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The Organization in Its Environment

The beginning of administrative wisdom is the awareness that there is no one optimum type of management system.

—Tom Burns

The effective organization has integrating devices consistent with the diversity of its environment. The more diverse the environment and the more differentiated the organization, the more elaborate the integrating devices.

—Paul Lawrence and Jay Lorsch

The key to organizational survival is the ability to acquire and maintain resources.

—Jeffrey Pfeffer and Gerald R. Salancik

Efficient organizations establish mechanisms that complement their market strategy.

—Raymond E. Miles and Charles C. Snow

An ecology of organizations seeks to understand how social conditions affect the rates at which new organizations and new organizational forms arise, the rates at which organizations change forms, and the rates at which organizations and forms die out.

—Michael T. Hannan and John Freeman

Whether they like it or not, the headquarters of multinationals are in the business of multicultural management.

—Geert Hofstede

Differences in societal institutions encourage particular kinds of economic organization and discourage other ones.

—Richard Whitley

All organizations are situated in an environment, be that, for example, business, governmental, educational, or voluntary service. In this environment are other organizations and people with whom transactions have to take place. These will include suppliers, clients or customers, and competitors. In addition, more general aspects of the environment will have important effects, such as legal, technological, and ethical developments.

The writers in this section have been concerned to analyze how the need to function successfully in different environments has led organizations to adopt different structures and strategies. Tom Burns examines the effects of rapidly changing technological developments on the attempts of old established firms to adjust to new environments. Paul Lawrence and Jay

Lorsch emphasize that it is the appropriateness of an organization's structure in relation to its environmental requirements which is the basis of effectiveness.

Jeffrey Pfeffer and Gerald Salancik argue for a resource dependence perspective which sees all organizational functioning as resulting from the organization's interdependence with its environment. Raymond Miles and Charles Snow highlight the strategic choices that managements have to make to adapt to the environmental pressures they face, whereas Michael Hannan and John Freeman take an ecological and evolutionary view of the chances of organizations surviving in their particular environments.

Geert Hofstede highlights national culture as it affects management values and processes. This environmental feature is particularly important in the ever more frequent international activities of organizations. Richard Whitley examines business structures in many countries and relates them to the societal institutions in which they operate.

Tom Burns

Tom Burns (1913–2001) spent more than 30 years at the University of Edinburgh, retiring in 1981 as Professor of Sociology. His early interests were in urban sociology, and he worked with the West Midland Group on Post-War Reconstruction and Planning. While he was at Edinburgh, his particular concern was with studies of different types of organizations and their effects on communication patterns and on the activities of managers. He has also explored the relevance of different forms of organizations to changing conditions—especially to the impact of technical innovation.

In collaboration with a psychologist (G. M. Stalker), Burns has studied the attempt to introduce electronics development work into traditional Scottish firms, with a view to their entering this modern and rapidly expanding industry as the markets for their own well-established products diminished. The difficulties these firms faced in adjusting to the new situation of continuously changing technology and markets led him to describe two ideal types of management organizations, which are the extreme points of a continuum along which most organizations can be placed.

The mechanistic type of organization is adapted to relatively stable conditions. In it, the problems and tasks of management are broken down into specialisms within which each person carries out his or her assigned, precisely defined task. The hierarchy of control is clear, and the responsibility for overall knowledge and coordination rests exclusively at the top of

the hierarchy. Vertical communication and interaction (between superiors and subordinates) is emphasized, and there is an insistence on loyalty to the concern and obedience to superiors. This system corresponds quite closely to Weber's rational-legal bureaucracy (see chapter 1).

The organic (also called organismic) type of organization is adapted to unstable conditions when new and unfamiliar problems continually arise which cannot be broken down and distributed among the existing specialist roles. There is, therefore, a continual adjustment and redefinition of individual tasks, and the contributive rather than restrictive nature of specialist knowledge is emphasized. Interactions and communication (information and advice, rather than orders) may occur at any level as required by the process, and a much higher degree of commitment to the aims of the organization as a whole is generated. In this system, organizational charts laying down the exact functions and responsibilities of each individual are not found, and indeed their use may be explicitly rejected as hampering the efficient functioning of the organization.

The almost complete failure of the traditional Scottish firms to absorb electronics research and development engineers into their organizations leads Burns to doubt whether a mechanistic firm can consciously change into an organic one. This is because individuals in a mechanistic organization not only are committed to the organization as a whole but also are members of a group or department with a stable career structure and sectional interests in conflict with those of other groups. Thus, power struggles develop between established sections to obtain control of the new functions and resources. These struggles divert the organization from purposive adaptation and allow out-of-date mechanistic structures to be perpetuated and pathological systems to develop.

Pathological systems are attempts by mechanistic organizations to cope with new problems of change, innovation, and uncertainty while sticking to the formal bureaucratic structure. Burns describes three of these typical reactions. In a mechanistic organization, the normal procedure for dealing with a matter outside an individual's sphere of responsibility is to refer it to the appropriate specialist or, failing that, to a superior. In a rapidly changing situation, the need for such consultations occurs frequently, and in many instances the superior has to put the matter higher still. A heavy load of such decisions finds its way to the chief executive, and it soon becomes apparent that many decisions can only be made by going to the top. Thus, there develops the ambiguous figure system of an official hierarchy and a non-officially-recognized system of pair relationships between the chief executive and some dozens of people at different positions in the management structure. The

head of the concern is overloaded with work, and many senior managers whose status depends on the functioning of the formal system feel frustrated at being bypassed.

Some firms attempt to cope with the problems of communication by creating more branches of the bureaucratic hierarchy, for example, contract managers and liaison officers. This leads to a system described as the mechanistic jungle, in which a new job or even a whole new department may be created whose existence depends on the perpetuation of these difficulties.

The third type of pathological response is the super-personal or committee system. The committee is the traditional way of dealing with temporary problems that cannot be solved within a single individual's role without upsetting the balance of power. But as a permanent device, it is inefficient, in that it has to compete with the loyalty demanded and career structure offered by the traditional departments. This system was tried only sporadically by firms because it was disliked as being typical of inefficient governmental administration. Attempts to develop the committee as a super-person to fulfill a continuing function that no individual could carry out met with little success.

For a proper understanding of organizational functioning, Burns maintains, it is therefore always necessary to conceive of an organization as the simultaneous working of at least three social systems. The first of these is the formal authority system, derived from the aims of the organization, its technology, and its attempts to cope with its environment. This is the overt system in terms of which all discussion about decision making takes place. But organizations are also cooperative systems of people who have career aspirations and a career structure and who compete for advancement. Thus, decisions taken in the overt structure inevitably affect the differential career prospects of the members, who will therefore evaluate them in terms of the second social system—the career system—as well as the formal system, and will react accordingly. This action leads to the third social system that is part of an organization—its political system. Every organization is the scene of political activity in which individuals and departments compete and cooperate for power. Again, all decisions in the overt system are evaluated for their relative impact on the power structure, as well as for their contribution to the achievement of the organization's goals.

It is naive to consider the organization as a unitary system equated with the formal system, and to be successful any change must be acceptable in terms of the career structure and the political structure as well. This is particularly so with modern technologically based organizations that contain

qualified experts who have a career structure and a technical authority that goes far beyond the organization itself and its top management. Thus, the attempt to change from a mechanistic to an organic management structure has enormous implications for the career structure (which is much less dependent on the particular organization) and the power system (which is much more diffuse, deriving from technical knowledge as much as formal position).

Concern with the interaction of these three social systems within the organization continues in Burns's study of the British Broadcasting Corporation (the BBC). The BBC is a very segmented organization, both horizontally, where many departments (e.g., Drama, Outside Broadcasts, Finance) appear to be competing as much as cooperating, and vertically, where in order to rise in the grading structure, executives soon lose contact with the professional skills (e.g., journalism, engineering) they are supposed to administer. In this situation, the career and the political systems can become more important than the formal authority system.

Burns charts the rise in power of the central management of the BBC at the expense of the creative and professional staff, which stems from the corporation's financial pressures. He maintains that the corporation can only develop as a creative service dedicated to the public good if it is freed from its financial client relationship to the government.

"A sense of the past and the very recent past is essential to anyone who is trying to perceive the here-and-now of industrial organization." If the organizational structure is viewed as a result of a process of continuous development of the three social systems of formal organization, career structure, and political system, a study of this process will help organizations avoid traps they would otherwise fall into. Adaptation to new and changing situations is not automatic. Indeed, many factors militate against it. An important one is the existence of an organizational structure appropriate to an earlier phase of development. Another is the multifaceted nature of the commitments of organizational members—to their careers, to their departments, and to their specialist subunits. These are often stronger than their commitment to the organization as a whole.

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Paul Lawrence and Jay Lorsch

Paul Lawrence and Jay Lorsch are professorial colleagues in Organizational Behavior at the Harvard Business School. Together with many collaborators (including S. A. Allan, C. B. Carter, S. M. Davis, D. Dyer, J. Kotter, H. Lane, and J. J. Morse), they conducted a series of studies into the appropriate structure and functioning of organizations using what has become known as the organization and environment approach, described in their seminal book of that title.

Lawrence and Lorsch began their analysis with the question of why people seek to build organizations. Their answer is that organizations enable people to find better solutions to the environmental problems facing them. This explanation immediately highlights three key elements in their approach to understanding organizational behavior: (a) People, not organizations, have purposes; (b) people have to come together to coordinate their different activities into an organization; and (c) the effectiveness of an organization is judged by the adequacy with which the members' needs are satisfied through planned transactions with the environment.

To cope effectively with their external environments, organizations must develop segmented units, each of which has as its major task the problem of dealing with some aspect of the conditions outside the firm. For example, in a manufacturing firm with production, sales, and design units, the production unit deals with production equipment sources, raw materials sources, and labor markets; the sales unit faces problems with the market, the customers, and the competitors; and the design unit has to cope with technological developments, governmental regulations, and so on. This differentiation of function and task is accompanied by differences in cognitive and emotional orientation among the managers in different units, and differences, too, in the formal structure of different departments. For instance, the development department may have a long-term time horizon and a very informal structure, whereas the production department may be dealing with day-to-day problems in a rigidly formal system, with

the sales department facing the medium-term effects of competitors' advertising with moderate formality.

Even so, the organization is a system that has to be coordinated so that a state of collaboration exists to obtain for members the benefits of effective transactions with the environment. This is the required integration, and it, too, is affected by the nature of the external conditions.

The basic necessity for both appropriate differentiation and adequate integration to perform effectively in the external environment is at the core of Lawrence and Lorsch's model of organizational functioning. The approach was developed in an important study they carried out on 10 firms in three industries—plastics (6 firms), food (2 firms), and containers (2 firms)—that constituted very different environments for the enterprises concerned.

The study recognized that all the firms involved segment their environment. Each of the 10 was dealing with a market subenvironment (the task of the sales department), a techno-economic subenvironment (the task of the manufacturing unit), and a scientific subenvironment (the task of the research and development or design department). The greater the degree of uncertainty within each subenvironment and the greater the diversity between them, the greater the need of the firms to differentiate between their subunits of sales, production, and research in order to be effective in each subenvironment. For example, on one hand, in the plastics industry, which was found to have great diversity (with the science subenvironment highly uncertain but the techno-economic one relatively stable), a considerable degree of differentiation within effective firms was found. In the container industry, on the other hand, all parts of the environment were relatively certain, and so a much lower degree of differentiation was apparent.

But greater differentiation brings with it potential for greater interdepartmental conflicts as the specialist groups develop their own ways of dealing with the particular uncertainties of their own subenvironments. These differences are not just minor variations in outlook; they may involve fundamental ways of thinking and behaving. In the plastics industry, a sales manager may be discussing a potential new product in terms of whether it will perform in the customers' machinery, whether they will pay the cost, and whether it can be released onto the market in 3 months' time. The research scientist, at the same meeting, may be thinking about whether the molecular structure of the material could be changed without affecting its stability and whether doing this would open a line of research for the next 2 years that would be more interesting than other projects. These two specialists not only think differently but also dress differently, have different habits of

punctuality, and so on. It becomes crucial, therefore, that a highly differentiated firm should have appropriate methods of integration and conflict resolution if it is to perform well in the environment.

Table 2.1 lists the integrative devices that were found to be operating in three high-performing organizations, one from each of the industries studied. The top row gives the rating for the degree of differentiation. The need to operate effectively in the plastics environment led the firm to develop a high degree of differentiation, the container firm had the lowest differentiation, and the food firm was in between.

Each of these firms used a different combination of devices for achieving integration. All of them, to some extent, used the traditional methods of paper systems, the formal managerial hierarchy, and direct managerial contact between members of the different departments. For the container firm, with the least differentiation, these methods were sufficient; but in the food firm, which had a greater need for integration, temporary teams made

Table 2.1 Comparison of Integrative Devices in Three High-Performing Organizations

	Plastics	*Food*	*Container*
Degree of differentiation	*10.7*	*8.0*	*5.7*
Major integrative devices	(1) Integrative department	(1) Individual integrators	(1) Direct managerial contact
	(2) Permanent cross-functional teams at three levels of management	(2) Temporary cross-functional teams	(2) Managerial hierarchy
	(3) Direct managerial contact	(3) Direct anagerial contact	(3) Paper system
	(4) Managerial hierarchy	(4) Managerial hierarchy	
	(5) Paper system	(5) Paper system	

SOURCE: Lawrence and Lorsch (1967).

up of specialists from the units involved were set up to deal with any particularly urgent issue. Managers within functional departments were also assigned integrating roles, such as that of liaison officer. Clearly, the effective food firm was devoting more time and effort to integrating activity.

The plastics organization had, in addition, established a special department, one of whose primary activities was integration. It also had an elaborate set of permanent integrating teams, each made up of members from the various functional units and the integrating department. The purpose of these teams was to provide a formal setting in which interdepartmental conflicts, such as the one described above between the sales manager and the research scientist, could be resolved with the help of an integrator. The effective plastics firms drew on the whole range of integrative devices and needed to do so because its necessary differentiation was so high.

The appropriateness of the three-way relationships among the uncertainty and diversity of the environment, the degree of organizational differentiation, and the state of integration and conflict resolution achieved will lead to effective functioning. Inadequacy in any of these relationships was associated with lower performance. Thus, for example, the high performers in the plastics and food industry had both greater differentiation and greater integration than the low performers because both were required. By contrast, in the low-performing container organization, no evidence was found that the integrating unit it possessed was serving a useful purpose, given its low level of differentiation.

Effective conflict resolution, which is the behavioral basis of integration, was found to have a pattern in which interunit conflict is dealt with by managers working in a problem-solving mode to face the issues and work through to the best overall solution—rather than smoothing over the issues to avoid conflict or letting the party with the greater power force its solution on others. It was also found that, in dealing with conflict effectively, the people primarily involved in achieving integration (whether they be superiors in the line hierarchy or persons appointed specifically to coordinating roles) need to have their authority based not just on their formal position but largely on their knowledge of and competence on the issues as perceived by all the groups involved, together with a balanced orientation between the parties. The power and influence to make decisions leading to the resolution of conflict must, therefore, be located at the points where the knowledge to reach such decisions also exists.

The Lawrence and Lorsch framework, by emphasizing that the appropriate organizational structure will depend on the environmental demands, takes a contingency approach, rejecting the formulation that one particular

structural form (e.g., bureaucracy; see Weber, chapter 1) or one particular motivational approach (e.g., Theory Y; see Likert & McGregor, chapter 4) is always best. Appropriateness is the key.

Lorsch and Morse, in a further study, compared two manufacturing plants (one high-performing, one low-performing) with two research laboratories (similarly high and low performers). The organizational structures and processes of the high-performing manufacturer in a relatively certain environment were high formality, short time-horizon, and highly directive management. The people working in this organization were found to have low cognitive complexity, low tolerance for ambiguity, and dependence in authority relationships. The high-performing research laboratory in a relatively uncertain environment had low formality, long time-horizons, and high participation. Its members had high cognitive complexity, high tolerance for ambiguity, and independence in authority relationships. Yet both organizations were effective because they were appropriately organized with appropriate members for their environmental tasks. Indeed, the less effective organization in each pair did not show most of the distinctive characteristics of structure and process to the same degree; however, the characteristics of the members were as clearly differentiated as in the successful organizations. The less effective organizations, it seems, could obtain the appropriate people but could not organize them in the appropriate way. But equally, in other cases, failure could be a result of having inappropriate people even though they were appropriately organized.

In a later study of seven major U.S. industries, including those of steel, agriculture, hospitals, and telecommunication, Lawrence and Dyer developed the competitive principle. This principle maintains that an industry needs to experience an appropriate degree of vigorous competition in its environment if it is to be economically strong. Either too little or too much competition will lead to inefficient and noninnovative performance. They argue for the setting up of a governmental agency to monitor the competitive pressures in each industry and thus determine whether the pressures need to be increased or reduced.

Carter and Lorsch have examined the workings of boards of directors. They suggest ways in which the board can be made to be more effective. It is not enough just to get good independent people—who are difficult to come by, anyway. Thought needs to be given as to what the objectives of the board should be, what structure it and its committees should take, and which aspect each independent director should focus on. Otherwise, the common feeling of senior executives that external members do not understand the business and are a waste of time will not be overcome.

The analysis of matrix organizations has been a particular concern of Davis and Lawrence. Matrix organization structures are those with a multiple command system—many managers having two bosses. For example, finance managers would have a finance director to whom they would be responsible for professional standards and who would be concerned with their career development and promotion. In addition, each of the finance managers would also report to a project director to whom they would be responsible for giving the appropriate cost accounting services needed for their current project and who would therefore be in charge of the day-to-day work allocation. Clearly, this form of structure violates Fayol's principle of unity of command (see chapter 3), and its greater complexity would be the preferred structure only in certain situations: (a) when several highly salient sectors (e.g., products, markets, functions) are simultaneously necessary for goal achievement; (b) when the tasks are uncertain, complex, and interdependent; and (c) when there is a need to realize economies by using scarce resources effectively. In these circumstances, the need is for complex differentiation and integration via the matrix mode.

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Jeffrey Pfeffer and Gerald R. Salancik

Jeffrey Pfeffer is Professor at the Stanford University Graduate School of Business, California. The late Gerald Salancik (1943–1996) was at Carnegie-Mellon University, Pittsburgh. Pfeffer and Salancik contend that organizations should be understood in terms of their interdependence with their environments. They advocate a resource dependence perspective. For example, explaining discontent among the employees of a fast-food chain in terms of poor human relations and poor pay is irrelevant if

the organization can draw on a pool of easily recruited youthful labor; and because its competitors can do so, too, the organization is not going to incur the costs of better human relations and pay.

Organizations are not self-directed and autonomous. They need resources, including money, materials, personnel, and information, and to get these they must interact with others who control the resources. This interaction involves them in a constant struggle for autonomy as they confront external constraints. They become quasi-markets in which influence is bartered not only between internal sections but also between those sections or subunits and external interests.

Interdependence with others lies in the availability of resources and the demand for them. It is of many kinds—for instance, the direct dependence of a seller organization on its customers, and the indirect dependence on each other of two seller organizations, not in mutual contact, via a set of potential customers for whom they compete.

Three conditions define how dependent an organization is. First is the importance of a resource to it. This is a combination of the magnitude of that resource—in other words, the proportion of inputs and outputs accounted for by the resource—and of its criticality, best revealed by how severe the consequences would be if it were not available. Second is how much discretion those who control a resource have over its allocation and use. If they have completely free access to it and can make the rules about it, then an organization that needs it can be put in a highly dependent position. Third is how far those who control a resource have a monopoly of it. Can an organization that needs it find an alternative source or a substitute? Thus, "The potential for one organization's influencing another derives from its discretionary control over resources needed by that other and the other's dependence on the resource and lack of countervailing resources or access to alternative sources." Because the others on whom an organization depends may not be dependable, its effectiveness is indicated more by how well it balances these dependencies than by internal measures of efficiency of a financial or similar nature.

To Pfeffer and Salancik, the possible strategies that an organization may use to balance its dependencies are of four kinds:

1. It may adapt to or alter external constraints.
2. It may alter the interdependencies by merger, diversification, or growth.
3. It may negotiate its environment by interlocking directorships or joint ventures with other organizations or by other associations.
4. It may change the legality or legitimacy of its environment by political action.

The first kind of strategy—adapting to or altering external constraints—may be carried out in numerous ways. An organization can pay sequential attention (see March, chapter 3) to the demands made on it, attending first to one and then to another, as, in turn, they become more pressing. For example, for a time, customers may take priority, and then attention may switch to financial economies required by owners or lenders. An organization can play one interest against another (e.g., blaming different unions for current difficulties). It can influence the formulation of demands (e.g., by advertising); it can claim that it cannot comply because of, say, legal restrictions; and it can minimize its dependence by stocks of materials or money.

Merging, diversifying, and growing are each ways of pursuing the second kind of strategy—altering the interdependent relationships. Mergers do this by bringing control of critical resources within one organization, stabilizing the exchange of which they are part. They may be backward, sideways, or forward, incorporating suppliers, competitors, or purchasers. Diversification shifts and widens the interdependencies in which an organization is enmeshed, extricating it from overdependence in any one field. Growth in size increases the power of an organization relative to others and makes more others interested in its survival. Size has been found to improve stability more than profitability.

Negotiating the environment, the third kind of strategy, is a more common strategy than total absorption by merger. Interlocking directorships whereby boards include members of the boards of other organizations, cartels to control supplies, trade agreements, memberships in trade associations and coordinating industry councils and advisory bodies, joint ventures in which two or more organizations work together, and the like are commonplace. Such links help keep the participating organizations informed about what is happening outside themselves and ensure mutual commitment. Normative expectations about what each other will do build up, making each more sure of the other's reliability.

Finally, if none of the other strategies is open to them, organizations resort to the fourth strategy—political action. They endeavor to obtain and sustain favorable taxation, tariffs, subsidies, or licensing of themselves or their members (e.g., as where the practice of medicine or law is restricted to defined categories of qualified people), or they charge others with violating regulations (as when competitors are accused of prohibited monopolistic arrangements). Political activity by organizations that give to political party funds, that lobby members of legislatures, and that are represented on governmental and related agencies and councils is constant.

Indeed, if the level of state regulation is high, the decisions of lawmakers and governmental agencies become more important to an organization than those of its customers or clients.

How are the effects of the environment, with whose elements an organization is interdependent, transmitted to that organization? It is generally accepted that environments affect organizations, but how that happens is not made explicit. Pfeffer and Salancik suggest that one means is executive succession, that is, the removal of executives and their replacement by others. Through this method, the environment influences the political processes within organizations from which action emerges.

Pfeffer and Salancik's argument has three causal steps. In the first step, changes in which sectors of the environment are uncertain and in which sectors are less so mold the pattern of power in an organization. This molding occurs as posited by the strategic contingencies theory of intraorganizational power formulated by Hickson, Hinings, and their colleagues (see Hickson, chapter 1). According to this theory, those sections or subunits of organizations most able to cope with what is uncertain in an organization (e.g., a marketing department smoothing out erratic fluctuations in orders by shrewdly timed advertising, a maintenance department keeping production flowing by skilled attention to breakdowns) gain power, subject to two conditions: (a) They must be nonsubstitutable (no one else can do what they do), and (b) they must be central (many others in the organization are affected by what they do, and the organization's main outputs would be affected immediately if they ceased to do it).

In the second step, the resulting distribution of power then affects the choice of top personnel. As Pfeffer and Salancik put it, "We view administrative succession as a political process of contested capability, where the contest is resolved by sub-unit power." The tendency is to blame top management for difficulties, the counterpart to top management's own tendency to take credit for successes in a world over which they have limited control. So, they tend to be removed if things go badly, and who is removed and who replaces them follows the perceptions of the powerful as to who can best cope with the perceived uncertain dependencies.

The third step is that once executives and administrators are appointed, they can and do influence the main directive decisions. Although their control over their world is limited, it is sufficient to shape decisions. They take part in what Child has called strategic choice (see Child, chapter 1), which delineates the intended future course of their organization. They enact an environment, acting according to how they see it and trying to change it to their organization's advantage. Furthermore, changes in top personnel

permit movement between organizations, and this can be a tacit means of coordination. The managers of one organization know the managers in another.

Top managements are especially concerned with (a) scanning the environment to find out what is happening and what may happen, (b) loosening dependencies so that the organization does not become too dependent on any one or few others, and (c) managing conflicting external demands. It has been fashionable to forecast that the environment they face will become more and more dispersed and turbulent, but Pfeffer and Salancik do not agree. They foresee "an increasingly inter-connected environment in which power is increasingly concentrated." Although they write in terms of the U.S. variant of the capitalist system, their resource dependence perspective generalizes beyond that.

In later work, Charles O'Reilly (a colleague at Stanford) and Pfeffer argue that there is a common thread in the approach of many successful companies—they unlock the hidden value in all their employees. They do not expect to buy in their needs for personnel as they buy in their needs for other resources. Instead, they operate a people-centered value system, which establishes a sense of purpose among all employees. The senior mangers put the emphasis on leading rather than just managing, so the employees are motivated to develop and achieve.

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Raymond E. Miles and Charles C. Snow

Raymond Miles and Charles Snow are both professors in U.S. business schools. Miles is Emeritus Professor of Business Administration at the University of California, Berkeley. He has studied and advised a wide variety of organizations in the public and private sectors. Snow is Professor of Organizational Behavior at Pennsylvania State University.

Miles and Snow ask how and why organizations differ in strategy, structure, technology, and administration. Why do some offer a broad

range of products or services and others a narrower range? Why are some structured around functional specialisms and others around product lines or services? Why are some more centralized, others more decentralized? For Miles and Snow, the answer is the need for an organization to align with its environment.

To align organization and environment successfully, management has to solve three problems, and solve them continuously: the entrepreneurial, engineering, and administrative problems. The entrepreneurial problem is to choose a general market domain, or field of operation, in which the organization can be viable; to specify the precise target market; and to decide on the right products or services for it. Solving this problem, however, requires also solving the engineering problem, taking the word *engineering* in a wide sense. Ways of making the products or of offering the services have to be found. Technologies must be appropriate. Then, the administrative problem is to organize and manage the work. The aim should be an effective adaptive cycle. This means the entrepreneurial, engineering, and administrative problems are tackled in coherent, mutually complementary ways that enable the organization as a whole to survive.

In studies of a variety of kinds of organizations, Miles and Snow named four types of adaptation strategies pursued by organizations: Defenders, Prospectors, Analyzers, and Reactors. Defenders and Prospectors are at opposite ends of the continuum of possible strategies. Analyzers are somewhere in between, with some features of both. Each of these three types has its own typical solutions to the entrepreneurial, engineering, and administrative problems. Reactors are different again. They seem unable to pursue consistently any of the other three types of strategy, reacting to events in an inconsistent way.

The first type, the Defenders, choose to solve the entrepreneurial problem by aiming at a narrow and stable domain. They set themselves to sustain a prominent position in a narrow market segment, competing on quality and/or price to keep a particular clientele satisfied. They grow cautiously, step by step, by deeper penetration of this limited market. They reap the benefits of familiarity with it and with what they are doing, but they tend to miss new developments because their managerial personnel have a restricted range of external contacts. They risk being caught by a major market shift to which they cannot adapt quickly enough.

Defenders are inclined to concentrate mostly on their engineering problem. Solving it is the key to their success. They succeed by being cost-efficient in doing what they know how to do well. They concentrate on improving quality control, production scheduling, materials handling and

inventory control, distribution, and the like. They buffer their core technology from external disturbance, as Thompson would put it, by carrying stocks of supplies and of products so that, although there may be ups and downs in stocks, the production work itself can proceed steadily. Buffering may be helped through vertical integration with other organizations, that is, by mutual ownership or contracts that ensure supplies and orders. Although a Defender may work efficiently, however, here again is a risk. It may be a long time before the investment in technology pays off.

The Defender-type approach leads to a typical solution to the administrative problem. Efficient supplying of a limited clientele requires relatively centralized support. Instructions flow down from the top and reports and explanations flow upward via a "long-looped vertical information system." A central array of specialist departments, such as accounting and sales and personnel, administer a range of formalized documented procedures, such as budget returns, work schedules, and stock listings. Together with the chief executive, the crucial finance and production functions dominate the centralized system. As always, there are risks. Although the system is orderly, novel opportunities may pass it by.

A Defender strategy has been pursued successfully by a food company in Northern California described by Miles and Snow. It has stayed within a speciality market for dried fruits and fruit juices. Beginning just by growing these fruits, it met competition by extending into processing the fruit for consumption. This work has been mechanized, costs of growing fruit have been held down, and a small team specializes in improving quality. Control is centralized on the president and the heads of field operations, sales, and finance, and higher-than-average wages ensure a stable labor force. The firm has a long-term coherence of entrepreneurial, engineering, and administrative solutions.

The second type, Prospectors, the opposite to the Defenders, aim to find and exploit new opportunities. They stress "doing the right things" rather than "doing things right," as Defenders do. They may value a reputation for innovation more than they value profitability. Solving the entrepreneurial problem in this way requires keeping in touch with trends and events across a wide field of view. A variety of individuals and sections in the organization brings in news of current happenings, not necessarily only the more obvious ones, such as the market research or research and development departments. Growth comes from new products or services and from new markets rather than from deeper penetration of the same market, as with a Defender. It is likely to occur in spurts rather than gradually

as opportunities are successfully taken up. The gain to Prospectors from being open to fresh possibilities has to be balanced against the risks. In their case, these are, respectively, that they may not be fully efficient in any one activity and that they may overextend themselves by taking on too much without sufficient recompense.

Their enterprising approach to the entrepreneurial problem requires a flexible solution to the engineering problem, so they use a variety of technologies. They do many things at once and can switch between them. Each line of work can be built up or discontinued fairly readily. There has to be trial-and-error work on prototypes. The gain is a flexible workforce; the cost is the difficulties of coordinating such a diversity of differing activity.

These solutions to the entrepreneurial and engineering problems are accompanied by a typical solution to the administrative problem. In the case of a Prospector, the administrative problem is how to facilitate all this activity rather than how to control it. How can resources be deployed effectively without impeding the work by imposing inappropriately rigid central control?

The answer is to plan broadly but not in detail. Skilled personnel can be relied on to know their jobs without detailed overseeing from the top. Small groups are gathered in project teams or task forces to work on new initiatives, and these, together with easy lateral contact between departments, create short horizontal feedback loops. In other words, lines of communication are comparatively short. People can communicate quickly with anyone else they need to contact without having to go to the top first. The structure is comparatively decentralized, and the marketing and research and development functions are more influential than in a Defender. The advantage of this administrative solution overall is that it can respond rapidly to change; but, inevitably, there are risks. Some attempts to launch new products or services will be wasteful failures, costly in capital and in the time of highly paid personnel.

Miles and Snow exemplify the Prospector strategy by the success of an electronics corporation. This huge enterprise, with 30,000 employees, makes and sells an extensive range of equipment, including small computers and calculators, electric meters, and electrical testing equipment. Its entrepreneurial strategy is to keep one step ahead. It frequently launches new products with novelty value that fetch high prices. By the time prices fall, either the firm can manufacture cheaply just as its competitors have learned to, or another new launch is ready. Teams of scientists and engineers work on new possibilities, backed by the powerful marketing function whenever a new

product is ready. The tendency is to create relatively autonomous divisions in each new product area. The company has a widely active and decentralized entrepreneurial, engineering, and administrative pattern, quite different from the focused, centralized Defender pattern.

Analyzers attempt to achieve some of the strengths of both Defenders and Prospectors. They try to balance the minimizing of risk and the maximizing of profits. Their solution to the entrepreneurial problem is a mixture of stable and changing products and markets. Their stable activities generate earnings sufficient to enable them to move into innovative areas already opened up by Prospectors, who have taken the early risks. The Analyzer is a follower of change, not an initiator.

Because Analyzers have something of both the Defender and the Prospector entrepreneurial solutions, they are likely to have something of both engineering solutions. They are likely to have a dual technical core, that is, the work will be partly stable and routinized, partly shifting, as new products are accepted and put into production quickly without the prolonged experimentation that a Prospector has to do. This combined solution to the engineering problem demands a corresponding dual administrative solution. There is both detailed control of stable lines and broad planning of innovations. Production and marketing both are influential because they are critical to getting new products into production. There are both central functional specialisms and also autonomous self-contained product groups.

Among examples of Analyzers, Miles and Snow cite a medium-sized U.S. general hospital. After many years of stability as a Defender, it underwent a series of changes. These were intended to enable it to offer new services already offered by more innovative hospitals while still sustaining its traditional, relatively conventional patient care. This change in solution to its entrepreneurial problem required it to move toward Prospector-type engineering and administrative solutions. While retaining existing medical technology, it acquired modern diagnostic equipment and the technical and medical staff to go with it. Administratively, its previous unitary structure was broken down into three semiautonomous divisions, one of which contained all the new diagnostic services and clinics. It succeeded in following others into this kind of work and in attracting a fresh range of low-income patients while keeping its established high-income clientele.

Defenders, Prospectors, and Analyzers have viable strategies, but Reactors do not. They are an unstable form. They fail to achieve or hold to an appropriate defending, prospecting, or analyzing strategy. As a result,

they are liable merely to react to change and to do so in ways that are both inconsistent and inappropriate, so they perform poorly. This makes them hesitant over what to do next. There are many possible reasons for this condition; Miles and Snow give examples of three. First, perhaps the strategy is not articulated, so that managers are not fully aware of it, as when a strategy pursued successfully by a firm's founder died with him and left the managers in disarray, not knowing what to do without him. Second, perhaps even though there is a recognized strategy, the technology and the structure do not fit it, as when a publishing firm aspired to an Analyzer strategy but could not separate its stable lines of work, which needed careful central control, from its changing lines, which needed scope for trial and error. Third, perhaps both strategy and structure persist inappositely, as when a foods firm clung to its long-established Defender strategy and structure even though declining profitability in a changing market pointed to the need for change.

Miles and Snow also identify a market-matrix form of organization, which pursues mixed strategies with mixed structures. Some organizations, such as conglomerates, multinational corporations, aerospace firms, and certain educational institutions have matrix sections, where lines of authority deliberately intersect or double up—for instance, where a department head also has responsibility for a major innovative project. In a further step, such a project manager has to bargain internally, market-fashion, for resources and for skilled personnel, the personnel having to be "purchased" from existing departments. So, new complex structures arise to fit complex tasks.

Miles and Snow intend their typology to help managers determine what kind of strategy to pursue and what kind of structure to achieve it. They present a diagnostic checklist of questions on an organization's present and potential strategies to use for this purpose. Their later work emphasises that the major task facing large organizations is that of maintaining the capacity for innovation. They advocate alliances of collaborative business networks, which would enable the smaller participating units to be entrepreneurial.

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Michael T. Hannan and John Freeman

Michael T. Hannan and John Freeman are both American social scientists; Hannan at Stanford University, California, and Freeman at the University of California at Berkeley. Freeman is a former editor of the journal *Administrative Science Quarterly.*

It has been the shared aim of Hannan and Freeman to lift the view taken of organizations to a wider perspective. They have done this by looking at organizations much as a bioecologist or naturalist looks at animal life. They see populations of organizations surviving, thriving, or declining in particular environments, just as populations of, say, rabbits survive or thrive in a particular ecological situation but die out in another. Just as the understanding of wildlife has been enhanced by the study of ecology, so can the understanding of organizations be enhanced. The wider ecological perspective goes beyond the problems each organization alone has in coping with the environment, to see an organization as one of a population of organizations that coexists with or competes with other populations of organizations. The environment of each organization consists mainly of other organizations, so the existence of each is bound up with that of its own kind and of other kinds—hence, the population ecology of organizations.

Societies engage in many kinds of activities, and many kinds of service and manufacturing organizations are available to do these activities. Why this many, and why does the number of kinds rise and fall? This question is the same as, Why are there so many species of animals? For both organizations and animals, population ecology explains the replacement of outmoded forms by new forms.

Indeed, the ability of a whole society to keep up with change depends on the development of new forms of organization. If a society contains many differing forms of organization, then there is a good chance that one or more of these may fit some new circumstances that arise. These new circumstances can then be taken advantage of quickly. If a society has comparatively few forms of organization, the society has to adapt to change by modifying one

or more of these or by creating a new form; the latter takes longer. So, a society that already has among its hospitals some that specialize in advanced surgery can readily add on heart transplant techniques; but if it has only a uniform range of general hospitals that deal with the most common and inexpensively treated ailments, it has more difficulty in doing so.

This view assumes that populations of organizations evolve much as populations of biological species evolve. Those that fit their situation survive and thrive, and those that do not die out. This is a Darwinian evolutionary position. It argues that change takes place more by the growth of new forms of organizations than by the intended reform of existing ones. Many theorists have pointed out that change in an organization is largely uncontrolled. Although its management may believe that they are making changes according to plan, what happens is more haphazard than that. Differing views, unreliable information, and unforeseen eventualities make it uncertain whether they will get what they want, even if they know what they want (see March, chapter 3). Therefore, a Darwinian explanation that some forms fit the situation and prosper whereas others fail to fit and so decline is more tenable than supposing that managements succeed in deliberately redesigning existing organizations to bring them up to date. Burns describes an example of this. Several well-established firms in Britain were unable to change sufficiently to move into the new field of electronics even though they were offered every encouragement to do so. Their form of organization was too fixed.

The evolution of populations of organizations is not necessarily a steady process. It is more likely that there are periods of rapid change as new forms are tried out, interspersed with comparative stability during which existing forms persist. This explanation would match contemporary views of biological evolution that regard it as *punctuated equilibria*—long periods of comparatively balanced stability broken by shorter spasms of change. U.S. labor unions did not grow steadily in number. Spurts of activity occurred at the end of the 19th century, again after World War I, and again in the 1930s, when many new unions were founded. Between these peaks, relatively few new ones appeared.

Hannan and Freeman concentrate on the density within each population, that is, the number of organizations of a particular form. The density of a population is determined by how many organizations come and go. In other words, it is determined by how many are newly founded or come in from elsewhere and by how many cease to exist or leave to do something different.

Density has limits. Each niche in an environment can support a population density up to the limit of the carrying capacity of that niche. When the resources of a niche are exhausted, density can rise no farther, that is, when competition for money and supplies and customers (or whatever else is needed) reaches an unsustainable level, some organizations will be squeezed out. This is analogous to what happens to wildlife when numbers become too great. Those who study wildlife regard a niche for animals as "the set of environmental conditions within which a population can grow or at least sustain its numbers." In the niches inhabited by organizations, too, there is only room for so many.

Given these assumptions about organizations, Hannan and Freeman consider first how fast new organizations in a population are founded (the rate of founding) and then how fast they die out (the rate of disbanding). Consider founding. The fact that there is a growing number of a particular form of organization relative to the capacity of an environmental niche does not necessarily stop new entrants. Indeed, Hannan and Freeman contend that, at first, the rate of founding increases as density increases. The more there are, the more new ones attempt to get in. This push occurs because a higher density means more of that form of organization are around, so people become accustomed to them. Their existence is less likely to be questioned. They acquire greater legitimacy, as labor unions did after precarious early years when their right to exist was challenged. Furthermore, the rate of new foundings may increase as total numbers grow because there are more and more people who have experience in how to set up such an organization. The know-how is available.

But there comes that level at which the niche can take no more—the level at which some are being squeezed out and then launching new ones is no longer attractive. Then, the rate of founding falls. So, Hannan and Freeman argue, as the total number of organizations of a given form grows, first there are more new entrants and then there are fewer, because "density increases legitimacy at a decreasing rate" but "increases competition at an increasing rate." If foundings are plotted against density, an inverted U-shaped curve should result.

This is shown in the United States in populations of organizations as different as labor unions, newspapers, and semiconductor electronics firms. The history of unions and newspapers shows the pattern of first a rise and then a fall in foundings, while total numbers (density) increase; this pattern originated far back in the 19th century. Electronics is a much more recent and volatile population of the mid–20th century. Here, density

increased rapidly as firms rushed to join this new industry, and so competition forced the rate of entry to the industry down much more quickly than was the case with the unions and newspapers.

Disbanding, or mortality, is held to be the other way around. As the total number of organizations in a population grows, first fewer disbandings occur, and then more. Of course, the number of disbandings—the fatalities in a population through closures or withdrawals from the field—may actually start quite high for the same reason that foundings start low: because legitimacy and know-how are hard to get when few of a kind exist. But the rate of disbandings soon drops as survival becomes easier, and so there are fewer and fewer disbandings, and more and more survivors. Once again, however, when density reaches a level where the niche can support no more, the trend changes. It swings around from a falling rate of disbandings to an increasing rate. Competition forces organizations out, and the number of disbandings begins to rise and may continue to as long as density goes on rising.

Plotting disbandings against density should produce a U-shape. So indeed it did for the unions, newspapers, and electronics populations. The rate of disbanding dropped sharply for all three as their total number increased, and then rose again under the pressure of competition. But the force of competitive pressure appeared to differ. It seemed weakest for newspapers, stronger for electronics firms, and strongest for unions. Unions squeezed each other out more and more once the critical density of union population was reached. The existence of a large number of craft unions, with members from the same occupations in many industries, seemed especially detrimental to industrial unions with members from many occupations in a single industry, for as the density of craft unions rose, so too did the disbanding of industrial unions.

Disbandings are also influenced by age and size of the organization. Hannan and Freeman do not agree with assertions that modern organizations are (or should be) in a state of constant flux and innovation. As they see it, organizations persist because of their reliability in outputs of goods and services and their accountability for the use of resources, each of which increases with institutionalization and stability. So, the stability of age improves the chances of survival, despite the inertia that aging can bring. Fewer disbandings occur in populations of older organizations. Older unions and older firms are less likely to close down or merge than are younger ones.

Growth, too, improves the chances. Although bigger organizations similarly may have greater structural inertia, they have the resources to

withstand shocks from their environments. "Small organizations are more likely than large ones to attempt change, but are more likely to disappear in the process."

Within populations, subpopulations are found to respond differently to different environmental niche conditions. Thus, among both restaurants and semiconductor firms, generalists (with a relatively wide range of services or products) are found to do better under variable conditions. Specialists (with a narrower range) do better in stable cyclical conditions, called *coarse-grained environments* (where there are known long-term business cycles). In further work, Hannan and his colleague Glenn Carroll show that these characteristics also apply to other niches. These include the U.S. brewing and banking industries and the population of newspapers in both Argentina and Ireland.

As applied to organizations by Hannan and Freeman, population ecology theory questions the usefulness of the efforts commonly made to reform existing organizations as managements attempt to keep up with change. It implies that populations or organizations change more effectively by selection and replacement than by adaptation. To effect change, start a new organization!

Here, population ecology theory becomes practical because, potentially, it can show whether "the dice are loaded for or against a particular way of doing business." There is no best form of organization, but many forms for many niches.

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Geert Hofstede

Geert Hofstede is a social psychologist who, until his retirement, was Professor of Organizational Anthropology and International Management at

the University of Maastricht, the Netherlands, and Director of the Institute for Research on Intercultural Cooperation there. In the early 1970s, he and his colleagues carried out a major systematic study of work-related attitudes. The study was based on two questionnaire surveys that produced more than 116,000 questionnaires from more than 70 countries; it was by far the largest organizationally based study ever to have been carried out.

Those respondents whose replies Hofstede used for research purposes were all sales and service employees of subsidiaries of IBM, a U.S.-based multinational corporation that operates in most countries. Within the sales and service function, all types of employees were surveyed—for example, sales clerks, professional engineers, and top managers—by using the language of each country. Twenty different language versions of the questionnaire had to be made. The IBM employees represented well-matched subsets from each country: same company, job, and education, but different nationalities. National cultural differences found within the company, therefore, are likely to be a conservative estimate of those existing within the countries at large. The survey was repeated after 4 years with stable results, underlining the cultural nature of the differences found.

Hofstede identifies four basic dimensions of the differences between national cultures—power-distance, uncertainty-avoidance, individualism, and masculinity—based on the 40 larger subsidiaries on which the first analyses were made. Each of the national cultures can be positioned from high to low on each of the four scales and thus has a distinctive cultural profile.

The power-distance dimension is concerned with how close or how distant subordinates feel from their superiors. This is not physical distance, but how big the personal gap is felt to be. In a high power-distance culture (e.g., France, India), being a boss means exerting power and keeping that gap open. Inequality is accepted: "a place for everyone and everyone in his place." So, employees are frequently reluctant to express disagreement with their boss and prefer to work for a manager who makes the decisions—and takes the responsibility—and then simply tells them what to do.

In a low power-distance culture (e.g., Austria, Israel), superiors and subordinates consider each other to be colleagues, and both believe that inequalities in society should be minimized. So, those in power should try to look less powerful than they are. Employees are seldom afraid to disagree, and they expect to be consulted before decisions are made.

The uncertainty-avoidance dimension is the ease with which the culture copes with novelty. In strong uncertainty-avoidance cultures (e.g., Japan, Greece), people feel the need for clarity and order. They feel threatened by

uncertain situations, and high anxiety and stress are experienced. This experience is combated by hard work, career stability, and intolerance of deviancy. Thus, employees believe that company rules should not be broken—even when it is shown to be in the company's best interest—and look forward to continue working with the firm until they retire.

In a weak uncertainty-avoidance culture (e.g., Denmark, Hong Kong), the uncertainty inherent in life is more easily accepted, and each day is taken as it comes. A very pragmatic view is taken about keeping or changing the existing rules, and employees expect to be working for the firm for much shorter periods.

The individualism dimension focuses on the degree to which the culture encourages individual, as opposed to collectivist, group-centered concerns. In an individualist culture (e.g., the United States, Britain), the emphasis is on personal initiative and achievement, and everyone has the right to a private life and opinion. By contrast, a collectivist culture (e.g., Iran, Peru) is characterized by a tighter social framework, in which people are members of extended families or clans that protect them in exchange for loyalty. Careers are pursued to increase standing in the family by being able to help its other members. The emphasis is on belonging, and the aim is to be a good member, whereas in the individualist culture, the ideal is to be a good leader.

The masculinity dimension highlights masculine cultures (e.g., Australia, Italy), in which performance is what counts. Money and material standards are important; ambition is the driving force. Big and fast are beautiful; machismo is sexy. In contrast, in feminine cultures (e.g., the Netherlands, Sweden), the quality of life is what matters. People and the environment are important, service provides the motivation, small is beautiful, and unisex is attractive. The expected relationship of men to women differs considerably along this dimension. In masculine cultures, the sex roles are clearly differentiated. Men should be assertive, dominating; women should be caring, nurturing. In feminine cultures, the sex roles are more flexible, and there is a belief in equality between the sexes. It is not unmasculine for a man to take a caring role, for example.

Equipped with measurements that locate the 40 cultures along the four dimensions, Hofstede then offers a set of cultural maps of the world. Two points should be remembered in interpreting the results. The first point is that countries spread along the whole of each of the four dimensions, not only at the extremes. So, cultures are not only masculine like Italy or feminine like Sweden. Many countries are in between; for example, Belgium is

exactly in the center, Britain is on the masculine side, and France is on the feminine side.

The second point is that the position of a culture along a dimension is based on the averages for all the respondents in that particular country. Characterizing a national work culture does not mean that every person in the nation has all the characteristics ascribed to that culture; there are bound to be many individual variations. For example, many Japanese are risk takers, and many from Hong Kong avoid uncertainty; many Indians have low power-distance values, and many Israelis have high power-distance attitudes. What these scales are doing is describing the common values of the central core of the culture that come about through the collective mental programming of a number of people (a tribe, a nation, or a national minority) who are conditioned by the same life experience and the same education. Although this commonality will not make everybody the same, a country's nationals do share a cultural character—which is indeed more clearly visible to foreigners than to themselves.

Table 2.2 gives a classification of the nations grouped by cultural similarity according to the statistical technique of cluster analysis. They fall into eight areas. Because a culture's work-related values are so distinctive and different, it is to be expected that its organizational processes and behavior would be so, too. So, Hofstede argues very strongly that we should not expect the same conceptions and prescriptions about management to be appropriate for all culture areas.

Some years later, Hofstede joined Michael Bond, a Canadian social psychologist working in Hong Kong, in research that added a fifth dimension to the previous four. Bond, realizing that most questionnaires have questions devised by Westerners, as did Hofstede's IBM surveys, investigated what would happen if the questions were developed by Asians. He asked Chinese social scientists in Hong Kong and Taiwan to define some Chinese cultural values. From these, a questionnaire was made up in Chinese and then translated into English and other languages—the other way around from the usual practice. The questionnaire was given to matched sets of students in different countries, East and West.

The most compelling finding was that three of the dimensions obtained were compatible with those found previously. Power-distance, individualism, and masculinity again differentiated among the national groups. The most distinctive finding was that a new dimension replaced Hofstede's (possibly Western-biased) uncertainty-avoidance. It distinguishes cultures in which persistence, thrift, and a firm status order in

Table 2.2 Country Clusters and Their Characteristics

I: More developed Latin	**III: More developed Asian**
high power-distance	medium power-distance high uncertainty-avoidance
high uncertainty-avoidance	medium individualism
medium to high individualism	high masculinity
medium masculinity	JAPAN
BELGIUM	
FRANCE	
ARGENTINA BRAZIL	
SPAIN	
(ITALY)	
II: Less developed Latin	**IV: Less developed Asian**
high power-distance	high power-distance
high uncertainty-avoidance	low to medium uncertainty-avoidance low individualism
low individualism	medium masculinity
whole range on masculinity	PAKISTAN
COLOMBIA	TAIWAN
MEXICO	THAILAND
VENEZUELA	HONG KONG
CHILE	INDIA
PERU	PHILIPPINES
PORTUGAL	SINGAPORE

V: Near Eastern

high power-distance

high uncertainty-avoidance

low individualism

medium masculinity

GREECE

IRAN

TURKEY (YUGOSLAVIA)

VI: Germanic

low power-distance

medium to high uncertainty-avoidance medium individualism

medium to high masculinity

AUSTRIA

ISRAEL

GERMANY

SWITZERLAND

VII: Anglo

low to medium power-distance

low to medium uncertainty-avoidance high individualism

high masculinity

AUSTRALIA

CANADA

BRITAIN

IRELAND

NEW ZEALAND

UNITED STATES

(SOUTH AFRICA)

VIII: Nordic

low power-distance

low to medium uncertainty-avoidance medium to high individualism

low masculinity

DENMARK

FINLAND

NETHERLANDS

NORWAY

SWEDEN

SOURCE: Adapted from Hofstede, G., *Culture's Consequences,* copyright © 1980.

society, plus a keen sense of shame, are much more important than are respect for tradition, saving face socially, personal steadiness, and mutual honoring of favors and gifts. Insofar as what is most important is more forward-looking, Bond called this Eastern-oriented characteristic *Confucian dynamism.* Hofstede subsequently preferred to refer to it as long-term versus short-term orientation.

Remarkably, all the most vigorous Asian economies—Japan, Taiwan, South Korea, Hong Kong, Singapore, and China—were high in Confucian dynamism (i.e., had a long-term orientation). Could this element in the cultures of their peoples partly explain their economic success, much as the so-called Protestant work ethic of earlier centuries in the West has been held to partly explain the industrial revolution (see Weber, chapter 1)?

Hofstede illustrates the difficulties of applying management practices insensitively in very different cultures by what befell a U.S. idea when attempts were made to introduce it elsewhere. Management by objectives (MBO) started in the United States and has had most success there, particularly in situations in which the manager's results can be objectively measured.

Why is this so? MBO requires that

- subordinates are sufficiently independent to negotiate meaningfully with the boss (low power-distance);
- both are willing to take some risks—the boss in delegating power, the subordinate in accepting responsibility (low uncertainty-avoidance);
- the subordinate is personally willing to "have a go" and make a mark (high individualism); and
- both regard performance and results achieved as important (high masculinity).

This is the Anglo work culture pattern, as Table 2.2 shows.

But how would MBO work out in other culture areas? For example, the Germanic culture area has low power-distance, which fits, as does the results orientation of high masculinity. The Germanic group, however, is high on uncertainty-avoidance, which would work against the risk taking and ambiguity involved in the Anglo process. But the idea of replacing the arbitrary authority of the boss with the impersonal authority of mutually agreed objectives fits well in this culture. This is, indeed, the way MBO has developed in Germany, emphasizing the need to develop procedures of a more participative kind. The German name for MBO is "management by joint goal

setting," and elaborate formal systems have been developed. Also, great stress is put on team objectives (as opposed to the individual emphasis in the Anglo culture), and this fits in with the lower individualism of this culture area.

The More Developed Latin group, as represented by France, has high power-distance and high uncertainty-avoidance—completely the opposite to the Anglo group—so MBO is bound to encounter difficulties there. It did gain some popularity in France for a time, but it was not sustained. The problem was that, in a high power-distance culture, attempting to substitute the personal authority of the boss for self-monitored objectives is bound to generate anxiety. The boss does not delegate easily and will not stop short-circuiting intermediate hierarchical levels if necessary—and subordinates will expect this to happen and to be told what to do. And in a high uncertainty-avoidance culture, anxiety will be alleviated by sticking to the old ways.

Cultural differences, then, have an important impact on how organizations function, and manufacturing cars or treating the sick will call for different structures and processes in France, Japan, or Britain. So, it is important even for international organizations to have a dominant national culture to fall back on (e.g., as the American or Japanese multinationals). Organizations without a home culture, in which the key decision makers can come from any country (e.g., the United Nations Educational, Scientific, and Cultural Organization [UNESCO], the European Commission), find it very difficult to function effectively because of this lack. It is less of a problem for the political part of such organizations because negotiation between representatives is their task. But for the administrative apparatus, where the members represent not their countries but the organization as a whole, it is crippling—and most such "culture-less" organizations are inefficient and wasteful.

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Richard Whitley

For many years, Richard Whitley has been Professor of Organizational Sociology at the Manchester Business School, England. His first research work was on the sociology of how the natural and social sciences are organized and controlled. His current extensive work examines business structures in many countries and relates them to the societal institutions in which they operate.

Whitley argues that despite globalization, divergent forms of capitalistic enterprises are persisting, arising as they do from differing national social and economic systems. The prevailing institutions in each society shape how capital and skills are owned and used; they shape, therefore, the kind of capitalism that results. So globalization is not obliterating national differences. The idea that a single form of capitalism will override all others is rejected and a comparison made of the various kinds of firms and business systems that have arisen in different countries, using what he terms the comparative business systems approach.

A business system is the aggregate of the relationships between all those institutions involved in business transactions. These include: providers and users of capital, customers and suppliers, competitors, firms in different sectors, and employers and employees. How all these do, or do not, interact makes up the system. Thus, owner control can be direct, as in owner-managed firms, or be delegated by shareholders to managers. Between customer and supplier firms there can be one-off market bargains or more cooperative arrangements with mutual obligations to buy and supply over an indefinite period. Competitors may be adversarial or collaborative in, say, negotiations with unions. Firms in different industries make differing kinds of alliances. Between employers and employees there can be out-and-out conflicts, forms of cooperation (as in German employee representation), or interdependence in which each relies on the other (as with long-term core workers in Japan). The resultant varying patterns of control and coordination typify different business systems.

Whitley identifies six such business systems, each in the institutional setting that fosters it. They are: fragmented, coordinated industrial districts, compartmentalized, state organized, collaborative, and highly coordinated.

In a fragmented system, small owner-managed firms compete in adversarial mode, making short-term contracts with both suppliers and customers. Commitment to these suppliers and contractors, and to employees, is low. Hong Kong exemplified this when small Chinese-owned firms

moved rapidly from making plastic flowers to toys to property development as markets changed. Such a system develops in low-trust cultures where confidence in other firms, sources of funds, or public regulation is lacking and the state is, at best, neutral.

Small owner-managed firms also feature in coordinated industrial districts, but there is greater employer-employee commitment and firms are often linked in production chains where part-finished goods are passed on to another with mutual confidence. This kind of localized business system is exemplified in various European regions, such as in the industrial districts of northern Italy. It develops where local governments, banks, and unions work with craftsmen entrepreneurs to moderate competition and promote a quality reputation.

A compartmentalized business system is composed of much larger units with diversified activities over different production chains and markets. Collaboration between these firms is minimal, as is employer-employee commitment. Owner control is not managerial but financial, at arm's length. Firms are islands of controlled activity amid market disorder. The state arranges the minimum regulation needed by fluid impersonal financial and labor markets. In such a relatively impoverished institutional infrastructure, relationships are typically adversarial. A prime example is the United States.

This is in sharp contrast to state-organized business systems. Although in these there is a similar domination by widespread large firms, the firms are usually directly personally controlled by families or partners, who are supported by the state with cheap credit and probably a protected domestic market. With firms dependent on state agencies and officials, the state can closely guide economic development. This institutional context and form of business system is the basis for the growth of the *chaebol* business form of South Korea.

Where large firms have more alliances and other forms of cooperation, usually within a market sector rather than across sectors, collaborative business systems arise. There is greater employer-employee interdependence and reliance on trained and trusted skilled workers. The state provides a supportive institutional framework and usually protective market regulation for this kind of system, which is typical for countries on the European continent.

In highly coordinated business systems, the activities of firms are coordinated by state involvement as well as by interfirm alliances. In addition, financial institutions such as banks, which provide most of the capital, are

effectively locked in to firms by their investments and so play a part in major decisions. The links of both with the state give rise to a corporatist form of mutual coordination, which includes strong unions that join in regulating labor markets to encourage employer investment in employee skills. There is paternalism as well as contractual authority. This kind of business system developed in post–World War II Japan.

Having described the six kinds of business systems that are likely in different institutional settings—the part played by the state (or not played, as the case may be) being especially significant—Whitley identifies the kinds of firms that are likely in such settings. He names five types: the opportunistic, the artisanal, the isolated hierarchy, the cooperative hierarchy, and the allied hierarchy. There is no one-to-one correspondence between business system and type of firm, but certain business systems are most likely to give rise to particular types of firms. The business system broadly indicates what type of firm to expect, even though many actual firms may not accord exactly with the characteristic type.

In a highly adversarial environment—where the state stands back, market regulation is minimal and unions are weak, and there is little trust in formal institutions—the first type of firm, the opportunistic, is likely. The owners of such firms take advantage of the unfettered situation to seize any business opportunity that may increase their personal wealth. The Chinese family businesses which have flourished in Asia in fragmented business systems outside Communist China are characteristic of this type.

A more supportive environment is more likely to give rise to artisanal firms. In this relatively trusting environment, the state, nationally or locally, fosters interfirm cooperation in financing and marketing, with public systems of worker training and some domestic market protection. This kind of situation, found in Denmark and in the coordinated industrial districts of Italy, has resulted in firms where highly skilled artisans turn out high-quality and innovative products.

An adversarial rather than supportive environment is not necessarily inhabited only by opportunistic firms. If there is confidence in financial institutions and the legal framework, then isolated hierarchy firms are more likely. Owner control is merely financial and aims at short-term returns, and manager-worker relationships are impersonally market-based. This sort of firm is commonplace in the compartmentalized business systems of the Anglo-Saxon economies.

Cooperative hierarchy firms are characteristic where the state itself supports interfirm relationships. It may protectively regulate markets and back

financial credit. The firms that develop share their risks by collaborating with banks and competitor firms, improve employee skills, and aim for stable growth rather than immediate profitability. These are the firms of collaborative business systems, as in some European nations such as Germany.

Finally, allied hierarchy firms develop where institutions encourage links between them. Allied through industry associations, cartels, mutual shareholdings, and state coordination of investment in new technology in protected markets, such firms are even more interdependent than are cooperative hierarchy firms. Unions are enterprise-based rather than representative of occupations across firms so that management can deploy employees flexibly. Such firms are typical of the highly coordinated business systems in Japan.

Whitley has used the comparative business systems approach to analyze in detail the institutional settings of a number of regions, such as Asia and Eastern Europe, and to explore the concomitant business systems they engender. For example, in examining East Asia, he compares South Korea and Taiwan.

Just as there are many varieties of Western capitalism, there are varieties of Asian capitalism as well. The identifying feature of the South Korean business system is the chaebol, as mentioned earlier. The names of leading chaebol such as Daewoo, Hyundai, and Samsung are familiar worldwide. They are large, widely diversified corporations which have grown rapidly to dominate Korean business and exports. They are mostly family-owned and personally controlled, with senior positions being held by family members or trusted personal associates. It is said that for three decades the founder of Samsung was present at every interviewing of candidates for jobs—many thousands of interviews, all told. This demonstrates, in an extreme way, the patriarchal, not to say authoritarian, control from the top. Relationships between chaebol are competitive, and they dominate their relatively small supplier and customer firms. In the Korean business system, employer-employee relations lack trust and commitment, at least compared to what they can be like in another Asian country, Japan.

By comparison, while the Taiwanese business system also has large dominant corporations, they are not the same in either ownership or activity. They are state-owned and concentrated in the basic industries of power, petroleum, mining, chemicals, steel and engineering, banks, and insurance. There is thus state ownership of capital-intensive industry and financial institutions. Beyond that there are the comparatively small family-owned-and-run firms typical of Chinese business in the many countries outside

mainland China where they flourish—opportunistic firms, as Whitley calls them. Among these, interfirm business links usually rest on personal relationships with other family members, school fellows, and the like.

So the South Korean and Taiwanese systems are very similar in this prevalence of the patrimonial family and low trust outside its networks, but where they differ most obviously is in the role of the state. The South Korean state has protected the chaebol and acquiesced in their domination of the smaller firms, whereas the state in Taiwan directly owns the large corporations but then leaves greater freedom in the rest of the economy.

These characteristics of the two national systems are not accidental. They are due to past and present institutional features in the two societies. In both preindustrial Korea and preindustrial China (then including Taiwan), the position of the family and its head was paramount. The consonant patriarchal and authoritarian rule through the centuries was reinforced by long periods of Japanese colonial rule, ending with World War II. Hence the similarly assertive governance of both countries and the state control of organized labor, together with the family ownership of business.

However, at the end of the 1950s war, South Korea lost such industry as there was to Communist North Korea. The military-backed regime in the South, fearful of the Communist North, supported the family-controlled chaebol as the means to fast industrialization. What happened in Taiwan, however, was different. The Kuomintang party rulers of China, finally defeated by Communist armies in 1948, fled to the island. They became a superimposed outsider military regime which kept direct control of the principal industries for fear of armed attack from without or within and was relatively aloof from native Taiwanese business.

Thus, both the divergences and similarities between South Korea and Taiwan can be explained in terms of institutional histories. Their business systems continue to be distinctive despite the increased volume of their international trade and foreign investment.

South Korea and Taiwan are just two examples of differences in business systems around the globe which challenge the facile view of globalization. Whitley is skeptical about the impact of globalization on business systems. He rejects the view that a new global economy based on global capital markets and transnational firms is transcending national economies and national firms and leading to greater uniformity in business systems in firms and management everywhere. He points out that international trade (and competition) has not increased in the way it is widely supposed to have done. Although its volume has increased absolutely, it has

not increased as a proportion of total economic activity as measured by gross domestic product (GDP). Most Western economies are no more dependent on external trade now than they were a century ago. The same is true for foreign direct investment (FDI). For most richer countries, this is no greater a proportion of total investment than it was then and remains relatively small, even though it too has increased in absolute terms. And like investors who hold mainly domestic securities, most firms, even when they do go outside their own national boundaries, primarily prefer to operate close to home, no farther than neighboring countries.

Nor are all businesses readily homing in on a uniform best practice. When attempts are made to imitate what is seen as best practice in foreign competitors, this usually has to be modified considerably to fit into the domestic situation, which therefore remains distinctive. Multinational corporations (MNCs) could be the main agencies of converging change, but even their impact is limited. They are often holding companies controlling subsidiaries by financial targets as much as or more than by direct management. Differing local practices therefore continue within them. In the reverse direction, these local ways rarely get transferred back to the MNC home corporation to erode its distinctiveness because they do not fit. National business systems are fundamental in this and affect the outcome. For example, the chance that Japanese firms can install their management practices in their subsidiaries in the compartmentalized and weakly coordinated business system in Britain is much higher than any chance British firms might have of transferring their practices into the highly coordinated Japanese system.

Even in the European Union, where there are considerable attempts to establish supranational regulations of, say, competition and employment, these have not yet resulted in distinctive transnational European firms different from nationally based ones. An exception to this general argument that Whitley recognizes is where investment in a newly industrializing country, such as those in Southeast Asia or Africa, is predominantly from a former colonial power. This does take with it the business system and management typical of that power, which are already familiar to the erstwhile colony.

But basically, there is a marked tenacity of national institutional arrangements and national business systems. Though firms do alter when they go international, these are unlikely to be radical changes. Even if adaptations do occur, they will be different in different institutional settings. Hence, "Globalization has been less significant in its scale and consequences than

some enthusiasts have claimed." Because societies are significantly different, so then are their capitalist operations, and so will they continue to be.

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