strong organizational design decisions can turn those skills into an important competitive advantage. Correspondingly, firms that make the wrong design decisions or fail to grasp the

importance of design typically experience significant declines in their business fortunes as changes in environmental factors begin to overcome the managers of the business. For example, failure to pay attention to organizational culture may result in the loss of talented employees. In addition, firms that are unable to effectively structure interrelationships between various functions will be unable to implement strategies that they hoped would result in more rapid product development or more efficient and productive manufacturing processes.

The importance of organizational design in the for-profit arena has led to the growing recognition of a separate executive team position—the Chief Operating Officer (“COO”)—that would assume primary responsibility for oversight of the organizational design process and creating, monitoring and revising elements of the firm’s organizational structure and culture. The COO will typically work through a team of senior managers with practical experience in all of the firm’s functional areas and they will be expected to make recommendations regarding necessary changes in structure and culture that are consistent with the firm’s strategy and ensure that those changes are implemented. For example, if the firm makes a strategic decision to improve its competitive position through the adoption of new and more efficient manufacturing processes it will fall to the COO to lead that effort by overseeing the relevant resources dispersed throughout the firm and channeling their efforts toward the strategic goal through the creation and maintenance of the appropriate structure and culture.

Efforts to identify the single best way to structure and manage an organization and its members have been unsuccessful and it is now generally acknowledged that organizational design is as much an art as it is a science and academic discipline. There are certain issues and problems that are common to all organizations regardless of their size and stage of development. For example, every organization, even those with just two members, must grapple with the threshold issues of differentiation and integration—how work will be divided among the members and how their work will be coordinated in order to ensure that the necessary activities of the organization are completed. On the other hand, the specific environmental conditions confronting the organization can also substantially impact that type of organizational structure that should be selected. If an organization operates in a relatively stable environment it may be best to rely on a rigid hierarchical system for making decision and a practice of establishing well-defined tasks. However, if an organization operates in a turbulent and uncertain environment the designer might be better advised to use what is referred to as an “organic” organizational structure hierarchy is less important and members are given more flexibility with regard to defining their roles in order to allow them to apply their expertise as needed in order to address environmental conditions as they exist at any particular point in time. Lawrence and Lorsch have nicely combined management of these two issues by stating simply that the most effective organizations achieve a degree of differentiation and integration in organizational boundary-spanning functions which is compatible with environmental demands.²⁴

²⁴ Lawrence, P.R. & Lorsch, J.W., *Organization and Environment: Managing Differentiation and Integration*, Division of Research, Graduate School of Business Administration, Harvard University, 1967).

§2:5 Organizational environment

Organizational design decisions, including the choices made with respect to structure and culture, should conform to the opportunities and challenges that exist within a broader “organizational environment” that influences all aspects of the activities of the organization from how it is able to obtain the inputs necessary to exist to how successful it will be in the release of its products and services. The organizational environment consists of two distinguishable, albeit often related, layers—the specific environment, which includes the forces that can be expected to have a direct impact on the ability of the specific company to obtain the scarce resources required for the company to create value for its owners and other stakeholders (e.g., the internal stakeholders and customers, competitors, regulators and key business partners such as suppliers and distributors); and the general environment, which includes the forces that typically will have an impact on the shape and design of all organizations, including the company and other organizations who may be part of the stakeholder network of the company (e.g., economic forces; technological forces; political and environmental forces; and demographic, cultural and social forces).

An organization that fails to select a structure that is appropriately suited for its environment will likely encounter performance problems and exposes itself to a high risk of failure. In fact, most new organizations fail within the first few years and most common reason for their demise is an unwillingness or inability to recognize and meet environmental challenges. In some markets and industries the environment is relatively stable and it will be easier for organizations active in such an environment to adapt and remain competitive. However, the more common situation, particularly given the rising level of global competition, is that the relevant environment will be complex and uncertain and survival will depend on the ability of organizational managers to continuously adapt to changing conditions. There is no single method of adaptation that will work in each instance. For example, organizations confronted with different consumer tastes in key geographic markets may elect to reduce the uncertainty they are confronting through an adaptation strategy of differentiation which is based on creating smaller business units in each geographic market that can focus their resources solely on the customer requirements in that market.

One of the striking things about analyzing and understanding the organizational environment of any business is the degree to which the success of the business is dependent upon the decisions made, and the influence exerted, by other entities engaged in activities in the same environmental domain. For example, it is well known and accepted that every business organization is active in a larger network of purchasing and selling relationships that include its suppliers and customers. Every business is dependent on its suppliers for inputs and on its customers to purchase its outputs in order to generate the capital needed for the business to survive. If there are a limited number of suppliers the business may find itself in a dependent situation that will require implementation of various strategies to ensure access to the necessary resources. In turn, if the outputs of the business are perceived as unique and valuable by customers the business may be in a position to exert influence over those customers and extract a higher price at least for a

limited period of time. Other entities may influence organizational design decisions through the requirements that they place on their business partners. One common illustration of how this works is when a large manufacturer imposes specific requirements on each of its vendors as a condition for inclusion in the manufacturer's supply chain (e.g., accounting and financial reporting systems, vendor certification requirements, product testing standards and manufacturing techniques).

§2:6 Organizational change

Organizations should, and must, continuously change and evolve as they grow and mature in order to remain effective and achieve their overall goals and objectives. While “organizational change” is sometimes explained as a process separate and distinguishable from organizational design, in reality they are one and the same and organizational change is really the end product of what should always be an ongoing effort by the organizational designer to monitor the performance of the current structure and culture, as well as changes in the organization's external environment (i.e., changes in technology, customer requirements, economic factors or competition) and identify new ways that these elements can be transformed, or redesigned, so that the organization is better able to acquire and use its resources to increase the value created by the organization and better position to respond to changes in its environment.²⁵ In order for organizational change to be effective, a formal change program should be created in advance to ensure that members of the organization are fully informed of the proposed changes and understand why change is required and how it will impact them and the entire organization (see Table 2.1). A change program should incorporate mechanisms for obtaining feedback and constantly reinforcing the changes given that it is often difficult to change accepted behaviors and ways of conducting business.

Table 2.1
Organizational Change Management Program

- Has a customized change management program been prepared? The change management program should take into account the specific characteristics of the proposed change and the history and culture of the organization.
- Has consideration been given to how the individual members of the organization will react to the proposed changes and how their day-to-day activities for, and interaction with, the organization will be impacted? Consideration of these questions should guide decisions about supporting mechanisms such as communications and training.
- Have the lead sponsors for the change initiative been identified and are they at the appropriate level within the organization to be effective? Sponsors should be active and visible leaders of the change initiative with authority to make and monitor all necessary funding and organizational design decisions.
- Does the change management plan include an effective strategy for communicating with members and external stakeholders of the organization? An effective communication plan will be targeted to appropriate audiences, rely on various communication channels (e.g., meetings, face-to-face conversations, newsletters, presentations, Intranet Q&A, etc.) and provide for feedback to ensure that the change initiative is understood.
- Does the communications program include clear answer to key member questions such as “why are we

²⁵ M. Beer, *Organizational Change and Development* (Santa Monica, CA: Goodyear, 1980).

making this change” and “what will happen if we don’t make this change”? Members may find the broader vision of organization leaders to be interesting; however, they are usually most concerned about what it all means for them personally—another implicit question that each member has is “what’s in it for me”. An effort should be made to preserve and honor the good things of the past even if changes are now thought to be necessary.

- Have managers and supervisors been involved in development and implementation of the change management program? Managers and supervisors are crucial to success of any change program because they have close relationships with those that report to them and are best situation to manage how their direct reports experience and respond to the proposed changes.
- Does the change management program include adequate training for managers and supervisors? Managers and supervisors play an important role in change management and it is essential that they be given the tools necessary to become and remain effective advocates of the change process.
- Does the change management program include strategies and plans for handling resistance that may arise from within the organization? A distinction can and should be made between proactive strategies—which involve anticipating in advance which issues will be raised by members and crafting responses before the program is initiated—and reactive strategies—which include pre-established policies for reacting to unforeseen objections that arise once the program has begun.
- Has the organization established systems that will facilitate collection and analysis of feedback and measurement of progress toward the initial goals of the change program? Before the program is launched the goals should be clearly defined in ways that permit objective measurement and feedback tools should be created and tested.
- Does the change management program include plans for continuous reinforcement of the proposed changes? Any change in the way that things are done within an organization takes a long time to be absorbed particularly when the change related to deeply embedded values and norms. The program must take a long-term approach and include strategies for reinforcing the new values and norms that the leaders wish to implement.

Chapter 3

Academic Foundations for Organizational Studies

§3:1 Introduction

Organizational theory is the foundation for the field of organizational studies, which attempts to identify, understand and model the various factors that impact the way in which individuals behave and interact with others within organizations. Organizational studies involves the investigation of the structures, functions and properties of organizations generally with the ultimate objective of making recommendations as what steps can be taken to increase both the productivity within an organization and the personal satisfaction of the persons within the organization. While classical organizational theorists often argued that there was one preferred general approach to the creation and operation of an organization (e.g., a bureaucracy), modern theorists stress that there is no single solution and that the uniqueness of each organization should be acknowledged and that an attempt must be made to design and structure the organization in a way that best matches its industry and business environment, size, technological requirements and other factors and conditions.

Leadership and organizations have been popular topics for philosophers and economists since the days of Plato, whose writings include thoughts regarding the essential characteristics of leaders. Machiavelli wrote about power and politics within organizations and Adam Smith pioneered new ideas about organizational structure based on the division of labor. The work of Max Weber, who was actually a sociologist, is generally considered to be the beginning of organizational studies as a recognized academic discipline. The popularity of organizational studies paralleled the maturation of the study and dissemination of scientific management principles. Scientific management specialists, such as Frederick Winslow Taylor and Elton Mayo, focused on productivity and used time-motion studies to develop precise sets of instructions that could be used to increase efficiency. Another element of scientific management was the study of compensation systems to establish goals and rewards that could be used as motivators for employees. Other considerations were not ignored, however, and Fayol was joined by other scholars such as Barnard, Follett, Herzberg and Maslow in emphasizing the importance of human factors and the way that psychology affected organizations and the way in which individuals involved in organizations sought to actually their own personal goals. The tools of operations research have also been used from time-to-time to advance rationalistic approaches to the study of how organizations work.

Today organizational studies is a multidisciplinary field that draws on knowledge and methods from a number of academic disciplines including economics, psychology, sociology, political science, anthropology, and systems theory. As with other fields in the social sciences, organizational studies relies heavily on the collection and analysis of data and the construction and testing of models in order to define and verify numerous theories posited to explain individual and group behavior within organizations. Practitioners rely heavily on regression analysis and computer simulation. However,

qualitative research methods can also be found including ethnography and the study of language and organizational storytelling.

Classic economic theory is based on the notion that a firm is a single decision-making unit and that the primary, if not sole, objective of the firm is the maximization of profits in the face of competition that comes from the relevant marketplace. Organizational theorists contend that economists ignore the possibility of conflicts between the goals and objectives of various stakeholders within the firm including the owners, the managers and the employees. Organizational theorists argue that studies of the firm must account for the fact that these stakeholder groups, as well as the firm as a whole, may have other goals and objectives apart from profit maximization and it is therefore possible, likely in fact, that the firm may act in a manner that would be considered “irrational” when evaluated under the principles of classic economic theory.

Psychologists have long been curious about the behavior of individuals within organizations and have had a particular interest in the study of motivation and leadership. Several important psychological studies of organizational behavior have confirmed the importance of social phenomena such as conformity, group norms and informal groups. Organizational theorists seek to take the basic work of psychology further by exploring and explaining the relationship between the behavior of individuals within the organization and the structure used to organize the activities of those individuals.

When sociologists have studied organizations they have tended to focus on the role that the organization has played in the context of the larger social environment and the relation of the organization to other social institutions. Another area of interest for organizational sociologists has been formal organizational structures including the exploration of organizational boundaries, strategies, controls and culture and the study of the impact of technology and increasingly sophisticated information processing systems on organizational structure.

Systems theory has become a very popular and well-known foundation for organizational studies and, in fact, is represented in the various definitions and models of organizations that emphasize their activities relating to value creation. Systems theory is based on physical and engineering models and sees organizations as a multi-dimensional mix of physical, social and technological systems that have boundaries across which they interact directly with the surrounding environment and which must continuously adapt to environmental changes in order to survive. Systems theorists emphasize that organizations first begin by seeking and obtain inputs from their external environment--cash, raw materials, and human resources. Organizations then use their human and technological resources to transform the inputs into outputs and those outputs are ultimately released to internal and external stakeholders in the form of goods and services, salaries, dividends and interest.

Many attempts to develop some sort of “organizational theory” have been based on the somewhat dubious assumption that one can identify certain general principles regarding behavior in the workplace that can be applied to every organization regardless of the

specific activities of the organization and the environment in which the organization must operate. This makes little sense given that it should be obvious that one cannot treat multi-national corporations and youth baseball teams in the same way. The result, unfortunately, has been the promulgation of organizational theories that are vague and broad and which offer little in the way of practical guidance in specific situations.

§3:2 Weber and bureaucracy

One of the earliest, and well-known, attempts to promulgate a theory of organizations was the work of sociologist Max Weber and his ideas regarding the definition and benefits of bureaucratic administration of organizations.²⁶ Weber focused on how persons exercise control over the activities of other persons within an organization and believe that it was important and useful to distinguish between “power” and “authority”. Weber believed that a relationship was based on power when a person was able to impose his will on another regardless of whether the other person put up any resistance or offered rational objections to the course of action demanded by the person exercising his power. In contrast, when a person exerted control over another based on authority compliance was expected based on the shared belief that the request was legitimate for some reason. Weber explained that concept further by creating a classification of organizations based on the nature of the legitimacy of the authority—charismatic authority, which is based on the sacred or outstanding characteristic of the individual; traditional authority, which is based on a mutual understand or, and respect for, custom; and rational legal authority, which is based on a code or set of rules.

Historically, organizations, however defined, relied heavily on charismatic or traditional authority as the basis for the exercise of control. The result was often crude and naked use of power with little or no debate regarding decisions and the knowledge and skills of those who were part of the organization yet not in positions to exert authority of any type. Weber was one of the first to argue that businesses should not allow their managers to exercise control arbitrarily and without any explanation to the impacted workers. He believed that rational legal authority was the preferred approach to control within an organization and that “bureaucracy” was the most efficient form of organization. While bureaucracy today has a negative connotation and is generally associated with organizational practices that are slow and inflexible, Weber championed bureaucracy to his contemporaries as a necessary and preferred alternative to the other forms of authority which he believed led to unfairness within the workplace and corruption among those in positions of authority at major corporations during the late 19th Century.

Weber explained that rational legal authority was based on the following core assumptions: organizations could establish a legal code or set of rules that would claim obedience from the members of the organization; the legal code would be an abstract system of rules that can be applied to particular cases and would be used by the managers of the organization to protect the interests of the organization; everyone in the

²⁶ M. Weber, "Bureaucracy", in H. Gerth and C. Wright Mills (Eds.), *From Max Weber* (New York: Oxford University Press, 1946), 196-244. See also M. Weber, *The Theory of Social and Economic Organization*, Translated by A. M. Henderson & Talcott Parsons, (The Free Press, 1947).

organization, including managers, would be bound by the legal code; and obedience by members of the organization is given not to a particular person who is exercising authority but to the impersonal legal code and the procedures within that code that have vested authority in person exercising it. Weber believed that an organizational system or structure based on fundamental tenants of bureaucracy would increase the value created by the organization and make it more effective and that the members of the organization, the managers and employees in the business context, could be held more accountable for their actions because they are required to act in accordance with well-specified and agreed-upon rules and standard operating procedures.

Rules, Procedures and Norms

Rules, procedures and norms were fundamental building blocks for many aspects of the bureaucratic system championed by Weber. Weber admonished managers to create a well-defined system of rules, which would be in the form of formal written instructions that specified the actions that should be taken by organizational members under different circumstances to achieve specific organizational goals. For example, a basic rule would be that employees were required to leave their machines and workspaces in good order at the end of their shift. Standard operating procedures were specific sets of written instructions about how to perform a certain aspect of a task that were created to ensure that the task was performed the same way every time by each person undertaking the task. Finally, managers would be responsible for developing and embedding norms (i.e., unwritten, informal codes of conduct that govern how people should act) throughout the organization. An illustration of a norm would be the tacit understanding and expectation among workers that they would assist others in completing their tasks if they had extra time. Rules, procedures and norms were all tools that a manager could use to effectively control the behavior within the organization and improve performance.

Weber suggested that there are four key characteristics of a bureaucratic organization—fixed jurisdictional areas that are ordered by rules and regulations; the regular activities required for the organization to function are distributed as official duties; the authority to issue the commands required for the discharge of the official duties are distributed in a stable way; and procedures are in place for the regular and continuous fulfillment of the official duties (i.e., a replacement plan for each position), and only persons qualified for positions are employed in those positions. A more detailed list of the characteristics of a bureaucratic organization in its purest form would include the following²⁷:

- Members of the organization are not bound together in any formal relationship, such as servant-master or slave-master, and are free to leave the organization just as the organization is free to end the member's contract with the organization.
- A hierarchical system is used to organize positions within the organization and some positions will have more authority than others; however, the authority is associated with the position and not the individual occupying the position.

²⁷ R.W. Hadden, *Sociological Theory: An Introduction to the Classical Tradition*, (Peterborough, Ontario, Broadview Press, 1997), 140.

- Each position in the organization carries with it a set of obligations to perform various duties, the authority to carry out these duties, and the means of compulsion required to fulfill those duties.
- Positions within the organization are not associated with particular individuals who are vested with inherent rights in those positions but instead are associated with a particular contract that describes the various duties, expectations, rights, and other conditions associated with the position.
- Certain positions may require that the holders obtain suitable training in order to meet stated technical qualifications for the position and selection and promotion will be based on the ability of candidates to perform the technical requirements associated with the position.
- Each position has a wage or salary associated with it which should be specified in the contract associated with the position.
- Individuals filling a particular position will be expected to devote the necessary time and energy to fulfilling the responsibilities associated with the position.
- Individuals should have an expectation of a career in the organization and the organization is expected to commit itself to promoting individuals in the organization on the basis technical qualifications and abilities rather than on the basis of friendship or personal likes and dislikes.
- Individuals filling a position will be provided with the means of production or administration to carry on the duties associated with the position; however, they do not own such means and cannot pass the position on to friends or family and once their contract ends they have no rights to any aspect of the position.
- While those who are higher in the bureaucratic hierarchy may be less subject to discipline than those lower in the hierarchy, everyone individual who does not meet the requirements of the position or breaks the rules is subject to discipline or removal.

Weber believed strongly that his ideas about the bureaucratic organization were grounded in formal rational legal authority and he felt that bureaucracy would lead to a number of socially desirable results including the leveling of the social classes due to the fact that positions within the organization would be based on technical competence; creation of a plutocracy, since all members of the organization would be required to invest the same amount of time in completing the necessary technical training to assume positions within the organization; and a higher level of social equality since decisions about allocation of positions would be based on impersonal or objective factors rather than familial or other personal relationships. Over time, however, Weber's model has been found to be overly idealistic although it does include many of the basic elements that other organizational experts have built upon in constructing their theories.

§3:3 Fayol's principles of management

A few years after Weber's theories on the bureaucratic organization were first widely disseminated attention focused on the "principles of management" developed by Henri Fayol as another means for effectively controlling an organization. His ideas touched on many of the topics that are still hotly debated in the world of organizational design and

did so in a way that recognized that there are tradeoffs that must be made when creating the optimal structure for an organization at any point in time. Fayol's principles can be summarized as follows²⁸:

- Work should be divided in way that allows for an organization to capture the benefits of specialization, which include increased speed, accuracy and output. Positions should be created according to the skill and technical expertise required and the work associated with the position should be assigned to the employee that is best suited to provide the necessary skill and expertise.
- Authority, which Fayol defined as “the right to give orders and the power to exact obedience,” should be linked to responsibility and those in authority should be expected to exercise better judgment and act in accordance with the highest moral principles.
- Discipline, which Fayol defined as “obedience, application, energy, behavior and outward marks of respect,” was considered to be essential to smooth and effective operation of the organization and achieving and maintaining discipline should be seen as a mark of good leadership.
- There should be “unity of command” within the organization, meaning that employees should have only one superior and take orders only from that person. Fayol believed strongly that “dual command,” which is the basis of the modern matrix organizational structure, would create major problems for the organization and would cause uncertainty and hesitancy among employees and conflict between managers. A related concept was “unity of direction,” which Fayol explained as “one head and one plan for a group having the same objective.”
- Employees and managers should be expected to subordinate their individual interests to the general interest of the organization and avoid conflicts of interest between individual aspirations and the well being of the organization as a whole. In order to achieve this goal, managers should be held accountable to setting the proper example and the actions of all employees should be carefully supervised to identify and remove conflicts.
- The compensation methods used by the organization should assure fair remuneration, reward well-directed effort, and avoid remuneration that exceeds reasonable limits.
- Some degree of centralization in the organizational structure was part of the “natural order” in Fayol's view and he recognized that there is no absolutely correct answer as to the appropriate balance between centralization and decentralization.
- While Fayol strongly preferred “unity of command,” he also recognized that this could harm necessary communication between departments unless employees at lower levels of departmental hierarchies who needed to interact were allowed to deal directly with each other and not be required to send request up and down chains of command.

²⁸ H. Fayol (translated from the French edition (Dunod) by Constance Storrs), *General and Industrial Management*, (Pitman: 1949).

- The optimal form of organizational structure was orderly—“a place for everyone and everyone in his place”—and could be achieved only if management overcame the difficult challenges of designing an effective structure and selecting the most trained and competent people to occupy positions suited to their talents. In Fayol’s eyes order could not be achieved if “ambition, nepotism, favoritism or merely ignorance, has multiplied positions without good reason or filled them with incompetent employees.”
- Employees should be treated equally and fairly in order to secure the necessary commitment to the goals and objectives of the organization. A related role for managers is making sure conflicts and divisions do not arise within teams of workers.
- Employees should be guaranteed some level of stability of tenure in order to motivate them to perform at the highest level; however, Fayol stopped short of advocating lifetime employment and recognized that job security must be tempered by performance and the general health of the organization’s business activities.
- Employees should be encouraged to demonstrate initiative and should be allowed to think through problems on their own and rewarded for identifying and implementing appropriate solutions.

§3:4 Criticisms of classical organizational theory

It has been noted that many of the ideas regarding organizational behavior and management that were developed in the early 20th century were advanced and promoted by theorists and consultants with an engineering background. As a result, it was not surprising that classical organizational theory, particularly the work of Max Weber, relied heavily on identifying and imposing certain fundamental principles or laws that were to serve as the basis for management activities and functions within the organization. However, classical theory eventually came under substantial criticism for its inflexibility and, even more importantly, the assumptions that were made in these theories about the role of employees and their willingness to accept certain working conditions that many found to be disrespectful and psychologically harmful. For example, Chris Argyris was critical of classical organizational theory for advancing creation of a workplace environment in which employees had minimal control over their working lives, were expected to be subordinate and passive, and were treated more as infants than competent human beings.²⁹ Others commented that one of the other main weaknesses of classical organizational theory was the fundamental assumption that all organizations were essentially alike that it was therefore possible to prescribe a universal set of rules that would be apply not only to business organizations, which were the primary focus of study for the classicists, but also voluntary organizations, charities and political organizations.

§3:5 Current state of the field of organizational studies

²⁹ C. Argyris, *Personality and Organization: The Conflict between System and Individual* (Harper Collins: New York, 1967).

The study of organizations is a flourishing topic among academics, pundits, commentators and consultants. As business schools grew they added separate departments and programs covering industrial psychology and industrial economics and management “gurus” such as Peter Drucker established international reputations based on their ability to convert their research into popular advice for executives and managers. Interest in organizational dynamics, structure and culture accelerated as companies become more involved in the global economy since success in that environment requires cooperation among managers and employees from diverse social, economic and cultural backgrounds. The term “post-bureaucratic” is often found in the literature relating to organizational studies and can generally be understood to include the wide range of theories that have arisen in critical response to the bureaucratic organization model championed by Weber such as total quality management and the matrix organization.

Decades ago, in the early 1970s, companies began to experience the rapid structural changes in the name of “reorganization” with titles and responsibilities changing constantly and business units such as departments and divisions being launched and torn down almost overnight as companies struggled to find an organizational design strategy that would allow them to cope with new environmental challenges including heated global competition. Specific organizational themes, such as project management, also became extremely important in particular industries and managers were forced to recognize the need to create, oversee and understand new ad-hoc structures such as task forces and fit them within the more formal and permanent structural infrastructure of divisions, subsidiaries and departments. Critics feared that these developments, which included a blurring of the boundaries that existed in earlier organizational models, would undermine the distinctiveness of the company and its culture and lead to an erosion of authority that would cause companies to drift aimlessly. On the other hand, others have argued that the ability to use new technologies for communications will be liberating for businesses and allow them tear down artificial boundaries and reconfigure themselves in a way that permits them to maximize the value from using their core competencies.

Another interesting trend in the area of organizational studies has been the realization that it is really not appropriate to think of an organization as an entity that is completed defined by members who perform the day-to-day operation activities of the organization, such as managers and employees of a business. The commonly accepted approach is to view an organization as a set of business and personal relationships focused on a common goal that goes beyond the members to include other important stakeholders such as contractors that provide outsourcing services, customers, suppliers, citizens within the local communities in which the company operates, regulators and other public interest groups. Assuming this is true, business managers must understand the important of identifying the key stakeholders for the organization and establishing and maintaining relationships and emotional ties with those stakeholders so that they believe that they have a vested interest in the success and well-being of the organization.

Chapter 4

The Culture-Free/Culture-Bound Debate

§4:1 Introduction

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”.³⁰ In 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?”³¹

§4:2 Culture-free hypothesis

Holt noted that “[t]he culture-free hypothesis is best represented by the research of Hickson and his associates”, 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 context.³² The Aston researchers selected functional specialization, role formalization, standardization of rules and procedures, organization configuration, and centralization of decision-making as the variables, or dimensions, that made up the structure components of an organization, further combined the formalization, standardization and specialization dimensions to create a measure of “structuring of activities” and used the centralization dimension to measure “concentration of authority”

³⁰ M. Holt, “Culture-Free or Culture-Bound?: Two Views of Swaying Branches”, *International Journal of Business, Humanities and Technology*, 1(3) (November 2011), 80.

³¹ 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).

³² M. Holt, “Culture-Free or Culture-Bound?: Two Views of Swaying Branches”, *International Journal of Business, Humanities and Technology*, 1(3) (November 2011), 80-81. 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.

in the organizational structure. They then selected the following characteristics of organizational context for further study³³:

- Size, as measured by the number of employees in the organization;
- Parent group size, as measured by the number of employees in the ultimate holding group of the organization;
- Technology, a measure which attempted to reflect the degree of integration of the organizational workflow based on factors such as the use of automatic repeat cycle equipment, amount of waiting time between operations and use of operational measurement techniques; and
- Dependence, as measured by various factors such as organizational status (i.e., branch, head branch, subsidiary, principal unit), public accountability (i.e., ownership), integration with suppliers and dependence on its largest customer.

Importantly for purposes of the debate regarding the role of societal culture, variables such as personal values, attitudes or motivation were not included “in order to minimize potential contamination by culturally influenced variables from the perceptions organization members may have of their organization”.³⁴

The initial studies conducted by the Aston researchers were limited to manufacturing organizations in Britain and the researchers claimed to have repeatedly found support for the following relationships between the contextual factors and organizational structure among the organizations that were studied³⁵:

- Size was related to specialization, formalization and decentralization, meaning that as the number of employees increased the organizational structure tended to become more specialized, formalized and decentralized.
- Parent group size was related to specialization and formalization, meaning that as the number of employees in the ultimate holding group of the organization increased the structure of the organization tended to become more specialized and formalized.
- Technology had a statistically meaningful, albeit relatively small, relationship to specialization, meaning that as the workflow of the organization became more integrated the organizational structure predictably became more specialized.
- Dependence was related to centralization, meaning that organizations that were dependent tended to select a centralized method for decision making.

³³ D. Pugh, D. Hickson and the Open University Course Team, “Organizational Context and Structure in Various Cultures” in T. Weinshall (Ed.), *Societal Culture and Management* (Berlin: Walter de Gruyter, 1993), 425-435, 430.

³⁴ M. Holt, “Culture-Free or Culture-Bound?: Two Views of Swaying Branches”, *International Journal of Business, Humanities and Technology*, 1(3) (November 2011), 81 (citing D. Hickson, C. Hinings, C. McMillan and J. Schwitter, “The culture-free context of organization structure: A tri-national comparison”, *Sociology*, 1974, 59-80).

³⁵ D. Pugh, D. Hickson and the Open University Course Team, “Organizational Context and Structure in Various Cultures” in T. Weinshall (Ed.), *Societal Culture and Management* (Berlin: Walter de Gruyter, 1993), 425-435, 431.

Eventually, the Aston researchers, often working with collaborators in other countries, used the same approach describe above to measure the relationship of structure to context in different countries. In carrying out these studies the researchers hoped to show that there was a universal explanatory model of organizational structure that applied to all kinds of organizations in all parts of the world. They found that there were positive correlations between organization size and both specialization and formalization and negative correlations between organization size and centralization. They acknowledged that the magnitude of the correlations varied widely for some countries. For example, Indian organizations were found to be less formalized or less autonomous than American organizations. However, while Indian organizations of various sizes differed substantially from comparably sized firms in other countries, the relationships between contextual and structural variables within India were similar to those same relationships among firms in other countries. For example, larger Indian organizations were more formalized than small Indian organizations and dependent Indian firms were less autonomous than relatively independent Indian firms.³⁶ These results were similar to the findings of several other multi-country studies that found that “[t]he pattern of relationships, formalization and specialization increase with size”.³⁷

After presenting results from one study that included Britain, Jordan, Poland, Japan and Sweden, Pugh and Hickson, two of the leaders of the Aston project, noted that “while there are many interesting differences among structures of organizations in different countries” these differences did not require a conclusion that “different cultures by their nature produce different organizational structures”.³⁸ For example, they argued that while the average specialization and formalization scores of Jordan firms included in one of the studies were less than half of those in the British sample this could be attributed to the fact that the Jordanian firms in the sample were, on average, much smaller than those in the British sample and that the smaller size explained the low specialization and formalization. They went on to note that larger Jordanian organizations were more specialized and formalized than their smaller counterparts in Jordan and that “the relationship between size and specialization [was] the same as within Britain”.³⁹ They also noted that the firms in Poland, which at that time was a communist, centrally planned economy, were much more centralized than firms in Britain. Again, they

³⁶ M. Holt, “Culture-Free or Culture-Bound?: Two Views of Swaying Branches”, *International Journal of Business, Humanities and Technology*, 1(3) (November 2011), 81 (citing D. Hickson, C. Hinings, C. McMillan and J. Schwitter, “The culture-free context of organization structure: A tri-national comparison”, *Sociology*, 1974, 59-80).

³⁷ M. Holt, “Culture-Free or Culture-Bound?: Two Views of Swaying Branches”, *International Journal of Business, Humanities and Technology*, 1(3) (November 2011), 81 (citing a number of studies including, among others, F. Check-Teck, “Culture, productivity and structure: A Singapore study”, *Organization Studies*, 1992, 589-609 (Singapore); D. Pugh, D. Hickson and the Open University Course Team, “Organizational context and structure in various cultures” in T. Weinshall, *Societal culture and management* (New York: Walter de Gruyter, 1993), 425-435 (Britain, Jordan, Poland, Japan and Sweden); D. Hickson, C. Hinings, C. McMillan and J. Schwitter, “The culture-free context of organization structure: A tri-national comparison”, *Sociology*, 1974, 59-80 (Canada, US and Britain)).

³⁸ D. Pugh, D. Hickson and the Open University Course Team, “Organizational context and structure in various cultures” in T. Weinshall, *Societal culture and management* (New York: Walter de Gruyter, 1993), 425-435, 432.

³⁹ *Id.*

explained that the political and economic environment for Polish firms necessarily made them much more dependent on suppliers, customers and the government than the British firms sampled but that within Poland “the relationship between dependence and centralization [was] the same as within Britain”.⁴⁰

Pugh and Hickson summarized and explained their findings as follows: “These relationships have remained stable in all the countries so far studied. They form a framework for understanding how organizations function world-wide, which converges because of the nature of the impact of the environmental context in which they operate. In all countries bigger organizations are more specialized and formalized in structure because everywhere growth means reaping economies of scale and expertise by dividing tasks further, and as specialists with their limited knowledge out-number generalists, formalized methods are required for control. Informal customs are inadequate to control large numbers of personnel. This process is accelerated where there is a large owning group, because the organization the organization will develop specialists as counterparts to Head Office specialisms, and will take over group procedures and documentation. In all countries, too, organizations which are more dependent on others in their environment take decisions centrally and in addition lose autonomy to, say, a controlling board of ministry. This is because ties of ownership or contract are so important that the relevant resource decisions must be taken at the top.”⁴¹ They went on to conclude that “[s]ize and dependence become the bases for an explanation of the broad features of organizations worldwide”.⁴²

Decades after the first studies by the Aston researchers were completed other researchers continued to explore the validity of the culture-free hypothesis. Sabri, for example, studied twelve Jordanian companies and then compared his results to the findings of the Aston researchers on British, Japanese and Swedish matched samples.⁴³ Among other

⁴⁰ Id.

⁴¹ Id. at 433.

⁴² Id.

⁴³ H. Sabri, “Do Power Distance and Uncertainty-avoidance Determine Organizational Structure?: A Culture Bound versus Culture Free Debate” *The International Journal of Knowledge, Culture and Change Management*, 11(3) (2012), 131-145. The data on British, Japanese and Swedish matched companies was obtained through described in D. Horvath, C. McMillan, D. Azumi and D. Hickson, “The Cultural Context of Organizational Control: An International Comparison”, *International Studies of Management and Organization*, 6 (1976), 60-87. One of the reasons that Jordan was selected was because it appeared to be a good example of the distinct Arab cultural profile, which Sabri described as having inequalities of power and wealth within society, more likely to follow a caste system that does not allow significant upward mobility and highly centralized and rule oriented in order to reduce uncertainty. In addition, Sabri commented that Arab managers are typically reluctant to delegate authority, avoid responsibility and risk-taking and give priority to friendships and personal considerations over goals and performance. Finally, Sabri pointed out that face-saving and status consciousness are also important values in the traditional Arab culture. For further information, see R. House, P. Hanges, M. Davidan, P. Dorfman and V. Gupta (Eds.), *Leadership, Culture, and Organizations: The GLOBE study of 62 societies* (Thousand Oaks, CA: Sage Publications, 2004); H. Sabri, “Socio-cultural values and organizational culture” in K. Becker, *Islam and Business* (New Jersey: Haworth Press, 2004), 123-145; H. Sabri, “Jordanian Managers’ Leadership Styles in Comparison with the International Air Transport Association (IATA) and Prospects for Knowledge Management in Jordan”, *International Journal of Commerce and Management*, 17(1/2) (2007), Emerald

things, Sabri looked to see whether relationships between context and structure were stable and transcended national differences, as might be expected from the culture-free hypothesis. His analysis did indeed confirm that there were “strong and significant correlations between contextual variables and variables of organizational structure” across each of the countries, thus lending support to the culture-free hypothesis.⁴⁴ However, there were some interesting variations among the various contextual factors that Sabri explained as follows⁴⁵:

- Size had the same positive link with formalization and specialization in each of the countries, but to varying degrees. The magnitude of correlation between size and formalization was high in Japan and Sweden, and to a lesser extent in Jordan, but it was low in Britain. The correlation between size and specialization was very high in Britain and Japan, medium in Jordan and low in Sweden. Sabri explained, however, that the variation with respect to Sweden could be explained, at least in part, by the finding that Swedish firms tended to be more dependent on their parent firms.⁴⁶
- There was a negative correlation between size and centralization in Britain, Japan and Jordan, which indicated that they larger they become the more companies in those countries tended to decentralize their decision-making processes. While there was actually a positive correlation between size and centralization in Sweden, Sabri explained that it could be attributed to the weak correlation between size and specialization in that country and the resultant need for companies in that country to centralize decisions as a means for achieving and retaining control.⁴⁷
- The correlations between operation technology and formalization and specialization in British, Japanese and Swedish companies were relatively weak compared to those of the Jordanian companies, which were relatively smaller than firms from the other countries surveyed.
- The correlation of operation technology with centralization was positive and stronger in British companies than Japanese and Swedish companies, a result that Sabri attributed to a stronger need among British companies to maintain control of operation technologies at higher levels due to the high costs associated with decisions

Group Publishing Limited, USA; and A. Ali, “Cultural Discontinuity and Arab Management Thoughts”, *International Studies of Management and Organization*, 25(3) (1995), 7-30.

⁴⁴ H. Sabri, “Do Power Distance and Uncertainty-avoidance Determine Organizational Structure?: A Culture Bound versus Culture Free Debate” *The International Journal of Knowledge, Culture and Change Management*, 11(3) (2012), 131-145, 137.

⁴⁵ *Id.* at 137-140.

⁴⁶ Sabri explained “that because specialization in the Swedish companies was taken at the level of independent parent firms and not at the level of sub-units, specialization in Sweden was low . . . [t]his explanation supported the proposition that the more an organization is dependent on its parent group, the more the focal organization contracts out specialists functions to the parent”. H. Sabri, “Do Power Distance and Uncertainty-avoidance Determine Organizational Structure?: A Culture Bound versus Culture Free Debate” *The International Journal of Knowledge, Culture and Change Management*, 11(3) (2012), 131-145, 139 (citing D. Horvath, C. McMillan, D. Azumi and D. Hickson, “The Cultural Context of Organizational Control: An International Comparison”, *International Studies of Management and Organization*, 6 (1976), 60-87).

⁴⁷ H. Sabri, “Do Power Distance and Uncertainty-avoidance Determine Organizational Structure?: A Culture Bound versus Culture Free Debate” *The International Journal of Knowledge, Culture and Change Management*, 11(3) (2012), 131-145, 139.

in that area and the complexity of the technology involved. Correlation of technological complexity with centralization in Jordanian companies was negative and weak, meaning that “some technical decisions still had to be taken at the level of production units, to ensure continuous operations”.⁴⁸

- There was a strong positive relationship between internal dependence (ties with the government and/or owning groups) and centralization in Japan and Sweden and a significant but moderate correlation between internal dependence and centralization with Jordanian companies; however, in Britain the correlation between centralization and internal dependence was negative.
- External dependencies (on suppliers and customers) were important in Britain and Sweden but not in Japan and Jordan, each of which were countries in which internal dependencies were the critical contingencies in determining company strategies. Satri noted that the significant weak correlation between centralization and their external dependence among Jordanian companies was an indication of the tendency of those companies to have greater ties with their owners and the government rather than with suppliers and consumers, which also explains why decisions are typically raised to higher levels in Jordan.⁴⁹

The results obtained by the Aston researchers emboldened them to claim that the relationships that they found would hold in all countries. In other words, “the relationships between the structural characteristics (structuring of activities and concentration of authority) and variables of organizational context (size, operation, technology and ownership) will be stable across cultures”.⁵⁰ The argued that the results could be foreseen and explained through the “logic of industrialism” that requires certain universal changes that all firms must make as they develop and move toward large-scale industrialism.⁵¹ The “logic of industrialism” is grounded in the assumption that science and technology, advancing independent from any specific government or culture, will first divide countries into “industrialized” and “developing” and then eventually progress to the point where industrialization becomes universal.⁵² As that process continues, competitive pressures will drive organizations everywhere to identify and adopt that most efficient ways to address and overcome the problems associated with the common tasks that must be completed by all organizations engaged in production, regardless of where they are located and the societal culture in which the operate. In other words, the “logic

⁴⁸ Id. at 139.

⁴⁹ Id.

⁵⁰ Id. at 131.

⁵¹ M. Holt, “Culture-Free or Culture-Bound?: Two Views of Swaying Branches”, *International Journal of Business, Humanities and Technology*, 1(3) (November 2011), 81 (citing F. Harbison and C. Myers, *Management in the industrial world: An international analysis* (New York: Wiley, 1959); and C. Kerr, J. Dunlop, F. Harbison and C. Myers, *Industrialism and Industrial Man* (Cambridge, MA: Harvard University Press, 1960).

⁵² According to Pugh et al., the “logic of industrialism” has its roots in the arguments first made by Kerr and his colleagues in the 1960s that industrialism is a worldwide phenomenon that would ultimately lead to global convergence. See D. Pugh, T. Clark and G. Mallory, “Organization structure and structural change in European manufacturing organizations”, *Verhandelingen Letterkunde, Nieuwe Reeks*, 168 (1996), 225-238, 225-226 (citing C. Kerr, J. Dunlop, F. Harbison and C. Myers, *Industrialism and industrial man* (Cambridge, MA: Harvard University Press, 1960)).

of industrialism” predicts that “organizations *tackling the same tasks*, in whichever culture, will become more and more alike”.⁵³

A more specific explanation of the impact of the “logic of industrialism” on the evolution of organizational structure was offered by Harbison and Myers in the late 1950s, whose views were summarized by Child and Kieser as follows⁵⁴:

- As industrialization accelerates, enterprises grow in overall size and internal complexity and this leads to increasing specialization of functions within enterprises.
- Complexity and specialization each raise potential coordination issues that must be resolved by the imposition of rules from the top of the organizational hierarchy to maintain order and control.
- However, growing complexity and size also make it difficult for the persons at the top of the hierarchy to retain all authority regarding decisions and while they are promulgating rules they also need to increase managerial decentralization to avoid “bottlenecks” caused by too many decisions being pushed up to the top of the hierarchy.
- Decentralization will be accompanied by a transition in “appropriate authority relationships” from “an authoritarian to a more constitutionally formalized and participative mode”. A change in authority relationships is also required by the growing use of specialist experts and rising employee expectations.

The combination of factors of production necessary for the creation and growth of modern enterprises places a premium on recruiting qualified management talent with knowledge and experience in organizing and managing firms. As Child and Kieser noted, “[m]anagement ... has to become increasingly based on competence and professionalism”.⁵⁵ In summary, the “logic of industrialism” predicts the growth of firms and accompanying coordination and communication issues that can only be effectively addressed through structure, specialization, rulemaking and decentralization.

Hickson et al. explained their conclusion that the relationship between structure and context would be stable across all countries as follows: “whether the culture is Asian or European or North American, a large organization with many employees improves efficiency by specializing their activities but also by increasing controlling and coordinating specialities”.⁵⁶ In other words, “whatever the country and culture, bigger

⁵³ D. Pugh, T. Clark and G. Mallory, “Organization structure and structural change in European manufacturing organizations”, *Verhandelingen Letterkunde, Nieuwe Reeks*, 168 (1996), 225-238, 226.

⁵⁴ J. Child and A. Kieser, “Organizational and managerial roles in British and West German Companies: An examination of the culture-free thesis” in T. Weinsahl, *Societal culture and management* (New York: Walter de Gruyter, 1993), 455-477, 456 (citing F. Harbison and C. Myers (Eds.), *Management in the Industrial World: An International Analysis* (New York: McGraw-Hill, 1959).

⁵⁵ J. Child and A. Kieser, “Organizational and managerial roles in British and West German Companies: An examination of the culture-free thesis” in T. Weinsahl, *Societal culture and management* (New York: Walter de Gruyter, 1993), 455-477, 456.

⁵⁶ M. Holt, “Culture-Free or Culture-Bound?: Two Views of Swaying Branches”, *International Journal of Business, Humanities and Technology*, 1(3) (November 2011), 81 (citing D. Hickson, C. Hinings, C.

organizations are more specialized and formalized in structure”⁵⁷ and “increasing size and scale is everywhere monotonically related to increasing bureaucratic structuring of activities”.⁵⁸ Other researchers have come to similar conclusions including Donaldson, who analyzed data relating to the correlation between size and functional specialization in thirteen countries selected from the West, Middle East and Far East and declared that “increasing organizational size leads to greater bureaucracy and this pattern does not differ according to national location”.⁵⁹

§4:3 Culture-bound hypothesis

While the proponents of the culture-free hypothesis were quite active and persuasive, 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.⁶⁰ 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.⁶¹ Some examples of these studies include 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

McMillan and J. Schwitter, “The culture-free context of organization structure: A tri-national comparison”, *Sociology*, 1974, 59-80, 64).

⁵⁷ D. Pugh, T. Clark and G. Mallory, “Organization structure and structural change in European manufacturing organizations”, *Verhandelingen Letterkunde, Nieuwe Reeks*, 168 (1996), 225-238, 226.

⁵⁸ Id. (citing D. Pugh, *The convergence of international organizational behaviour*. Invited paper to the British Psychological Society Conference, London, Open University School of Management Working Paper, No 2 /90, 1988, 17).

⁵⁹ D. Pugh, T. Clark and G. Mallory, “Organization structure and structural change in European manufacturing organizations”, *Verhandelingen Letterkunde, Nieuwe Reeks*, 168 (1996), 225-238, 226 (citing L. Donaldson, “Size and bureaucracy in East and West: A preliminary meta analysis” in S. Clegg, D. Dunphy and S. Redding (Eds), *The enterprise in East Asia* (Hong Kong: University of Hong Kong, Centre for Asian Studies, Occasional Monograph, No. 69, 1986)).

⁶⁰ D. Gallie, *In search of the new working class: Automation and social integration within the capitalist enterprise* (Cambridge, England: Cambridge University Press, 1978).

⁶¹ 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. Weinshall, *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.⁶²

- 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.⁶³
- 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”.⁶⁴
- Schneider and Barsoux felt that culturally-based differences were so important that they coined and described “Viking Management”, Brazilian Management and Indonesian Management.⁶⁵

These results formed the basis for the “culture-bound” hypothesis, a term that was coined by Hofstede in one of his earlier publications.⁶⁶ Proponents of the culture-bound hypothesis note that the foundation of the culture-free hypothesis is measurement of “macro-level variables”, such as the relationship between context and structure, and argue that the behavior of people within organizations, which is strongly influenced by their cultural background, also matters in determining how work activities are structure.⁶⁷

⁶² 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).

⁶³ See M. Crozier, *The Bureaucratic Phenomenon* (London: Tavistock, 1964).

⁶⁴ M. Holt, “Culture-Free or Culture-Bound?: Two Views of Swaying Branches”, *International Journal of Business, Humanities and Technology*, 1(3) (November 2011), 82.

⁶⁵ S. Schneider and J.-L. Barsoux, *Managing across cultures* (2nd Ed.) (Upper Saddle River, NJ: Pearson, 2002).

⁶⁶ In 1984 Hofstede argued that organizations were “culture bound” and members of a particular national societal culture would prefer a specific organizational structure because it fit well with the “implicit model of design” that they had in their minds (i.e., the “software of their minds”). The natural consequence of this argument that organizations in different countries, even though engaged in similar activities, would have different structures due to differences in the cultural preferences. See G. Hofstede, *Culture’s Consequences: International Differences in Work-Related Values* (London: Sage Publications, 1984).

⁶⁷ D. Pugh, T. Clark and G. Mallory, “Organization structure and structural change in European manufacturing organizations”, *Verhandelingen Letterkunde, Nieuwe Reeks*, 168 (1996), 225-238, 226 (citing L. Child, “Culture, contingency and capitalism in the cross-national study of organizations” in L.

Criticism of the limitations of the culture-free hypothesis has been around since well before the Aston researchers published their results and Crozier, for example, observed: “Intuitively, however, people have always assumed that bureaucratic structures and patterns of action differ in different countries of the western world and even more markedly between East and West. Men of action know it and fail to take it into account. But contemporary social scientists ... have not been concerned with such comparisons.”⁶⁸

Hofstede and others have argued strongly and consistently that “people, in different cultures, react to organizational problems according to their implicit model of how organizations should be structured” and that “[t]his means that, other factors being equal, people from a particular national background will prefer a particular structure because it fits their implicit model of structure, and similar organizations in different countries will resemble different types because of different cultural preferences”.⁶⁹ Hofstede predicted that his cultural dimensions of power distance and uncertainty avoidance should, along with specific demands of the activities engaged in by the organization and the technology used by the organization in those activities, be strong predictors of the optimal form of organizational structure.⁷⁰ According to Sabri, Hofstede’s description of the key characteristics of these two dimensions meant that “[p]resuming all other factors are equal, people in high power distance cultures prefer that decisions be centralized as even superiors have strong dependency . . . [and] [p]eople in high uncertainty-avoidance countries prefer their roles to be formalized to protect them against uncertainties.”⁷¹

Mindful of the dimensions of structure identified by the Aston researchers, Hofstede proposed that his uncertainty avoidance dimension corresponded to the Aston researchers’ “structuring of activities” dimension and that his power distance dimension corresponded to the Aston researchers’ “concentration of authority” dimension.⁷² Then, using the Aston researchers’ topology of structure, Hofstede suggested the following: “The ‘Personnel bureaucracy’ works well for Southeast Asian countries with the ‘family

Cummings and B. Staw (Eds), *Research in Organizational Behaviour*, Vol. 3 (Greenwich, CT: JAI Press, 1981)).

⁶⁸ M. Crozier, *The bureaucratic phenomenon* (Chicago: University of Chicago, 1964), 210.

⁶⁹ H. Sabri, “Do Power Distance and Uncertainty-avoidance Determine Organizational Structure?: A Culture Bound versus Culture Free Debate” *The International Journal of Knowledge, Culture and Change Management*, 11(3) (2012), 131-145, 131. Other researchers that have argued that culture influences organizational structure include C. Handy, *Gods of Management* (3rd Ed.) (London: Penguin, 1991); D. Phesey, *Organizational Culture: Types and Transformation* (London: Routledge, 1993); J. Mannen and S. Barley, “Cultural Organization: Fragments of a Theory”, in P. Frost, L. Moore, M. Louis, C. Lundberg and J. Martin (Eds.), *Organizational Culture* (London: Sage Publications, 1985) and M. Al-Tayeb, *Organizations and National Culture: A Comparative Analysis* (Newbury Park, California: Sage, 1988).

⁷⁰ G. Hofstede, *Culture’s Consequences: International Differences in Work-Related Values* (London: Sage Publications, 1984).

⁷¹ H. Sabri, “Do Power Distance and Uncertainty-avoidance Determine Organizational Structure?: A Culture Bound versus Culture Free Debate” *The International Journal of Knowledge, Culture and Change Management*, 11(3) (2012), 131-145, 134.

⁷² G. Hofstede, *Cultures and Organizations, Software of the Mind* (London: McGraw-Hill Book Co., 1991), 42. This made sense to Hofstede because these two dimensions certainly influenced organizational structure since they helped to answer two critical questions that must be addressed by the organizational designer: “who has the power to decide what (hierarchy)? And what rules or procedures will be followed to reach the desired organizational goals (formalization)?” Id.

type' as an implicit model. The 'Full bureaucracy' works well for Latin, Arab and Mediterranean countries, plus Japan, with the 'pyramid' type as an implicit model. The 'Work flow bureaucracy' works well for the German-Speaking countries, with the 'well-oiled machine' type as an implicit model. And finally, the 'Implicitly Structured' organization works well for the Anglo and Nordic countries plus the Netherlands, with the 'village market' type as an implicit model."⁷³

Sabri also examined whether the data collected for Jordan, Japan, Britain and Sweden supported Hofstede's assertion that a certain configuration of structure is preferred in different cultures according to their orientations on Hofstede's power distance and uncertainty avoidance cultural dimensions. Sabri compared the "desired" and "existing" organization structures in Jordan, Japan, Britain and Sweden using the Aston researchers' topology of structure. The "desired" structure was based on the country scores on power distance and uncertainty avoidance calculated by Hofstede. Based on these scores the "desired" organizational structure in both Jordan and Japan, each of which were high power distance and strong uncertainty avoidance countries, was a "full bureaucracy (pyramid type)", and the "desired" organizational structure in both Britain and Sweden, each of which were low power distance and weak uncertainty avoidance countries, was "implicitly structured (village market type)".⁷⁴ However, when the scores on the Aston researchers' measures of "concentration of authority" and "structuring of activities" for each of the countries were used to identify their "existing" structures the result for each of the countries was the "personnel bureaucracy" type since all of the countries scored high on "concentration of authority" and low (Japan, Britain and Sweden) or medium (Jordan) on "structuring of activities".⁷⁵

The results described in the previous paragraph led Sabri to conclude that "the existing structure for companies in Jordan, Japan, Britain and Sweden did not fit well the suggested desired structure in each culture on its power distance and uncertainty avoidance cultural orientations".⁷⁶ While this appeared to be a setback for the culture-bound camp and the predictive value of Hofstede's concept of "desired structures", Sabri did offer a few possible explanations for the outcomes. For example, he point out that perhaps Hofstede had underestimated the impact of Islamic religion on Arab societies, such as Jordan, and that it would have been more appropriate and accurate for Hofstede to rate the Arab culture "average", rather than "strong", on uncertainty avoidance due to his conclusion based on his original data that "high uncertainty avoidance is . . . medium

⁷³ G. Hofstede, *Cultures and Organizations, Software of the Mind* (London: McGraw-Hill, 1991), 141.

⁷⁴ H. Sabri, "Do Power Distance and Uncertainty-avoidance Determine Organizational Structure?: A Culture Bound versus Culture Free Debate" *The International Journal of Knowledge, Culture and Change Management*, 11(3) (2012), 131-145, 140. Hofstede had suggested: "The 'Full bureaucracy' works well for Latin, Arab and Mediterranean countries, plus Japan, with the 'pyramid' type as an implicit model . . . [a]nd . . . the 'Implicitly Structured' organization works well for the Anglo and Nordic countries plus the Netherlands, with the 'village market' type as an implicit model." G. Hofstede, *Cultures and Organizations, Software of the Mind* (London: McGraw-Hill, 1991), 141.

⁷⁵ H. Sabri, "Do Power Distance and Uncertainty-avoidance Determine Organizational Structure?: A Culture Bound versus Culture Free Debate" *The International Journal of Knowledge, Culture and Change Management*, 11(3) (2012), 131-145, 141.

⁷⁶ *Id.* at 131.

in Islamic and Judaic countries”.⁷⁷ If that had been done, the “desired” structure” for companies in Arab countries, such as Jordan, would have fallen within the “personnel bureaucracy” type, the same as the “existing” structure identified in the manner described above. In addition, Sabri noted that actual practices within Jordanian companies differed from the responses in the instruments used to collect data and that these practices were actually more indicative of “average” uncertainty avoidance within Jordanian culture.⁷⁸

Paszowska, while not providing empirical support for her predictions, presented reasoned arguments for the following hypotheses relating to the how the degree of uncertainty avoidance—strong or weak—might influence organizational structure⁷⁹:

- Strong uncertainty avoidance within a societal culture leads to high formalization of organizational structures.
- Strong uncertainty avoidance within a societal culture leads to high “social specialization” of organizational structures, which means that organizations hire professional specialists to perform skills that cannot be easily routinized. Paskowska argued that “[s]ocieties that are risk adverse believe in experts and specialization . . . [since] . . . advice given by an expert minimizes the risk of wrong decision”.⁸⁰
- Strong uncertainty avoidance within a societal culture leads to high “functional specialization” of organizational structures, which means that organizations break down jobs into smaller and simpler repetitive tasks.

⁷⁷ Id. at 142 (citing G. Hofstede, *Cultures and Organizations, Software of the Mind* (London: McGraw-Hill, 1991), 130). Sabri noted that Hofstede’s score of 68 for Arab culture on uncertainty avoidance placed it at the “lowest margin of the high score range 67-112”, inferring that even a slight adjustment in the weighting of the importance of religion would have moved Arab culture into the “medium” range.

⁷⁸ H. Sabri, “Do Power Distance and Uncertainty-avoidance Determine Organizational Structure?: A Culture Bound versus Culture Free Debate” *The International Journal of Knowledge, Culture and Change Management*, 11(3) (2012), 131-145, 142-143. Specifically, Sabri wrote: “. . . the high scores on structuring of activities reported in this study for Jordanian companies gave a misleading picture of the resulting structure while account should be taken of certain cultural peculiarities. Certain comments made by Jordanian managers revealed that written rules and procedures exist in Jordanian organizations, but in practice, they were replaced by routines rather than distributed manuals. Moreover, interviews revealed that Jordanian managers keep organization charts as decoration, abiding by them only on exceptional occasions. These comments did not confirm the assumption that strong uncertainty avoidance was an explanatory factor of high structuring of activities within Jordanian organizations.” Comments collected from senior managers among the Jordanian companies also shed more light on the factors that determined the strength or weaknesses of cultural orientations, notably the influence of the tribal orientation of Jordanian culture on high power distance. For further discussion, see N. Abdul-Khaliq, “Environmental Dimensions of Bureaucracy in Kuwait”, *Studies in the Gulf and Arabia* (in Arabic), 10(38) (1984), 13-65; and H. Sabri, “Socio-cultural values and organizational culture” in K. Becker, *Islam and Business* (New Jersey: Haworth Press, 2004), 123-145. See also D. Pugh and the Open University Course Team, “Cultural Differences in Organizational Behavior” in T. Weinsall, *Societal culture and management* (New York: Walter de Gruyter, 1993), 125-133, 127 (“there is a strong kinship structure in all parts of Arab society based the clan (in tribal communities)”).

⁷⁹ G. Paszowska, “Does the Degree of Uncertainty Avoidance and Social Masculinity Influence Organizational Structure?” in J. Mercik and F. Turnovec (Eds.), *Regional Dimension of Economic Integration in Extending European Union* (Wroclaw, Wroclaw College of Management and Finance June 2003).

⁸⁰ Id.

- Strong uncertainty avoidance within a societal culture leads to the use of more centralized organizational structures, since individuals from societies that fear the unknown are more likely to cede authority and responsibility for decisions to others higher in the organizational hierarchy.

Paskowska conceded that there was contradictory evidence on some of her hypotheses regarding uncertainty avoidance. For example, she noted that while Japan scores very high on uncertainty avoidance and the US scores very low on that measure, job descriptions in Japan are generally broad while in the US “job definition tends to be narrower and there are usually clear borders to employee’s responsibility”.⁸¹ All of this tends to contradict her hypothesis about strong uncertainty avoidance leading to high functional specialization; however, she suggested that differences in functional specialization between those two societies might be better explained by looking at their differences on the individualism-collectivism dimension: the high individualism in the US may explain the preference for differentiation and precise definition of job responsibilities in that society and the strong collectivism among the Japanese may mitigate and reduce the impact of uncertainty avoidance. Paskowska cautioned against relying on a single societal cultural dimension as a predictor of a characteristic of organizational structure since not only must other cultural dimensions be taken into account but structures may also be influenced by non-cultural variables such as history, politics and economics.

Horovitz conducted a cross-country study and comparative analysis of managerial “control practices” in France, Britain and Germany.⁸² Among the dimensions that he explored were purposes and uses of controls, primary functional emphasis, degree of decentralization, degree of detail, time orientation, degree of quantification, involvement of central staff and degree of formalization (i.e., systematization and standardization). He concluded that “[m]anagers in France, Great Britain and Germany differ significantly in what they try to control and in the way they go about it”⁸³ and provided a list of several “local factors” that might be relevant in determining which control mechanisms are preferred in a particular country: the impact of educational backgrounds, including training in particular areas relating to establishment and administration of control systems; the desired level of sophistication in planning required for the operations of the particular firm; and, finally, the impact of societal beliefs and attitudes towards authority and centralism (i.e., culture).⁸⁴

When discussing the possible influence of societal culture on national preferences regarding organizational structure it should be noted that while uncertainty avoidance and power distance have certainly been popular reference points other dimensions from the Hofstede model have also been used to posit theories and predictions. Paskowska also wrote on the influence of masculinity on organizational structure, focusing her comments

⁸¹ Id.

⁸² 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.

⁸³ Id. at 446.

⁸⁴ Id. at 454.

and predictions on “values” rather than gender role differentiation and assuming that “[m]asculinity . . . brings about greater aggressiveness, assertiveness and decisiveness of managers . . . [and that] employees are more ambitious (both men and women) and they express a stronger power need than employees in a feminine society”.⁸⁵ Paszkowska predicted that strong masculinity of values within a societal culture leads to the creation of more centralized organizational structures since managers in a masculine society are expected to be more decisive and will generally select and deploy an autocratic management style. Paszkowska also predicted that strong masculinity of values within a societal culture will lead to greater “social specialization” in organizational structures. Paszkowska opined that professional specialization seemed to be stronger in highly masculine societies and that professionals will develop narrower specialties as a means for gaining power—which is important in masculine societies—through specialization.

Beyond the insights described above, Paszkowska observed that the masculinity-femininity dimension was not the single most important factor with respect to predicting the levels of formalization or functional specialization in the organizational structures observed within a society. For example, in a masculine society formal rules and procedures may be used as a means for superiors to preserve their positions of power and maintain control over subordinates; however, formalization of this type may be inefficient and counter-productive if it stifles employees pursuing “masculine” traits of ambition and hard work. Similarly, organizations in feminine societies may either opt for less formalization because of a lower need for power among superiors or may adopt more rules and procedures as a means for protecting the safety of employees and demonstrating caring for their well-being in a way that is typical of feminine cultural values. In the same vein, functional specialization may be unpopular in both masculine and feminine society, but for different reasons: employees in a masculine society may see functional specialization as stifling their ambitions while employees in a feminine society would prefer broader and more diverse job experiences as a path for enrichment and development. Finally, Paszkowska predicted that organizational structures in feminine societies would like depend on other cultural factors, primarily power distance and uncertainty avoidance, and that managers of organizations in those types of societies tend to be more pragmatic and willing to choose the most effective structure to address competitive factors for their particular type of business.

Krokosz-Krynke presented reasoned arguments, like Paszkowska without empirical support, for various hypotheses regarding the predicted influence of individualism/collectivism on organizational structure.⁸⁶ First of all, Krokosz-Krynke

⁸⁵ G. Paszkowska, “Does the Degree of Uncertainty Avoidance and Social Masculinity Influence Organizational Structure?” in J. Mercik and F. Turnovec (Eds.), *Regional Dimension of Economic Integration in Extending European Union* (Wroclaw, Wroclaw College of Management and Finance June 2003).

⁸⁶ Z. Krokosz-Krynke, “Organizational Structure and Culture: Do Individualism/Collectivism and Power Distance Influence Organizational Structure?” in *Emerging Economies International Conference Series* (Budapest: ABAS, 1998). Like the other researchers whose work is described in the text, Krokosz-Krynke also offered opinions on the relationship of power distance to organizational structure, including predictions that the higher the power distance the more likely that organizational structures would be standardized and centralized.

suggested that high individualism would lead to high specialization in organizational structures while high collectivism would have the opposite impact and foster low specialization. As to the influence of individualism/collectivism on standardization, the answer would depend on other factors. For example, Krokosz-Krynke points out that because workers in a highly collectivist environment have high levels of group responsibility it might be expected that this would alleviate the need for narrow task specialization and accompanying procedures (i.e., standardization) since members of the group would, in essence, take care of and guide one another. However, if the task activities carried out by a highly collectivist workforce were “high routine” then it may be appropriate to adopt high standardization because of the nature of the tasks. Krokosz-Krynke predicted that high individualism could lead to high formalization provided that there is a need due to high standardization—in other words, “if rules or procedures do not exist there is nothing to write”—and there are no factors that serve as constraints to formalization such as difficulties in translating directions into a language that can be understood by all workers and/or the absence of tangible information that can serve as the basis for rules and procedures. Finally Krokosz-Krynke wrote that the likelihood of a high centralized organizational structure in a strongly individualistic society is quite low.

After reviewing the research and arguments on both sides of the debate, Holt concluded that “[t]he evidence of cultural differences between nations is overwhelming” and that “one cannot base a prediction on structure or process from a single cultural dimension”.⁸⁷ Holt argued that “[a]s people share a common culture system they are likely to influence the organizations they enter” and culturally-based assumptions regarding “[t]he patterns of relationships, rules and belief systems, expectations about authority and its legitimate use, an individual’s rights and obligations to the collective all influence the structure of organizations”.⁸⁸ Holt believed that “[i]f two nations have differing cultural orientations there should be tendencies toward differing patterns of organizational structure within those nations”.⁸⁹ Another strong, and succinct, statement of the culture-bound hypothesis was offered by Axelsson et al., who wrote: “. . . human preferences and decisions which are shaped by the values within society are refracted through individual personalities. Therefore, the organization and the behaviour of those associated with it must reflect the characteristics of the surrounding culture. There may be structural regularities across national cultures, but they are relatively unimportant in the face of the substantial differences in the ways that individuals interact and in the views they hold of the organization’s place in its environment.”⁹⁰

§4:4 Reconciliation

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

⁸⁷ M. Holt, “Culture-Free or Culture-Bound?: Two Views of Swaying Branches”, *International Journal of Business, Humanities and Technology*, 1(3) (November 2011), 83.

⁸⁸ *Id.*

⁸⁹ *Id.*

⁹⁰ R. Axelsson, D. Cray, G. Mallory and D. Wilson, “Decision style in British and Swedish organizations: A comparative examination of strategic decision-making”, *British Journal of Management*, 2 (1991), 67-69, 68.

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.⁹¹ Child and Kieser found that the expectations of Germans regarding authority, which they believed to be culturally driven, were different than those of the British and were reflected in the realities of managerial behavior in carrying out their roles within the organizational structure. Child and Kieser found that Germans had more respect for authority than the British, placed a greater value on authority and were more directive than the British. In fact, a close examination of the structural analysis revealed 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. Child and Kieser observed that “[w]hen one examines the characteristics of managers’ roles, differences between the two countries are quite striking” and that “[t]he way in which managers’ roles are structured varies between the two countries”⁹² and concluded that “this paper suggests that culturally specific factors such as people’s expectations about authority will mediate between contextual variables such as size of organization and the nature of structures, roles and behavior within organizations”.⁹³

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 differences did have a significant influence on the integration and coordination mechanisms selected for ensuring that the chosen structural type performed efficiently. 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.⁹⁴ The firms from each of the countries were classified by reference to the type of organizational structure they had selected using “a scheme 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

⁹¹ J. Child and A. Kieser, “Organizational and managerial roles in British and West German Companies: An examination of the culture-free thesis” in T. Weisbach, *Societal culture and management* (New York: Walter de Gruyter, 1993), 455-477.

⁹² *Id.* at 467.

⁹³ *Id.* at 472.

⁹⁴ 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”, *Verhandelungen Letterkunde, Nieuwe Reeks*, 168 (1996), 225, 227-228.

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.⁹⁵ In presenting the results of their classification, Pugh et al. provided the following explanatory observations⁹⁶:

- 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 hypothesis “that countries with a low power-distance index will have a greater preponderance of divisional structures over functional structures, compared with those

⁹⁵ Id. at 229-230.

⁹⁶ 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).

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”.⁹⁷

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”.⁹⁸ 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”.⁹⁹ 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.”¹⁰⁰

After describing their results, Pugh et al. summarized their work as follows: “This paper sought to adopt a combined approach in which changes to organization structure were considered (macro) as well as the mechanisms which integrate the structure (behavior). The results and subsequent discussion, suggest that global contingencies cause structural changes whilst cultural effects are found to influence the different uses of coordination mechanisms. Current evidence would seem to show that existing organizational structures and coordinating mechanisms are an outcome of the interaction between contingencies with global impact and culture specific imperatives.”¹⁰¹

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

⁹⁷ Id.

⁹⁸ Id.

⁹⁹ Id. at 231.

¹⁰⁰ Id. at 234.

¹⁰¹ Id. at 235.

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 notion that “structure follows strategy” has been deeply embedded in the theories and models of organizational design for decades.¹⁰²

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.¹⁰³ 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”.¹⁰⁴ 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.¹⁰⁵ Supporting this proposition was the finding that the use of task forces increased as the level of power distance declined.

Holt concluded that the entire debate could be reconciled by recognizing that the culture-free hypothesis was based on an “etic” view of the organization and that the culture-bound hypothesis was based on the “emic” view of the organization and that “either view by itself is restricted in scope and can lead to a kind of distortion; both views must be considered if any event is to be well understood.”¹⁰⁶ A truce or accommodation of some

¹⁰² For further discussion of the influence of technology and strategy on organizational design issues, see “Organizational Design and Technology” and “Organizational Design and Strategy” in “Organizational Design: A Library of Resources for Sustainable Entrepreneurs” prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

¹⁰³ For further discussion of integration and coordination mechanisms, see “Designing the Organizational Structure” in “Organizational Design: A Library of Resources for Sustainable Entrepreneurs” prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

¹⁰⁴ D. Pugh, T. Clark and G. Mallory, “Organization structure and structural change in European manufacturing organizations”, *Verhandelingen Letterkunde, Nieuwe Reeks*, 168 (1996), 225, 234.

¹⁰⁵ *Id.* at 235.

¹⁰⁶ M. Holt, “Culture-Free or Culture-Bound?: Two Views of Swaying Branches”, *International Journal of Business, Humanities and Technology*, 1(3) (November 2011), 83.

sort was also suggested by Alelsson et al., who advised that “[t]he debate between culture free and culture bound explanations has reached the stage at which it is more constructive to regard them as complementary rather than competing explanations”.¹⁰⁷ If this is true, the next question is what model can be used as a unifying framework that will bring the etic and emic views together?

One answer to the question posed above is a model initially suggested by Child and Kiesar, who believed that any “sociologically valid theory of organization must take cultural settings into account” and that the personal ideas and preferences of top managers and administrators, including those derived from their cultural backgrounds and experiences, were incorporated into the policies that they adopted for their organizations regarding strategies and organization and the roles and expected behaviors of members of the organization (e.g., German top managers preferred centralized decision-making).¹⁰⁸ Child and Kiesar began with what they referred to as “an oversimplification” of the contingency view of the causal influences on organizational structure that began with “context” and then ran to “structure”, “roles” and “behaviors”. They then argued that “[a]t every point . . . in the causal chain posited by culture-free contingency analysis, other influences, mostly cultural in origin, are likely to interpose”.¹⁰⁹ For example, the “preferences and ‘philosophies’ of those responsible for structuring the organization” mediate between context and the choice of structure; the “orientations of managers towards, concepts, such as authority, control, definition, work” are relevant to the formal and information definition of roles within the organizational structure; and actual behaviors are influenced by “[i]nterpretation of socially acceptable conduct with regard to behavior in organizations and relations with others”.¹¹⁰

Holt endorsed that broad outlines of the Child and Kiesar framework and suggested certain modifications to ensure that “both the influence of context and culture on structure” are taken into account.¹¹¹ Context, the so-called “logic of industrialization” referred to above, is important in this model as a determinant of the organizational structure, the formal roles in those structure and the degree of specialization associated with this roles. However, culture is also recognized as equally important for the reasons described above in connection with the original Child and Kieser model. Holt closes his

¹⁰⁷ R. Axelsson, D. Cray, G. Mallory and D. Wilson, “Decision style in British and Swedish organizations: A comparative examination of strategic decision-making”, *British Journal of Management*, 2 (1991), 67-69, 68.

¹⁰⁸ 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, 472.

¹⁰⁹ *Id.* at 474.

¹¹⁰ *Id.* See also W. Oberg, “Cross-cultural Perspectives on Management principles”, *Academy of Management Journal*, 6 (1963), 129-143; G. England, “Personal Value Systems and Expected Behaviour of Managers—a Comparative Study in Japan, Korea and the United States” in D. Graves (Ed.), *Management Research: A Cross-Cultural Perspective* (Amsterdam: Elsevier, 1973); A. Negandhi, “A Model for Analyzing Organizations in Cross-Cultural Settings: A Conceptual Scheme and Some Research Findings” in A. Negandhi (Ed.), *Modern Organization Theory* (Kent, OH: Kent State University Press, 1973).

¹¹¹ M. Holt, “Culture-Free or Culture-Bound?: Two Views of Swaying Branches”, *International Journal of Business, Humanities and Technology*, 1(3) (November 2011), 85 (see Figure 2: A Revised General Model of Variables Intervening in the Relationship Between Context, Structure, Role and Behavior).

case with a quote from Tayeb: “An understanding of structure, therefore, requires reference only to such dimensions as centralization, specialization, and formalization, but also to the relationships, processes and actions which lie behind those dimensions”.¹¹² In addition, as mentioned below in the discussion of organizational structures in developing countries, societal culture is not the only factor that drives differences in organizational structure among countries and it is clear that structural decisions are also driven by other contextual factors including the size of the domestic market, availability of manufacturing technologies, general competitive factors for each firm that cause them to make strategic decisions that influence the form of their organizational structures, and the economic, political and legal environment in which firms operate.

§4:5 Organizational structures in developing countries

In general, the researchers who have studied organizational structures in various developing countries have found that the picture of structural types in each of the countries was different and further investigation indicated that differences in societal cultural did have a meaningful influence in the decisions made regarding the selection of structural type. However, researchers found that societal culture was not the only factor that drove differences in organizational structure among countries and it is clear that structural decisions are driven by other contextual factors including the size of the domestic market, availability of manufacturing technologies, general competitive factors for each firm that cause them to make strategic decisions that influence the form of their organizational structures, and the economic, political and legal environment in which firms operated. Researchers often emphasize particular elements of organizational structure in their empirical work such as control practices, centralization versus delegation of authority, hierarchy, and decision-making processes.

While developing countries are extremely diverse in terms of location, size, societal culture and even the level of economic development, there are certain similarities that are apparent from reviewing and comparing the profiles of organizational structure in those countries. For example, the dominant form of organizational structure in many of the countries is strictly hierarchical with key decisions being centralized at the most senior levels of the organization and information flowing in a very structured way up and down the various chains of command. These hierarchical structures were accompanied by autocratic/directive, yet paternalistic, leadership styles and a strong emphasis on bureaucratic processes featuring regimental rules. Organizational structures in developing countries generally exhibit low levels 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. While bureaucratic rules are popular among developing country organization there are not used to standardize activities and procedures for carrying out routine operational tasks typically remain informal.

¹¹² M. Holt, “Culture-Free or Culture-Bound?: Two Views of Swaying Branches”, *International Journal of Business, Humanities and Technology*, 1(3) (November 2011), 85 (citing M. Tayeb, “Organizations and national culture: Methodology considered”, *Organization Studies*, 1994, 429-446, 439).

Family ownership and participation of family members in management activities is an important factor in organizational design in most developing countries. Brazil, China and India, for example, have all been identified with some form of 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. However, as family ownership declines and/or firms, regardless of the composition of the ownership group, develop one sees a growing willingness to transition toward more decentralized and professional organizational management structures.

While the similarities in organizational structures in developing countries are striking, and firmly held elements of societal culture underlying them will certainly be hard to overcome, changes can be expected and will occur. One potential path is for organizational structures in developing countries to take on more of the features found in developed countries as global competition increases and demographics change. Recruitment consultants in Russia have commented that the traditional hierarchical structure with centralized decision making is not likely to remain effective for rapidly growing companies reliant on the skills and satisfaction of a new generation of talented and knowledgeable workers. The pace of competition confronting emerging companies in developing countries will also force them to abandon cumbersome organizational structures that inhibit communications and create bottlenecks in decisions due to unwillingness to delegate authority. Organizational structures in developing countries will also change as the number of family-owned enterprises and state corporations declines and foreign investment increases.

Another path is the development of new indigenous theories and techniques for managing organizations in developing countries that explicitly take into account the unique external environmental conditions which confront those organizations. The sequential influence that begins with external environmental conditions and continues to organizational work culture and finally to organizational behavior can be observed in organizations in both developing and developed countries; however, significant economic, political and cultural differences among these two broad categories of countries cannot be ignored and have a substantial impact on the work culture within developing country organizations and the choices that owners and managers of those organizations make with regard to design and structure. These differences not only determine how organizations are designed and structure in developing countries without intervention by external influences, such as foreign investors, but also have explanatory value when investigating

why management practices that have been effective in developed countries fails to have the same positive impact in developing countries.¹¹³

Organizations in developed and developing countries face very different economic/technological and political/legal environments. In general, the economic-technological environment influences how organizations are able to obtain the inputs necessary for them to be operational effective including technology, raw materials, human resources and capital. Factors associated with the political and legal environment include the stability of governments, the reliability of a “rule of law” and the degree of government interference in economic activities. Developed and developing countries appear to differ with respect to the predictability of events in their economic and political environments and with regard to the difficulties associated with obtaining necessary inputs and resources from those environments. While organizations in developed countries generally operate in relative stable and predictable environments and the difficult of obtaining resources for those organizations is relatively low, albeit by no means certain, developing country organizations generally operate in unpredictable, often chaotic, economic and political environments and must compete for scarce resources that are often allocated unfairly based on political considerations. This situation leads owners and managers in developing countries to be decidedly risk averse and unreceptive to long-range planning activities which they understandably believe to be pointless given the environment in which they are operating.

The socio-cultural environment is also an important distinguishing factor between the organizational structures commonly seen among firms in developed and developing countries. While not universally true, the profiles of societal culture in developing countries paint a common picture: relatively high uncertainty avoidance, relatively low individualism, relatively high power distance and relatively low masculinity. The position of developing countries on each of these dimensions of societal culture not only contrasts starkly with developed countries such as the United States, with its well-publicized fondness for risk taking, individual empowerment and flat organizations in which managers and workers interact easily and informally, but also explains features of organizational structure commonly found in developing countries regardless of where they are located: hierarchical structures, centralized decision making, top down communications and an expectation that instructions delivered from the top of the hierarchy will be followed strictly and without challenge.

Finally, differences in organizational structure and processes between developed and developing countries are also influenced by differences in the internal working culture that have been identified by researchers. For example, it has often been argued that notice must be taken of significant differences between developed and developing countries with regard to certain basic assumptions regarding human nature. It has been claimed that managers and employees in developing countries tend to think that they have relatively little control over events, thus explaining the lack of interest in long-term

¹¹³ The discussion in this section is adapted from R. Kanungo and A. Jaeger, *The Need for Indigenous Management in Developing Countries*, in A. Jaeger and R. Kanungo, *Management in Developing Countries* 1 (1990).

planning in those countries. In contrast, managers in developed countries believe that outcomes can be influenced by their actions and that the likelihood of good outcomes in the future can be increased by planning. Differences in attitudes regarding control of events and outcomes also appear in task orientation within organizations in developed and developing countries: organizations in developed countries are proactive while organizations in developing countries tend to be passive and reactive. In addition, while the people orientation within developed country organizations is generally collegial and participative organizations in developing countries appear to be more comfortable with authoritarian/paternalistic leadership styles.

Chapter 5

Dimensions and Typologies of Organizational Structure

§5:1 Introduction

Pugh and Hickson commented that “[t]he management structures of organizations may be looked upon as systems resulting from the continuous balancing by the directors of a number of conflicting pressures”.¹¹⁴ Recognizing and describing those “conflicting pressures”, including potential solutions and strategies, provides the basis for identifying a set of “dimensions of organizational structure” that can be used to undertake comparisons of organizational structures. Sabri observed that “[v]arious scholars use somewhat different dimensions of organizational structure” and then noted that, for example, “Robbins . . . recognized complexity, formalization and centralization, as three major components of organizational structure”.¹¹⁵ Other researchers have focused on “methods of coordination” as distinguishing factors, specifically the degree of dependence on direct control, mutual adjustment and standardization.¹¹⁶ Rieger and Wong-Rieger suggested that four principal themes, or dimensions, could be identified and used to explain how societal culture influences organizational processes: authority distance, power, group orientation, and cognitive orientation.¹¹⁷

§5:2 --Aston researchers’ dimensions of organizational structure

The emergence of standardized cross-national analysis of both organizational structure and context has been driven in large part by the six dimensions of organizational structures that were identified by the Aston researchers: specialization (i.e., division of labor), standardization (i.e., reliance of regularly used and legitimized organizational procedures), standardization of employment practices, formalization (i.e., used of formal rules and instruction to guide organizational members in carrying out their activities), centralization (i.e., location of decision making authority) and configuration.¹¹⁸ For

¹¹⁴ D. Pugh, D. Hickson and the Open University Course Team, “Organizational Context and Structure in Various Cultures” in T. Weinsall (Ed.), *Societal Culture and Management* (Berlin: Walter de Gruyter, 1993), 425-435, 425.

¹¹⁵ H. Sabri, “Do Power Distance and Uncertainty-avoidance Determine Organizational Structure?: A Culture Bound versus Culture Free Debate” *The International Journal of Knowledge, Culture and Change Management*, 11(3) (2012), 131-145, 133 (citing S. Robbins, *Organization Theory: Structures, Designs and Applications* (3rd Ed.) (Englewood Cliff, NJ: Prentice Hall, 1990)).

¹¹⁶ H. Mintzberg, *The Structuring of Organizations: A Synthesis of the Research* (Englewood Cliff, NJ: Prentice-Hall, 1979).

¹¹⁷ F. Rieger and D. Wong-Rieger, *Organization and Culture in Developing Countries: A Configurational Model*, in A. Jaeger and R. Kanungo, *Management in Developing Countries* 101 (1990).

¹¹⁸ See, e.g., D. Pugh, D. Hickson, C. Hinings and C. Turner, “Dimensions of Organization Structure”, *Administrative Science Quarterly*, 13 (1968), 65-105; J. Child and A. Kieser, “Organization and Managerial Roles in British and West German Companies: An Examination of the Culture-Free Thesis” in D. Hickson and C. McMillan (Eds.), *Organization and Nations: The Aston Program IV* (Westmead, Hants: Gower, 1980), 51-75; R Payne and D. Pugh, “Organizational Structure and Climate” in M. Dunnette (Ed.) *Handbook of Industrial and Organizational Psychology* (Chicago: Rand McNally, 1976), 1125-1173; and D. Hickson and C. McMillan (Eds.), *Organization and Nations: The Aston Program IV* (Westmead, Hants: Gower, 1980).

example, “specialization” focuses on the degree to which both operational and managerial tasks are divided into smaller, and more specialized, roles. In order to get an idea about the degree of specialization in an organization questions should be posed regarding whether or not certain key activities are performed by specialists (i.e., persons engaged exclusively in those activities and not in the regular line “chain of command”) and the level of professional qualification/certification held by those specialists.¹¹⁹ An assessment of “formalization” requires measurement of the degree to which an organization relies on written specifications of its standard rules, procedures and instructions (e.g., employee handbooks, organization charts, written job descriptions, written operating instructions and inspection/process/output records).¹²⁰ As for centralization, evidence should be collected as to which level in the organizational hierarchy has the real authority with respect to certain key decisions and who assume responsibility when the CEO is not available.¹²¹

§5:3 --Rieger and Wong-Rieger’s dimensions of social value systems

Rieger and Wong-Rieger echoed the prescriptions of many researchers that analysis and understanding of organizational structures in developing countries, and developed countries also for that matter, must take into account the characteristics of the societal culture in which those organizations are launched, operate and evolve.¹²² They began their argument by identifying four dimensions of societal value systems in developing and developed countries and then went on to use those dimensions to propose what they referred to as their “configurational model of organizational types” accompanied by descriptions of the salient characteristics of each type and predictions regarding the applicability of each type to cultural conditions in developing and developed countries. Finally, they used a field study in the international airline industry to illustrate each of the organizational types and, in particular, provide a more robust understanding of those three types that Rieger and Wong-Rieger believed were most prominent among organizations in developing countries.

¹¹⁹ Potential specialist’s activities identified and surveyed by the Aston researchers included activities to develop, legitimize and symbolize the organization’s purpose (e.g., public relations and advertising); activities to dispose of, distribute and service the output (e.g., marketing, sales and service); activities to devise new outputs, equipment and processes (e.g., research and development); activities to develop and transform human resources (e.g., training and education); and activities to acquire information on the field of organizational operations (e.g., market research). See D. Pugh, D. Hickson and the Open University Course Team, “Organizational Context and Structure in Various Cultures” in T. Weinsall (Ed.), *Societal Culture and Management* (Berlin: Walter de Gruyter, 1993), 425-435, 427.

¹²⁰ D. Pugh, D. Hickson and the Open University Course Team, “Organizational Context and Structure in Various Cultures” in T. Weinsall (Ed.), *Societal Culture and Management* (Berlin: Walter de Gruyter, 1993), 425-435, 427.

¹²¹ The Aston researchers sought data on authority to establish labor force requirements, decide the price of output, promote supervisory staff, decide buying procedures, select suppliers, invest unbudgeted cash on capital items, decide the marketing territories to be covered and alter the organizational structure (i.e., the responsibilities or areas of work of departments). See D. Pugh, D. Hickson and the Open University Course Team, “Organizational Context and Structure in Various Cultures” in T. Weinsall (Ed.), *Societal Culture and Management* (Berlin: Walter de Gruyter, 1993), 425-435, 427.

¹²² F. Rieger and D. Wong-Rieger, *Organization and Culture in Developing Countries: A Configurational Model*, in A. Jaeger and R. Kanungo, *Management in Developing Countries* 101 (1990).

After examining and analyzing a wide range of descriptive studies of organizations operating in different types of societal cultures, including both developed and developing countries, Rieger and Wong-Rieger suggested that four principal themes, or dimensions, could be identified and used to explain how societal culture influences organizational processes.¹²³ Since these dimensions were constructed from the results of research conducted using popular and influential classification schemes such as the one proposed by Hofstede the names and meanings of some of the dimensions were familiar (i.e., authority distance, power and group orientation); however, the cognitive orientation dimension identified by Rieger and Wong-Rieger was interesting for its specific focus on information processing within the organizational context. Rieger and Wong-Rieger offered the following descriptions of their four dimensions accompanied by their expectations as to how developed and developing societies would fare on measures of each of the dimensions¹²⁴:

- “Authority distance” referred to the structural nature of authority relationships within the organization and measured the amount and quality of interactions between individuals of unequal status within the organization. Among the sub-themes underlying this dimension noticed by the researchers were ascription/achievement and “ability to command”. According to the researchers organizations in which authority distance was “low” were characterized by frequent, direct and personal contacts while contacts in “high” authority distance organizations were generally infrequent and based on formal relationships. Rieger and Wong-Rieger expected that authority distance would be higher in developed societies than in developing societies.
- “Power” referred to the personal nature of authority relationships within the organization and the particular interest and the focus was on the degree to which leaders were able to affect decisions made within the organization and influence the actions taken by members of the organization. Among the sub-themes underlying this dimension noticed by the researchers were elitism and social stratification; personalism/paternalism; hierarchy, bypassing and formality norms. Rieger and Wong-Rieger expected that power would be high in developing societies and mixed in developed societies.
- “Group orientation” referred both to the manner in which individuals related to the group within the organization and the extent to which the organization relied on small face-to-face groups to set and pursue its goals and objectives. Among the sub-themes underlying this dimension noticed by the researchers were individual competitiveness; group identity; distrust of outsiders and “clientelism”. Rieger and Wong-Rieger expected that group orientation in developed and developing societies would not be materially different.
- “Cognitive orientation” referred to the cognitive approaches of decision makers within the organization and called for measurement of the use and influence of two very different methods for information processing. Among the sub-themes underlying this dimension noticed by the researchers were analysis/intuition, universalism/particularism; holism/time orientation; subjective probability estimation;

¹²³ Id.

¹²⁴ Id. at 104-106 (also includes references to relevant literature for each of the dimensions).

and “fatalism”. At one extreme, expected to be preferred among developed countries, was the “analytical” approach based on the collection, processing and analysis of hard quantitative data. At the other extreme, expected to be preferred among developing countries, was the “intuitive” approach that relied on holistic intuitive judgments based on soft qualitative data.

§5:4 --Key questions and issues for designing the organizational structure

The dimensions of organizational structure used for comparative purposes should track several key questions that organizational designers must answer about how the activities of the organization will be carried out. First, the roles and responsibilities of each member of the organization, including executives, managers and employees, must be defined. Second, a hierarchical structure of authority and power must be established in order to identify the locus for decision making within the organization. Third, channels for communication and information flow should be created through the establishment of reporting rules and procedures. Fourth, mechanisms for monitoring and controlling the activities of the members should be established. Fifth, processes for coordinating the work activities of members positioned in different parts of the organizational structure should be developed and implemented. Finally, decisions need to be made about the dimensions that should be used as a guide for grouping members of the organization to efficiently collaborate to produce the desired outputs (e.g., functional departments or product-focused business units).

Each of these basic questions comes with a myriad of sub-issues that present significant challenges for organizational designers, including the following:

- What is the appropriate degree of differentiation, both vertical and horizontal, within the organizational structure? In order to answer this question decisions must be made as to how organizational tasks will be divided and allocated (i.e., the “division of labor”) and then grouped or departmentalized. In addition, rules must be established as to how authority, control and accountability will be distributed and assigned up and down the organizational hierarchy (e.g., the “span of control”) and reporting channels should be identified to support the authority and control relationships.
- What is the appropriate balance between differentiation and integration? One of the goals for the designer with respect to differentiation is identifying the appropriate level of specialization when making decisions about division of labor. The challenge for the designer is creating and maintaining the advantages of specialization which come out of the differentiation decisions (i.e., core competencies) while ensuring that the activities of the various organizational roles are effectively coordinated and that organizational units communicate and cooperate.
- What is the appropriate level of decentralization? The key issue here is how authority to make decisions is going to be dispersed throughout the organization and is typically addressed through the use of formal guidelines.
- What is the appropriate balance between standardization and mutual adjustment? For this issue the designer needs to consider the methods that can and should be used to

monitor the way in which members of the organization actually behave while they are completing their assigned tasks and activities.

Each of these questions will need to be continuously addressed as the organization grows and changes occur in the organizational strategy and the external environment in which it is operating. For example, in small organizations it is likely that employees will perform a variety of tasks—little or no division of labor; however, in general, specialization (i.e., narrower job responsibilities) tends to increase as the organization grows. Growth also leads to changes in how jobs will be grouped or departmentalized. Traditionally departments have been formed on the basis of function-based activities (e.g., accounting jobs in the accounting department and engineers in the engineering department); however, other alternatives, such as product-, customer/market or geographic-focused departments or divisions will be the likely choices when organizations grow and expand their activities to include multiple product lines and international markets. Finally, while organizations tend to develop a decidedly vertical hierarchy, with most of the decision-making authority at the top of the organization, during their initial growth spurt many ultimately decide that decentralization and flatter hierarchies will be needed in order for the organization to retain flexibility and be responsive to rapid environmental changes.

§5:5 Typologies of organizational structure

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.¹²⁵ Later, Hofstede and others appeared with their ideas of an “implicit 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. Their suggested typology also included four types of organizational structure: the “village market”; the “well-oiled machine”; the “family” (or “tribe”); and the “traditional bureaucracy (or “pyramid of people”).¹²⁶ Other entrants in the effort to develop a typology of organizational structures have included Mintzberg, the ITIM Culture and Management Consultancy, Laurent and Rieger and Wong-Rieger.¹²⁷

¹²⁵ See D. Hickson and D. Pugh, *Management Worldwide: Distinctive Styles Amid Globalization* (2d Ed) (2001).

¹²⁶ See G. Hofstede, *Motivation, Leadership and Organization: Do American Theories Apply Abroad?*, 9 *Organization Dynamics* 42, 51-54 (1980); G. Hofstede, *Cultures and Organizations* 54 (1991); and S. Schneider and J.-L. Barsoux, *Managing Across Cultures* (2nd Ed.) (2002).

¹²⁷ See H. Mintzberg, *Structures in Fives: Designing Effective Organizations* (1983); H. Wursten, *Culture and Change Management, ITIM Culture and Management Consultancy*, <http://www.itim.org/articleonchangemanagement.pdf>; A. Laurent, *The Cultural Diversity of Western*

§5:6 --Aston project researchers

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, who are primarily known for their studies of the relationship between factors such as size, ownership and dependence on the one hand and organizational structure on the other hand, also suggested a topology of organizational structure that was initially based on their findings in Britain and other contemporary industrialized societies. Their specific intent was to shed some light on traditional assumptions regarding bureaucracy and perhaps set aside “widespread assumptions of its uniformly stifling and dreary nature”. The topology included four forms of organizational structure and was based on two key dimensions—the degree of concentration of authority and the degree of structuring activities—that facilitated a focus on the internal climate in which managers and employees carried out their day-to-day activities. Based on those dimensions, the Aston researchers suggested that firms might fit into one of the following categories¹²⁸:

- **Workflow Bureaucracies (Low Concentration of Authority/High Structuring of Activities):** Larger firms and bigger businesses were the typical candidates for a workflow bureaucracy.
- **Personnel Bureaucracies (High Concentration of Authority/Low Structuring of Activities):** The personal bureaucracy form of structure was typical for public service organizations such as local and central governments which generally were not very structured but often created and used highly concentrated authority and procedures for hiring, promoting and terminating personnel.
- **Full Bureaucracies (High Concentration of Authority/High Structuring of Activities):** The Aston researchers included smaller units within larger private or public groups as full bureaucracies.
- **Non-Bureaucracies/Implicitly Structured (Low Concentration of Authority/Low Structuring of Activities):** This group generally includes smaller firms.

The Aston researchers used case studies in developing their topology but little empirical work was performed to verify the model. The model should be used with caution with respect to making assumptions about the strategies used by, and the internal climate within, firms fall into each of the categories. For example, a “full bureaucracy” might be highly structured and concentrated yet directed by highly motivated and training young managers with a substantial appetite for risk and intent on acting flexibly to pursue and achieve innovation with respect to new technologies and products.

§5:7 --Hofstede and Stevens

Conceptions of Management, in *International Studies of Management and Organization* (Vol. XIII, Nos. 1-2, Cross-Cultural Management II: Empirical Studies 75 (Spring-Summer 1983); and F. Rieger and D. Wong-Rieger, *Organization and Culture in Developing Countries: A Configurational Model*, in A. Jaeger and R. Kanungo, *Management in Developing Countries* 101 (1990).

¹²⁸ See D. Hickson and D. Pugh, *Management Worldwide: Distinctive Styles Amid Globalization* (2d Ed) (City of Westminster, London: Penguin Books, 2001).

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.¹²⁹ 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 power distance/high uncertainty avoidance) strived for a “well-oiled machine” 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.¹³⁰ British firms (low power distance/low uncertainty avoidance) tended to opt for what was

¹²⁹ 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.

¹³⁰ 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), 42-63, 60.

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).¹³¹

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 dimensions¹³²:

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

¹³¹ 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.

¹³² S. Schneider and J.-L. Barsoux, *Managing across cultures* (2nd Ed.) (Upper Saddle River, NJ: Pearson, 2002).

This typology assumes that people have different needs and expectations with regard to the organizational structure in which they work based on the cultural background. For example, people from the countries in the Anglo and Nordic culture clusters are less concerned about risk and power distance and thus are comfortable interacting in organizations that are less hierarchical and formal and follow the “village market” model. 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. As to organizations in the Confucian Asian countries, the people in those firms expect to be treated as part of a “family” and thus accept a paternalistic owner-manager acting in a manner similar to a family patriarch.

§5:8 --Mintzberg’s preferred configurations of organizations

Mintzberg developed “preferred configurations of organizations” that could also be fit into a matrix created using the uncertainty avoidance and power distance dimensions. While his framework evolved over time, at the outset Mintzberg argued that there were five key parts to each organization¹³³: the operating core, which included the people actually doing the basic work of the organization; the strategic apex, which referred to the top management of the organization; the “middle line”, which was the hierarchy between the workers and top management (i.e., “middle management”); 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, finally, administrative support staff providing indirect, but necessary services such as clerical and maintenance. In order for the organization to run effectively, processes for coordinating the five parts mentioned above had to be developed. Mintzberg also suggested that there were five methods for coordinating the various organizational parts: mutual adjustment, which relied on communication among people in various parts of the organizational structure; direct supervision, based on hierarchical relationships; standardization of the work process (i.e., specifying the contents of the work); standardization of outputs (i.e., specifying the desired results); and standardization of skills (i.e., specifying the training that is considered necessary for proper performance of the work).

Combining the five parts and coordinating mechanisms led Mintzberg to a typology of five organization structure configurations that corresponded with the Stevens/Hofstede model described above and which also populated the uncertainty avoidance/power distance matrix:

- **Simple Structure:** The key part of the organization for this structural type was the strategic apex, or top management, and the preferred coordination mechanism was direct supervision relying heavily on centralization and the autonomous control of a strong leader. This structural type corresponded to the “family” model and was suitable for high power distance/low uncertainty avoidance societies such as China.

¹³³ The framework was initially presented and described in the early 1980s. See H. Mintzberg, *Structures in fives: designing effective organizations* (Englewood Cliffs, NJ: Prentice-Hall, 1983).

- **Machine (or Full) Bureaucracy:** The key part of the organization for this structural type was the “techno structure” and the preferred coordination mechanism was standardization of work processes. This structure type 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 workers producing low complexity products.
- **Professional Bureaucracy:** 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. This structural type 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.
- **Adhocracy:** The key part of the organization for this structural type was the support staff and the preferred coordination mechanism was mutual adjustment. This structure type 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.
- **Divisionalized Form:** The key part of the organization for this structural type was the middle line, or hierarchical structure, and the preferred coordination mechanism was standardization of outputs (i.e., products). Power and decision making was decentralized into the hands of divisional leaders pursuing their operational plans. This structure type was actually overlaid into the middle of the power distance/uncertainty avoidance matrix and associated with firms in the US.

Mintzberg argued that there are a number of factors at work in determining the configuration of an organizations including the strength (power) of various actors within the organizations; the ways in which the various parts of the organization must be coordinated; structural design parameters (i.e., the degree of job specialization, resources invested in training, formalization etc.); and contingency factors, which included not only societal cultural but also the age and size of the firm and the political and economic environment in which it operates.¹³⁴

§5:9 --ITIM Culture and Management Consultancy model

A final example of “implicit models of organization” that closely follows the principles of Stevens, Hofstede and Mintzberg and uses all of the dimensions of societal culture included in the Hofstede framework was offered by the ITIM Culture and Management Consultancy, which suggested the following list¹³⁵:

¹³⁴ Mintzberg eventually expanded his framework for describing alternative organizational structure configurations to explicitly incorporate ideology, or culture, as one of the parts of the organization and this led him to expand the number of configurations (and modify some of the descriptions) to include entrepreneurial, machine, professional, diversified, innovative, missionary and political organization. See H. Mintzberg, *Mintzberg on Management* (New York: The Free Press, 1989). For a concise discussion of Mintzberg’s framework, see S-S. Chen, “Leadership Styles and Organization Structural Configurations”, *The Journal of Human Resource and Adult Learning*, November 2006, 39-46.

¹³⁵ For further discussion, see H. Wursten, *Culture and Change Management*, ITIM Culture and Management Consultancy, <http://www.itim.org/articleonchangemanagement.pdf>

- Contest model, or “winner takes all”, used in competitive Anglo-Saxon cultures with low power distance, high individualism and masculinity and relatively low scores on uncertainty avoidance. Examples include Australia, Britain, New Zealand and the US.
- Network model, which seeks consensus based on broad participation in decision making. This model is suitable for highly individualistic and feminine societies such as the countries in Scandinavia and the Netherlands.
- Family model, 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. Examples of societies where this model would work include China, Hong Kong, India, Indonesia, Malaysia, Philippines and Singapore.
- Pyramid model, based on a combination of loyalty, hierarchy and implicit order, and suitable for collective societies with high scores on power distance and uncertainty avoidance. Examples include many of the Latin American countries, Greece, Portugal, Russia and Thailand.
- Solar system model, based on hierarchy and impersonal bureaucracy, and similar to the pyramid model yet with greater individualism. Examples include Belgium, France, Northern Italy, Spain and French-speaking Switzerland.
- Well-oiled machine model, based on order, not much hierarchy and a carefully balanced set of rules and procedures, and suitable for lower power distance and high uncertainty societies such as Austria, Germany, Czech Republic, Hungary and German-speaking Switzerland.

§5:10 --Laurent

A somewhat different approach to studying the influence of societal culture on organizational structure was the research conducted by Laurent, who surveyed upper- and mid-level managers from firms in nine European countries and the US to test the hypothesis that the national origin of managers has a significant influence on their opinions regarding what constitutes “proper management”.¹³⁶ Laurent created four dimensions—organizations as political systems; organizations as authority systems; organizations as role-formalization systems; and organizations as hierarchical-relationship systems—and found evidence that the surveyed countries did indeed differ in their relative positions on each of them. For example, France and Italy had high scores, relative to the other countries, on each of the dimensions, thus providing evidence for managerial preferences in those countries for organizations that were politicized, hierarchical, had high degrees of role formalization and were operated based on the belief of authority in individuals. In contrast, the scores of managers in Sweden reflected a dislike of hierarchical relationships and moderate attitudes with respect to the other dimensions. Danish and British managers appeared to have similar attitudes on each of the dimensions (i.e., low scores with respect to hierarchy and politicization, moderate scores on individual authority and high scores on role formalization).

¹³⁶ 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.

§5:11 --Rieger and Wong-Rieger

Rieger and Wong-Rieger went on to use their suggested dimensions to propose a framework of identifying and analyzing organizational structures based on five culturally-based organizational configurations—autocracy, political entourage, traditional bureaucracy, modern bureaucracy and consensus—that reflected different combinations of “high” and “low” measurements on four dimensions: power, authority distance, cognitive orientation, and group orientation. Summary explanations of each of these configurations offered by the researchers highlighted the following¹³⁷:

- The “autocracy” configuration featured high power, low authority distance, intuitive cognitive orientation and low group orientation and, in the words of the researchers, “[r]eflects the presence of a powerful, often entrepreneurial, leader who has the final word on all important issues and often makes unilateral decisions based on personal judgments and intuition”.¹³⁸ Autocratic organizations were not conducive to the type of employee participation often expected in developed countries and were expected to appear with greater prevalence in developing countries with a traditional of paternalistic social leadership.
- The “political entourage” configuration featured high power, high authority distance, analytical cognitive orientation and high group orientation and was characterized by “the proliferation of patron-client relationships within an established bureaucracy” and “patron-client-based small groups” (i.e., “entourages”) whose members exhibited a primary loyalty to their group and its leader rather than to the organization as a whole.¹³⁹ This configuration features a fairly high level of internal rivalry and while elements of intense politic infighting can be found in organizations around the world regardless of the level of economic development¹⁴⁰ the tendency toward slack resources and group orientation in developing countries makes it more likely that competing patrons with their own entourages will appear in organizations in those countries.
- The “traditional bureaucracy” configuration featured high power, high authority distance, analytical cognitive orientation and low group orientation and, in the words of the researchers, was “characterized by a rigid adherence to established procedures”.¹⁴¹ Traditional bureaucracies have existed for a long time and continue to be relied upon in developed and developing countries under certain conditions (e.g., mature and sometimes declining organizations in developed countries and in state-owned enterprises and joint ventures with foreign companies in developing countries).

¹³⁷ F. Rieger and D. Wong-Rieger, *Organization and Culture in Developing Countries: A Configurational Model*, in A. Jaeger and R. Kanungo, *Management in Developing Countries* 101, 107-109 (1990).

¹³⁸ *Id.* at 107.

¹³⁹ *Id.* at 108.

¹⁴⁰ See, e.g., E. Shor, *The Thai Bureaucracy*, 5 *Administrative Science Quarterly* 66 (1960); and G. Allison, *Essence of Decision* (1971).

¹⁴¹ F. Rieger and D. Wong-Rieger, *Organization and Culture in Developing Countries: A Configurational Model*, in A. Jaeger and R. Kanungo, *Management in Developing Countries* 101, 108 (1990).

- The “modern bureaucracy” configuration featured three of the characteristics associated with the “traditional bureaucracy” (i.e., high authority distance, analytic cognitive orientation and low group orientation) and reflected the gradual transition toward greater involvement of professional staff experts in decision making processes that led to a dramatic reduction on the power dimension and higher levels of cognitive orientation than those found in traditional bureaucracies. Rieger and Wong-Rieger argued that the power-sharing relationship between executives and staff members found in modern bureaucracies made that configuration more appropriate for developed countries.¹⁴²
- The “consensus” configuration was a somewhat unique model, principally seen among Japanese organizations, which featured low power, low authority distance, intuitive cognitive orientation and high group orientation). Rieger and Wong-Rieger pointed out that decision making in consensus organizations tended to be holistic, combining both analytical and intuitive methods, and conducted based on shared responsibilities throughout the organizational structure.¹⁴³

Rieger and Wong-Rieger collected their own data using interviews and unobstructed observations in international airline companies from both developed and developing countries including Brazil, Canada, Germany, Indonesia, Italy, Pakistan, Singapore and Thailand. Each of the companies were placed into the appropriate classification in the cultural configuration framework described above based on an analysis of the collected content and the level of development of the countries of their primary operation was determined based on gross national product per capita. Rieger and Wong-Rieger placed two of the companies from the most developed countries—Air Canada (Canada) and Lufthansa (Germany)—into the “modern bureaucracy” classification and noted that, in comparison to the other companies surveyed, “their most salient characteristics were their technical focus and analytical approach to operational and strategic management, the sharing of power between top executives and staff, and, support those, the professional qualification and orientation of their workforces”.¹⁴⁴ As for the companies from the developing countries they were placed into one of three of the types in the cultural configuration framework, which are discussed in more detail below: the autocracy (Garuda of Indonesia and Singapore International Airlines of Singapore¹⁴⁵), the traditional bureaucracy (Pakistan International Airlines of Pakistan) and the political entourage (Thai International of Thailand and Varig of Brazil). Rieger and Wong-Rieger also noted that the companies from the developing countries all displayed a much higher degree of personal power than what would be associated with a modern bureaucracy.

§5:12 ----Autocracies

¹⁴² Id. at 108-109.

¹⁴³ Id. at 109.

¹⁴⁴ Id.

¹⁴⁵ The researchers noted that while Singapore International Airlines was properly classified as an autocracy, due in many respects to the high expression of unfettered personal power by the chief executive officer (CEO) in that company, there were signs of a transition toward a modern bureaucracy as rapid internal commercial and technical development began to force the CEO to reduce involvement in day-to-day management and focus on strategic decisions and rely more and more on bureaucratic rules for control. Id. at 109, 112.

Garuda of Indonesia and Singapore International Airlines (SIA) of Singapore were the two companies from developing countries classified as autocracies. Specific observations of both of those companies by Rieger and Wong-Rieger noted that in both of these companies there was domination by the chief executive officers (CEOs), through personal control over most aspects of operations and strategic decision making. Both of the CEOs had close ties to, and strong support from, political leaders in their countries and this likely emboldened them in the autocratic approaches that they took and gave them extra leverage against potential internal resistance and interference from government agencies with regulatory authority over their operations. An elitist ideology prevailed in both of the countries where these companies operated and both of the CEOs clearly distrusted both their subordinates and competitors. There was evidence from the interviews within SIA that intimidation was sometimes used as a means for supervising and controlling the actions of lower staff. Rieger and Wong-Rieger believed that the specific success of both companies could be traced to both external and internal factors: internally the CEOs established and dominated lean organizational structures based on vertical flows of information and orders that allowed the companies to respond quickly to external demands; and externally the CEOs were in a position to influence the local political environment and gather strategic information that could be advantageously used in implementing operational plans.¹⁴⁶

From their earlier review of the literature and research on organizational processes in different societal culture environments, Rieger and Wong-Rieger had argued that the low power distance in autocratic organizations explained the prevalence of informal superior-subordinate communications; however, autocratic organizations were generally not able to implement effective group activities and were hampered by weak or non-existent horizontal communication flows. The researchers suggested that autocratic organizations would be most appealing and comfortable in the developing countries, particularly those countries that had a traditional of paternalistic social leadership, and in instances where the business model was relatively simple and less complex. At the same time, autocratic organizations would appear to be problematic in developed countries where employees had high expectations of participation and in situations where the business model was highly complex (e.g., technology-based) and thus required substantial amounts of continuous and clear horizontal communications.¹⁴⁷

Rieger and Wong-Rieger concluded that some of the identified advantages of the autocracy type include responsiveness to changes in the environment; effectiveness when attempting to introduce and launch new programs and strength in coping with an unstable political environment. However, the autocracy type also comes with various disadvantages such as overloading decision makers and accompanying delays; limitations on growth of the size of the organization; lack of preparation for succession; stifling of employee initiative; favoritism that undermines a sense of internal fairness within the organization; reliance on fear and coercion; and a lack of consideration for basic human rights of employees. The autocracy type works best in founder-led organizations;

¹⁴⁶ Id. at 111-114.

¹⁴⁷ Id. at 107-108.

societal cultures that accept “authoritarianism” and view leaders as heroes; and societies in which workers are generally diligent, deferential and low skilled or complacent. In fact, the autocracy may be the only practical solution for strong leaders. On the other hand, the autocracy is not likely to work well in societal cultures where group orientation is high. Key management skills associated with the autocracy type include an intuitive approach to problem solving, a good understanding of technical systems and the entire organization, strong experience and skills in areas important to the operational core of the business and a charismatic, or at least “people skilled”, personality.¹⁴⁸

Rieger and Wong-Rieger explained some of the key differences between the autocracy organizational type that Mintzberg had first described in the context of developed countries¹⁴⁹ and the form of autocracy that was likely to be much more embedded, and difficult to change, in developing countries with strong authoritarian norms. In developed countries, particularly those with democratic societal norms, it could be expected that autocratic practices would ultimately give way to new forms of organizational processes as the size and complexity of the firm grew to the point where dominating control by a single person was no longer effective operationally and no longer tolerated by the workers. On the other hand, however, Rieger and Wong-Rieger speculated that autocracy could continue indefinitely in many developing countries given its consistency with the norms of societal culture in those countries and the difficulties in changing the economic and political environments that provided the original support for establishing the autocracies. In fact, the only thing that derailed the autocratic CEO at Garuda was a debt crisis that arose out of the CEO’s drive for renewal of the company’s fleet that was so large and embarrassing to the government that the CEO was eventually forced to resign.¹⁵⁰

§5:13 ----Political entourages

Rieger and Wong-Reiger reported on the long histories of internal political activities, reinforced by group orientation in the surrounding societal culture, at Thai International in Thailand and Varig in Brazil. At Thai International there were extensive external political pressures and even an imposed bureaucratic structure; however, the political entourage type nonetheless emerged and flourished due to strong cultural norms in favor of loyalty and deference to superiors and a willingness to give greater weight to traditional relationships over bureaucratic rules and processes. For its part, Varig had experienced a relatively long period of stability under a strong CEO; however, the sudden departure of the CEO for health reasons led to strengthening on internal rivalries among functional departments staffed by employees with strong loyalties to those departments and, as a result, Varig shifted to a continuous stream of “politically negotiated decision

¹⁴⁸ Id. at 115-116.

¹⁴⁹ See, e.g., H. Mintzberg, *The Structuring of Organizations* (1979); and H. Mintzberg, *Power In and Around Organizations* (1983).

¹⁵⁰ F. Rieger and D. Wong-Rieger, *Organization and Culture in Developing Countries: A Configurational Model*, in A. Jaeger and R. Kanungo, *Management in Developing Countries* 101, 114 (1990).

making” that fortunately had enabled the company to take advantage of functional strengths in operations, marketing and service.¹⁵¹

Rieger and Wong-Rieger explained that an important, and differentiating, feature of an organizational structure driven by political entourages is the heightened sense of rivalry among the groups, often at the expense of focusing on overall organizational goals, and continuous reliance on negotiations between entourages in order to arrive at strategic decisions. Power and influence within organizations configured in this manner is constantly shifting based on factors such as the dynamism and reputation of entourage leaders, the size of their entourages and the importance of the functions carried out by their entourages. While the rivalry and confrontation associated with political entourages is often criticized in developed countries, Rieger and Wong-Rieger noted that “it appears to be accepted as an inevitable form in developing societies that share two characteristics: sufficient slack resources to permit competing patrons to develop followings within the organization and sufficient group orientation to foster the formation of an entourage around the patron”.¹⁵²

According to Rieger and Wong-Rieger the political entourage type is useful in the way that it satisfies cultural preferences for personalistic relations within a large organizational context and provides an effective defense against the threat of external political interference. However, political entourages invite drift and lack of direction due to the lack of technically competent leadership, create a danger of the organization getting bogged down in continuous rivalry and political activities and expose the organization to disruption from outside forces able to penetrate and manipulate the organization through links with sympathetic factions within the organization. The political entourage type appears to be best suited for large organizations in societies that react negatively to bureaucratic rigidity, have high group orientation and have cultural norms against overt conflict; and for societies with traditions of patron-client relations. Obviously the leader of a political entourage type organization will only be effective if he or she is able to maintain a balance among the various factions within the organization. Attempts to impose autocratic practices to manage these factions and suppress differences of opinion should be avoided in favor of patience and focus on sustainable incremental progress toward a valid, but patient, vision of the organization’s future articulated a leader with recognizable and accepted technical qualifications. Rieger and Wong-Rieger also cautioned that political entourages are more likely to fail when internal entourages do not align with the formal structure (e.g., when rival entourages extend their influence across departmental boundaries).¹⁵³

§5:14 ----Traditional bureaucracies

Traditional bureaucracies are, as the name implies, based on organizational structures, roles and processes that can be traced back to the earliest days of formal organizational

¹⁵¹ Id. at 119-121 (1990).

¹⁵² Id. at 108.

¹⁵³ Id. at 115-116, 119-122.

management that began as firms in industrialized societies began to grow rapidly.¹⁵⁴ High levels of power and authority distance are accompanied by mechanistic communications processes and the preferred decision making tools are analytic, albeit subject to occasional overriding by the personal instincts and wishes of powerful organizational leaders who can act virtually unchallenged. The circumstances underlying the traditional bureaucracy lead to the development and implementation of, and rigid adherence to, formal rules and procedures covering all aspects of organizational operations. Traditional bureaucracies are generally criticized in developed countries where there has been a clear trend toward the “modern bureaucracy” configuration; however, traditional bureaucracies appear to remain frequent and important features of organizational structuring strategies in developing countries and, in fact, Rieger and Wong-Rieger noted that “they are often found in state-owned industries, in countries that are former British colonies, or in businesses that were formed as joint venture with firms from developed countries”.¹⁵⁵

Pakistan International Airlines (PIA) of Pakistan was the developing country example of a traditional bureaucracy among the group of companies studied by Rieger and Wong-Rieger. The researchers noted that there was a strong connection between the highly politicized external environment in Pakistan and the bureaucratization found within PIA and, in fact, PIA leadership changed frequently as transitions in governmental power and/or reputation occurred. Instability of senior management at PIA was accompanied by a failure to take advantage of available engineering and management information systems, weak internal infrastructure, an excess of underemployed low-paid administrators and overall poor morale that often led to labor problems and attempts to workers to sabotage operational activities. Rieger and Wong-Rieger observed that while senior managers at PIA often complained about the undisciplined workforce and unreasonable demands of unions those same managers did little to contribute to achieving a reasonable accommodation due to their own apparent personal biases toward rigid hierarchical relationships. All in all, the traditional bureaucracy found in PIA was not surprising given the extreme environmental chaos in Pakistan, the propensity of the government to interfere in managerial matters and the cultural predisposition toward subservience and deference to superiors.¹⁵⁶

Based on their observations, Rieger and Wong-Rieger concluded that traditional bureaucracies work well for efficient production of simple products and employment of moderately skilled workers, provide equity and fairness in production and employment

¹⁵⁴ The “bureaucracy” can be traced back to the leading early organizational theorists such as German engineer and sociologist Max Weber, Frederick Winslow Taylor in the United States and Henri Fayol in France and Weber, in particular, argued for the implementation of a bureaucratic structure in which control and authority was vested in positions rather than people. In general, the common thread among these theorists was that organizations should be thought of as machines and, as a result, the preferred structural approach should be highly mechanistic and based on specialization of tasks, formal procedures and rules and centralized authority. For further discussion of the theories of Weber, Taylor, Fayol and others, see the Part on “Theory and Study of Organizations” in this Library.

¹⁵⁵ F. Rieger and D. Wong-Rieger, *Organization and Culture in Developing Countries: A Configurational Model*, in A. Jaeger and R. Kanungo, *Management in Developing Countries* 101, 108 (1990).

¹⁵⁶ *Id.* at 116-117.

and can be used, within limits, to perform an integrated set of tasks. On the other hand, however, traditional bureaucracies respond slowly to environmental changes; impose more technology and systemization on workers, a situation which sometimes provokes anger and insubordination from workers that takes the form of strikes, sabotage and sloppy workmanship; and fail to facilitate and adapt to workers' needs. Traditional bureaucracies have the best chance for success when certain circumstances prevail: relatively stable environment; simple products or services; little or no competition; state ownership or control; a large available pool of literate workers; acceptance of routine work and technology among the available workforce; at least minimal analytical orientation; achievement rather than an ascriptive culture; and an obsession with control among the management group. Management skills needed in order for a traditional bureaucracy to be effective include an analytical approach to problem solving; respect for, and attention to, details and control; and ability of managers to control their own personal needs for power and attend to personal demands of workers by striking a balance between mechanistic and personal management approach.¹⁵⁷

§5:15 ----Responding to changing demands in the task environment

Rieger and Wong-Rieger were not the first to emphasize that organizations, regardless of the level of economic development of the country in which there were operation, should seek to achieve and maintain “a ‘fit’ between organization form, local culture, and the demands of the task environment”.¹⁵⁸ This prescription does not necessarily imply that one type of organizational structure is “better” than another, it only emphasizes the need to keep both culture and task environment in mind and predicts that failure to do so can, and likely will, lead to significant problems of the type seen when companies from developed societies, such as the US, try to impose elements of their preferred and familiar modern bureaucracy type in developing societies with quite different cultural norms. Rieger and Wong-Rieger pointed out that while the characteristics of societal culture are slow to change in developing countries, or in any country for that matter, those countries are experiencing continuous and significant changes in their task environment that require ongoing assessment of whether or not changes in organizational structure must be made to accommodate new demands in that environment.

Rieger and Wong-Rieger noted that there is a danger that the need to maintain a cultural fit may constrain the options available to companies in developing countries needing to change their organizational structure to cope with their task environment; however, they suggested that three alternative approaches may be available. First of all, organizations in developing countries may attempt to adapt an imported organizational form to conform to the expectations and needs within their local societal culture. Rieger and Wong-Reiger reported that Thai International had successfully imported Scandinavia's well-established bureaucratic form through a joint venture with SAS, although the benefits seemed to hinge on the ability of Thai International to tweak the imported model to accommodate local cultural norms such as group orientation, deference based on age, conflict avoidance and interpersonal formality. A cautionary note about importation, however, was to be

¹⁵⁷ Id. at 115-119.

¹⁵⁸ Id. at 122.

found in the unsuccessful joint venture between Garuda, heavily influenced by the Indonesian government, and KLM, which was eventually dissolved and replaced by indigenous form of autocracy that was better suited to local Indonesian culture and allowed for rapid adaptation to technological changes and speedy growth.¹⁵⁹

A second strategy avoids risky importation in favor of modifying an existing indigenous structure to meet changes in the task environment caused by new technologies and/or competition. Rieger and Wong-Rieger explained how SIA sought and obtained a competitive advantage based on “extraordinary service” by taking advantage of its existing individualistic yet deferential culture forms and also selectively added key Western organizational features and processes such as strategic planning without undermining the strong authority of its CEO and/or adopting a modern bureaucracy form that might have been too far afield from local cultural values. Rieger and Wong-Rieger also noted that elements of the consensus configuration described above and generally associated with Japanese companies have been found to be readily adaptable in developing countries where new methods based on high group orientation and consensual decision making would be a culturally acceptable way to cope with new and evolving technological and competitive factors. A third strategy would be try and develop and implement an entirely new organizational form; however, Rieger and Wong-Rieger are skeptical about the viability of this approach given the intransigence of elements of societal culture and the expectation, based on their hypothesized configuration theory, that there are only a limited number of stable organizational types available to firms.¹⁶⁰

¹⁵⁹ Id. at 122-123.

¹⁶⁰ Id. at 123-124.