Organizational Studies: Theory and Practice

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ORGANIZATIONAL STUDIES

THEORY AND PRACTICE

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Organizational Studies
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About the Author

This Work was written by Alan S. Gutterman, whose prolific output of practical guidance and tools for legal and financial professionals, managers, entrepreneurs and investors has made him one of the best-selling individual authors in the global legal publishing marketplace. His cornerstone work, *Business Transactions Solution*, is an online-only product available and featured on Thomson Reuters' Westlaw, the world's largest legal content platform, which includes almost 200 book-length modules covering the entire lifecycle of a business. Alan has also authored or edited over 100 books on sustainable entrepreneurship, leadership and management, business law and transactions, international law and business and technology management for a number of publishers including Thomson Reuters, Practical Law, Kluwer, Aspatore, Oxford, Quorum, ABA Press, Aspen, Sweet & Maxwell, Euromoney, Business Expert Press, Harvard Business Publishing, CCH and BNA. Alan has extensive experience as a partner and senior counsel with internationally recognized law firms counseling small and large business enterprises in the areas of general corporate and securities matters, venture capital, mergers and acquisitions, international law and transactions, strategic business alliances, technology transfers and intellectual property, and has also held senior management positions with several technology-based businesses including service as the chief legal officer of a leading international distributor of IT products headquartered in Silicon Valley and as the chief operating officer of an emerging broadband media company. He has been an adjunct faculty member at several colleges and universities, including Berkeley Law, Golden Gate University, Hastings College of Law, Santa Clara University and the University of San Francisco, teaching classes on corporate finance, venture capital, corporate governance, Japanese business law and law and economic development. He has also launched and oversees projects relating to promoting the civil and human rights of older persons and a human rights-based approach to entrepreneurship. He received his A.B., M.B.A., and J.D. from the University of California at Berkeley, a D.B.A. from Golden Gate University, and a Ph. D. from the University of Cambridge. For more information about Alan and his activities, please contact him directly at alangutterman@gmail.com, follow him on LinkedIn, subscribe to his newsletters (Older Persons' Rights Project and Entrepreneurship | Human Rights) and visit his personal website. Many of Alan's research papers and other publications are also available through SSRN and Google Scholar.

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Preface

An organization is any group of people with a common objective. Simply put, two or more people may band together to form an organization because they determine that working together is a more effective means for creating value than if each of them continued to work separately. While a good deal of focus is placed on situations where the members have come together to pursue for-profit business activities, the term "organization" is broad enough to include all associations, institution, companies and other groups that have been formed and are being operated for a specific purpose. This Work provides a brief introduction to the theory and study of organizations, sometimes referred to as organizational studies. The field of organizational studies is based on pursuing a better understanding of the structured processes that emerge within organizations to guide how the members interact with one another to pursue their mutually agreed goals and objectives. Among the key topics covered in this Work are popular definitions of the term "organizations" and theories regarding the purposes of organizations; how organizations create value for the members of the organization and society as a whole; descriptions of the various internal and external stakeholders of an organization, including a review of their contributions and expectations; the fundamental elements of organizational management, including structure, culture, design and environmental factors; an overview of the academic foundations for organizational studies; a description of some of the key determinants of organizational effectiveness; and an introduction to popular methods for measuring organizational effectiveness. This Work includes an extensive discussion of the important "culture-free/culture-bound debate" which has been succinctly summarized as follows: "[d]o countries at approximately the same stage of industrial development, and having similar industrial structures, adopt the same approach to the organization and management of their institutions? Or are their distinctive cultural heritages sufficiently entrenched to mean that each society fashions its own unique administrative philosophy?" The Work identifies and describes various typologies of organizational structures that have been suggested for use in making comparisons across national or culture borders. The Work also included the author's other work on related topics including the purpose of organizations, organizational stakeholders, measurement of organizational performance and effectiveness, organizations and networks and organizational development and change.

Chapter 1
Definitions and Purposes of Organizations

Definitions of Organization

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

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

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

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

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

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

Reasons for Existence of Organizations

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

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[2] I.M. Kirzner, Competition and Entrepreneurship (Chicago: University of Chicago Press, 1973

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

organizational culture, to define and enforce its expectations regarding the way in which members act toward one another and other stakeholders.

Organizations and Value Creation

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

Value Creation at the Input Stage

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

Value Creation at the Conversion Stage

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

Value Creation at the Output Stage

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

Complete and Partial Organizations

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

The Complete and Partial Organization Framework

Sustainable entrepreneurs should use the five elements of the framework of "complete" and "partial" organization proposed by Ahrne and Brunsson (i.e., membership,

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[3] G. Ahrne and N. Brunsson, "Organization outside organizations: The significance of partial organization", Organization, 18(1) (2011), 83.

hierarchy, rules, monitoring and sanctions) to create guidelines for relationships with initial employees—skills and anticipated contributions, behaviors, property rights, communications, authority, standards and rewards—and generate ideas for accessing and integrating valuable knowledge and other support from outside their organizations.

Much of the research on organizational design and structure has traditionally focused on what happens inside the boundaries of formal organizations[4], such as corporations, that possess all five of the above-mentioned elements and thus could be characterized as "complete" organizations[5]:

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

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

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

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

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

[8] Id. at 655.

[9] Id.

using other formal and informal mechanisms including "standard operating procedures" and contracts.[10]

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

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

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

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[10] Id.
[11] Id. at 653.
[12] Id..
[13] W. Coleman, "Associational governance in a globalizing world: Weathering the storm", in J. R. Hollingsworth and R. Boyer ((Eds.), Contemporary capitalism: The embeddedness of institutions (Cambridge: Cambridge University Press. 1997), 127.

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

In Practice: Using the Complete and Partial Organization Framework

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

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

- What is to be the preferred "identity" of the company and what skills and personal characteristics among the executives, managers, employees and contractors of the company will be needed in order to achieve that identity? There is arguably no more important task for the founders than making sure that the composition of the company's "membership" is aligned with its business and social purposes.
- What formal and informal rules will be needed in order for the company to perform its activities smoothly and for managers and employees to understand their scope of authority and to whom they are accountable? In spite of the talk about, and popularity of, "flat organizations", some degree of hierarchy will emerge in every company; however, the process can be managed to some degree by paying careful attention to how each new member of the company fits into the hierarchy that already exists and the structure that the founders have in mind for the future.
- Sustainable entrepreneurship often involves an explicit or implicit promise to "break all the rules" or "throw the old rules out"; however, companies will not be effective in the long run in achieving their economic and social goals without some guidelines for organizing their day-to-day activities. As they ponder some of the questions posed above, particularly what type of identify they hope to create for their businesses, founders should create a simple set of standards that can be explained to new members and continuously referred to as a source of guidance for expected and responsible behavior.
- While monitoring in larger organizations is often focused on compliance, the founders of a new company should be more concerned with monitoring as a communications and feedback tool. While the founders are certainly interested in making sure that their initial standards for behavior are being observed, the launch phase is an important time for the founders to proactively seeking feedback from members on what is working and not working and collecting ideas from the members as to how best to organize the company.
- While their web of standards will generally be relatively modest, founders must nonetheless consider appropriate incentives and rewards for following and achieving those standards and consider and explain the consequences of failing to fulfill the standards. When the company is very small, the founders can and should personally discuss rewards and negative sanctions with each new member as part of the process of explaining the specific role that they member is expected to have in developing

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

the company's skills and pursuing the company's initial economic, technological and social milestones.

It is important to remember that while an organization is "complete" because the founders, as the organizers, have the ability to draw upon on all five elements as they design their companies, there are no hard and fast rules as to the extent to which each of the elements are deployed and/or the overall balance of the elements in the organization design and, in fact, the mix can and should change as the company evolves and new organizational tasks and priorities are identified. All of this suggests that while companies may eventually need or want formal and legalistic contracts with their employees that cover various aspects of the employment relationship, including an understanding of ownership rights in the company's intellectual property, the wiser course for the first few weeks or months should be a clear and simple exchange of expectations regarding skills and contributions (i.e., where the new member "fits" into the organization today and in the future), behaviors, property rights, communications, authority, standards and rewards that gets the relationship and the company moving forward in the desired direction.

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

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

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

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

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

Organizational Stakeholders

Organizations exist in order to create value for various groups that have an interest or stake in the activities and performance of the organization. These groups are often referred to as the "stakeholders" of the organization. These stakeholders provide different types of inputs, or contributions, to the organization with the expectation that their contributions will be converted or transformed into outputs that are sufficient to reward the stakeholders for their investment of tangible and intangible resources in the organization. Assuming that the stakeholders are able to realize a satisfactory return on their investment the expectation would be that they would continue to support the organization. However, if the stakeholders are disappointed in what they receive from their involvement with the organization they will likely attempt to exert pressure on the way that the organization is operated or perhaps even withdraw their support altogether. Since there is a wide array of contributions that stakeholders might make, as well as significant variation in their expectations regarding returns on their investment, the managers of an organization face a real challenge in balancing the needs of the stakeholders of the organization.[15]

Internal Stakeholders

It is useful to distinguish between two classes of organizational stakeholders—internal and external. Assuming the organization is a business operating as a corporation, the internal stakeholders generally include the shareholders ("owners") of the corporation, the directors of the corporation, the managers of the business operated by the corporation, and the employees of the corporation. In addition, separate consideration should be given

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

to the interests and influence of the members of the core group who originally identify a "need" that is being underserved and who believe that they have the necessary skills, knowledge and access to resources to create and manage an organization that can ultimately produce the products or services that can satisfy the need. These pathfinders are often referred to as the "founders" of the organization and while they may be found in other internal stakeholder categories such as owner, director and/or managers their influence on the structure and culture of the organization is substantial. In fact, founders play a critical role in the initial trajectory of the organization by virtue of the fact that they typically seek to grow the organization by identifying new members that share common interests and beliefs and provide complimentary resources.

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

External Stakeholders

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

Reconciling the Goals and Objectives of Stakeholder Groups

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

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

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

The bottom line is that the executives of any organization, acting under the watch and stewardship of the board of directors or other oversight body, need to continuously make difficult decisions regarding the allocation of value created by the operational activities of the organization. This requires a keen understanding of what motivates each of the stakeholders to enter into a relationship with the organization and the specific requirements of those stakeholders with regard to their investment of time, skills, capital and other tangible and intangible assets. It also requires that the directors and senior managers give serious consideration to the types of incentives they are willing to offer to prospective stakeholders. For example, what quantitative and qualitative incentives should be provided to employees to induce them to stay with the organization and make a positive contribution toward innovative activities? The answer is generally far from simple and may require a delicate mix of bonuses, stock options, challenging work assignments and organizational stability. With respect to outside investors the rewards package will usually include both dividends and long-term stock appreciation. Senior executives of large corporations often realize significant bonuses if the business does well; however, a case can be made that a large portion of these bonuses should actually be distributed among all of the employees.

Chapter 2
Fundamental Elements of Organizational Management

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

Organizational Structure

The term "organizational structure" refers to the formal systems and procedures that an organization establishes in order to define the tasks of its members and the authority relationships that have been created and formalized in order to control and coordinate the activities of the members and the way in which the resources of the organization are used in order to achieve its goals and objectives.[16] The decisions that are made regarding organizational structure will obviously have a direct and substantial impact on the how the members in the organization act and the types of experiences that the members will have on a day-to-day basis as they complete their tasks. Organizational structure is determined by many factors; however, the most important influences are the external environment in which the organization operates, the technology that is used by the organization to produce its goods and services and for communications among members, and the human resources of the organization. The structure of an organization is not static and fixed and should be constantly monitored and realigned as environmental conditions change and the organization grows and looks to further differentiate the activities of its members.

Organizational structure is created through a process of organizational design. Organizational theory has been around for a long time and there has hardly been a uniformity of views with respect to how organizations should be viewed, studied and structured. When management theorists speak of organizational structure they are referring to how a variety of managerial issues are addressed in establishing and operating the organization—the degree and type of horizontal and vertical differentiation;

[16] A. Etzioni, Modern Organizations (Upper Saddle River, NJ: Prentice Hall, 1964).

the methods selected for coordinating and controlling the activities of the members of the organization; the level of reliance on formal rules and procedures; and the balance struck between autonomy and centralization of authority. Classical management theorists, such as Taylor, Fayol and Weber, believed that it was possible to identify the best way to structure all organizations; however, modern management theorists have abandoned this notion and recognize that organizational structure must be tailored to the specific attributes of the organization particularly its size, the technology involved in the activities of the organization and, of course, the demands of particular environment in which the organization has elected to operate. This modern perspective is generally referred to as "contingency theory."

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

- A "pre-bureaucratic" structure is commonly associated with smaller organizations that have yet to reach the point where tasks have been standardized. In general the structure is completely centralized with all important decisions being made by a strategic leader, such as the founder of an entrepreneurial venture, which are then conveyed to members in one-to-one conversations. This type of structure is best suited for situations where the founder seeks full control over the development of the organization.
- A "bureaucratic" structure evolves when an organization begins to grow, its activities become more complex and standardization of some type is necessary in order for the organization to operate efficiently. A bureaucratic structure is often referred to as "mechanistic" and distinguished from an "organic" structure in which members are given more latitude to determine how to perform their specific tasks and activities.
- A "functional" structure organizes members and activities in accordance with specified skills and places them into separate units referred to as functions, such as research and development, sales and marketing, manufacturing, finance and human resources. A functional structure is often selected in the early stages of development of a business organization since there is usually on one key product at that point and it is important ensure that each product unit meets or exceeds specified performance criteria and that production and sale proceeds efficiently. A functional structure permits rapid refinement of necessary skills; however, problems often arise due to difficulties in facilitating communications between functions and the lack of flexibility that may be needed in order to quickly adapt to market and environmental changes.
- A "product" structure organizes members and activities around a specific product or groups of related products and each product unit would have its own dedicated set of functional resources to work only on the products that have been allocated to the unit. A product structure generally emerges in response to growth of the organization and the problems associated with trying to have functional units work on multiple products at one time. A product structure improves communication among functional specialists once they have been placed in the same product unit; however, there is a

risk that functional resources may be underutilized from time-to-time since they cannot easily be shifted between product units.

- A "geographic" structure, sometimes referred to as a "market" structure," organizes members and activities around a specific geographic area such as a specific country or a group of countries in the same region. Each geographic unit would be responsible for overseeing all of the products and services offered in particular country or region and would have dedicated functional resources to achieve its objectives. The scope of the functional resources will vary depending on the circumstances and in many cases the geographic units focus mainly on sales and marketing while other functions such as manufacturing and finance are centralized at the organizational headquarters.
- The term "matrix" structure refers to the organization that is created when a decision is made to overlay two of the other organizational structure in order to attempt to simultaneously realize the advantages of each. For example, as business organizations expand globally they will often create a matrix structure that includes product and geographic units. The product unit allows the organization to seek the benefits of economies of scale while the geographic units allow the organization to tailor its sales and marketing activities to the local requirements in each market. When a matrix organization is used each member has multiple reporting obligations (e.g., a product-based manager and a market-based manager) and rules must be established to determine how authority over a member's daily tasks and activities is to be allocated between two managers.
- A "divisional" structure is generally reserved for large organizations that have a diversified range of product and/or market activities. A division may be product-focused or market-focused. Each division in this type of structure is essentially autonomous and the executives of the division are given broad authority to make decisions relating to the division, including the organizational structure used within the division and are held accountable for the profitability of its activities. Many business organizations opt to centralizing certain key functions, such as planning and/or finance, at the headquarters office rather than ceding responsibility for those activities to the divisions.

While the list above touches upon most of the major structural models for organizations it is not necessarily all-inclusive nor does it capture the myriad range of nuances that can be found in any particular situation. For example, much has been made of the pro-active use of "project teams" as an easy and efficient way to promote flexibility within an organization without embarking on whole changes in the overall structure that are costly and time-consuming to implement and often far out of proportion to the specific problems that the organization needs to address at a particular moment. A project team is a form of matrix structure used when the prevailing structural model is functional. Members from different functional units are temporarily assigned to cross-functional project teams formed to pursue and achieve very specific objectives such as development of a new product. Project teams would include specialists from engineering, manufacturing, sales and marketing and would be led by a project manager. In most cases the team members will continue to work with their regular functional units, and report to their managers in those units, while participating in the project. As with the formal matrix structure close attention must be made to how team members interact with their functional and team managers and how priorities between functional and team activities are set.

Organizational Culture

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

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

Organizational Design

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

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

- The choices made regarding the design of an organization have a strong influence on how the organization is able to respond to changes in its environment and obtain the resources necessary to create greater value. For example, changes in how employee responsibilities and relationships are defined, as well as changes in the organizational culture, can increase the likelihood that the organization will be able to attract and retain skilled workers. Also, if a company needs to internationalize its business in order to broaden its markets and/or access new resources, a new structure must be created to manage global expansion and the organizational culture must be changed in order to take into account the attitudes and experiences of managers and workers in foreign countries.
- Advances in information technology ("IT") have changed the way that persons within an organization can communicate with one another and have also transformed expectations regarding the exchange of information with suppliers, customers and other business partners. Companies must be prepared to redesign the organizational structures to take the best advantage of IT and should monitor the impact that new technologies have on the culture of the organization. For example, to the extent that IT facilitates outsourcing, telecommuting and the use of global networks linked only through electronic communications tools, managers must be mindful of the impact on employee morale and interpersonal relationships.
- Being successful with organizational design, which means consistently identifying and implementing the most effective mix of structure and culture to address the then-current environmental conditions, is becoming a recognized core competency for business that can be used as a tool in the overall strategies used by the company to achieve a competitive advantage. New technologies and innovations in product design and performance can create short-term competitive advantages; however,

strong and effective organizational structures and cultures are more difficult to replicate and provide a foundation that supports needed coordination among managers and employees to quickly develop new products and services and implement the strategies required for the organization to remain competitive.

- Organizational design has become the engine for creating and sustaining innovative businesses. Organizational structure contributes to the processes that a company uses to coordinate the activities of multiple departments to commercialize new products and use new technologies to become more efficient and reduce production costs and maximize the return-on-investment in other areas such as marketing and customer service. Organizational designers can also suggest ways to change the culture of the business to provide incentives for managers and employees to think and act as entrepreneurs and take on reasonable risks in order to leapfrog competitors.
- Organizational structure and culture have become primary tools in managing an increasingly diverse workforce that includes differences in race, gender and national origin and employees from countries around the world that each has their own unique social and cultural norms. The task for organizational designers is to create a structure and nurture a culture that encourages employees with different backgrounds to work together for the common good of the company and its business. These issues are particularly important as firm expand globally since the overall firm culture must be synchronized with differences that might come up in particular countries.

Business organizations that develop the ability to make strong organizational design decisions can turn those skills into an important competitive advantage. Correspondingly, firms that make the wrong design decisions or fail to grasp the importance of design typically experience significant declines in their business fortunes as changes in environmental factors begin to overcome the managers of the business. For example, failure to pay attention to organizational culture may result in the loss of talented employees. In addition, firms that are unable to effectively structure interrelationships between various functions will be unable to implement strategies that they hoped would result in more rapid product development or more efficient and productive manufacturing processes.

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

Efforts to identify the single best way to structure and manage an organization and its members have been unsuccessful and it is now generally acknowledged that organizational design is as much an art as it is a science and academic discipline. There are certain issues and problems that are common to all organizations regardless of their size and stage of development. For example, every organization, even those with just two members, must grapple with the threshold issues of differentiation and integration—how work will be divided among the members and how their work will be coordinated in order to ensure that the necessary activities of the organization are completed. On the other hand, the specific environmental conditions confronting the organization can also substantially impact that type of organizational structure that should be selected. If an organization operates in a relatively stable environment it may be best to rely on a rigid hierarchical system for making decision and a practice of establishing well-defined tasks. However, if an organization operates in a turbulent and uncertain environment the designer might be better advised to use what is referred to as an "organic" organizational structure hierarchy is less important and members are given more flexibility with regard to defining their roles in order to allow them to apply their expertise as needed in order to address environmental conditions as they exist at any particular point in time. Lawrence and Lorsch have nicely combined management of these two issues by stating simply that the most effective organizations achieve a degree of differentiation and integration in organizational boundary-spanning functions which is compatible with environmental demands.[17]

Organizational Environment

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

An organization that fails to select a structure that is appropriately suited for its environment will likely encounter performance problems and exposes itself to a high risk of failure. In fact, most new organizations fails within the first few years and most common reason for their demise is an unwillingness or inability to recognize and meet

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

environmental challenges. In some markets and industries the environment is relatively stable and it will be easier for organizations active in such an environment to adapt and remain competitive. However, the more common situation, particularly given the rising level of global competition, is that the relevant environment will be complex and uncertain and survival will depend on the ability of organizational managers to continuously adapt to changing conditions. There is no single method of adaptation that will work in each instance. For example, organizations confronted with different consumer tastes in key geographic markets may elect to reduce the uncertainty they are confronting through an adaptation strategy of differentiation which is based on creating smaller business units in each geographic market that can focus their resources solely on the customer requirements in that market.

One of the striking things about analyzing and understanding the organizational environment of any business is the degree to the success of the business is dependent upon the decisions made, and the influence exerted, by other entities engaged in activities in the same environmental domain. For example, it is well known and accepted that every business organization is active in a larger network of purchasing and selling relationships that include its suppliers and customers. Every business is dependent on its suppliers for inputs and on its customers to purchase its outputs in order to generate the capital needed for the business to survive. If there are a limited number of suppliers the business may find itself in a dependent situation that will require implementation of various strategies to ensure access to the necessary resources. In turn, if the outputs of the business are perceived as unique and valuable by customers the business may be in a position to exert influence over those customers and extract a higher price at least for a limited period of time. Other entities may influence organizational design decisions through the requirements that they place on their business partners. One common illustration of how this works is when a large manufacturer imposes specific requirements on each of its vendors as a condition for inclusion in the manufacturer's supply chain (e.g., accounting and financial reporting systems, vendor certification requirements, product testing standards and manufacturing techniques).

Organizational Change

Organizations should, and must, continuously change and evolve as they grow and mature in order to remain effective and achieve their overall goals and objectives. While "organizational change" is sometimes explained as a process separate and distinguishable from organizational design, in reality they are one and the same and organizational change is really the end product of what should always be an ongoing effort by the organizational designer to monitor the performance of the current structure and culture, as well as changes in the organization's external environment (i.e., changes in technology, customer requirements, economic factors or competition) and identify new ways that these elements can be transformed, or redesigned, so that the organization is better able to acquire and use its resources to increase the value created by the organization and better position to respond to changes in its environment.[18] In order for organizational change to be effective, a formal change program should be created in

[18] M. Beer, Organizational Change and Development (Santa Monica, CA: Goodyear, 1980).

advance to ensure that members of the organization are fully informed of the proposed changes and understand why change is required and how it will impact them and the entire organization (see below). A change program should incorporate mechanisms for obtaining feedback and constantly reinforcing the changes given that it is often difficult to change accepted behaviors and ways of conducting business.

Organizational Change Management Program

- Has a customized change management program been prepared? The change management program should take into account the specific characteristics of the proposed change and the history and culture of the organization.
- Has consideration been given to how the individual members of the organization will react to the proposed changes and how their day-to-day activities for, and interaction with, the organization will be impacted? Consideration of these questions should guide decisions about supporting mechanisms such as communications and training.
- Have the lead sponsors for the change initiative been identified and are they at the appropriate level within the organization to be effective? Sponsors should be active and visible leaders of the change initiative with authority to make and monitor all necessary funding and organizational design decisions.
- Does the change management plan include an effective strategy for communicating with members and external stakeholders of the organization? An effective communication plan will be targeted to appropriate audiences, rely on various communication channels (e.g., meetings, face-to-face conversations, newsletters, presentations, Intranet Q&A, etc.) and provide for feedback to ensure that the change initiative is understood.
- Does the communications program include clear answer to key member questions such as “why are we making this change” and “what will happen if we don’t make this change”? Members may find the broader vision of organization leaders to be interesting; however, they are usually most concerned about what it all means for them personally—another implicit question that each member has is “what’s in it for me”. An effort should be made to preserve and honor the good things of the past even if changes are now thought to be necessary.
- Have managers and supervisors been involved in development and implementation of the change management program? Managers and supervisors are crucial to success of any change program because they have close relationships with those that report to them and are best situation to manage how their direct reports experience and respond to the proposed changes.
- Does the change management program include adequate training for managers and supervisors? Managers and supervisors play an important role in change management and it is essential that they be given the tools necessary to become and remain effective advocates of the change process.
- Does the change management program include strategies and plans for handling resistance that may arise from within the organization? A distinction can and should be made between proactive strategies—which involve anticipating in advance which issues will be raised by members and crafting responses before the program is initiated—and reactive strategies—which include pre-established policies for reacting to unforeseen objections that arise once the program has begun.
- Has the organization established systems that will facilitate collection and analysis of feedback and measurement of progress toward the initial goals of the change program? Before the program is launched the goals should be clearly defined in ways that permit objective measurement and feedback tools should be created and tested.
- Does the change management program include plans for continuous reinforcement of the proposed changes? Any change in the way that things are down within an organization takes a long time to be absorbed particularly when the change related to deeply embedded values and norms. The program must take a long-term approach and include strategies for reinforcing the new values and norms that the leaders wish to implement.

Chapter 3
Academic Foundations for Organizational Studies

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

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

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

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

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

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

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

Many attempts to develop some sort of "organizational theory" have been based on the somewhat dubious assumption that one can identify certain general principles regarding behavior in the workplace that can be applied to every organization regardless of the specific activities of the organization and the environment in which the organization must operate. This makes little sense given that it should be obvious that one cannot treat multi-national corporations and youth baseball teams in the same way. The result, unfortunately, has been the promulgation of organizational theories that are vague and broad and which offer little in the way of practical guidance in specific situations.

Weber and Bureaucracy

One of the earliest, and well-known, attempts to promulgate a theory of organizations was the work of sociologist Max Weber and his ideas regarding the definition and benefits of bureaucratic administration of organizations.[19] Weber focused on how persons exercise control over the activities of other persons within an organization and believe that it was important and useful to distinguish between “power” and “authority”. Weber believed that a relationship was based on power when a person was able to impose his will on another regardless of whether the other person put up any resistance or offered rational objections to the course of action demanded by the person exercising his power. In contrast, when a person exerted control over another based on authority compliance was expected based on the shared belief that the request was legitimate for some reason. Weber explained that concept further by creating a classification of organizations based on the nature of the legitimacy of the authority—charismatic authority, which is based on the sacred or outstanding characteristic of the individual; traditional authority, which is based on a mutual understand or, and respect for, custom; and rational legal authority, which is based on a code or set of rules.

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

Weber explained that rational legal authority was based on the following core assumptions: organizations could establish a legal code or set of rules that would claim obedience from the members of the organization; the legal code would be an abstract system of rules that can be applied to particular cases and would be used by the managers of the organization to protect the interests of the organization; everyone in the organization, including managers, would be bound by the legal code; and obedience by members of the organization is given not to a particular person who is exercising

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

authority but to the impersonal legal code and the procedures within that code that have vested authority in person exercising it. Weber believed that an organizational system or structure based on fundamental tenants of bureaucracy would increase the value created by the organization and make it more effective and that the members of the organization, the managers and employees in the business context, could be held more accountable for their actions because they are required to act in accordance with well-specified and agreed-upon rules and standard operating procedures.

Rules, Procedures and Norms

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

Weber suggested that there are four key characteristics of a bureaucratic organization—fixed jurisdictional areas that are ordered by rules and regulations; the regular activities required for the organization to function are distributed as official duties; the authority to issue the commands required for the discharge of the official duties are distributed in a stable way; and procedures are in place for the regular and continuous fulfillment of the official duties (i.e., a replacement plan for each position), and only persons qualified for positions are employed in those positions. A more detailed list of the characteristics of a bureaucratic organization in its purest form would include the following[20]:

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

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

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

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

Fayol's Principles of Management

A few years after Weber's theories on the bureaucratic organization were first widely disseminated attention focused on the "principles of management" developed by Henri Fayol as another means for effectively controlling an organization. His ideas touched on many of the topics that are still hotly debated in the world of organizational design and did so in a way that recognized that there are tradeoffs that must be made when creating the optimal structure for an organization at any point in time. Fayol's principles can be summarized as follows[21]:

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

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

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

Criticisms of Classical Organizational Theory

It has been noted that many of the ideas regarding organizational behavior and management that were developed in the early 20th century were advanced and promoted by theorists and consultants with an engineering background. As a result, it was not surprising that classical organizational theory, particularly the work of Max Weber, relied heavily on identifying and imposing certain fundamental principles or laws that were to serve as the basis for management activities and functions within the organization. However, classical theory eventually came under substantial criticism for its inflexibility and, even more importantly, the assumptions that were made in these theories about the role of employees and their willingness to accept certain working conditions that many found to be disrespectful and psychologically harmful. For example, Chris Argyris was critical of classical organizational theory for advancing creation of a workplace environment in which employees had minimal control over their working lives, were expected to be subordinate and passive, and were treated more as infants than competent human beings.[22] Others commented that one of the other main weaknesses of classical organizational theory was the fundamental assumption that all organizations were essentially alike that it was therefore possible to prescribe a universal set of rules that would be apply not only to business organizations, which were the primary focus of study for the classicists, but also voluntary organizations, charities and political organizations.

Current State of the Field of Organizational Studies

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

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

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

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

Chapter 4
The Culture-Free/Culture-Bound Debate

Two main hypotheses dominate the discussion of, and research on, the influence of culture on organizational structure across nations. The first hypothesis is often referred to as the "culture-free" hypothesis and suggests, in the words of Holt, "that culture has no influence on the way organizations are structured and is supported with significant research showing organizations within many nations around the world reflect the same relationships between size, specialization, formalization, and decentralization".[23] In contrast, the "culture-bound" hypothesis, which also enjoys significant support from research evidence, holds that there are indeed differences among cultures as to many internal organizational features. The debate between the proponents of the two hypotheses has been succinctly summarized as follows: "[d]o countries at approximately the same stage of industrial development, and having similar industrial structures, adopt the same approach to the organization and management of their institutions? Or are their distinctive cultural heritages sufficiently entrenched to mean that each society fashions its own unique administrative philosophy?"[24]

Culture-Free Hypothesis

Holt noted that "[t]he culture-free hypothesis is best represented by the research of Hickson and his associates", who were among the first to take advantage of a framework developed by researchers originally affiliated with the University of Aston that became widely used as the basis for standardized cross-national analysis of both organizational structure and context.[25] The Aston researchers selected functional specialization, role formalization, standardization of rules and procedures, organization configuration, and centralization of decision-making as the variables, or dimensions, that made up the structure components of an organization, further combined the formalization, standardization and specialization dimensions to create a measure of "structuring of activities" and used the centralization dimension to measure "concentration of authority" in the organizational structure. They then selected the following characteristics of organizational context for further study[26]:

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[23] M. Holt, "Culture-Free or Culture-Bound?: Two Views of Swaying Branches", International Journal of Business, Humanities and Technology, 1(3) (November 2011), 80.

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

[25] M. Holt, "Culture-Free or Culture-Bound?: Two Views of Swaying Branches", International Journal of Business, Humanities and Technology, 1(3) (November 2011), 80-81. For more information on the Aston Program, see D. Hickson and C. McMillan, Organizations and nations: The Aston Program IV (Westmead, England: Gower, 1981); D. Hickson, C. Hinings, C. McMillan and J. Schwitter, "The culture-free context of organization structure: A tri-national comparison", Sociology, 1974, 59-80; D. Pugh, D. Hickson and the Open University Course Team, "Organizational context and structure in various cultures" in T. Weinshall, Societal culture and management (New York: Walter de Gruyter, 1993), 425-435.

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

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

Importantly for purposes of the debate regarding the role of societal culture, variables such as personal values, attitudes or motivation were not included "in order to minimize potential contamination by culturally influenced variables from the perceptions organization members may have of their organization".[27]

The initial studies conducted by the Aston researchers were limited to manufacturing organizations in Britain and the researchers claimed to have repeatedly found support for the following relationships between the contextual factors and organizational structure among the organizations that were studied[28]:

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

Eventually, the Aston researchers, often working with collaborators in other countries, used the same approach describe above to measure the relationship of structure to context in different countries. In carrying out these studies the researchers hoped to show that there was a universal explanatory model of organizational structure that applied to all kinds of organizations in all parts of the world. They found that there were positive

[27] M. Holt, "Culture-Free or Culture-Bound?: Two Views of Swaying Branches", International Journal of Business, Humanities and Technology, 1(3) (November 2011), 81 (citing D. Hickson, C. Hinings, C. McMillan and J. Schwitter, "The culture-free context of organization structure: A tri-national comparison", Sociology, 1974, 59-80).
[28] D. Pugh, D. Hickson and the Open University Course Team, "Organizational Context and Structure in Various Cultures" in T. Weinshall (Ed.), Societal Culture and Management (Berlin: Walter de Gruyter, 1993), 425-435, 431.

correlations between organization size and both specialization and formalization and negative correlations between organization size and centralization. They acknowledged that the magnitude of the correlations varied widely for some countries. For example, Indian organizations were found to be less formalized or less autonomous than American organizations. However, while Indian organizations or various sizes differed substantially from comparably sized firms in other countries, the relationships between contextual and structural variables within India were similar to those same relationships among firms in other countries. For example, larger Indian organizations were more formalized than small Indian organizations and dependent Indian firms were less autonomous than relatively independent Indian firms.[29] These results were similar to the findings of several other multi-country studies that found that "[t]he pattern of relationships, formalization and specialization increase with size".[30]

After presenting results from one study that included Britain, Jordan, Poland, Japan and Sweden, Pugh and Hickson, two of the leaders of the Aston project, noted that "while there are many interesting differences among structures of organizations in different countries" these differences did not require a conclusion that "different cultures by their nature produce different organizational structures".[31] For example, they argued that while the average specialization and formalization scores of Jordan firms included in one of the studies were less than half of those in the British sample this could be attributed to the fact that the Jordanian firms in the sample were, on average, much small than those in the British sample and that the smaller size explained the low specialization and formalization. They went on to note that larger Jordanian organizations were more specialized and formalized than their smaller counterparts in Jordan and that "the relationship between size and specialization [was] the same as within Britain".[32] They also noted that the firms in Poland, which at that time was a communist, centrally planned economy, were much more centralized than firms in Britain. Again, they explained that the political and economic environment for Polish firms necessarily made them much more dependent on suppliers, customers and the government than the British firms sampled but that within Poland "the relationship between dependence and centralization [was] the same as within Britain".[33]

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

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

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

[32] Id.

[33] Id.

Pugh and Hickson summarized and explained their findings as follows: "These relationships have remained stable in all the countries so far studied. They form a framework for understanding how organizations function world-wide, which converges because of the nature of the impact of the environmental context in which they operate. In all countries bigger organizations are more specialized and formalized in structure because everywhere growth means reaping economies of scale and expertise by dividing tasks further, and as specialists with their limited knowledge out-number generalists, formalized methods are required for control. Informal customs are inadequate to control large numbers of personnel. This process is accelerated where there is a large owning group, because the organization the organization will develop specialists as counterparts to Head Office specialisms, and will take over group procedures and documentation. In all countries, too, organizations which are more dependent on others in their environment take decisions centrally and in additional lose autonomy to, say, a controlling board of ministry. This is because ties of ownership or contract are so important that the relevant resource decisions must be taken at the top."[34] They went on to conclude that "[s]ize and dependence become the bases for an explanation of the broad features of organizations worldwide".[35]

Decades after the first studies by the Aston researchers were completed other researchers continued to explore the validity of the culture-free hypothesis. Sabri, for example, studied twelve Jordanian companies and then compared his results to the findings of the Aston researchers on British, Japanese and Swedish matched samples.[36] Among other things, Sabri looked to see whether relationships between context and structure were stable and transcended national differences, as might be expected from the culture-free hypothesis. His analysis did indeed confirm that there were "strong and significant correlations between contextual variables and variables of organizational structure"

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[34] Id. at 433.
[35] Id.
[36] H. Sabri, "Do Power Distance and Uncertainty-avoidance Determine Organizational Structure?: A Culture Bound versus Culture Free Debate" The International Journal of Knowledge, Culture and Change Management, 11(3) (2012), 131-145. The data on British, Japanese and Swedish matched companies was obtained through described in D. Horvath, C. McMillan, D. Azumi and D. Hickson, "The Cultural Context of Organizational Control: An International Comparison", International Studies of Management and Organization, 6 (1976), 60-87. One of the reasons that Jordan was selected was because it appeared to be a good example of the distinct Arab cultural profile, which Sabri described as having inequalities of power and wealth within society, more likely to follow a caste system that does not allow significant upward mobility and highly centralized and rule oriented in order to reduce uncertainty. In addition, Sabri commented that Arab managers are typically reluctant to delegate authority, avoid responsibility and risk-taking and give priority to friendships and personal considerations over goals and performance. Finally, Sabri pointed out that face-saving and status consciousness are also important values in the traditional Arab culture. For further information, see R. House, P. Hanges, M. Davidan, P. Dorfman and V. Gupta (Eds.), Leadership, Culture, and Organizations: The GLOBE study of 62 societies (Thousand Oaks, CA: Sage Publications, 2004); H. Sabri, "Socio-cultural values and organizational culture" in K. Becker, Islam and Business (New Jersey: Haworth Press, 2004), 123-145; H. Sabri, "Jordanian Managers' Leadership Styles in Comparison with the International Air Transport Association (IATA) and Prospects for Knowledge Management in Jordan", International Journal of Commerce and Management, 17(1/2) (2007), Emerald Group Publishing Limited, USA; and A. Ali, "Cultural Discontinuity and Arab Management Thoughts", International Studies of Management and Organization, 25(3) (1995), 7-30.

across each of the countries, thus lending support to the culture-free hypothesis.[37] However, there were some interesting variations among the various contextual factors that Sabri explained as follows[38]:

- Size had the same positive link with formalization and specialization in each of the countries, but to varying degrees. The magnitude of correlation between size and formalization was high in Japan and Sweden, and to a lesser extent in Jordan, but it was low in Britain. The correlation between size and specialization was very high in Britain and Japan, medium in Jordan and low in Sweden. Sabri explained, however, that the variation with respect to Sweden could be explained, at least in part, by the finding that Swedish firms tended to be more dependent on their parent firms.[39]
- There was a negative correlation between size and centralization in Britain, Japan and Jordan, which indicated that they larger they become the more companies in those countries tended to decentralize their decision-making processes. While there was actually a positive correlation between size and centralization in Sweden, Sabri explained that it could be attributed to the weak correlation between size and specialization in that country and the resultant need for companies in that country to centralize decisions as a means for achieving and retaining control.[40]
- The correlations between operation technology and formalization and specialization in British, Japanese and Swedish companies were relatively weak compared to those of the Jordanian companies, which were relatively smaller than firms from the other countries surveyed.
- The correlation of operation technology with centralization was positive and stronger in British companies than Japanese and Swedish companies, a result that Sabri attributed to a stronger need among British companies to maintain control of operation technologies at higher levels due to the high costs associated with decisions in that area and the complexity of the technology involved. Correlation of technological complexity with centralization in Jordanian companies was negative and weak, meaning that "some technical decisions still had to be taken at the level of production units, to ensure continuous operations".[41]

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

[38] Id. at 137-140.

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

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

[41] Id. at 139.

- There was a strong positive relationship between internal dependence (ties with the government and/or owning groups) and centralization in Japan and Sweden and a significant but moderate correlation between internal dependence and centralization with Jordanian companies; however, in Britain the correlation between centralization and internal dependence was negative.
- External dependencies (on suppliers and customers) were important in Britain and Sweden but not in Japan and Jordan, each of which were countries in which internal dependencies were the critical contingencies in determining company strategies. Satri noted that the significant weak correlation between centralization and their external dependence among Jordanian companies was an indication of the tendency of those companies to have greater ties with their owners and the government rather than with suppliers and consumers, which also explains why decisions are typically raised to higher levels in Jordan.[42]

The results obtained by the Aston researchers emboldened them to claim that the relationships that they found would hold in all countries. In other words, "the relationships between the structural characteristics (structuring of activities and concentration of authority) and variables of organizational context (size, operation, technology and ownership) will be stable across cultures".[43] The argued that the results could be foreseen and explained through the "logic of industrialism" that requires certain universal changes that all firms must make as they develop and move toward large-scale industrialism.[44] The "logic of industrialism" is grounded in the assumption that science and technology, advancing independent from any specific government or culture, will first divide countries into "industrialized" and "developing" and then eventually progress to the point where industrialization becomes universal.[45] As that process continues, competitive pressures will drive organizations everywhere to identify and adopt that most efficient ways to address and overcome the problems associated with the common tasks that must be completed by all organizations engaged in production, regardless of where they are located and the societal culture in which the operate. In other words, the "logic of industrialism" predicts that "organizations *tackling the same tasks,* in whichever culture, will become more and more alike".[46]

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[42] Id.
[43] Id. at 131.
[44] M. Holt, "Culture-Free or Culture-Bound?: Two Views of Swaying Branches", International Journal of Business, Humanities and Technology, 1(3) (November 2011), 81 (citing F. Harbison and C. Myers, Management in the industrial world: An international analysis (New York: Wiley, 1959); and C. Kerr, J. Dunlop, F. Harbison and C. Myers, Industrialism and Industrial Man (Cambridge, MA: Harvard University Press, 1960).
[45] According to Pugh et al., the "logic of industrialism" has its roots in the arguments first made by Kerr and his colleagues in the 1960s that industrialism is a worldwide phenomenon that would ultimately lead to global convergence. See D. Pugh, T. Clark and G. Mallory, "Organization structure and structural change in European manufacturing organizations", Verhandelingen Letterkunde, Nieuwe Reeks, 168 (1996), 225-238, 225-226 (citing C. Kerr, J. Dunlop, F. Harbison and C. Myers, Industrialism and industrial man (Cambridge, MA: Harvard University Press, 1960)).
[46] D. Pugh, T. Clark and G. Mallory, "Organization structure and structural change in European manufacturing organizations", Verhandelingen Letterkunde, Nieuwe Reeks, 168 (1996), 225-238, 226.

A more specific explanation of the impact of the "logic of industrialism" on the evolution of organizational structure was offered by Harbison and Myers in the late 1950s, whose views were summarized by Child and Kieser as follows[47]:

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

The combination of factors of production necessary for the creation and growth of modern enterprises places a premium on recruiting qualified management talent with knowledge and experience in organizing and managing firms. As Child and Kieser noted, "[m]anagement … has to become increasingly based on competence and professionalism".[48] In summary, the "logic of industrialism" predicts the growth of firms and accompanying coordination and communication issues that can only be effectively addressed through structure, specialization, rulemaking and decentralization.

Hickson et al. explained their conclusion that the relationship between structure and context would be stable across all countries as follows: "whether the culture is Asian or European or North American, a large organization with many employees improves efficiency by specializing their activities but also by increasing controlling and coordinating specialities".[49] In other words, "whatever the country and culture, bigger organizations are more specialized and formalized in structure"[50] and "increasing size and scale is everywhere monotonically related to increasing bureaucratic structuring of

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[47] J. Child and A. Kieser, "Organizational and managerial roles in British and West German Companies: An examination of the culture-free thesis" in T. Weinshall, Societal culture and management (New York: Walter de Gruyter, 1993), 455-477, 456 (citing F. Harbison and C. Myers (Eds.), Management in the Industrial World: An International Analysis (New York: McGraw-Hill, 1959).
[48] J. Child and A. Kieser, "Organizational and managerial roles in British and West German Companies: An examination of the culture-free thesis" in T. Weinshall, Societal culture and management (New York: Walter de Gruyter, 1993), 455-477, 456.
[49] M. Holt, "Culture-Free or Culture-Bound?: Two Views of Swaying Branches", International Journal of Business, Humanities and Technology, 1(3) (November 2011), 81 (citing D. Hickson, C. Hinings, C. McMillan and J. Schwitter, "The culture-free context of organization structure: A tri-national comparison", Sociology, 1974, 59-80, 64).
[50] D. Pugh, T. Clark and G. Mallory, "Organization structure and structural change in European manufacturing organizations", Verhandelingen Letterkunde, Nieuwe Reeks, 168 (1996), 225-238, 226.

activities".[51] Other researchers have come to similar conclusions including Donaldson, who analyzed data relating to the correlation between size and functional specialization in thirteen countries selected from the West, Middle East and Far East and declared that "increasing organizational size leads to greater bureaucracy and this pattern does not differ according to national location".[52]

Culture-Bound Hypothesis

While the proponents of the culture-free hypothesis were quite active and persuasive, other researchers had significant questions. For example, a study of oil refineries in Britain and France conducted by Gallie in 1978 failed to support the culture-free position and, in fact, Gallie discovered differences in attitudes and relations with managers between the British and French workers that were so substantial that he was led to conclude that such difference could only be understood by taking into account cultural influences.[53] Other studies conducted over a number of decades have also concluded that the culture-free hypothesis was incomplete and that it was necessary to take the cultural context of the organization into account to explain decisions about organizational structure.[54] Some examples of these studies include the following:

- Since group identification was stressed and more important in Japanese society, workers in that culture tended to be more subservient to higher authority levels and more willing to assume that authority would be exercised benignly for the greater good of the group or collective.[55]

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

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

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

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

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

- Studies conducted by Crozier led him to suggest that there were differences between workers in Britain, France and US as to how they used rules and procedures.[56]
- Stevens studied the way that MBA students from France, Germany and Britain responded to case assignments and found enough variation to construct distinguishable cultural profiles for each of the countries. Specifically, the French were described as the "pyramid of people", akin to a traditional bureaucracy due to an approach that Stevens felt was more formalized and centralized. In contract, the German penchant for formalization and decentralization was characterized as a "well-oiled machine". Finally, Stevens labeled the British as practicing a "village market" approach that was neither formalized nor centralized and which was flexible enough to allow the selection of the structure that fit the best with the particular situation.
- Other studies confirmed the results achieved by Stevens and his conceptualization and concluded that "French firms were more centralized and formalized with less delegation than the British firms; German firms were more likely to be decentralized, specialized, and formalized and were more likely to cite structure as key factors for success; British firms showed a greater concern for flexibility and were more decentralized and less formalized; and Asian firms were more autocratic and paternalistic than their European counterparts".[57]
- Schneider and Barsoux felt that culturally-based differences were so important that they coined and described "Viking Management", Brazilian Management and Indonesian Management.[58]

These results formed the basis for the "culture-bound" hypothesis, a term that was coined by Hofstede in one of his earlier publications.[59] Proponents of the culture-bound hypothesis note that the foundation of the culture-free hypothesis is measurement of "macro-level variables", such as the relationship between context and structure, and argue that the behavior of people within organizations, which is strongly influenced by their cultural background, also matters in determining how work activities are structure.[60] Criticism of the limitations of the culture-free hypothesis has been around since well before the Aston researchers published their results and Crozier, for example, observed: "Intuitively, however, people have always assumed that bureaucratic structures and patterns of action differ in different countries of the western world and even more

[56] See M. Crozier, The Bureacratic Phenomenon (London: Tavistock, 1964).
[57] M. Holt, "Culture-Free or Culture-Bound?: Two Views of Swaying Branches", International Journal of Business, Humanities and Technology, 1(3) (November 2011), 82.
[58] S. Schneider and J.-L. Barsoux, Managing across cultures (2nd Ed.) (Upper Saddle River, NJ: Pearson, 2002).
[59] In 1984 Hofstede argued that organizations were "'culture bound" and members of a particular national societal culture would prefer a specific organizational structure because it fit well with the "implicit model of design" that they had in their minds (i.e., the "software of their minds"). The natural consequence of this argument that organizations in different countries, even though engaged in similar activities, would have different structures due to differences in the cultural preferences. See G. Hofstede, Culture's Consequences: International Differences in Work-Related Values (London: Sage Publications, 1984).
[60] D. Pugh, T. Clark and G. Mallory, "Organization structure and structural change in European manufacturing organizations", Verhandelingen Letterkunde, Nieuwe Reeks, 168 (1996), 225-238, 226 (citing L. Child, "Culture, contingency and capitalism in the cross-national study of organizations" in L. Cummings and B. Staw (Eds), Research in Organizational Behaviour, Vol. 3 (Greenwich, CT: JAI Press, 1981)).

markedly between East and West. Men of action know it and fail to take it into account. But contemporary social scientists ... have not been concerned with such comparisons."[61]

Hofstede and others have argued strongly and consistently that "people, in different cultures, react to organizational problems according to their implicit model of how organizations should be structured" and that "[t]his means that, other factors being equal, people from a particular national background will prefer a particular structure because it fits their implicit model of structure, and similar organizations in different countries will resemble different types because of different cultural preferences".[62] Hofstede predicted that his cultural dimensions of power distance and uncertainty avoidance should, along with specific demands of the activities engaged in by the organization and the technology used by the organization in those activities, be strong predictors of the optimal form of organizational structure.[63] According to Sabri, Hofstede's description of the key characteristics of these two dimensions meant that "[p]resuming all other factors are equal, people in high power distance cultures prefer that decisions be centralized as even superiors have strong dependency . . . [and] [p]eople in high uncertainty-avoidance countries prefer their roles to be formalized to protect them against uncertainties.[64]

Mindful of the dimensions of structure identified by the Aston researchers, Hofstede proposed that his uncertainty avoidance dimension corresponded to the Aston researchers' "structuring of activities" dimension and that his power distance dimension corresponded to the Aston researchers' "concentration of authority" dimension.[65] Then, using the Aston researchers' topology of structure, Hofstede suggested the following: "The 'Personnel bureaucracy' works well for Southeast Asian countries with the 'family type' as an implicit model. The 'Full bureaucracy' works well for Latin, Arab and Mediterranean countries, plus Japan, with the 'pyramid' type as an implicit model. The 'Work flow bureaucracy' works well for the German-Speaking countries, with the 'well-oiled machine' type as an implicit model. And finally, the 'Implicitly Structured'

[61] M. Crozier, The bureaucratic phenomenon (Chicago: University of Chicago, 1964), 210.
[62] H. Sabri, "Do Power Distance and Uncertainty-avoidance Determine Organizational Structure?: A Culture Bound versus Culture Free Debate" The International Journal of Knowledge, Culture and Change Management, 11(3) (2012), 131-145, 131. Other researchers that have argued that culture influences organizational structure include C. Handy, Gods of Management (3rd Ed.) (London: Penguin, 1991); D. Pheysey, Organizational Culture: Types and Transformation (London: Routledge, 1993); J. Mannen and S. Barley, "Cultural Organization: Fragments of a Theory", in P. Frost, L. Moore, M. Louis, C. Lundberg and J. Martin (Eds.), Organizational Culture (London: Sage Publications, 1985) and M. Al-Tayeb, Organizations and National Culture: A Comparative Analysis (Newbury Park, California: Sage, 1988).
[63] G. Hofstede, Culture's Consequences: International Differences in Work-Related Values (London: Sage Publications, 1984).
[64] H. Sabri, "Do Power Distance and Uncertainty-avoidance Determine Organizational Structure?: A Culture Bound versus Culture Free Debate" The International Journal of Knowledge, Culture and Change Management, 11(3) (2012), 131-145, 134.
[65] G. Hofstede, Cultures and Organizations, Software of the Mind (London: McGraw-Hill Book Co., 1991), 42. This made sense to Hofstede because these two dimensions certainly influenced organizational structure since they helped to answer two critical questions that must be addressed by the organizational designer: "who has the power to decide what (hierarchy)? And what rules or procedures will be followed to reach the desired organizational goals (formalization)?" Id.

organization works well for the Anglo and Nordic countries plus the Netherlands, with the 'village market' type as an implicit model."[66]

Sabri also examined whether the data collected for Jordan, Japan, Britain and Sweden supported Hofstede's assertion that a certain configuration of structure is preferred in different cultures according to their orientations on Hofstede's power distance and uncertainty avoidance cultural dimensions. Sabri compared the "desired" and "existing" organization structures in Jordan, Japan, Britain and Sweden using the Aston researchers' topology of structure. The "desired" structure was based on the country scores on power distance and uncertainty avoidance calculated by Hofstede. Based on these scores the "desired" organizational structure in both Jordan and Japan, each of which were high power distance and strong uncertainty avoidance countries, was a "full bureaucracy (pyramid type)", and the "desired" organizational structure in both Britain and Sweden, each of which were low power distance and weak uncertainty avoidance countries, was "implicitly structured (village market type)".[67] However, when the scores on the Aston researchers' measures of "concentration of authority" and "structuring of activities" for each of the countries were used to identify their "existing" structures the result for each of the countries was the "personnel bureaucracy" type since all of the countries scored high on "concentration of authority" and low (Japan, Britain and Sweden) or medium (Jordan) on "structuring of activities".[68]

The results described in the previous paragraph led Sabri to conclude that "the existing structure for companies in Jordan, Japan, Britain and Sweden did not fit well the suggested desired structure in each culture on its power distance and uncertainty avoidance cultural orientations".[69] While this appeared to be a setback for the culture-bound camp and the predictive value of Hofstede's concept of "desired structures", Sabri did offer a few possible explanations for the outcomes. For example, he point out that perhaps Hofstede had underestimated the impact of Islamic religion on Arab societies, such as Jordan, and that it would have been more appropriate and accurate for Hofstede to rate the Arab culture "average", rather than "strong", on uncertainty avoidance due to his conclusion based on his original data that "high uncertainty avoidance is . . . medium in Islamic and Judaic countries".[70] If that had been done, the "desired" structure" for

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

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

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

[69] Id. at 131.

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

companies in Arab countries, such as Jordan, would have fallen within the "personnel bureaucracy" type, the same as the "existing" structure identified in the manner described above. In addition, Sabri noted that actual practices within Jordanian companies differed from the responses in the instruments used to collect data and that these practices were actually more indicative of "average" uncertainty avoidance within Jordanian culture.[71]

Paszkowska, while not providing empirical support for her predictions, presented reasoned arguments for the following hypotheses relating to the how the degree of uncertainty avoidance—strong or weak—might influence organizational structure[72]:

- Strong uncertainty avoidance within a societal culture leads to high formalization of organizational structures.
- Strong uncertainty avoidance within a societal culture leads to high "social specialization" of organizational structures, which means that organizations hire professional specialists to perform skills that cannot be easily routinized. Paskowska argued that "[s]ocieties that are risk adverse believe in experts and specialization . . . [since] . . . advice given by an expert minimizes the risk of wrong decision".[73]
- Strong uncertainty avoidance within a societal culture leads to high "functional specialization" of organizational structures, which means that organizations break down jobs into smaller and simpler repetitive tasks.
- Strong uncertainty avoidance within a societal culture leads to the use of more centralized organizational structures, since individuals from societies that fear the unknown are more likely to cede authority and responsibility for decisions to others higher in the organizational hierarchy.

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

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

[73] Id.

Paskowska conceded that there was contradictory evidence on some of her hypotheses regarding uncertainty avoidance. For example, she noted that while Japan scores very high on uncertainty avoidance and the US scores very low on that measure, job descriptions in Japan are generally broad while in the US "job definition tends to be narrower and there are usually clear borders to employee's responsibility".[74] All of this tends to contradict her hypothesis about strong uncertainty avoidance leading to high functional specialization; however, she suggested that differences in functional specialization between those two societies might be better explained by looking at their differences on the individualism-collectivism dimension: the high individualism in the US may explain the preference for differentiation and precise definition of job responsibilities in that society and the strong collectivism among the Japanese may mitigate and reduce the impact of uncertainty avoidance. Paskowska cautioned against relying on a single societal cultural dimension as a predictor of a characteristic of organizational structure since not only must other cultural dimensions be taken into account but structures may also be influenced by non-cultural variables such as history, politics and economics.

Horovitz conducted a cross-country study and comparative analysis of managerial "control practices" in France, Britain and Germany.[75] Among the dimensions that he explored were purposes and uses of controls, primary functional emphasis, degree of decentralization, degree of detail, time orientation, degree of quantification, involvement of central staff and degree of formalization (i.e., systematization and standardization). He concluded that "[m]anagers in France, Great Britain and Germany differ significantly in what they try to control and in the way they go about it"[76] and provided a list of several "local factors" that might be relevant in determining which control mechanisms are preferred in a particular country: the impact of educational backgrounds, including training in particular areas relating to establishment and administration of control systems; the desired level of sophistication in planning required for the operations of the particular firm; and, finally, the impact of societal beliefs and attitudes towards authority and centralism (i.e., culture).[77]

When discussing the possible influence of societal culture on national preferences regarding organizational structure it should be noted that while uncertainty avoidance and power distance have certainly been popular reference points other dimensions from the Hofstede model have also been used to posit theories and predictions. Paskowska also wrote on the influence of masculinity on organizational structure, focusing her comments and predictions on "values" rather than gender role differentiation and assuming that "[m]asculinity . . . brings about greater aggressiveness, assertiveness and decisiveness of managers . . . [and that] employees are more ambitious (both men and women) and they express a stronger power need than employees in a feminine society".[78] Paszkowska

[74] Id.

[75] J. Horovitz, "Management Control in France, Great Britain and Germany" in T. Weinshall, Societal culture and management (New York: Walter de Gruyter, 1993), 445-454.

[76] Id. at 446.

[77] Id. at 454.

[78] G. Paszkowska, "Does the Degree of Uncertainty Avoidance and Social Masculinity Influence Organizational Structure?" in J. Mercik and F. Turnovec (Eds.), Regional Dimension of Economic

predicted that strong masculinity of values within a societal culture leads to the creation of more centralized organizational structures since managers in a masculine society are expected to be more decisive and will generally select and deploy an autocratic management style. Paszkowska also predicted that strong masculinity of values within a societal culture will lead to greater "social specialization" in organizational structures. Paskowska opined that professional specialization seemed to be stronger in highly masculine societies and that professionals will develop narrower specialties as a means for gaining power—which is important in masculine societies—through specialization.

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

Krokosz-Krynke presented reasoned arguments, like Paszkowska without empirical support, for various hypotheses regarding the predicted influence of individualism/collectivism on organizational structure.[79] First of all, Krokosz-Krynke suggested that high individualism would lead to high specialization in organizational structures while high collectivism would have the opposite impact and foster low specialization. As to the influence of individualism/collectivism on standardization, the answer would depend on other factors. For example, Krokosz-Krynke points out that because workers in a highly collectivist environment have high levels of group responsibility it might be expected that this would alleviate the need for narrow task

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Integration in Extending European Union (Wroclaw, Wroclaw College of Management and Finance June 2003).

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

specialization and accompanying procedures (i.e., standardization) since members of the group would, in essence, take care of and guide one another. However, if the task activities carried out by a highly collectivist workforce were "high routine" then it may be appropriate to adopt high standardization because of the nature of the tasks. Krokosz-Krynke predicted that high individualism could lead to high formalization provided that there is a need due to high standardization—in other words, "if rules or procedures do not exist there is nothing to write"—and there are no factors that serve as constraints to formalization such as difficulties in translating directions into a language that can be understood by all workers and/or the absence of tangible information that can serve as the basis for rules and procedures. Finally Krokosz-Krynke wrote that the likelihood of a high centralized organizational structure in a strongly individualistic society is quite low.

After reviewing the research and arguments on both sides of the debate, Holt concluded that "[t]he evidence of cultural differences between nations is overwhelming" and that "one cannot base a prediction on structure or process from a single cultural dimension".[80] Holt argued that "[a]s people share a common culture system they are likely to influence the organizations they enter" and culturally-based assumptions regarding "[t]he patterns of relationships, rules and belief systems, expectations about authority and its legitimate use, an individual's rights and obligations to the collective all influence the structure of organizations".[81] Holt believed that "[i]f two nations have differing cultural orientations there should be tendencies toward differing patterns of organizational structure within those nations".[82] Another strong, and succinct, statement of the culture-bound hypothesis was offered by Axelsson et al., who wrote: ". . . human preferences and decisions which are shaped by the values within society are refracted through individual personalities. Therefore, the organization and the behaviour of those associated with it must reflect the characteristics of the surrounding culture. There may be structural regularities across national cultures, but they are relatively unimportant in the face of the substantial differences in the ways that individuals interact and in the views they hold of the organization's place in its environment."[83]

Reconciliation

Holt and others have actually found support for the creative proposition that the culture-free and culture-bound hypothesis can be true at the same time. For example, a study of German and British firms conducted by Child and Kieser supported the culture-free hypothesis (i.e., the size of the firms was positively associated with specialization, formalization and decentralization in both countries); however, significant differences, as might be predicted by the culture-bound hypothesis, could be found when closer examination was made of attitudes toward authority and operational decisions in

[80] M. Holt, "Culture-Free or Culture-Bound?: Two Views of Swaying Branches", International Journal of Business, Humanities and Technology, 1(3) (November 2011), 83.
[81] Id.
[82] Id.
[83] R. Axelsson, D. Cray, G. Mallory and D. Wilson, "Decision style in British and Swedish organizations: A comparative examination of strategic decision-making", British Journal of Management, 2 (1991), 67-69, 68.

marketing, production and purchasing.[84] Child and Kieser found that the expectations of Germans regarding authority, which they believed to be culturally driven, were different than those of the British and were reflected in the realities of managerial behavior in carrying out their roles within the organizational structure. Child and Kieser found that Germans had more respect for authority than the British, placed a greater value on authority and were more directive than the British. In fact, a close examination of the structural analysis revealed that German firms were more centralized than British firms. For example, with respect to higher level decisions managers in German and British firms tended to be fairly similar; however, with respect to operational decisions (i.e., marketing, production, purchasing and some personnel decisions), Germans were more likely to take decisions to a higher level than the British. Child and Kieser observed that "[w]hen one examines the characteristics of managers' roles, differences between the two countries are quite striking" and that "[t]he way in which managers' roles are structured varies between the two countries"[85] and concluded that "this paper suggests that culturally specific factors such as people's expectations about authority will mediate between contextual variables such as size of organization and the nature of structures, roles and behavior within organizations".[86]

In their study of various issues relating to organizational structures of large European manufacturing firms Pugh et al. found both support for the culture-free hypothesis at a "macro level" and indications that cultural differences did have a significant influence on the integration and coordination mechanisms selected for ensuring that the chosen structural type performed efficiently. Pugh et al. examined the structuring of manufacturing operations by the largest firms, based on volume of sales, in each of Britain, France, Germany, Italy, the Netherlands and Spain.[87] The firms from each of the countries were classified by reference to the type of organizational structure they had selected using "a scheme derived from the ways in which organizations differentiate their overall task at the level below the CEO". The aforementioned "scheme" included several familiar structural types described in detail elsewhere in this Library including a "pure functional" form, in which all like administrative activities (e.g., marketing) are grouped within one department; a "predominantly functional" form, in which a majority of the organizational units are function-based but a few autonomous units exist based on other dimensions (e.g., a regional marketing division); a matrix structure; a "predominantly divisional" form, in which most of the organizational units are based on non-functional

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

[85] Id. at 467.

[86] Id. at 472.

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

dimensions such as products or markets but a few function-based units still exist (e.g., finance and/or human resources) and, finally, a "fully divisional" form, in which all activities are organized on a non-functional basis using dimensions such as products, product group, geographical territories, markets or customers/clients.[88] In presenting the results of their classification, Pugh et al. provided the following explanatory observations[89]:

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

The data indicated that the picture of structural types in each of the countries was different; however, Pugh et al. wondered whether differences in societal cultural had a meaningful influence in the decisions made regarding the selection of structural type. They made two propositions: first, if decentralization of decision making was the desired approach it was reasonable to expect that divisional structural types would be selected in order to facilitate a greater degree of decentralization of decision making than what would be possible in a functional structural type; and second, decentralization, as reflected through a preference for divisional structural types, would be more likely to occur in societal cultures that were conducive to such an approach, namely countries with a low score on Hofstede's power distance dimension. However, when they tested the hypothesis "that countries with a low power-distance index will have a greater preponderance of divisional structures over functional structures, compared with those cultures with a high PDI" it was rejected and Pugh et al. concluded that "the occurrence of both types of structure appears to be equally likely across the whole range of the POI cultural dimension" and then went on to note that "the data indicate an apparent similarity

[88] Id. at 229-230.
[89] Id. at 230. Data was missing for almost a quarter of the German firms and as to those for which data was available the divisional structural type (40% of all firms in the sample) was more prevalent than the functional structural type (23% of all firms in the sample).

of structural types across 6 countries and thus support in a rough and ready fashion the convergence approach".[90]

Pugh et al. went on, however, to suggest that the "processes" of the apparent convergence in structural type preferences among the six countries could provide interesting support for the argument that non-cultural contextual factors, such as strategy, do matter and lead to structural variations between seemingly similar firms in different countries. They reviewed their analysis of data on "recent structural changes taking place within the previous year in the sample of organizations and the reasons why such changes took place".[91] They approached their analysis with the expectation that changes in form would likely be related to changes in strategy, such as a decision made by one of the firms from Britain to transition from a matrix (geographic and product) to divisional (product-focused) type of structure "in order to emphasize the product lines and to encourage customer focus and downplay regional differences".[92] Their analysis revealed that a number of reasons for changing the type of structure were relevant to the firms that were studied, albeit with different degrees of strength across countries. The list of "change drivers", referred to by Pugh et al. as "contingencies affecting the structures", including change of ownership, change of management, change of strategy, increased diversification, new market entry, change in manufacturing technology and change in distribution methods. They concluded by noting: "The table [describing the types and frequency of changes] underlines how inappropriate it is to regard all national differences in organization structures as being due to the effects of national cultures, without taking account of the particular contingency changes."[93]

After describing their results, Pugh et al. summarized their work as follows: "This paper sought to adopt a combined approach in which changes to organization structure were considered (macro) as well as the mechanisms which integrate the structure (behavior). The results and subsequent discussion, suggest that global contingencies cause structural changes whilst cultural effects are found to influence the different uses of coordination mechanisms. Current evidence would seem to show that existing organizational structures and coordinating mechanisms are an outcome of the interaction between contingencies with global impact and culture specific imperatives."[94]

The focus by Pugh et al. on the reasons for structural changes does not necessarily undermine with the culture-free or culture-bound hypothesis but rather highlights the facts that various contextual factors play a significant role in the structural type adopted by a specific firm at any given point in time and it would seem that firms in a single country, confronted with a unique "contextual" environment determined by local factors the size of the domestic market and availability of manufacturing technologies, might follow a similar path with respect to the evolution of their organizational structures that differs from firms in other countries. In fact, Pugh et al. found evidence of varying

[90] Id.
[91] Id.
[92] Id. at 231.
[93] Id. at 234.
[94] Id. at 235.

patterns of structural change among the countries surveyed. For example, in countries where the economy was expanding, such as France and Germany at the time that the data was collected, there was a tendency to shift away from the functional structure to the division structure type. Changes in manufacturing technology might also be expected to have a substantial influence on the choice of organizational structure and, of course, the notion that "structure follows strategy" has been deeply embedded in the theories and models of organizational design for decades.[95]

Finally, Pugh et al. speculated that perhaps cultural differences would have a significant influence on the integration and coordination mechanisms selected for ensuring that the chosen structural type performed efficiently.[96] They posited that "the use of recurrent regular coordination mechanisms will reflect a greater need to reduce uncertainty than the use of ad hoc mechanisms, called into action only irregularly" and "that regularity of use is more likely to be congruent with those cultures who score highly on Hofstede's Uncertainty-Avoidance Index (UAI) than with those countries score low".[97] They then tested, and found some support for, the hypothesis that countries with a high UAI will have a greater preponderance of use of regular coordination mechanisms compared to ad hoc ones than in those cultures with a low UAI. Specifically, they found that while most firms in all of the surveyed countries, both low and high UAI cultures, used regular weekly meetings widely but that the frequency of ad hoc meetings increased as the UAI score declined. They also found that monthly meetings, while found in all countries, were more widely used in low power distance countries and commented that perhaps this was due to a greater openness in those countries that drove a desire for more frequent and larger monthly meetings that include a wider range of involved managers.[98] Supporting this proposition was the finding that the use of task forces increased as the level of power distance declined.

Holt concluded that the entire debate could be reconciled by recognizing that the culture-free hypothesis was based on an "etic" view of the organization and that the culture-bound hypothesis was based on the "emic" view of the organization and that "either view by itself is restricted in scope and can lead to a kind of distortion; both views must be considered if any event is to be well understood."[99] A truce or accommodation of some sort was also suggested by Alelsson et al., who advised that "[t]he debate between culture free and culture bound explanations has reached the stage at which it is more constructive

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[95] For further discussion of the influence of technology and strategy on organizational design issues, see "Organizational Design and Technology" and "Organizational Design and Strategy" in "Organizational Design: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).
[96] For further discussion of integration and coordination mechanisms, see "Designing the Organizational Structure" in "Organizational Design: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).
[97] D. Pugh, T. Clark and G. Mallory, "Organization structure and structural change in European manufacturing organizations", Verhandelingen Letterkunde, Nieuwe Reeks, 168 (1996), 225, 234.
[98] Id. at 235.
[99] M. Holt, "Culture-Free or Culture-Bound?: Two Views of Swaying Branches", International Journal of Business, Humanities and Technology, 1(3) (November 2011), 83.

to regard them as complementary rather than competing explanations".[100] If this is true, the next question is what model can be used as a unifying framework that will bring the etic and emic views together?

One answer to the question posed above is a model initially suggested by Child and Kiesar, who believed that any "sociologically valid theory of organization must take cultural settings into account" and that the personal ideas and preferences of top managers and administrators, including those derived from their cultural backgrounds and experiences, were incorporated into the policies that they adopted for their organizations regarding strategies and organization and the roles and expected behaviors of members of the organization (e.g., German top managers preferred centralized decision-making.[101] Child and Kiesar began with what they referred to as "an over-simplification" of the contingency view of the causal influences on organizational structure that began with "context" and then ran to "structure", "roles" and "behaviors". They then argued that "[a]t every point . . . in the causal chain posited by culture-free contingency analysis, other influences, mostly cultural in origin, are likely to interpose".[102] For example, the "preferences and 'philosophies' of those responsible for structuring the organization" mediate between context and the choice of structure; the "orientations of managers towards, concepts, such as authority, control, definition, work" are relevant to the formal and information definition of roles within the organizational structure; and actual behaviors are influenced by "[i]nterpretation of socially acceptable conduct with regard to behavior in organizations and relations with others".[103]

Holt endorsed that broad outlines of the Child and Kiesar framework and suggested certain modifications to ensure that "both the influence of context and culture on structure" are taken into account.[104] Context, the so-called "logic of industrialization" referred to above, is important in this model as a determinant of the organizational structure, the formal roles in those structure and the degree of specialization associated with this roles. However, culture is also recognized as equally important for the reasons described above in connection with the original Child and Kieser model. Holt closes his case with a quote from Tayeb: "An understanding of structure, therefore, requires reference only to such dimensions as centralization, specialization, and formalization, but

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

[101] J. Child and A. Kieser, "Organizational and managerial roles in British and West German Companies: An examination of the culture-free thesis" in T. Weinshall, Societal culture and management (New York: Walter de Gruyter, 1993), 455-477, 472.

[102] Id. at 474.

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

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

also to the relationships, processes and actions which lie behind those dimensions".[105] In addition, as mentioned below in the discussion of organizational structures in developing countries, societal culture is not the only factor that drives differences in organizational structure among countries and it is clear that structural decisions are also driven by other contextual factors including the size of the domestic market, availability of manufacturing technologies, general competitive factors for each firm that cause them to make strategic decisions that influence the form of their organizational structures, and the economic, political and legal environment in which firms operate.

Organizational Structures in Developing Countries

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

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

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

Family ownership and participation of family members in management activities is an important factor in organizational design in most developing countries. Brazil, China and India, for example, have all been identified with some form of the "family" (or "tribe") model developed by various researchers including Hofstede, Schneider and Barsoux and Wursten and characterized by the following features: hierarchical and centralized with respect to how and by whom decisions are made and formalized with respect to relationships among persons within the hierarchy (high power distance) but not overly formalized as to the rulemaking on how the day-to-day workflow is conducted (low uncertainty avoidance); paternalistic leadership style; strong role of "generalists"; strong social versus task roles; importance of loyalty and personal relationships; powerful "in-groups"; and social control. However, as family ownership declines and/or firms, regardless of the composition of the ownership group, develop one sees a growing willingness to transition toward more decentralized and professional organizational management structures.

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

Another path is the development of new indigenous theories and techniques for managing organizations in developing countries that explicitly take into account the unique external environmental conditions which confront those organizations. The sequential influence that begins with external environmental conditions and continues to organizational work culture and finally to organizational behavior can be observed in organizations in both developing and developing countries; however, significant economic, political and cultural differences among these two broad categories of countries cannot be ignored and have a substantial impact on the work culture within developing country organizations and the choices that owners and managers of those organizations make with regard to design and structure. These differences not only determine how organizations are designed and structure in developing countries without intervention by external influences, such as foreign investors, but also have explanatory value when investigating why management practices that have been effective in developing countries fails to have the same positive impact in developing countries.[106]

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

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

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

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

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

Chapter 5
Dimensions and Typologies of Organizational Structure

Pugh and Hickson commented that "[t]he management structures of organizations may be looked upon as systems resulting from the continuous balancing by the directors of a number of conflicting pressures".[107] Recognizing and describing those "conflicting pressures", including potential solutions and strategies, provides the basis for identifying a set of "dimensions of organizational structure" that can be used to undertake comparisons of organizational structures. Sabri observed that "[v]arious scholars use somewhat different dimensions of organizational structure" and then noted that, for example, "Robbins . . . recognized complexity, formalization and centralization, as three major components of organizational structure".[108] Other researchers have focused on "methods of coordination" as distinguishing factors, specifically the degree of dependence on direct control, mutual adjustment and standardization.[109] Rieger and Wong-Rieger suggested that four principal themes, or dimensions, could be identified and used to explain how societal culture influences organizational processes: authority distance, power, group orientation, and cognitive orientation.[110]

Aston Researchers' Dimensions of Organizational Structure

The emergence of standardized cross-national analysis of both organizational structure and context has been driven in large part by the six dimensions of organizational structures that were identified by the Aston researchers: specialization (i.e., division of labor), standardization (i.e., reliance of regularly used and legitimized organizational procedures), standardization of employment practices, formalization (i.e., used of formal rules and instruction to guide organizational members in carrying out their activities), centralization (i.e., location of decision making authority) and configuration.[111] For example, "specialization" focuses on the degree to which both operational and managerial tasks are divided into smaller, and more specialized, roles. In order to get an

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[107] D. Pugh, D. Hickson and the Open University Course Team, "Organizational Context and Structure in Various Cultures" in T. Weinshall (Ed.), Societal Culture and Management (Berlin: Walter de Gruyter, 1993), 425-435, 425.
[108] H. Sabri, "Do Power Distance and Uncertainty-avoidance Determine Organizational Structure?: A Culture Bound versus Culture Free Debate" The International Journal of Knowledge, Culture and Change Management, 11(3) (2012), 131-145, 133 (citing S. Robbins, Organization Theory: Structures, Designs and Applications (3rd Ed.) (Englewood Cliff, NJ: Prentice Hall, 1990)).
[109] H. Mintzberg, The Structuring of Organizations: A Synthesis of the Research (Englewood Cliff, NJ: Prentice-Hall, 1979).
[110] F. Rieger and D. Wong-Rieger, Organization and Culture in Developing Countries: A Configurational Model, in A. Jaeger and R. Kanungo, Management in Developing Countries 101 (1990).
[111] See, e.g., D. Pugh, D. Hickson, C. Hinings and C. Turner, "Dimensions of Organization Structure", Administrative Science Quarterly, 13 (1968), 65-105; J. Child and A. Kieser, "Organization and Managerial Roles in British and West German Companies: An Examination of the Culture-Free Thesis" in D. Hickson and C. McMillan (Eds.), Organization and Nations: The Aston Program IV (Westmead, Hants: Gower, 1980), 51-75; R Payne and D. Pugh, "Organizational Structure and Climate" in M. Dunnette (Ed.) Handbook of Industrial and Organizational Psychology (Chicago: Rand McNally, 1976), 1125-1173; and D. Hickson and C. McMillan (Eds.), Organization and Nations: The Aston Program IV (Westmead, Hants: Gower, 1980).

idea about the degree of specialization in an organization questions should be posed regarding whether or not certain key activities are performed by specialists (i.e., persons engaged exclusively in those activities and not in the regular line "chain of command) and the level of professional qualification/certification held by those specialists.[112] An assessment of "formalization" requires measurement of the degree to which an organization relies on written specifications of its standard rules, procedures and instructions (e.g., employee handbooks, organization charts, written job descriptions, written operating instructions and inspection/process/output records).[113] As for centralization, evidence should be collected as to which level in the organizational hierarchy has the real authority with respect to certain key decisions and who assume responsibility when the CEO is not available.[114]

Rieger and Wong-Rieger's Dimensions of Social Value Systems

Rieger and Wong-Rieger echoed the prescriptions of many researchers that analysis and understanding of organizational structures in developing countries, and developed countries also for that matter, must take into account the characteristics of the societal culture in which those organizations are launched, operate and evolve.[115] They began their argument by identifying four dimensions of societal value systems in developing and developed countries and then went on to use those dimensions to propose what they referred to as their "configurational model of organizational types" accompanied by descriptions of the salient characteristics of each type and predictions regarding the applicability of each type to cultural conditions in developing and developed countries. Finally, they used a field study in the international airline industry to illustrate each of the organizational types and, in particular, provide a more robust understanding of those three types that Rieger and Wong-Rieger believed were most prominent among organizations in developing countries.

After examining and analyzing a wide range of descriptive studies of organizations operating in different types of societal cultures, including both developed and developing

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

[113] D. Pugh, D. Hickson and the Open University Course Team, "Organizational Context and Structure in Various Cultures" in T. Weinshall (Ed.), Societal Culture and Management (Berlin: Walter de Gruyter, 1993), 425-435, 427.

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

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

countries, Rieger and Wong-Rieger suggested that four principal themes, or dimensions, could be identified and used to explain how societal culture influences organizational processes.[116] Since these dimensions were constructed from the results of research conducting using popular and influential classification schemes such as the one proposed by Hofstede the names and meanings of some of the dimensions were familiar (i.e., authority distance, power and group orientation); however, the cognitive orientation dimension identified by Rieger and Wong-Rieger was interesting for its specific focus on information processing within the organizational context. Rieger and Wong-Rieger offered the following descriptions of their four dimensions accompanied by their expectations as to how developed and developing societies would fare on measures of each of the dimensions[117]:

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

[116] Id.
[117] Id. at 104-106 (also includes references to relevant literature for each of the dimensions).

quantitative data. At the other extreme, expected to be preferred among developing countries, was the "intuitive" approach that relied on holistic intuitive judgments based on soft qualitative data.

Key Questions and Issues for Designing the Organizational Structure

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

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

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

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

Typologies of Organizational Structure

There have been a variety of attempts to suggest models of organizational structures that might be used for comparisons across national or cultural borders. For example, the Aston researchers suggested a topology of organizational structure that included the following four forms based on two key dimensions—the degree of concentration of authority and the degree of structuring activities: workflow bureaucracies; personnel bureaucracies; full bureaucracies; and non-bureaucracies/implicitly structured.[118] Later, Hofstede and others appeared with their ideas of an "implicit model" of organizations based on empirical measures of a country's place on the power distance and uncertainty avoidance dimensions of Hofstede's broader scheme for describing and contrasting societal cultures. Power distance was assumed to correlate with the degree of organizational hierarchy—the higher the power distance the more hierarchical the organization—and uncertainty avoidance was assumed to correlate with the degree of formalization—a higher desire for avoiding uncertainty led to more formalization within the organizational structure. Their suggested typology also included four types of organizational structure: the "village market"; the "well-oiled machine"; the "family" (or "tribe"); and the "traditional bureaucracy (or "pyramid of people").[119] Other entrants in the effort to develop a typology of organizational structures have included Mintzberg, the ITIM Culture and Management Consultancy, Laurent and Rieger and Wong-Rieger.[120]

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

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

[120] See H. Mintzberg, Structures in Fives: Designing Effective Organizations (1983); H. Wursten, Culture and Change Management, ITIM Culture and Management Consultancy, http://www.itim.org/articleonchangemanagement.pdf; A. Laurent, The Cultural Diversity of Western Conceptions of Management, in International Studies of Management and Organization (Vol. XIII, Nos. 1-2, Cross-Cultural Management II: Empirical Studies 75 (Spring-Summer 1983); and F. Rieger and D.

Aston Project Researchers

There have been a variety of attempts to suggest models of organizational structures that might be used for comparisons across national or cultural borders. For example, the Aston researchers, who are primarily known for their studies of the relationship between factors such as size, ownership and dependence on the one hand and organizational structure on the other hand, also suggested a topology of organizational structure that was initially based on their findings in Britain and other contemporary industrialized societies. Their specific intent was to shed some light on traditional assumptions regarding bureaucracy and perhaps set aside "widespread assumptions of its uniformly stifling and dreary nature". The topology included four forms of organizational structure and was based on two key dimensions—the degree of concentration of authority and the degree of structuring activities—that facilitated a focus on the internal climate in which managers and employees carried out their day-to-day activities. Based on those dimensions, the Aston researchers suggested that firms might fit into one of the following categories[121]:

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

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

Hofstede and Stevens

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

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

Later, Hofstede and others appeared with their ideas of a model of organizations based on empirical measures of a country's place on the power distance and uncertainty avoidance dimensions of Hofstede's broader scheme for describing and contrasting societal cultures. Power distance was assumed to correlate with the degree of organizational hierarchy—the higher the power distance the more hierarchical the organization—and uncertainty avoidance was assumed to correlate with the degree of formalization—a higher desire for avoiding uncertainty led to more formalization within the organizational structure. Hofstede began by referring to a then unpublished work of Stevens as a source of interesting insight on how a country's placement along the dimensions of power distance and uncertainty avoidance might predict the preferences of firms from those countries with respect to the centralization and formality in their organizational structures and, in turn, the processes used by those firms to identify and resolve problems that might arise during day-to-day operations.[122] Stevens surveyed graduate business students from three different European countries—France, Germany and Great Britain—and asked them for ideas about how to deal with issues in a case study that involved a conflict between the product development and sales departments at a hypothetical firm. Interestingly, most of the students from France advised that resolution of the conflict required attention and intervention from the highest level of the organizational hierarchy (i.e., the president); however, the Germans and British had other ideas about the reasons for the problem and the suggested solution—the Germans pointed to a lack of written policies to guide each of the departments and recommended that such policies be drafted while the British felt that the conflict was a product of poor interpersonal communication that required more training for the parties involved.

Based on these results Stevens proposed "implicit models" of organization for the three countries and other countries that occupied the same quadrant with them on the cultural map that had uncertainty avoidance and power distance as its two dimensional axis. For French firms (high power distance/high uncertainty avoidance) the preferred organizational structure resembled a pyramid and responsibility and authority for making decisions was centralized and the rules of operation were formalized. German firms (low power distance/high uncertainty avoidance) strived for a "well-oiled machine" efficiently directed by formal procedures although not necessarily centralized. Hofstede noted that this was consistent with the views of the well-known German management theorist Max Weber, whose theory of bureaucracy included a high level of formalization in management systems but with rules that were intended to protect persons at lower levels in the hierarchical structure from attempts by their superior to abuse their power.[123] British firms (low power distance/low uncertainty avoidance) tended to opt for what was referred to as a "village market" that was neither formalized nor centralized. As for the

[122] G. Hofstede, "Motivation, Leadership and Organization: Do American Theories Apply Abroad"," Organization Dynamics, 9 (1980), 42-63, 60. Hofstede was referring to the work of O.J. Stevens at INSTEAD.

[123] According to Weber's theory of bureaucracy persons in a position of authority within the organizational structure did not have power in their own right but could give directions that were consistent with the authority vested in their position in the formal written rules and procedures that described the approved management systems for the firm. In short, as Hofstede said "the power is in the role, not in the person (small Power Distance)". G. Hofstede, "Motivation, Leadership and Organization: Do American Theories Apply Abroad"," Organization Dynamics, 9 (1980), 42-63, 60.

four Asian countries—Hong Kong, India, the Philippines and Singapore—in the remaining quadrant of his mapping of countries on the power distance and uncertain avoidance dimensions, Hofstede suggested that the appropriate implicit model of organization for these high power distance/low uncertainty avoidance countries should be the "family", which he described as centralized with respect to how and by whom decisions are made and formalized with respect to relationships among persons within the hierarchy (high power distance) but not overly formalized as to the rulemaking on how the day-to-day workflow is conducted (low uncertainty avoidance).[124]

Studies performed by Schneider and Barsoux appeared to confirm the conceptual model developed by Hofstede and Stevens and they suggested a fuller description of a typology of organizational structures based on these dimensions[125]:

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

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

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

This typology assumes that people have different needs and expectations with regard to the organizational structure in which they work based on the cultural background. For example, people from the countries in the Anglo and Nordic culture clusters are less concerned about risk and power distance and thus are comfortable interacting in organizations that are less hierarchical and formal and follow the "village market" model. Germans understand and accept that activities and relationships should be carried out in accordance with formalized rules and procedures and this reduces the need for a tall hierarchy since everyone knows their place and what is expected of them. As to organizations in the Confucian Asian countries, the people in those firms expect to be treated as part of a "family" and thus accept a paternalistic owner-manager acting in a manner similar to a family patriarch.

Mintzberg's Preferred Configurations of Organizations

Mintzberg developed "preferred configurations of organizations" that could also be fit into a matrix created using the uncertainty avoidance and power distance dimensions. While his framework evolved over time, at the outset Mintzberg argued that there were five key parts to each organization[126]: the operating core, which included the people actually doing the basic work of the organization; the strategic apex, which referred to the top management of the organization; the "middle line", which was the hierarchy between the workers and top management (i.e., "middle management"); the "techno structure", which included persons in staff roles, such as engineers, researchers and analysts, who supplied ideas for planning and controlling the technical core of the organization; and, finally, administrative support staff providing indirect, but necessary services such as clerical and maintenance. In order for the organization to run effectively, processes for coordinating the five parts mentioned above had to be developed. Mintzberg also suggested that there were five methods for coordinating the various organizational parts: mutual adjustment, which relied on communication among people in various parts of the organizational structure; direct supervision, based on hierarchical relationships; standardization of the work process (i.e., specifying the contents of the work); standardization of outputs (i.e., specifying the desired results); and standardization of skills (i.e., specifying the training that is considered necessary for proper performance of the work).

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

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

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

- Machine (or Full) Bureaucracy: The key part of the organization for this structural type was the "techno structure" and the preferred coordination mechanism was standardization of work processes. This structure type corresponded to the "pyramid" model and was suitable for high power distance/high uncertainty avoidance societies such as France and for firms that employed relatively unskilled works producing low complexity products.
- Professional Bureaucracy: The key part of the organization for this structural type was the operating core, the people who actually performed the work, and the preferred coordination mechanism was standardization of skills through training. This structural type corresponded to the "well-oiled machine" model and was suitable for low power distance/high uncertainty avoidance societies such as Germany and for firms that employed relatively high skilled workers producing complex products.
- Adhocracy: The key part of the organization for this structural type was the support staff and the preferred coordination mechanism was mutual adjustment. This structure type corresponded to the "village market" model and was suitable for low power distance/low uncertainty avoidance societies such as Britain and for firms seeking to engage in innovative activities.
- Divisionalized Form: The key part of the organization for this structural type was the middle line, or hierarchical structure, and the preferred coordination mechanism was standardization of outputs (i.e., products). Power and decision making was decentralized into the hands of divisional leaders pursuing their operational plans. This structure type was actually overlaid into the middle of the power distance/uncertainty avoidance matrix and associated with firms in the US.

Mintzberg argued that there are a number of factors at work in determining the configuration of an organizations including the strength (power) of various actors within the organizations; the ways in which the various parts of the organization must be coordinated; structural design parameters (i.e., the degree of job specialization, resources invested in training, formalization etc.); and contingency factors, which included not only societal cultural but also the age and size of the firm and the political and economic environment in which it operates.[127]

ITIM Culture and Management Consultancy Model

A final example of "implicit models of organization" that closely follows the principles of Stevens, Hofstede and Mintzberg and uses all of the dimensions of societal culture included in the Hofstede framework was offered by the ITIM Culture and Management Consultancy, which suggested the following list[128]:

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

[128] For further discussion, see H. Wursten, Culture and Change Management, ITIM Culture and Management Consultancy, http://www.itim.org/articleonchangemanagement.pdf

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

Laurent

A somewhat different approach to studying the influence of societal culture on organizational structure was the research conducted by Laurent, who surveyed upper- and mid-level managers from firms in nine European countries and the US to test the hypothesis that the national origin of managers has a significant influence on their opinions regarding what constitutes “proper management”.[129] Laurent created four dimensions—organizations as political systems; organizations as authority systems; organizations as role-formalization systems; and organizations as hierarchical-relationship systems—and found evidence that the surveyed countries did indeed differ in their relative positions on each of them. For example, France and Italy had high scores, relative to the other countries, on each of the dimensions, thus providing evidence for managerial preferences in those countries for organizations that were politicized, hierarchical, had high degrees of role formalization and were operated based on the belief of authority in individuals. In contrast, the scores of managers in Sweden reflected a dislike of hierarchical relationships and moderate attitudes with respect to the other dimensions. Danish and British managers appeared to have similar attitudes on each of the dimensions (i.e., low scores with respect to hierarchy and politicization, moderate scores on individual authority and high scores on role formalization).

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

Rieger and Wong-Rieger

Rieger and Wong-Rieger went on to use their suggested dimensions to propose a framework of identifying and analyzing organizational structures based on five culturally-based organizational configurations—autocracy, political entourage, traditional bureaucracy, modern bureaucracy and consensus—that reflected different combinations of "high" and "low" measurements on four dimensions: power, authority distance, cognitive orientation, and group orientation. Summary explanations of each of these configurations offered by the researchers highlighted the following[130]:

- The "autocracy" configuration featured high power, low authority distance, intuitive cognitive orientation and low group orientation and, in the words of the researchers, "[r]eflects the presence of a powerful, often entrepreneurial, leader who has the final word on all important issues and often makes unilateral decisions based on personal judgments and intuition".[131] Autocratic organizations were not conducive to the type of employee participation often expected in developed countries and were expected to appear with greater prevalence in developing countries with a traditional of paternalistic social leadership.
- The "political entourage" configuration featured high power, high authority distance, analytical cognitive orientation and high group orientation and was characterized by "the proliferation of patron-client relationships within an established bureaucracy" and "patron-client-based small groups" (i.e., "entourages") whose members exhibited a primary loyalty to their group and its leader rather than to the organization as a whole.[132] This configuration features a fairly high level of internal rivalry and while elements of intense politic infighting can be found in organizations around the world regardless of the level of economic development[133] the tendency toward slack resources and group orientation in developing countries makes it more likely that competing patrons with their own entourages will appear in organizations in those countries.
- The "traditional bureaucracy" configuration featured high power, high authority distance, analytical cognitive orientation and low group orientation and, in the words of the researchers, was "characterized by a rigid adherence to established procedures".[134] Traditional bureaucracies have existed for a long time and continue to be relied upon in developed and developing countries under certain conditions (e.g., mature and sometimes declining organizations in developed countries and in state-owned enterprises and joint ventures with foreign companies in developing countries).

[130] F. Rieger and D. Wong-Rieger, Organization and Culture in Developing Countries: A Configurational Model, in A. Jaeger and R. Kanungo, Management in Developing Countries 101, 107-109 (1990).
[131] Id. at 107.
[132] Id. at 108.
[133] See, e.g., E. Shor, The Thai Bureaucracy, 5 Administrative Science Quarterly 66 (1960); and G. Allison, Essence of Decision (1971).
[134] F. Rieger and D. Wong-Rieger, Organization and Culture in Developing Countries: A Configurational Model, in A. Jaeger and R. Kanungo, Management in Developing Countries 101, 108 (1990).

- The “modern bureaucracy” configuration featured three of the characteristics associated with the “traditional bureaucracy” (i.e., high authority distance, analytic cognitive orientation and low group orientation) and reflected the gradual transition toward greater involvement of professional staff experts in decision making processes that led to a dramatic reduction on the power dimension and higher levels of cognitive orientation than those found in traditional bureaucracies. Rieger and Wong-Rieger argued that the power-sharing relationship between executives and staff members found in modern bureaucracies made that configuration more appropriate for developed countries.[135]
- The “consensus” configuration was a somewhat unique model, principally seen among Japanese organizations, which featured low power, low authority distance, intuitive cognitive orientation and high group orientation). Rieger and Wong-Rieger pointed out that decision making in consensus organizations tended to be holistic, combining both analytical and intuitive methods, and conducted based on shared responsibilities throughout the organizational structure.[136]

Rieger and Wong-Rieger collected their own data using interviews and unobstructed observations in international airline companies from both developed and developing countries including Brazil, Canada, Germany, Indonesia, Italy, Pakistan, Singapore and Thailand. Each of the companies were placed into the appropriate classification in the cultural configuration framework described above based on an analysis of the collected content and the level of development of the countries of their primary operation was determined based on gross national product per capita. Rieger and Wong-Rieger placed two of the companies from the most developed countries—Air Canada (Canada) and Lufthansa (Germany)—into the “modern bureaucracy” classification and noted that, in comparison to the other companies surveyed, “their most salient characteristics were their technical focus and analytical approach to operational and strategic management, the sharing of power between top executives and staff, and, support those, the professional qualification and orientation of their workforces”.[137] As for the companies from the developing countries they were placed into one of three of the types in the cultural configuration framework, which are discussed in more detail below: the autocracy (Garuda of Indonesia and Singapore International Airlines of Singapore[138]), the traditional bureaucracy (Pakistan International Airlines of Pakistan) and the political entourage (Thai International of Thailand and Varig of Brazil). Rieger and Wong-Rieger also noted that the companies from the developing countries all displayed a much higher degree of personal power than what would be associated with a modern bureaucracy.

Autocracies

[135] Id. at 108-109.
[136] Id. at 109.
[137] Id.
[138] The researchers noted that while Singapore International Airlines was properly classified as an autocracy, due in many respects to the high expression of unfettered personal power by the chief executive officer (CEO) in that company, there were signs of a transition toward a modern bureaucracy as rapid internal commercial and technical development began to force the CEO to reduce involvement in day-to-day management and focus on strategic decisions and rely more and more on bureaucratic rules for control. Id. at 109, 112.

Garuda of Indonesia and Singapore International Airlines (SIA) of Singapore were the two companies from developing countries classified as autocracies. Specific observations of both of those companies by Rieger and Wong-Rieger noted that in both of these companies there was domination by the chief executive officers (CEOs), through personal control over most aspects of operations and strategic decision making. Both of the CEOs had close ties to, and strong support from, political leaders in their countries and this likely emboldened them in the autocratic approaches that they took and gave them extra leverage against potential internal resistance and interference from government agencies with regulatory authority over their operations. An elitist ideology prevailed in both of the countries where these companies operated and both of the CEOs clearly distrusted both their subordinates and competitors. There was evidence from the interviews within SIA that intimidation was sometimes used as a means for supervising and controlling the actions of lower staff. Rieger and Wong-Rieger believed that the specific success of both companies could be traced to both external and internal factors: internally the CEOs established and dominated lean organizational structures based on vertical flows of information and orders that allowed the companies to respond quickly to external demands; and externally the CEOs were in a position to influence the local political environment and gather strategic information that could be advantageously used in implementing operational plans.[139]

From their earlier review of the literature and research on organizational processes in different societal culture environments, Rieger and Wong-Rieger had argued that the low power distance in autocratic organizations explained the prevalence of informal superior-subordinate communications; however, autocratic organizations were generally not able to implement effective group activities and were hampered by weak or non-existent horizontal communication flows. The researchers suggested that autocratic organizations would be most appealing and comfortable in the developing countries, particularly those countries that had a traditional of paternalistic social leadership, and in instances where the business model was relatively simple and less complex. At the same time, autocratic organizations would appear to be problematic in developed countries where employees had high expectations of participation and in situations where the business model was highly complex (e.g., technology-based) and thus required substantial amounts of continuous and clear horizontal communications.[140]

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

[139] Id. at 111-114.
[140] Id. at 107-108.

societal cultures that accept "authoritarianism" and view leaders as heroes; and societies in which workers are generally diligent, deferential and low skilled or complacent. In fact, the autocracy may be the only practical solution for strong leaders. On the other hand, the autocracy is not likely to work well in societal cultures where group orientation is high. Key management skills associated with the autocracy type include an intuitive approach to problem solving, a good understanding of technical systems and the entire organization, strong experience and skills in areas important to the operational core of the business and a charismatic, or at least "people skilled", personality.[141]

Rieger and Wong-Rieger explained some of the key differences between the autocracy organizational type that Mintzberg had first described in the context of developed countries[142] and the form of autocracy that was likely to be much more embedded, and difficult to change, in developing countries with strong authoritarian norms. In developed countries, particularly those with democratic societal norms, it could be expected that autocratic practices would ultimately give way to new forms of organizational processes as the size and complexity of the firm grew to the point where dominating control by a single person was no longer effective operationally and no longer tolerated by the workers. On the other hand, however, Rieger and Wong-Rieger speculated that autocracy could continue indefinitely in many developing countries given its consistency with the norms of societal culture in those countries and the difficulties in changing the economic and political environments that provided the original support for establishing the autocracies. In fact, the only thing that derailed the autocratic CEO at Garuda was a debt crisis that arose out of the CEO's drive for renewal of the company's fleet that was so large and embarrassing to the government that the CEO was eventually forced to resign.[143]

Political Entourages

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

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[141] Id. at 115-116.
[142] See, e.g., H. Mintzberg, The Structuring of Organizations (1979); and H. Mintzberg, Power In and Around Organizations (1983).
[143] F. Rieger and D. Wong-Rieger, Organization and Culture in Developing Countries: A Configurational Model, in A. Jaeger and R. Kanungo, Management in Developing Countries 101, 114 (1990).

making" that fortunately had enabled the company to take advantage of functional strengths in operations, marketing and service.[144]

Rieger and Wong-Rieger explained that an important, and differentiating, feature of an organizational structure driven by political entourages is the heightened sense of rivalry among the groups, often at the expense of focusing on overall organizational goals, and continuous reliance on negotiations between entourages in order to arrive at strategic decisions. Power and influence within organizations configured in this manner is constantly shifting based on factors such as the dynamism and reputation of entourage leaders, the size of their entourages and the importance of the functions carried out by their entourages. While the rivalry and confrontation associated with political entourages is often criticized in developed countries, Rieger and Wong-Rieger noted that "it appears to be accepted as an inevitable form in developing societies that share two characteristics: sufficient slack resources to permit competing patrons to develop followings within the organization and sufficient group orientation to foster the formation of an entourage around the patron".[145]

According to Rieger and Wong-Rieger the political entourage type is useful in the way that it satisfies cultural preferences for personalistic relations within a large organizational context and provides an effective defense against the threat of external political interference. However, political entourages invite drift and lack of direction due to the lack of technically competent leadership, create a danger of the organization getting bogged down in continuous rivalry and political activities and expose the organization to disruption from outside forces able to penetrate and manipulate the organization through links with sympathetic factions within the organization. The political entourage type appears to be best suited for large organizations in societies that react negatively to bureaucratic rigidity, have high group orientation and have cultural norms against overt conflict; and for societies with traditions of patron-client relations. Obviously the leader of a political entourage type organization will only be effective if he or she is able to maintain a balance among the various factions within the organization. Attempts to impose autocratic practices to manage these factions and suppress differences of opinion should be avoided in favor of patience and focus on sustainable incremental progress toward a valid, but patient, vision of the organization's future articulated a leader with recognizable and accepted technical qualifications. Rieger and Wong-Rieger also cautioned that political entourages are more likely to fail when internal entourages do not align with the formal structure (e.g., when rival entourages extend their influence across departmental boundaries).[146]

Traditional Bureaucracies

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

[144] Id. at 119-121 (1990).
[145] Id. at 108.
[146] Id. at 115-116, 119-122.

management that began as firms in industrialized societies began to grow rapidly.[147] High levels of power and authority distance are accompanied by mechanistic communications processes and the preferred decision making tools are analytic, albeit subject to occasional overriding by the personal instincts and wishes of powerful organizational leaders who can act virtually unchallenged. The circumstances underlying the traditional bureaucracy lead to the development and implementation of, and rigid adherence to, formal rules and procedures covering all aspects of organizational operations. Traditional bureaucracies are generally criticized in developed countries where there has been a clear trend toward the "modern bureaucracy" configuration; however, traditional bureaucracies appear to remain frequent and important features of organizational structuring strategies in developing countries and, in fact, Rieger and Wong-Rieger noted that "they are often found in state-owned industries, in countries that are former British colonies, or in businesses that were formed as joint venture with firms from developed countries".[148]

Pakistan International Airlines (PIA) of Pakistan was the developing country example of a traditional bureaucracy among the group of companies studied by Rieger and Wong-Rieger. The researchers noted that there was a strong connection between the highly politicized external environment in Pakistan and the bureaucratization found within PIA and, in fact, PIA leadership changed frequently as transitions in governmental power and/or reputation occurred. Instability of senior management at PIA was accompanied by a failure to take advantage of available engineering and management information systems, weak internal infrastructure, an excess of underemployed low-paid administrators and overall poor morale that often led to labor problems and attempts to workers to sabotage operational activities. Rieger and Wong-Rieger observed that while senior managers at PIA often complained about the undisciplined workforce and unreasonable demands of unions those same managers did little to contribute to achieving a reasonable accommodation due to their own apparent personal biases toward rigid hierarchical relationships. All in all, the traditional bureaucracy found in PIA was not surprising given the extreme environmental chaos in Pakistan, the propensity of the government to interfere in managerial matters and the cultural predisposition toward subservience and deference to superiors.[149]

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

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

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

[149] Id. at 116-117.

and can be used, within limits, to perform an integrated set of tasks. On the other hand, however, traditional bureaucracies respond slowly to environmental changes; impose more technology and systemization on workers, a situation which sometimes provokes anger and insubordination from workers that takes the form of strikes, sabotage and sloppy workmanship; and fail to facilitate and adapt to workers' needs. Traditional bureaucracies have the best chance for success when certain circumstances prevail: relatively stable environment; simple products or services; little or no competition; state ownership or control; a large available pool of literate workers; acceptance of routine work and technology among the available workforce; at least minimal analytical orientation; achievement rather than an ascriptive culture; and an obsession with control among the management group. Management skills needed in order for a traditional bureaucracy to be effective include an analytical approach to problem solving; respect for, and attention to, details and control; and ability of managers to control their own personal needs for power and attend to personal demands of workers by striking a balance between mechanistic and personal management approach.[150]

Responding to Changing Demands in the Task Environment

Rieger and Wong-Rieger were not the first to emphasize that organizations, regardless of the level of economic development of the country in which there were operation, should seek to achieve and maintain "a 'fit' between organization form, local culture, and the demands of the task environment".[151] This prescription does not necessarily imply that one type of organizational structure is "better" than another, it only emphasizes the need to keep both culture and task environment in mind and predicts that failure to do so can, and likely will, lead to significant problems of the type seen when companies from developed societies, such as the US, try to impose elements of their preferred and familiar modern bureaucracy type in developing societies with quite different cultural norms. Rieger and Wong-Rieger pointed out that while the characteristics of societal culture are slow to change in developing countries, or in any country for that matter, those countries are experiencing continuous and significant changes in their task environment that require ongoing assessment of whether or not changes in organizational structure must be made to accommodate new demands in that environment.

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

[150] Id. at 115-119.
[151] Id. at 122.

found in the unsuccessful joint venture between Garuda, heavily influenced by the Indonesian government, and KLM, which was eventually dissolved and replaced by indigenous form of autocracy that was better suited to local Indonesian culture and allowed for rapid adaptation to technological changes and speedy growth.[152]

A second strategy avoids risky importation in favor of modifying an existing indigenous structure to meet changes in the task environment caused by new technologies and/or competition. Rieger and Wong-Rieger explained how SIA sought and obtained a competitive advantage based on “extraordinary service” by taking advantage of its existing individualistic yet deferential culture forms and also selectively added key Western organizational features and processes such as strategic planning without undermining the strong authority of its CEO and/or adopting a modern bureaucracy form that might have been too far afield from local cultural values. Rieger and Wong-Rieger also noted that elements of the consensus configuration described above and generally associated with Japanese companies have been found to be readily adaptable in developing countries where new methods based on high group orientation and consensual decision making would be a culturally acceptable way to cope with new and evolving technological and competitive factors. A third strategy would be try and develop and implement an entirely new organizational form; however, Rieger and Wong-Rieger are skeptical about the viability of this approach given the intransigence of elements of societal culture and the expectation, based on their hypothesized configuration theory, that there are only a limited number of stable organizational types available to firms.[153]

[152] Id. at 122-123.
[153] Id. at 123-124.

Chapter 6
Organizations

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

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

Putting all this together an organization can be thought of as a group of people that share a common goal or set of goals who intentionally come together to organize themselves so they can cooperate with each other and coordinate their activities in such a way that allows them to achieve their common goals and create something that is of value. In most cases references to an organization include the entire group, such as all the employees of a corporation; however, there may be various sub-groupings that are their own organizations such as a business unit within the corporation. Organizations can be difficult to understand and explain because they are intangible and while it is generally easy to see the specific outputs, such as products and/or services, that are produced by an organization it is not apparent to outsiders how the organization controls, influences and motivates its members to create those outputs. Organizations can range in size from two

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

people to tens of thousands of persons and can arise whenever there is a focused desire on the part of the members to satisfy a particular need or address a condition within the broader environment in which the members are living. For example, the need for security drives nations, states, towns and other communal units to organize armies and other types of policing forces. Organized churches and charities are formed in order to satisfy the needs of their members for spiritual and social support. New business organizations are created to satisfy the ever-changing tastes of consumers or to satisfy the need of society to develop products and services, such as new drugs, that can improve the overall human condition. In fact, a popular term for the process of establishing an organization is "entrepreneurship," which has been defined in a number of ways including the process by which people recognize opportunities to satisfy needs and then gather and use resources to meet those needs.[2]

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

Reasons for the Existence of Organizations

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

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[2] I.M. Kirzner, Competition and Entrepreneurship (Chicago: University of Chicago Press, 1973). For further discussion of entrepreneurship, see A. Gutterman, Entrepreneurship (New York: Business Expert Press, 2018).

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

organizational culture, to define and enforce its expectations regarding the way in which members act toward one another and other stakeholders.

Organizations and Value Creation

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

Value Creation at the Input Stage

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

Value Creation at the Conversion Stage

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

Value Creation at the Output Stage

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

Complete and Partial Organizations

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

The Complete and Partial Organization Framework

Sustainable entrepreneurs should use the five elements of the framework of "complete" and "partial" organization proposed by Ahrne and Brunsson (i.e., membership, hierarchy, rules, monitoring and sanctions) to create guidelines for relationships with

[3] G. Ahrne and N. Brunsson, "Organization outside organizations: The significance of partial organization", Organization, 18(1) (2011), 83.

initial employees—skills and anticipated contributions, behaviors, property rights, communications, authority, standards and rewards—and generate ideas for accessing and integrating valuable knowledge and other support from outside their organizations.

Much of the research on organizational design and structure has traditionally focused on what happens inside the boundaries of formal organizations[4], such as corporations, that possess all five of the above-mentioned elements and thus could be characterized as "complete" organizations[5]:

- Formal organizations make formal decisions about who can or cannot become members of the organization, such as decisions about which persons to hire as employees and long-term independent contractors. The composition of the organization's membership defines its "identity", described by Ashforth and Mael as a "perceived oneness with the group"[6], which is important to the identification and development of organizational activities that are congruent with how members view themselves and the organization.[7]
- Formal organizations generally establish a hierarchy based on explicit assignments of authority to certain individuals or groups of individuals to make decisions on certain matters related to the operation of the organization and related rights to oblige others to comply with central decisions. The rights associated with hierarchy can be exercised in both formal and informal ways and are generally disbursed among various individuals and/or groups within the organization.[8]
- Formal organizations coordinate their activities through the issuance of rules and procedures that members are expected to follow in carry out their day-to-day activities on behalf of the organization. These rules are intended to serve a number of important purposes including maximizing "consistency" throughout the organization (i.e., decisions that are made in one part of the organization will be executed in the expected manner in other parts of the organization and decisions on similar issues will be made in consistent manner regardless of where in the organization a decision maker is sitting) and alerting and educating members as to what will be considered to be responsible behavior in the context of the organization.[9] Larger organizations often adopted codes of conduct or ethics; however, organizations can establish rules using other formal and informal mechanisms including "standard operating procedures" and contracts.[10]

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

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

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

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

[8] Id. at 655.

[9] Id.

[10] Id.

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

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

While formal organizations are obviously important, not all types of organization that can be identified occur within the boundaries of formal organizations, nor is it necessary for all of the five elements mentioned above to be available to organizers in order to launch and maintain an organization. The concept of "partial" organization includes organizations that only use selected elements (i.e., one or several of the five elements of formal organizations are missing) and which are forged outside and among formal organizations.[12] One example provided by Rasche et al. was organizations, such as associations, organized by formal organizations. In those instances, organization occurs through membership and members will be expected to adhere to certain rules; however, many associations dispense with monitoring of members' behavior and sanctioning members for failure to comply with the rules of the association.[13] Another example of a partial organization is the rankings of schools that have become so popular. These rankings are based on efforts to monitor and measure schools' behavior based on explicit rules and a drop in performance against any of the metrics results in sanctions to a school in the form of a drop in its ranking; however, the schools included in a ranking scheme are not organized and connected through formal membership or hierarchical controls.[14] Rasche et al. noted that while it is arguably difficult to distinguish partial organizations from networks and institutions, both of which also develop and flourish outside the

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[11] Id. at 653.
[12] Id..
[13] W. Coleman, "Associational governance in a globalizing world: Weathering the storm", in J. R. Hollingsworth and R. Boyer ((Eds.), Contemporary capitalism: The embeddedness of institutions (Cambridge: Cambridge University Press. 1997), 127.
[14] M. Sauder and W. Espeland, "The discipline of rankings: Tight coupling and organizational change", American Sociological Review, 74(1) (2009), 63.

boundaries of formal organizations, the difference is that networks and institutions are "emergent social orders" while partial organizations, like complete organizations, come into being as a result of deliberate decisions by their organizers (i.e., individuals and/or other organizations).

In Practice: Using the Complete and Partial Organization Framework

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

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

- What is to be the preferred "identity" of the company and what skills and personal characteristics among the executives, managers, employees and contractors of the company will be needed in order to achieve that identity? There is arguably no more important task for the founders than making sure that the composition of the company's "membership" is aligned with its business and social purposes.
- What formal and informal rules will be needed in order for the company to perform its activities smoothly and for managers and employees to understand their scope of authority and to whom they are accountable? In spite of the talk about, and popularity of, "flat organizations", some degree of hierarchy will emerge in every company; however, the process can be managed to some degree by paying careful attention to how each new member of the company fits into the hierarchy that already exists and the structure that the founders have in mind for the future.
- Sustainable entrepreneurship often involves an explicit or implicit promise to "break all the rules" or "throw the old rules out"; however, companies will not be effective in the long run in achieving their economic and social goals without some guidelines for organizing their day-to-day activities. As they ponder some of the questions posed above, particularly what type of identify they hope to create for their businesses, founders should create a simple set of standards that can be explained to new members and continuously referred to as a source of guidance for expected and responsible behavior.
- While monitoring in larger organizations is often focused on compliance, the founders of a new company should be more concerned with monitoring as a communications and feedback tool. While the founders are certainly interested in making sure that their initial standards for behavior are being observed, the launch phase is an important time for the founders to proactively seeking feedback from members on what is working and not working and collecting ideas from the members as to how best to organize the company.
- While their web of standards will generally be relatively modest, founders must nonetheless consider appropriate incentives and rewards for following and achieving those standards and consider and explain the consequences of failing to fulfill the standards. When the company is very small, the founders can and should personally discuss rewards and negative sanctions with each new member as part of the process of explaining the specific role that they member is expected to have in developing the company's skills and pursuing the company's initial economic, technological and social milestones.

It is important to remember that while an organization is "complete" because the founders, as the organizers, have the ability to draw upon on all five elements as they design their companies, there are no hard and fast rules as to the extent to which each of the elements are deployed and/or the overall balance of the elements in the organization design and, in fact, the mix can and should change as the company evolves and new organizational tasks and priorities are identified. All of this suggests that while companies may eventually need or want formal and legalistic contracts with their employees that cover various aspects of the employment relationship, including an understanding of ownership rights in the company's intellectual property, the wiser course for the first few weeks or months should be a clear and simple exchange of expectations regarding skills and contributions (i.e., where the new member "fits" into the organization today and in the future), behaviors, property rights, communications, authority, standards and rewards that gets the relationship and the company moving forward in the desired direction.

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

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

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

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

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

Organizational Stakeholders

Organizations exist in order to create value for various groups that have an interest or stake in the activities and performance of the organization. These groups are often referred to as the "stakeholders" of the organization. These stakeholders provide different types of inputs, or contributions, to the organization with the expectation that their contributions will be converted or transformed into outputs that are sufficient to reward the stakeholders for their investment of tangible and intangible resources in the organization. Assuming that the stakeholders are able to realize a satisfactory return on their investment the expectation would be that they would continue to support the organization. However, if the stakeholders are disappointed in what they receive from their involvement with the organization they will likely attempt to exert pressure on the way that the organization is operated or perhaps even withdraw their support altogether. Since there is a wide array of contributions that stakeholders might make, as well as significant variation in their expectations regarding returns on their investment, the managers of an organization face a real challenge in balancing the needs of the stakeholders of the organization.[15]

Internal Stakeholders

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

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

play a critical role in the initial trajectory of the organization by virtue of the fact that they typically seek to grow the organization by identifying new members that share common interests and beliefs and provide complimentary resources.

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

External Stakeholders

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

Reconciling the Goals and Objectives of Stakeholder Groups

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

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

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

The bottom line is that the executives of any organization, acting under the watch and stewardship of the board of directors or other oversight body, need to continuously make difficult decisions regarding the allocation of value created by the operational activities of the organization. This requires a keen understanding of what motivates each of the stakeholders to enter into a relationship with the organization and the specific requirements of those stakeholders with regard to their investment of time, skills, capital and other tangible and intangible assets. It also requires that the directors and senior managers give serious consideration to the types of incentives they are willing to offer to prospective stakeholders. For example, what quantitative and qualitative incentives should be provided to employees to induce them to stay with the organization and make a positive contribution toward innovative activities? The answer is generally far from simple and may require a delicate mix of bonuses, stock options, challenging work assignments and organizational stability. With respect to outside investors the rewards package will usually include both dividends and long-term stock appreciation. Senior executives of large corporations often realize significant bonuses if the business does well; however, a case can be made that a large portion of these bonuses should actually be distributed among all of the employees.

Fundamental Elements of Organizational Management

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

Organizational Structure

The term "organizational structure" refers to the formal systems and procedures that an organization establishes in order to define the tasks of its members and the authority relationships that have been created and formalized in order to control and coordinate the activities of the members and the way in which the resources of the organization are used in order to achieve its goals and objectives.[16] The decisions that are made regarding organizational structure will obviously have a direct and substantial impact on the how the members in the organization act and the types of experiences that the members will have on a day-to-day basis as they complete their tasks. Organizational structure is determined by many factors; however, the most important influences are the external environment in which the organization operates, the technology that is used by the organization to produce its goods and services and for communications among members, and the human resources of the organization. The structure of an organization is not static and fixed and should be constantly monitored and realigned as environmental conditions change and the organization grows and looks to further differentiate the activities of its members.[17]

Organizational structure is created through a process of organizational design.[18] Organizational theory has been around for a long time and there has hardly been a uniformity of views with respect to how organizations should be viewed, studied and structured. When management theorists speak of organizational structure they are referring to how a variety of managerial issues are addressed in establishing and operating the organization—the degree and type of horizontal and vertical differentiation; the methods selected for coordinating and controlling the activities of the members of the organization; the level of reliance on formal rules and procedures; and the balance struck between autonomy and centralization of authority. Classical management theorists, such as Taylor, Fayol and Weber, believed that it was possible to identify the best way to structure all organizations; however, modern management theorists have abandoned this notion and recognize that organizational structure must be tailored to the specific attributes of the organization particularly its size, the technology involved in the activities

[16] A. Etzioni, Modern Organizations (Upper Saddle River, NJ: Prentice Hall, 1964).
[17] For further discussion of the factors to be considering in designing the organizational structure, see A. Gutterman, Organizational Structure: Selecting and Implementing a Structure for Your Business (Oakland CA: Sustainable Entrepreneurship Project, 2019).
[18] For a fuller introduction to organizational design, see A. Gutterman, Organizational Design: Creating an Effective Design for Your Business (Oakland CA: Sustainable Entrepreneurship Project, 2019).

of the organization and, of course, the demands of particular environment in which the organization has elected to operate. This modern perspective is generally referred to as "contingency theory."

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

- A "pre-bureaucratic" structure is commonly associated with smaller organizations that have yet to reach the point where tasks have been standardized. In general the structure is completely centralized with all important decisions being made by a strategic leader, such as the founder of an entrepreneurial venture, which are then conveyed to members in one-to-one conversations. This type of structure is best suited for situations where the founder seeks full control over the development of the organization.
- A "bureaucratic" structure evolves when an organization begins to grow, its activities become more complex and standardization of some type is necessary in order for the organization to operate efficiently. A bureaucratic structure is often referred to as "mechanistic" and distinguished from an "organic" structure in which members are given more latitude to determine how to perform their specific tasks and activities.
- A "functional" structure organizes members and activities in accordance with specified skills and places them into separate units referred to as functions, such as research and development, sales and marketing, manufacturing, finance and human resources. A functional structure is often selected in the early stages of development of a business organization since there is usually on one key product at that point and it is important ensure that each product unit meets or exceeds specified performance criteria and that production and sale proceeds efficiently. A functional structure permits rapid refinement of necessary skills; however, problems often arise due to difficulties in facilitating communications between functions and the lack of flexibility that may be needed in order to quickly adapt to market and environmental changes.
- A "product" structure organizes members and activities around a specific product or groups of related products and each product unit would have its own dedicated set of functional resources to work only on the products that have been allocated to the unit. A product structure generally emerges in response to growth of the organization and the problems associated with trying to have functional units work on multiple products at one time. A product structure improves communication among functional specialists once they have been placed in the same product unit; however, there is a risk that functional resources may be underutilized from time-to-time since they cannot easily be shifted between product units.
- A "geographic" structure, sometimes referred to as a "market" structure," organizes members and activities around a specific geographic area such as a specific country or a group of countries in the same region. Each geographic unit would be responsible for overseeing all of the products and services offered in particular country or region and would have dedicated functional resources to achieve its objectives. The scope of the functional resources will vary depending on the

circumstances and in many cases the geographic units focus mainly on sales and marketing while other functions such as manufacturing and finance are centralized at the organizational headquarters.

- The term "matrix" structure refers to the organization that is created when a decision is made to overlay two of the other organizational structure in order to attempt to simultaneously realize the advantages of each. For example, as business organizations expand globally they will often create a matrix structure that includes product and geographic units. The product unit allows the organization to seek the benefits of economies of scale while the geographic units allow the organization to tailor its sales and marketing activities to the local requirements in each market. When a matrix organization is used each member has multiple reporting obligations (e.g., a product-based manager and a market-based manager) and rules must be established to determine how authority over a member's daily tasks and activities is to be allocated between two managers.
- A "divisional" structure is generally reserved for large organizations that have a diversified range of product and/or market activities. A division may be product-focused or market-focused. Each division in this type of structure is essentially autonomous and the executives of the division are given broad authority to make decisions relating to the division, including the organizational structure used within the division and are held accountable for the profitability of its activities. Many business organizations opt to centralizing certain key functions, such as planning and/or finance, at the headquarters office rather than ceding responsibility for those activities to the divisions.

While the list above touches upon most of the major structural models for organizations it is not necessarily all-inclusive nor does it capture the myriad range of nuances that can be found in any particular situation. For example, much has been made of the pro-active use of "project teams" as an easy and efficient way to promote flexibility within an organization without embarking on whole changes in the overall structure that are costly and time-consuming to implement and often far out of proportion to the specific problems that the organization needs to address at a particular moment. A project team is a form of matrix structure used when the prevailing structural model is functional. Members from different functional units are temporarily assigned to cross-functional project teams formed to pursue and achieve very specific objectives such as development of a new product. Project teams would include specialists from engineering, manufacturing, sales and marketing and would be led by a project manager. In most cases the team members will continue to work with their regular functional units, and report to their managers in those units, while participating in the project. As with the formal matrix structure close attention must be made to how team members interact with their functional and team managers and how priorities between functional and team activities are set.[19]

Organizational Culture

[19] For further discussion, see A. Gutterman, Project and Team Management: A Guide to Getting Things Done with Groups (Oakland CA: Sustainable Entrepreneurship Project, 2019).

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

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

Organizational Design

The structure and culture of an organization are the main tools that the organization uses to establish the course to be followed in order for the organization to achieve its goals and objectives. The important process of selecting and managing the elements of organizational structure and culture, and evaluating and changing the structure and culture as time goes by, is referred to as “organizational design.”[20] The decisions made by organizational designers will determine how the activities of the members are defined and controlled and how members interact with each other and with customers, suppliers and other interested stakeholders outside of the organization. Organizational designers seek to achieve the proper balance between external and internal pressures so that the organization is able to both respond to changes in its external environment and maintain stability and harmony within the organization. For example, emerging companies are, by definition, involved in markets that are dynamic and constantly changing as a result of new technologies and sudden innovations by competitors. As a result, the design decisions made regarding the organizational structure and culture of emerging companies must address the need for those companies to be flexible and able to respond quickly to

[20] For a fuller introduction to organizational design, see A. Gutterman, Organizational Design: Creating an Effective Design for Your Business (Oakland CA: Sustainable Entrepreneurship Project, 2019).

changes in their environment.[21] At the same time, however, the organizational designer must be sure that the structure and culture of the company encourage stable working relationships and cooperation among employees so that the company is able to focus its activities on quickly and efficiently identifying and developing the products and services necessary to keep up with current conditions in the marketplace. In contrast, companies in more stable industries where customer requirements and technologies change more slowly can be expected to select organizational structures and cultures that emphasize things such as control and reduction of costs as opposed to flexibility and risk taking.

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

- The choices made regarding the design of an organization have a strong influence on how the organization is able to respond to changes in its environment and obtain the resources necessary to create greater value. For example, changes in how employee responsibilities and relationships are defined, as well as changes in the organizational culture, can increase the likelihood that the organization will be able to attract and retain skilled workers. Also, if a company needs to internationalize its business in order to broaden its markets and/or access new resources, a new structure must be created to manage global expansion and the organizational culture must be changed in order to take into account the attitudes and experiences of managers and workers in foreign countries.
- Advances in information technology ("IT") have changed the way that persons within an organization can communicate with one another and have also transformed expectations regarding the exchange of information with suppliers, customers and other business partners. Companies must be prepared to redesign the organizational structures to take the best advantage of IT and should monitor the impact that new technologies have on the culture of the organization. For example, to the extent that IT facilitates outsourcing, telecommuting and the use of global networks linked only through electronic communications tools, managers must be mindful of the impact on employee morale and interpersonal relationships.
- Being successful with organizational design, which means consistently identifying and implementing the most effective mix of structure and culture to address the then-current environmental conditions, is becoming a recognized core competency for business that can be used as a tool in the overall strategies used by the company to achieve a competitive advantage. New technologies and innovations in product design and performance can create short-term competitive advantages; however, strong and effective organizational structures and cultures are more difficult to replicate and provide a foundation that supports needed coordination among

[21] For further discussion of emerging companies, see A. Gutterman, Growth-Oriented Entrepreneurship (New York: Business Expert Press, 2018).

managers and employees to quickly develop new products and services and implement the strategies required for the organization to remain competitive.

- Organizational design has become the engine for creating and sustaining innovative businesses. Organizational structure contributes to the processes that a company uses to coordinate the activities of multiple departments to commercialize new products and use new technologies to become more efficient and reduce production costs and maximize the return-on-investment in other areas such as marketing and customer service. Organizational designers can also suggest ways to change the culture of the business to provide incentives for managers and employees to think and act as entrepreneurs and take on reasonable risks in order to leapfrog competitors.
- Organizational structure and culture have become primary tools in managing an increasingly diverse workforce that includes differences in race, gender and national origin and employees from countries around the world that each has their own unique social and cultural norms. The task for organizational designers is to create a structure and nurture a culture that encourages employees with different backgrounds to work together for the common good of the company and its business. These issues are particularly important as firm expand globally since the overall firm culture must be synchronized with differences that might come up in particular countries.

Business organizations that develop the ability to make strong organizational design decisions can turn those skills into an important competitive advantage. Correspondingly, firms that make the wrong design decisions or fail to grasp the importance of design typically experience significant declines in their business fortunes as changes in environmental factors begin to overcome the managers of the business. For example, failure to pay attention to organizational culture may result in the loss of talented employees. In addition, firms that are unable to effectively structure interrelationships between various functions will be unable to implement strategies that they hoped would result in more rapid product development or more efficient and productive manufacturing processes.

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

Efforts to identify the single best way to structure and manage an organization and its members have been unsuccessful and it is now generally acknowledged that organizational design is as much an art as it is a science and academic discipline. There are certain issues and problems that are common to all organizations regardless of their size and stage of development. For example, every organization, even those with just two members, must grapple with the threshold issues of differentiation and integration—how work will be divided among the members and how their work will be coordinated in order to ensure that the necessary activities of the organization are completed. On the other hand, the specific environmental conditions confronting the organization can also substantially impact that type of organizational structure that should be selected. If an organization operates in a relatively stable environment it may be best to rely on a rigid hierarchical system for making decision and a practice of establishing well-defined tasks. However, if an organization operates in a turbulent and uncertain environment the designer might be better advised to use what is referred to as an "organic" organizational structure hierarchy is less important and members are given more flexibility with regard to defining their roles in order to allow them to apply their expertise as needed in order to address environmental conditions as they exist at any particular point in time. Lawrence and Lorsch have nicely combined management of these two issues by stating simply that the most effective organizations achieve a degree of differentiation and integration in organizational boundary-spanning functions which is compatible with environmental demands.[22]

Designing Organizational Structures for Sustainability

The alignment of organizational design and sustainability begins with the development of a sustainability strategy and accompanying goals and priorities. In order for the sustainability strategy to be effective and successful, it must align with the structure, competencies and culture of the company. When designing the organizational structure for sustainability, several important principles need to be considered:

- While placement within the organizational structure is an issue, and may vary depending on the circumstances, there should generally be some form of formal sustainability function overseen by a single designated senior executive. While sustainability may be new to the company, leadership should be vested in someone who has the requisite credentials and experience working in the area. Science and engineering backgrounds are helpful and common and it is also a significant advantage if the sustainability executive has worked inside the organization since relationships and networking will be important in establishing the initiative and understanding how to integrate sustainability into existing operational habits.
- The sustainability initiative, and the accompanying changes to the organizational structure, must have executive sponsorship and the CEO must be a visible proponent of the sustainability vision for the company. Executive sponsorship accelerates engagement by employees and business units, but even better results can be expected if the CEO is proactive and assume personal leadership of a highly visible sustainability program.
- Structure is driven by the specific sustainability-related commitments that are made by the board of directors and members of the senior executive team following consultation with internal and external stakeholders. Examples of sustainability-related commitment topics include climate change, waste reduction and management, resource consumption, education, human rights, community engagement and procurement (i.e., supply chain management). Commitments should be pursued through a combination of corporate policies, sustainability policies and employee initiatives.

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

- The board of directors should also signal its support of the sustainability initiative by creating a separate committee dedicated to sustainability and corporate social responsibility or designating one director to provide oversight to sustainability-related initiatives. As is the case with the CEO, board members should do more than just oversee the ideas of others and should actively initiate or drive a sustainability-related initiative.
- As companies grow and the scope of the sustainability initiative expands, consideration should be given to creating other forms of organizational engagement such as executive sustainability advisory councils (i.e., members of the senior leadership team, including an executive sponsor, who reported to the CEO), mid-level employee sustainability councils, "green teams" and external advisory councils with representative from key external stakeholders.
- The sustainability executive should be supported by a cross-functional advisory team with members drawn from corporate communications, operations, legal, sales and marketing, human resources and EHS. Creation of such a team provides the executive with access to divergent views from throughout the company and also facilitates sharing of best practices and regular communications across internal organizational boundaries to make sure that everyone is aware of what is being done on sustainability and that programs are properly coordinated and aligned with the company's strategic vision and stated goals for sustainability.
- The sustainability executive should also be supported by resources exclusively available to the sustainability function. Generally, this includes managers for metrics and reporting, social programs and communications/public affairs/marketing. Internal support for day-to-day operation and reporting allows the sustainability executive to remain focused on strategic considerations and necessary outward communications with board members, the CEO and other executives, external stakeholders and the other forms of organizational engagement mentioned above.
- Staffing levels for sustainability-related activities are driven by a number of factors including the size and stage of development of the company, the importance of sustainability to the mission and overall strategic goals of the company, risk and industry. These factors also influence the focus of sustainability activities, which generally include a mix of environmental issues, philanthropy and community relations, governance/risk/compliance, human rights and employee relations.
- The core responsibilities for implementing the sustainability programs should be vested in departments have close ties to stakeholders and the requisite decision-making powers with respect to issues related to the programs. Common choices include the corporate, legal or public affairs departments.
- The leader of the sustainability initiative should have a direct reporting relationship with both the CEO and the board of directors in order to send a signal to employees and other stakeholders about the important of the initiative and provide the initiative with access to the support and resources available from high-level executives and managers in other departments.
- An organizational structure should be selected that achieves the appropriate level of interaction with employees and creates value to the business. The optimal structure may change over time as the sustainability initiative gains traction and becomes more embedded in day-to-day operations and decisions.
- Clear procedures regarding decision rights should be established, recognizing the integration of sustainability programs and goals often challenge existing decision rights. It is important to identify the types of decisions that will need to be made, the parties that will be involved in making those decisions and the managers who will be entrusted with implementing the decisions.
- Sustainability performance must be integrated into day-to-day management activities and compensation programs and responsibilities, performance reviews and compensation models for all employees must be aligned with the company's sustainability objectives in order to encourage and reward contributions to innovation and creative problem solving.
- In order to achieve the requisite integration and employee buy-in, programs must be created to develop a basis awareness of the company's sustainability strategy, goals and priorities, educate employees about opportunities and support employee efforts.
- The internal structure should be aligned with the external structure that the company relies upon to engage with stakeholders since one of the most important aspects of a sustainability program is external accountability. External stakeholders need to know that their concerns and questions will be addressed and that begins with knowing how best to access the company.

- The sustainability strategy must include both transparent goals with metrics that can be evaluated by both internal and external stakeholders and provision for reporting on the results of the sustainability programs.

Sources: H. Farr, Organizational Structure for Sustainability (July 14, 2011), http://abettercity.org/docs/events/BCBS%20Hayley%20Farr_28%20July%202011.pdf; Corporate Responsibility Officers Association, Structuring and Staffing Corporate Responsibility: A Guidebook (2010); A. Longsworth, H. Doran and J. Webber, "The Sustainability Executive: Profile and Progress" (PWC, September 2012); and National Association for Environmental Management, EHS & Sustainability Staffing and Structure: Benchmark Report (November 2012).

Organizational Environment

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

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

One of the striking things about analyzing and understanding the organizational environment of any business is the degree to the success of the business is dependent upon the decisions made, and the influence exerted, by other entities engaged in activities in the same environmental domain. For example, it is well known and accepted that every business organization is active in a larger network of purchasing and selling relationships that include its suppliers and customers. Every business is dependent on its suppliers for inputs and on its customers to purchase its outputs in order to generate the capital needed for the business to survive. If there are a limited number of suppliers the business may find itself in a dependent situation that will require implementation of various strategies to ensure access to the necessary resources. In turn, if the outputs of the business are perceived as unique and valuable by customers the business may be in a position to exert influence over those customers and extract a higher price at least for a limited period of time. Other entities may influence organizational design decisions through the requirements that they place on their business partners. One common illustration of how this works is when a large manufacturer imposes specific requirements on each of its vendors as a condition for inclusion in the manufacturer's supply chain (e.g., accounting and financial reporting systems, vendor certification requirements, product testing standards and manufacturing techniques).

Organizational Change

Organizations should, and must, continuously change and evolve as they grow and mature in order to remain effective and achieve their overall goals and objectives. While "organizational change" is sometimes explained as a process separate and distinguishable from organizational design, in reality they are one and the same and organizational change is really the end product of what should always be an ongoing effort by the organizational designer to monitor the performance of the current structure and culture, as well as changes in the organization's external environment (i.e., changes in technology, customer requirements, economic factors or competition) and identify new ways that these elements can be transformed, or redesigned, so that the organization is better able to acquire and use its resources to increase the value created by the organization and better position to respond to changes in its environment.[23] In order for organizational change to be effective, a formal change program should be created in advance to ensure that members of the organization are fully informed of the proposed changes and understand why change is required and how it will impact them and the entire organization (see box below. A change program should incorporate mechanisms for obtaining feedback and constantly reinforcing the changes given that it is often difficult to change accepted behaviors and ways of conducting business.

Organizational Change Management Program

- Has a customized change management program been prepared? The change management program should take into account the specific characteristics of the proposed change and the history and culture of the organization.
- Has consideration been given to how the individual members of the organization will react to the proposed changes and how their day-to-day activities for, and interaction with, the organization will be

[23] M. Beer, Organizational Change and Development (Santa Monica, CA: Goodyear, 1980).

impacted? Consideration of these questions should guide decisions about supporting mechanisms such as communications and training.

- Have the lead sponsors for the change initiative been identified and are they at the appropriate level within the organization to be effective? Sponsors should be active and visible leaders of the change initiative with authority to make and monitor all necessary funding and organizational design decisions.
- Does the change management plan include an effective strategy for communicating with members and external stakeholders of the organization? An effective communication plan will be targeted to appropriate audiences, rely on various communication channels (e.g., meetings, face-to-face conversations, newsletters, presentations, Intranet Q&A, etc.) and provide for feedback to ensure that the change initiative is understood.
- Does the communications program include clear answer to key member questions such as "why are we making this change" and "what will happen if we don't make this change"? Members may find the broader vision of organization leaders to be interesting; however, they are usually most concerned about what it all means for them personally—another implicit question that each member has is "what's in it for me". An effort should be made to preserve and honor the good things of the past even if changes are now thought to be necessary.
- Have managers and supervisors been involved in development and implementation of the change management program? Managers and supervisors are crucial to success of any change program because they have close relationships with those that report to them and are best situation to manage how their direct reports experience and respond to the proposed changes.
- Does the change management program include adequate training for managers and supervisors? Managers and supervisors play an important role in change management and it is essential that they be given the tools necessary to become and remain effective advocates of the change process.
- Does the change management program include strategies and plans for handling resistance that may arise from within the organization? A distinction can and should be made between proactive strategies—which involve anticipating in advance which issues will be raised by members and crafting responses before the program is initiated—and reactive strategies—which include pre-established policies for reacting to unforeseen objections that arise once the program has begun.
- Has the organization established systems that will facilitate collection and analysis of feedback and measurement of progress toward the initial goals of the change program? Before the program is launched the goals should be clearly defined in ways that permit objective measurement and feedback tools should be created and tested.
- Does the change management program include plans for continuous reinforcement of the proposed changes? Any change in the way that things are down within an organization takes a long time to be absorbed particularly when the change related to deeply embedded values and norms. The program must take a long-term approach and include strategies for reinforcing the new values and norms that the leaders wish to implement.

Chapter 7
Organizational Performance and Effectiveness

While organizational performance is a much-discussed topic, the reality is that there is a good deal of confusion and argument regarding how it should be defined, conceptualized and measured. The traditional approach has been to focus on the ability of the organization to achieve its economic goals by using its available resources in both an efficient and effective manner using measures such as profitability, return on assets and equity, market share and sales growth; however, the growing importance of sustainability has led to arguments that non-financial factors, and the needs and expectations on stakeholders other than investors, should be considered in gauging organizational performance. This chapter begins by discussing conceptualizations of organizational performance and the most used financial and non-financial measures of performance, and then continues with guidance on establishing an organizational measurement performance system that can be used to track, evaluate and improve organizational performance. The chapter also discusses emerging frameworks for incorporating sustainability into performance measurement including the use of the "balanced scorecard".

While organizational performance is a much-discussed topic, the reality is that there is a good deal of confusion and argument regarding how it should be defined, conceptualized and measured. According to Karanja, there are divergent views among organizational researchers as to the appropriate way to define and measure organizational performance; however, many researchers have adopted a test that focuses on the ability of the organization to achieve its economic goals by using its available resources in both an efficient and effective manner.[1] Many different variables have been used to measure organizational performance including profitability, gross profit, return on asset, return on investment, return on equity, return on sales, revenue growth, market share, stock price, sales growth, export growth, liquidity and operational efficiency.[2] Griffin described organizational performance as the extent to which the organization is able to meet the needs of its stakeholders and its own needs for survival.[3] This formulation broadened the concept of organizational performance beyond strictly market-focused measures such as profit margin, market share or product quality, all of which are important to certain stakeholders and overall organizational survival, to include a number of other non-financial factors. Venkatraman and Ramanujan argued that three aspects of organizational performance should be considered: financial performance, business performance and organizational effectiveness.[4]

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[1] J. Karanjia, "Effects of Corporate Culture on Organization Performance", IOSR Journal of Mathematics, 10(6 Ver. II) (November – December, 2014), 59 (citing various authorities).

[2] J. Parnell and P. Wright, "Generic Strategy and Performance: An Empirical Test for the Miles and Snow Typology", British Journal of Management, 4 (1993), 29; E. Segev, "Strategy, Strategy-making and Performance in a Business Game", Strategic Management Journal, 8 (1987), 565; C. Snow and L. Hrebiniak, "Strategy, Distinctive Competence, and Organizational Performance", Administrative Science Quarterly, 25 (1980), 307; A. Thomas and K. Ramaswamy, "Matching Managers to Strategy: Further Tests of Miles and Snow Typology", British Journal Management, 7 (1996), 247; and F. Gimenez, "The Benefits of a Coherent Strategy for Innovation and Corporate Change: A Study Applying Miles and Snow's Model in the Context of Small Firms", Strategy and Innovation in SMEs, 9(4) (2000), 235.

[3] M. Griffin, Organizational performance model (2003), available at: http://griffin-oc.com/GOC

[4] N. Venkatraman and V. Ramanujam, "Measurement of Business Performance in Strategy Research: a Comparison Approaches", Academy of Management Review, 11 (1986), 801.

Researchers are prone to adopting definitions of organizational performance that are aligned with their specific disciplinary framework, which explains why financial measures such as sales growth, profitability and earnings per share are frequently favored in strategic management research where business performance is often the primary focus of investigation.[5] The choice of performance indicators is also impacted by the availability of relevant information; in other words, how easy is it to access information on the specific factor. Financial performance data for large, publicly held companies is relatively easy to obtain, but similar information for smaller firms is difficult to find, more subjective and often not subject to same rigorous accounting standards applied to companies required by law to report to their investors. In the same vein, organizations are generally eager to compare their performance on all dimensions to that of competitors, meaning that access to information on competitors of all sizes is important.

Conceptualizations of Organizational Performance

As for conceptualizing organizational performance, there has often been confusion between "productivity" and "performance". Productivity is typically measured by computing the ratio of the volume of work completed by the organization over a given period of time. While this is important, particularly when the focus of investigation is on the financial results of a particular strategy, performance is actually better understood as a broader concept that includes not only measures of result-oriented behavior such as productivity but also relative (normative) measures such as effectiveness, efficiency, economy, quality, consistency behavior and development and implementation of tools necessary for building skills and attitudes of performance management (e.g., education and training, concepts and instruments).[6]

There is a consensus among researchers that an organization is the voluntary association of productive assets, including human, physical, and capital resources, for the purpose of achieving a shared purpose.[7] It is generally argued that donors would not be willing to provide and commit their productive assets to an organization unless they are satisfied with the "value" they will receive in exchange, relative to alternative uses of those assets. As such, creation of value, as defined by the providers of the necessary assets, is arguably

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[5] K. Cameron and D. Whetten, "Organizational effectiveness: One model or several?", in K. Cameron and D. Whetten (Eds), Organizational effectiveness: A comparison of multiple models (New York: Academic Press, Inc., 1983), 1.

[6] M. Heffernan and P. Flood, "An Exploration of the Relationship between Managerial Competencies, Organizational Characteristics and Performance in an Irish organization", Journal of European Industrial Training (2000), 128; and R. Ricardo and D. Wade, Corporate Performance Management: How to Build a Better Organization Through Measurement Driven Strategies Alignment (Amsterdam: Butterworth Heinemann, 2001).

[7] R. Carton, Measuring Organizational Performance: An Exploratory Study (Athens, GA: University of Georgia Doctoral Dissertation, 2004), 3 (citing A. Alchian and H. Demsetz, "Production, information costs, and economic organization", American Economic Review, 62 (1972), 777; J. Barney, Gaining and sustaining competitive advantage (2nd ed.) (Upper Saddle River, NJ: Pearson Education, Inc., 2002); M. Jensen and W. Meckling, "Theory of the firm: Managerial behavior, agency costs, and ownership structure", Journal of Financial Economics (1976), 305; and H. Simon, Administrative Behavior (3rd ed.) (New York: Macmillan, 1976))..

the most important objective for an organization and necessary for the organization's survival (i.e., ongoing availability of productive assets is dependent on the value that is created by the use of the contributed assets being equal to or greater than the value expected by those contributing the assets). However, while all this seems fairly straightforward and somewhat obvious, Carton highlighted several reasons why assessment and understanding of "value creation" is challenging[8]:

- Value creation is situational since value comes in many forms (i.e., tangible or intangible, operational or financial) and different types of organizations and stakeholders have different concepts of what outcomes are valuable. Creation of shareholder value, as measured by increases in market value plus dividends paid to shareholders, has been a long-standing measure of performance, and arguably the ultimate objective, for public companies.[9] Public companies also pursue non-financial objectives; however, combining both financial and non-financial objectives to measure value creation occurs more often among private companies, and when material owners of the private company also serve as managers it is typical to see non-financial outcomes as a more important part of value creation for shareholders (e.g., lifestyle benefits including work location, work duration and social interactions; ego: and constituency benefits, such as providing income for friends and family, helping people with special needs and providing employment for a depressed community).[10]
- Performance is a multi-based construct, which means that organizations must be seen as performing and creating value on multiple dimensions, such as growth, profitability, and legitimacy.[11] This means that organizations are continuously trading positive outcomes in one dimension for worse outcomes in another and that it is misleading not to take these tradeoffs into account when developing an overall measure of performance. For example, before concluding that a downturn in profitability, as measured by return on investment, is a sign of deteriorating organizational performance, consideration should be given to contemporaneous success in accumulating new resources in the form of capital raised from

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[8] Id. at 4-7.

[9] M. Blyth, E. Friskey and A. Rappaport, "Implementing the shareholder value approach", Journal of Business Venturing (1986), 48; T. Copeland, T. Koller, J. Murrin, Valuation: Measuring and Managing the Value of Companies (Third Ed.) (New York: John Wiley & Sons, Inc., 2000); M. Porter, "From competitive advantage to corporate strategy:, Harvard Business Review, 45(3) (1987), 46; A. Rappaport, Creating shareholder value: The new standard for business performance (New York: The Free Press, 1986); M. Scott, Value Drivers: The Manager's Framework for Identifying the Drivers of Corporate Value Creation (New York: John Wiley & Sons, 1998); G. Stewart, The Quest for Value: A Guide for Senior Managers (New York: HarperCollins Publishers, 1991); and A. de Waal, Power of performance management: How leading companies create sustained value (New York: John Wiley & Sons, Inc., 2001).

[10] M. Jensen and W. Meckling, "Theory of the firm: Managerial behavior, agency costs, and ownership structure", Journal of Financial Economics (1976), 305.

[11] K. Cameron, "Effectiveness as paradox: Consensus and conflict in conceptions of organizational effectiveness" Management Science, 32(5) (1986), 539; G. Dess and R. Robinson Jr., "Measuring organizational performance in the absence of objective measures: The case of the privately-held firm and conglomerate business unit", Strategic Management Journal, 5(3) (1984), 265; G. Murphy, J. Trailer and R. Hill, "Measuring performance in entrepreneurship research", Journal of Business Research, 36 (1996), 15; and R. Steers, "Problems in the measurement of organizational effectiveness", Administrative Science Quarterly, 20 (December 1975), 546.

shareholders. The resource accumulation results in a lower risk adjusted return on investment; however, it also positions the organization to create value through being more effective with stable resources and promotes maintenance of market share.

- Each stakeholder group, as well as each of the members of those groups, has a unique opinion as to what constitute "value" with respect to the activities and outcomes of the organization. Even in the traditional model where "shareholder value" is the primary focus, there will be some investors who want short-term profits and continuous dividends and other investors who are content to receive their value from successful exploitation of future opportunities that require investments that will reduce cash flow and tangible organizational assets in the short term. For creditors of the organization, the most valuable actions are those that generate positive cash flow and preserve the value of the collateral that secures repayment of the organization's debt obligations, and they have no interest in long-term investments that might increase the risk of default on the organization's short-term duties to its creditors.
- Measurements of value should take into account not only the outcome of action taken to date but also the risk-adjusted present value of future opportunities that have been created through strategic actions and decisions in the past. The problem with this is that reasonable minds may differ as to probably that future opportunities will be realized and there will likely be a number of different assumptions and expectations about future actions and conditions that will impact the ultimate value of those opportunities. In other words, assumptions about future outcomes and their value will vary based on the perceptions of the observer and each observer will impose a different tolerance for risk on those outcomes.

Determinants of Organizational Performance

Most of the management research relating to organizational performance has focused on the determinants of performance, which include organizational actions such as the selection and execution of strategy and external factors such as the structure of the industry in which the organization operates.[12] Karanja referred to the work of Hansen and Wernerfelt, who argued that in the business policy literature there were two major streams of research on the determinants of organizational performance: one based on economic tradition, emphasizing the importance of external market factors (e.g., characteristics of the industry in which the organization competed, the organization's position relative to its competitors, and the quality of the organization's resources) in determining organizational performance; and another built on the behavioral and sociological paradigm that saw organizational factors and their "fit" with the environment as the major determinant of success.[13] Results published in 2004 of a study conducted by Chien provided support for the following factors as being major determinants of

[12] R. Carton, Measuring Organizational Performance: An Exploratory Study (Athens, GA: University of Georgia Doctoral Dissertation, 2004), 3 (citing S. Kunkel, The impact of Strategy and Industry Structure on New Venture Performance (Athens GA: Unpublished Doctoral Dissertation, University of Georgia, 1991)).
[13] J. Karanjia, "Effects of Corporate Culture on Organization Performance", IOSR Journal of Mathematics, 10(6 Ver. II) (November – December, 2014), 59 (citing G. Hansen and B. Wernerfelt, "Determinants of Firm Performance: The Relative Importance of Economic and Organizational Factors", Strategic Management Journal, 10(5) (September - October 1989), 399).

organizational performance: leadership styles and environment, organizational culture, job design, model of motivation and human resources policies.[14]

Perspectives of Organizational Performance

Carton argued that it was useful to examine organizational effectiveness and performance from several different perspectives: accounting, "balanced scorecard", strategic management, entrepreneurship and microeconomics.[15] He noted that while accountants are interested in historical performance of organizations, researchers in the management disciplines are focused on improving current and future organizational performance. The "balanced scorecard" has been an attempt to bridge the gap by incorporating both historical accounting measures and operational measures that include information that managers can use to plot and predict future performance.

Accounting Literature Perspective

Researchers and scholars in the accounting area are focused on the information content of the organization's financial statements and measures and have contributed to improving the quality, breadth and uniformity of such information through the development of accounting rules and procedures (e.g., "generally accepted accounting principles") to make the information contained in financial statements both meaningful and comparable over time and across organizations.[16] Carton acknowledged that the accounting profession has facilitated the production of financial reports that are materially accurate, comparable across organizations in similar industries, and representative of the execution on opportunities to date, and that accounting reports provided important information about value creation that has been realized and retained in the company in the past; however, he believed that because of the accounting profession's conservative approach to recognition of gains, those same reports did not capture information about future opportunities that the organization had created but not executed upon and thus often underreported appreciation in value of the organization based on managerial decisions made in the past that would not bear fruit until future periods.[17]

Balanced Scorecard Perspective

The "balanced scorecard", or "BSC", perspective, first advanced by Kaplan in the 1980s, is based on the premise that measurement of organizational performance should take into factors that are not purely financial in nature since many of the financial indicators that are generally used are based on operational performance.[18] The balanced scorecard is a

[14] M. Chien, "A Study to Improve Organizational Performance: A View from SHRM", Journal of American Academy of Business, 4(1/2) (2004), 2.
[15] R. Carton, Measuring Organizational Performance: An Exploratory Study (Athens, GA: University of Georgia Doctoral Dissertation, 2004), 44-55.
[16] Id. At 45.
[17] Id. at 47.
[18] R. Kaplan, "Yesterday's accounting undermines production", Harvard Business Review, (July/August, 1984), 95. See also R. Kaplan and D. Norton, "The balanced scorecard - Measures that drive performance", Harvard Business Review, (Jan-Feb, 1992), 71.

multi-disciplinary view of organizational performance that includes measures such as market share, changes in intangible assets such as patents or human resources skills and abilities, customer satisfaction, product innovation, productivity, quality, and stakeholder performance.[19] The balanced scorecard takes into account the potential value of opportunities for the future that have been created but which have yet to be realized financially, an aspect that is outside of generally accepted accounting principles. The balanced scorecard includes, and attempts to "balance", financial and non-financial measures and seeks to include customer, internal business process and employee learning and growth perspectives.[20] Researchers have found the balanced scorecard to be a valuable tool for focusing the organization, improving communications, setting organizational objectives and providing comprehensive feedback on strategy; however, critics have focused on the need to rely on subjective assessment of management and operational measures that are unique to each organization. Further discussion of the balanced scorecard, including the main elements of the "Balanced Scorecard Framework" and empirical research on the value of the approach, appears below.

Strategic Management Perspective

Carton noted that there have been many conceptualizations of organizational performance in the strategic management literature and that researchers and commentators in the field have been especially interested in the constituencies for whom the organization performs and the dimensions which should be measured.[21] For example, Barnard, one of the earliest writers in this area, viewed organizational effectiveness as the accomplishment of organizational purposes and defined "efficiency" as the degree to which individual motives are satisfied.[22] Drucker argued that the ultimate measure of organizational performance was and that this meant that managers should focus on performance dimensions that Drucker argued were essential for the survival and long-term prosperity of firms: (1) market standing relative to the market potential both now and in the future, (2) innovation, (3) productivity, (4) physical and financial resources, (5) profitability sufficient to cover the risk premium for being in business, (6) manager performance and development, (7) worker performance and attitude, and (8) public responsibility.[23] Ansoff had a different view and proposed that the ultimate measure of organizational

[19] R. Carton, Measuring Organizational Performance: An Exploratory Study (Athens, GA: University of Georgia Doctoral Dissertation, 2004), 48.
[20] Id. at 34 (citing R. Kaplan and D. Norton, "The Balanced Scorecard: measures that drive performance", Harvard Business Review, 70(1) (1992), 71; R. Kaplan and D. Norton, "Using the Balanced Scorecard as a Strategic Management System", Harvard Business Review, 74(1) (January-February 1996), 75; R. Kaplan and D. Norton, Transforming Strategy into Actions: The Balanced Scorecard (Boston, MA: Harvard Business School Press, 1996); R. Kaplan and D. Norton, "Linking the balanced scorecard to strategy", California Management Review, 39(1) (1996), 53; and R. Kaplan, and D. Norton, The Strategy-focused Organization: How Balanced Scorecard Companies Thrive in the New Business Environment (Boston, MA: Harvard Business School Press, 2001)).
[21] The discussion of the strategic management perspective in this section is adapted from R. Carton, Measuring Organizational Performance: An Exploratory Study (Athens, GA: University of Georgia Doctoral Dissertation, 2004), 49-53.
[22] C. Barnard, The Functions of the Executive (New York: John Wiley & Sons, 1938).
[23] P. Drucker, The Practice of Management (New York: Harper and Row, 1954).

performance was return on investment.[24] Venkatraman and Ramanujan argued that three aspects of organizational performance should be considered: financial performance, business performance and organizational effectiveness.[25] Porter point out that in order to understand the overall goals of the organization and measure performance toward those goals, it was necessary to focus on the objectives of specific business units.[26] For example, while one business unit may be given the job of pursuing and achieving higher sales growth, the performance and activities of another unit may be based on goals such as generating additional cash that can be used to finance growth in other business units focusing on more productive areas. Most of the approaches above, particularly the more recent ones, are notable for taking both multi-constituency and multi-dimensional perspectives toward organizational performance.

Entrepreneurship Perspective

While many have argued that the goals of an organization are those of its founders, thus suggesting a one-dimensional perspective to organizational performance[27], other entrepreneurial researchers have argued that the perspectives of other stakeholder constituencies, such as venture capitalists, angel investors and family business owners, must also be taken into account. Entrepreneurial researchers have also identified multiple dimensions of performance that lead to tradeoffs when setting priorities at any point in time during the evolution of the organization. For example, several commentators have highlighted the tension between pursuing rapid growth in order to achieve a foothold in the market in the marketplace and attract capital from investors and the need to achieve and maintain profitability in order to stabilize the business.[28] As is the case with the strategic management perspective, the entrepreneurship perspective of performance is both multi-constituency and multi-dimensional.[29]

Microeconomics Perspective

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[24] H. Ansoff, Corporate Strategy: An Analytic Approach to Business Policy for Growth and Expansion (New York: McGraw-Hill, 1965).

[25] N. Venkatraman and V. Ramanujam, "Measurement of Business Performance in Strategy Research: a Comparison Approaches", Academy of Management Review, 11 (1986), 801.

[26] M. Porter, Competitive advantage (New York: Free Press, 1985).

[27] J. Bracker and J. Pearson, "Planning and financial performance of small, mature firms", Strategic Management Journal, 7(6) (1986), 503; G. Chandler and E. Jansen, "The founder's self-assessed competence and venture performance". Journal of Business Venturing, 7(3) (1992), 223; and D. Slevin and J. Covin, "Entrepreneurship as firm behavior: A research model" in J. Katz and R. Brokhaus (Eds.), Advances in Entrepreneurship, Firm Emergence and Growth (Greenwich, CT: JAI Press, Inc., 1995).

[28] W. Gartner, "What are we talking about when we talk about entrepreneurship?", Journal of Business Venture, 5 (1990), 15; G. Chandler and S. Hanks, "Measuring the performance of emerging businesses: A validation study". Journal of Business Venturing, 8(5) (1993), 391; G. Chandler and S. Hanks, "Founder competence, the environment, and venture performance", Entrepreneurship: Theory and Practice, 18(3) (1994), 77; and G. Chandler and S. Hanks, "Market attractiveness, resource-based capabilities, venture strategies, and venture performance. Journal of Business Venturing, 9(4) (1994), 331.

[29] R. Carton, Measuring Organizational Performance: An Exploratory Study (Athens, GA: University of Georgia Doctoral Dissertation, 2004), 53.

The microeconomics perspective to organizational performance begins with the fundamental assumption that an organization will attractive the productive assets it needs to survive so long as the owners of those assets, seeking to gain their own economic advantage, receive or expect to receive a return that is satisfactory relative to the risk they are taking.[30] If the performance of the organization fails to reach the necessary level for an asset owner, which level is determined in part by the specific owner's available alternative uses for the assets, the owner will withdraw its support for the organization and put those assets to alternative uses where the owner can achieve the required return. If poor organizational performance causes an organization to see an exodus of support from the owners of productive assets, or makes it difficult to attract productive assets from new owners, the organization will eventually starve from the lack of resources. On the other hand, organizations that perform in a manner that generates more than acceptable returns through a competitive advantage will be able to attract additional productive assets needed in order to power growth and meet the demand for products and services that are coveted because of the organization's competitive advantage.

Financial and Non-Financial Measures of Organizational Performance

After reviewing the literature on organizational performance, Abu-Jarad et al. concluded that performance is really all about achieving the objectives that organizations set for themselves and that these objectives can be both financial (e.g., profitability) and non-financial (e.g., spreading awareness among members of a certain stakeholder community), which means that organizational performance should be categorized and assessed under two categories: financial and nonfinancial.[31]

In the context of organizational financial performance, performance is a measure of the change of the financial state of an organization, or the financial outcomes that results from management decisions and the execution of those decisions by members of the organization. Financial measures of organizational performance can generally be grouped into several categories: sales measures, profit measures and growth measures.[32] Davis et al. broke out financial measures into "top-line" (e.g., sales) and "bottom-line" (e.g., profitability) measures.[33] Among the most common financial measures of performance are profit margins, return on assets, return on equity, return on investment

[30] The discussion of the microeconomics perspective in this section is adapted from R. Carton, Measuring Organizational Performance: An Exploratory Study (Athens, GA: University of Georgia Doctoral Dissertation, 2004), 53-55. As examples, see J. Barney, Gaining and sustaining competitive advantage (2nd ed.) (Upper Saddle River, NJ: Pearson Education, Inc., 2002); and H. Simon, Administrative Behavior (3rd ed.) (New York: Macmillan, 1976).

[31] I. Abu-Jarad, N. Yusof and D. Nikbin, "A Review Paper on Organizational Culture and Organizational Performance", International Journal of Business and Social Science, 1(3) (December 2010), 26, 31.

[32] S. Zou and S. Stan, "The Determinants of Export Performance: A Review of the Empirical Literature between 1987 and 1997", International Marketing Review, 15(5) (1998), 333.

[33] J. Davis, F. Schoorman, R. Mayer and H. Tan, "The Trusted General Manager and Business Unit Performance: Empirical Evidence of a Competitive Advantage", Strategic Management Journal, 21 (2000), 563.

and return on sales.[34] Financial measures have an advantage over non-financial measures in that they are more objectively determined and provide a ready means of assessing the efficiency of the organization and the ability of the managers to growth revenues while managing variable costs.[35] However, the perception of financial outcomes is contextual, which means that the measures that are used to represent the financial performance of the organization will be based on the specific circumstances of the organization.[36]

Non-financial measures of organizational performance cover topics such as perceived success (i.e., the reasonable belief that an activity contributes to the overall profitability and reputation of the organization), satisfaction with the organization's performance and goal achievement (i.e., assessment of performance compared to objectives).[37] Not surprisingly, non-financial measures, which generally involve a significant amount of subjective assessment, are more difficult to evaluate and manage than financial measures of organizational performance.

A wide range of non-financial indicators have been suggested as valuable measures of organizational performance and success including job satisfaction, organizational commitment, and employee turnover.[38] In turn, each of these elements has their own definitional issues. For example, Robbins defined job satisfaction as a general attitude toward one's job; the amount of rewards received should at least be equal to the expected; however, Hackman and Oldham argued that assessing job satisfaction calls for consideration of multiple dimensions including skill variety, task identity, task significance, autonomy, and feedback from the job itself and that job satisfaction is based on several things such as satisfaction with supervision, satisfaction with co-workers, satisfaction with work, satisfaction with pay, and satisfaction with promotion.[39] Organizational commitment has been described as the willingness of organizational members to exert effort in order to accomplish the organizational goals and values, and a desire to maintain membership in that organization.[40] Both job satisfaction and organizational commitment influence employee turnover, since it should be clear that

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[34] C. Galbraith and D. Scendel, "An empirical Analysis of Strategy Types", Strategic Management Journal, 4 (1983), 153; and R. Robinson, "The Importance of "Outsiders" in Small Firm Strategic Planning", Academy of Management Journal, .25(1) (1982), 80.

[35] J. Davis, F. Schoorman, R. Mayer and H. Tan, "The Trusted General Manager and Business Unit Performance: Empirical Evidence of a Competitive Advantage", Strategic Management Journal, 21 (2000), 563.

[36] R. Carton, Measuring Organizational Performance: An Exploratory Study (Athens, GA: University of Georgia Doctoral Dissertation, 2004), 2.

[37] S. Zou and S. Stan, "The Determinants of Export Performance: A Review of the Empirical Literature between 1987 and 1997", International Marketing Review, 15(5) (1998), 333.

[38] R. Mayer and F. Schoorman, "Prediction Participation and Production Outcomes through a Two-Dimensional Model of Organizational Commitment", Academy of Management Review, 20 (1992), 709; and R. Mowday, L. Porter and R. Steers, Employee-organization Linkages: The Psychology of Commitment, Absenteeism and Turnover (New York: Academic Press, 1982).

[39] S. Robins, Organizational Behaviour: Concept Controversy and Application (9th Edition) (Upper Saddle River, NJ: Prentice Hall, 2003); and J. Hackman and G. Oldham, "Development of the Job Diagnostic Survey", Journal of Applied Psychology, 60(2) (1975), 159.

[40] R. Mowday, L. Porter and R. Steers, Employee-organization Linkages: The Psychology of Commitment, Absenteeism and Turnover (New York: Academic Press, 1982); and S. Robins, Organizational Behaviour: Concept Controversy and Application (9th Edition) (Upper Saddle River, NJ: Prentice Hall, 2003).

employees who are not satisfied with the jobs and lack the requisite commitment to the organization will suffer from poor morale and motivation and are thus more likely to seek other opportunities outside the organization.[41] Employee turnover is related to the financial performance of the organization since it can be expected that a stable workforce will facilitate increased productivity and reduce the need for the organization to incur additional costs to recruit and train new employees.[42]

Measurement of Organizational Performance in Management Literature

Canton was interested in research relating to measurement of overall organization performance and began by providing summaries and analyses of the relatively small number of empirical studies on the measurement of organizational performance that had been completed during the 1980s and 1990s[43]:

- Dess and Robinson found that top management subjective evaluation of performance was highly correlated with objective measures of performance such as return on assets ("ROA") and growth in sales, a finding that suggested that researchers can and should consider subjective perceptual measures of ROA and sales growth in certain instances when objective information is not available.[44]
- Rawley and Lipson found that relatively few overall performance measures were related to one another at statistically significant levels, thus demonstrating that difference common measures of financial performance did not represent the same attributes or measure the same construct.[45]
- Chakravarthy found that no single accounting or market-based profitability measure was capable of distinguishing differences in the strategic performance between two groups of computer firms.[46] Interestingly, Chakravarthy did find evidence to support the proposition that the ability of a firm to produce slack resources was a discriminator of strategic performance, presumably because slack resources allow firms to be flexible enough to respond quickly to changing environmental conditions.

[41] J. Hackman and G. Oldham, "Development of the Job Diagnostic Survey", Journal of Applied Psychology, 60(2) (1975), 159; M. Sulaiman, Corporate Strategy and Structure of High Performing Malaysian Manufacturing Firms (PhD Thesis, University of Wales, 1989); M. Sulaiman, "Corporate Strategy and Structure of High Performing Malaysian Manufacturing Firms", Malaysian Management Review, 28(1) (1993), 1; and S. Robins, Organizational Behaviour: Concept Controversy and Application (9th Edition) (Upper Saddle River, NJ: Prentice Hall, 2003)..
[42] J. Arthur, "Effects of Human Resource Systems on Manufacturing Performance and Turnover", Academy of Management Journal, 37(3) (1994), 670; B. Baysinger and W. Mobley, "Employee Turnover: Individual and Organizational Analysis" in K. Rowland and G. Ferris (Eds.), Research in Personnel and Human Resource Management (Greenwich, CT: .JAI, 1993); and J. Newman, "Predicting Absenteeism and Turnover: A Field Comparison of Fishveins' Model and Traditional Job Attitude Measures, Journal Applied Psychology, 59 (December 1994), 510.
[43] R. Carton, Measuring Organizational Performance: An Exploratory Study (Athens, GA: University of Georgia Doctoral Dissertation, 2004), 16-30.
[44] G. Dess and R. Robinson Jr., "Measuring organizational performance in the absence of objective measures: The case of the privately-held firm and conglomerate business unit", Strategic Management Journal, 5(3) (1984), 265
[45] T. Rawley and M. Lipson, Linking Corporate Return Measures to Stock Prices (St. Charles, Ill.: HOLT Planning Associates, 1985).
[46] B. Chakravarthy, "Measuring strategic performance", Strategic Management Journal, 7 (1986), 437.

- Venkatraman and Ramanujam demonstrated that sales growth, profit growth and profitability were discriminant measures of different dimensions of business performance, which meant that the measures were distinct constructs and did not measure the same performance phenomenon.[47] In other words, "the findings from a study that uses sales growth to represent business performance should not be equated to findings from a study that uses either profit growth or profitability to represent business performance".[48]
- Brush and Vanderwerf highlighted the apparent lack of agreement on which measures of performance should be used by examining 34 different studies in the entrepreneurship literature that explicitly used firm performance as the dependent variable and finding that 35 different measures of performance were used in these studies, with the most frequently used measures of performance being changes in sales, organizational survival, changes in the number of employees and profitability.[49] They also found that the primary means of data collection was mail surveys to managers, executives, founders or owners.
- Robinson reviewed and analyzed ten different performance measures for new ventures to determine which of them was most effective in accurately assessing long-term economic value creation and found that "shareholder value created" was the most effective measure for effectively differentiating among new venture strategies.[50] Other measures studied included change in sales, sales level, return on sales, return on invested capital, return on equity, return on assets, net profit, earnings before interest and taxes, and earnings multiples.
- Murphy, Trailer and Hill examined 51 articles appearing in the entrepreneurship research in the years 1987 through 1993 relating to measurement of organizational performance and found that there was no consistency in variable used to measure performance and that, in fact, 71 different variables were mentioned among the articles in the survey.[51] They categorized these variables, which were primarily financial rather than operational, into eight separate dimensions of performance: efficiency (i.e., return on investment, return on equity and return on assets); growth (i.e., growth in sales and change in employees); profit (i.e., return on sales, net profit margin and gross profit margin); size/liquidity (i.e., sales level, cash flow level and ability to fund growth); SCS/fail (i.e., discontinued business); market share; leverage and other (i.e., change in employee turnover, dependence on corporate sponsor and relative quality).[52]

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[47] N. Venkatraman and V. Ramanujam, "Measurement of business economic performance: An examination of method convergence", Journal of Management, 13(1) (1987), 109.

[48] R. Carton, Measuring Organizational Performance: An Exploratory Study (Athens, GA: University of Georgia Doctoral Dissertation, 2004), 21-22.

[49] C. Brush and P. Vanderwerf, "A comparison of methods and sources for obtaining estimates of new venture performance", Journal of Business Venturing, 7 (March 1992), 157.

[50] K. Robinson, Measures of entrepreneurial value creation: An investigation of the impact of strategy and industry structure on the economic performance of independent new ventures (Athens GA: Unpublished Doctoral Dissertation, The University of Georgia, 1995).

[51] G. Murphy, J. Trailer and R. Hill, "Measuring performance in entrepreneurship research", Journal of Business Research, 36 (1996), 15.

[52] Carton mentioned that there would likely be some dispute regarding some of the classifications made by Murphy et al., such as "assets, inventory and receivables turnover are generally considered efficiency measures, whereas return on investment, return on equity, return on assets, return on net worth (generally

His review of the research described above led Carton to conclude that there was no consistency in the measured used to represent the construct of organizational performance in strategic management or entrepreneurship research and that the prior empirical research had demonstrated that there were multiple dimensions to the performance construct.[53] Carton went on to do his own examination of empirical research published in recognized academic journals from July 1996 through June 2001 relating to performance measurement in entrepreneurship and strategic management research and found that 13% of the articles (138 articles in total) published during that period purported to use overall organizational performance as the dependent measure in empirical research. Among those articles, 133 distinct measures of overall organizational performance were used and no single measure or group of measures of overall organizational performance emerged as actually representing the construct. His conclusion was that there was simply no agreement on what the different dimensions of overall organizational performance are, or on how they should be measured.[54]

Arguing that since the literature had failed to develop an authoritative list of performance categories, Carton suggested that reference could be made to the general classifications of performance measures often found in finance and accounting texts to identify the following five primary categories of organizational performance measures[55]:

- *Accounting Measures*: Accounting measures rely upon financial information reported in income statements, balance sheets, and statements of cash flows, and can be further subcategorized into profitability measures (e.g., net income, operating income or earnings before taxes), growth measures (e.g., absolute or percentage changes in assets, sales, expenses etc.), leverage, liquidity, and cash flow measures, and efficiency measures (e.g., asset turnover, net profit per employee and sales per square foot). Profitability, either in the current period or in the reasonably foreseeable future, is generally a condition to continuing to attract resources from donors, and thus a very predictor of survivability. Liquidity is also important to assuring resource providers that the organization will meet its obligations in a timely manner and not get derailed by a crisis associated with a default. Certain of the efficiency measures cannot be determined without reference to information outside of the financial statements.

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considered the same as return on equity), and internal rate of return are all considered profitability measures, even though Murphy et al. classified them as efficiency measures … [and] measures such as return to shareholders, market-to-book value, and stock price appreciation are all considered market measures even though Murphy et al. classified them as profit measures". R. Carton, Measuring Organizational Performance: An Exploratory Study (Athens, GA: University of Georgia Doctoral Dissertation, 2004), 27.

[53] Id. at 30.

[54] Id. at 41-42. The journals Carton surveyed included The Academy of Management Journal, the Strategic Management Journal, The Journal of Management, The Journal of Business Venturing, and Entrepreneurship Theory and Practice.

[55] Id. at 72-75 (citing R. Brealey, S. Myers and A. Marcus, Fundamentals of Corporate Finance (3rd Ed.) (New York: McGraw-Hill, 2001); E. Helfert, Techniques of Financial Analysis (8th Ed.) (Boston: Irwin, 1994); R. Higgins, Analysis for Financial Management (4th Ed.) (Boston: Irwin, 1995); and S. Penman, Financial Statement Analysis and Security Valuation (New York: McGraw-Hill, 2001)).

- *Operational Measures*: Operational measures include variables that represent how the organization is performing on non-financial issues and generally include market share, changes in intangible assets such as patents or human resources, customer satisfaction, and stakeholder performance. The popularity of operational measures has increased with the adoption of different approaches to performance measurement that seek to integrate strategy and performance management, an example of which is the "balanced scorecard" approach discussed elsewhere in this Guide. One of the practical issues with operational measures is that many of them, such as assessments of "satisfaction" among customers and employees, are at least partly dependent on arguably subjective and self-interested opinions of organizational management.
- *Market-Based Measures*: Market-based measures of performance include ratios or rates of change that incorporate the market value of the organization such as returns to shareholders, market value added and holding period returns. The utility of these measures is limited to organizations that have an established "market value", such as publicly traded companies.
- *Survival Measures*: Survival measures of performance address the fundamental, if not more important question, for organizations: the chances of remaining in business over a specific period of time. However, these measures are rarely used in research since most of the work relating to entrepreneurship and strategic management is concerned with viability over shorter time horizons, generally no more than five years.
- *Economic Value Measures*: Economic value measures of performance are adjusted accounting measures that take into consideration the cost of capital and some of the influences of external financial reporting rules (e.g., residual income, economic value added, and cash flow return on investment). These measures are not frequently used by researchers because they are not generally reported and many organizations do not even make the effort to calculate and track them internally.

Selection and use of measurement categories depends on a variety of factors, most importantly the environmental circumstances associated with the particular research question. Each of the categories has its own advantages and disadvantages and brings a unique perspective to the overall issue of measuring organizational performance.

The "Balanced Scorecard" Framework

The "balanced scorecard", or "BSC", perspective, first advanced by Kaplan in the 1980s, is based on the premise that measurement of organizational performance should take into factors that are not purely financial in nature since many of the financial indicators that are generally used are based on operational performance.[56] The balanced scorecard has become on the best-known examples of a strategic performance measurement system that organizations should implement as a means for developing strategic plans and evaluating the fulfillment of organizational objectives.[57] The Balanced Scorecard Institute has

[56] R. Kaplan, "Yesterday's accounting undermines production", Harvard Business Review, (July/August, 1984), 95. See also R. Kaplan and D. Norton, "The balanced scorecard - Measures that drive performance", Harvard Business Review, (Jan-Feb, 1992), 71.
[57] C. Ittner and D. Larcker, "Innovations in Performance Measurement: trends and research implications", Journal of Management Accounting Research, 10 (1998), 205.

described the balanced scorecard as a management system that organizations can use to communicate what they are trying to accomplish; align the day-to-day work that everyone is doing with strategy; prioritize projects, products, and services; and measure and monitor progress towards strategic targets.[58]

Traditionally, performance measurement systems relied almost exclusively on management and cost accounting principles, often resulting in an emphasis on short-term results and efficient management of tangible resources (i.e., fixed assets and inventory), which were easier to measure using financial metrics, and a lack of appropriate attention to non-financial intangible activities (e.g., nurturing of customer relationships, development of innovative products and services and implementation of high-quality and responsive operating processes), that contributed to the creation of long-term value for the organization.[59] These "old school" measurement systems were also useful tools in complying with regulatory and accounting reporting requirements. As time went by, however, a consensus developed that traditional performance measures had become outdated and that managers needed a performance measurement system designed to present managers with financial and non-financial measures covering different perspectives which, in combination, provided a way of translating strategy into a coherent set of performance measures.[60]

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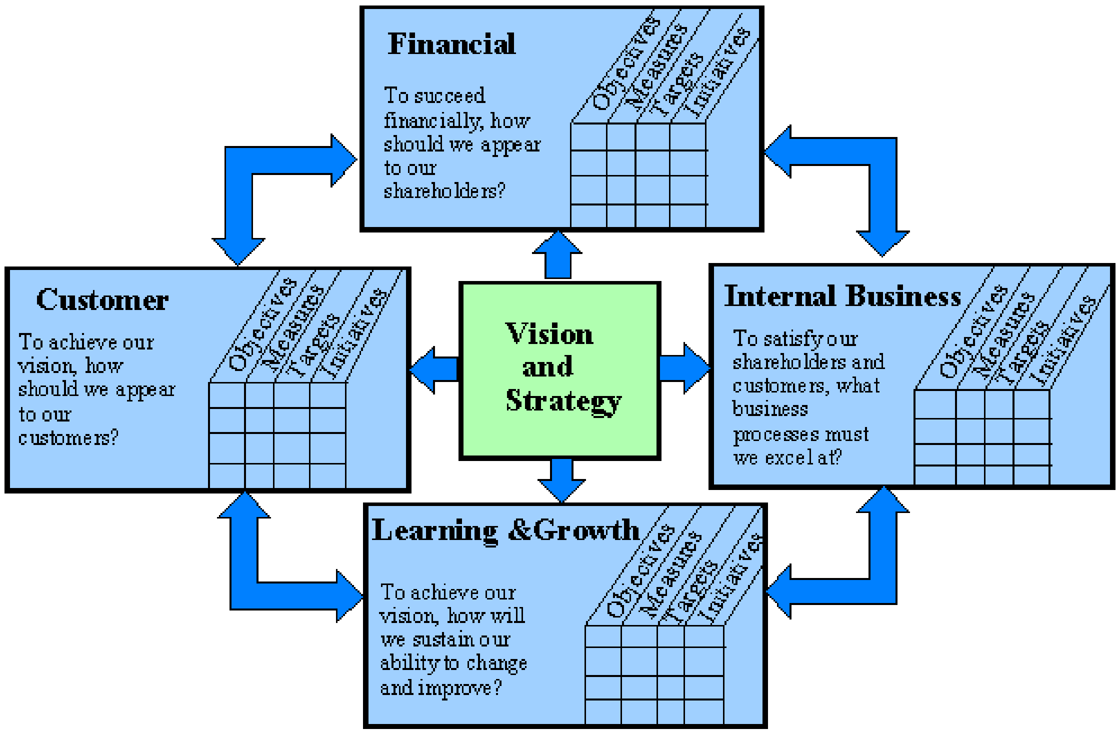
[58] http://www.balancedscorecard.org/BSC-Basics/About-the-Balanced-Scorecard [accessed June 6, 2017]

[59] R. Kaplan, and D. Norton, The Strategy-focused Organization: How Balanced Scorecard Companies Thrive in the New Business Environment (Boston, MA: Harvard Business School Press, 2001).

[60] I. Abu-Jarad, N. Yusof and D. Nikbin, "A Review Paper on Organizational Culture and Organizational Performance", International Journal of Business and Social Science, 1(3) (December 2010), 26, 31 (citing R. Chenhall, "Integrative Strategic Performance Measurement System, Strategic Alignment of Manufacturing, Learning and Strategic outcomes: an exploratory study", Accounting, Organizations and Society, 30(5) (2005), 395).

Balanced Scorecard Framework*



* Adapted from Kaplan & Norton 1996. *The Balanced Scorecard*. Harvard Business School Press: 9. Original from HBR Jan/Feb 1996, p. 76.

The balanced scorecard framework, which is depicted above, is a multi-disciplinary view of organizational performance that includes measures such as market share, changes in intangible assets such as patents or human resources skills and abilities, customer satisfaction, product innovation, productivity, quality, and stakeholder performance.[61] The balanced scorecard is a focused set of key financial and non-financial indicators that includes both leading and lagging measures. The balanced scorecard does not ignore past financial performance, recognizing that it usually a good indicator of future results and critical to success of the scorecard. However, the balanced scorecard is based on the reality that there are limitations to the financial measurement of business performance, particularly due to the fact that financial measurement is not forward looking and fails to take into account non-financial measures that need to be incorporated in order to get a fuller and more balanced picture of the business. Kaplan and Norton describe the innovation of the balanced scorecard as follows:

> "The balanced scorecard retains traditional financial measures. But financial measures tell the story of past events, an adequate story for industrial age companies for which investments in long-term capabilities and customer relationships were not critical for success. These financial measures are inadequate, however, for guiding and evaluating the journey that information age

[61] R. Carton, Measuring Organizational Performance: An Exploratory Study (Athens, GA: University of Georgia Doctoral Dissertation, 2004), 48.

companies must make to create future value through investment in customers, suppliers, employees, processes, technology, and innovation."[62]

The balanced scorecard takes into account the potential value of opportunities for the future that have been created but which have yet to be realized financially, an aspect that is outside of generally accepted accounting principles. The balanced scorecard includes, and attempts to "balance", financial and non-financial measures and seeks to include customer, internal business process and employee learning and growth perspectives along with financial perspective measures that are used to track how well improvements in the other three perspectives are working.[63] It cannot be stressed enough that the use of the term "balanced" does not imply equivalence among the various measures that are used in the framework but rather is intended to ensure that users of the framework understand that not all key performance metrics are financial and that non-financial measures should be considered when looking for ways to improve long-term organizational performance.

The graphic of the balanced scorecard framework above highlights the four perspectives for viewing the organization, each of which are to be referred to when developing strategic objectives, measures of performance, targets and initiatives. The Balanced Scorecard Initiative described each of these perspectives as follows[64]:

- **Financial:** Often renamed Stewardship or other more appropriate name in the public sector, this perspective views organizational financial performance and the use of financial resources.
- **Customer/Stakeholder:** This perspective views organizational performance from the point of view the customer or other key stakeholders that the organization is designed to serve and focuses on customer value and customer satisfaction and/or retention.
- **Internal Process:** Views organizational performance through the lenses of the quality and efficiency related to our product or services or other key business processes.
- **Learning and Growth (often called Organizational Capacity):** Views organizational performance through the lenses of human capital, infrastructure, technology, culture and other capacities that are keys to breakthrough performance.

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[62] R. Kaplan and D. Norton, "Using the Balanced Scorecard as a Strategic Management System", Harvard Business Review (January-February 1996), 76.

[63] Id. at 34 (citing R. Kaplan and D. Norton, "The Balanced Scorecard: measures that drive performance", Harvard Business Review, 70(1) (1992), 71; R. Kaplan and D. Norton, "Using the Balanced Scorecard as a Strategic Management System", Harvard Business Review, 74(1) (January-February 1996), 75; R. Kaplan and D. Norton, Transforming Strategy into Actions: The Balanced Scorecard (Boston, MA: Harvard Business School Press, 1996); R. Kaplan and D. Norton, "Linking the balanced scorecard to strategy", California Management Review, 39(1) (1996), 53; and R. Kaplan, and D. Norton, The Strategy-focused Organization: How Balanced Scorecard Companies Thrive in the New Business Environment (Boston, MA: Harvard Business School Press, 2001)). The discussion of the various perspectives of the balanced scorecard perspective is based on R. Kaplan and D. Norton, The Balanced Scorecard: Translating Strategy into Action (Boston: Harvard Business School Press, 1996) and the summary of that work available at http://www.maaw.info/ArticleSummaries/ArtSumKaplanNorton1996Book.htm [accessed August 31, 2016], which also includes an extensive bibliography of books and articles covering various aspects of the balanced scorecard framework.

[64] http://www.balancedscorecard.org/BSC-Basics/About-the-Balanced-Scorecard [accessed June 6, 2017]

Sitting in the middle of the framework and influencing each of the perspectives is the organization's overall "vision and strategy". Managers can use the four perspectives of the balanced scorecard to develop and communicate the organization's strategy for improving overall financial performance that incorporates activities, goals and metrics from all of the perspectives and provides opportunities for stakeholders other than shareholders to derive value and benefits from their relationships with the organization. For example, implementing plans in the "learning and growth" perspective to increase the level of training for employees will improve their skills and make them more motivated to perform on behalf of the company. The higher skill level of employees should then lead to stronger internal business processes and operational performance, which is the focus of the "internal" perspective of the balanced scorecard framework. Improvements from internal processes can be deployed in the "customer" perspective to increase customer satisfaction by providing them with either improved delivery time and/or lower prices. If the organization is success with increasing customer satisfaction, it can expect better performance in the financial perspective. Better financial performance generates profits that can be used to satisfy shareholders and re-invested in employees, customer relationships and the pursuit of environmental and social causes.

Proponents of the balanced scorecard approach point to the introduction of a broad array of non-financial indicators that can be used to improve decision making and selection and implementation of strategies. According to the Balanced Scorecard Institute, business and industry, government, and nonprofit organizations worldwide have embraced the balanced scorecard, with studies by the Gartner Group and others suggesting that more than half of major companies in the US, Europe, and Asia are using the scorecard and that use in growing in those areas as well as in the Middle East and Africa.[65] A global study conducted by Bain & Co placed the scorecard fifth on a list of the top ten most widely used management tools around the world—strategic planning was first—and the scorecard has also been recognized by the editors of the Harvard Business Review as being one of the most influential business ideas of the past 75 years.

Financial Perspective

While the balanced scorecard notably includes non-financial measures, financial objectives linked to the central corporate strategy remain the most important since they are the measurement basis for all of the other perspectives in the scorecard. Financial objectives represent the long-term goals of the organization and should be selected with an eye toward meeting the expectations of the shareholders that provide capital for the organization to operate. The drivers should be customized to the specific industry in which the company resides, the competitive environment, and the strategy of the business unit. It is important to note that the business unit doesn't necessarily need to be the overall company, and that it is feasible to develop and implement a scorecard for each identifiable unit that is customized to its customers, strategies and goals and then work upwards toward a consolidation of all of the scorecards. Moreover, the financial objectives for businesses will be different depending on their stage of development (e.g., businesses in a rapid growth stage at the earliest phases of their life cycle will be

[65] http://www.balancedscorecard.org/BSC-Basics/About-the-Balanced-Scorecard [accessed June 6, 2017]

interested in making investments to develop and enhance new products while more mature businesses will be more concerned with harvesting the benefits of earlier investments and maximizing current cash flow).

Kaplan and Norton observed that companies tended to use one of three financial themes to achieve their business strategies: revenue growth and mix, which refers to expanding product and service offerings, reaching new customers and markets, changing the product and service mix towards higher-value-added offerings and re-pricing products and services: cost reduction and productivity improvement, which refers to efforts to lower the direct costs of products and services, reduce indirect costs and share common resources with other business units; and asset utilization, which refers to attempts to reduce the working and physical capital levels required to support given volume and mix of business.[66] Specific objectives and related measures from a financial perspective might include maximizing value at least cost, which is measured by cost-to-spend ratio; maximizing costs savings, which focuses on purchasing influenced saving; time payments, which is measured by delinquent payment penalties; and maximizing productivity, which can be tracked through various ratios.

Customer Perspective

Meeting the demands of its customers and market segment is crucial to the success of any company; however, it is often overlooked by traditional measures of performance. Companies have been doing a better job of assessing whether they are giving their customers what they want and it has become commonplace to measure and monitor customer satisfaction, loyalty, retention, acquisition, and profitability. This information is not only a good indicator of current performance, but also facilitates effective long-term planning. A major problem with these measures is that, in general, they are "lagging", which means that the impact of any change can only be measured and evaluated after the even that caused them has occurred. The balanced scorecard approach suggests that managers focus on three classes of attributes that will provide value to customers and stabilize the lagging measures: product and service attributes (e.g., functionality, quality and price); customer relationships, specifically the quality of the purchasing experience and building personal relationships with customers; and image and reputation. The concept of "quality" appears several times among the attributes and it is important to remember that quality goals must be based on the quality of the product or service as defined by the customers and that related goals such as timeliness of delivery and responsiveness are also determined by the customer. Emphasizing image and reputation makes companies focus on the all-important question of how they are perceived in the eyes of their customers. As for measures of success, Kaplan and Norton suggested that organizations can focus on generic outcome measures such as customer satisfaction, customer retention, new customer acquisition, customer profitability, and market and account share in targeted markets.[67]

[66] R. Kaplan and D. Norton, "Linking the Balanced Scorecard to Strategy", California Management Review, 39(1) (Fall 1996), 53, 57-58.
[67] R. Kaplan and D. Norton, "Linking the Balanced Scorecard to Strategy", California Management Review, 39(1) (Fall 1996), 53, 58-61.

Internal Business Process Perspective

The internal business process perspective will generally be addressed and formulated after the financial and customer perspectives have been developed and should focus on identifying the specific business processes at which the company needs to excel in order to achieve its financial- and customer-related goals and satisfy its shareholders and customers. As explained by Kaplan and Norton, the critical internal business processes enable organizations and individual business units to deliver on the value propositions of customers in targeted market segments and satisfy shareholder expectations of excellent financial returns.[68] While the balanced scorecard recognizes the need to pay attention to conventional issues such as monitoring and improving costs, quality and production time of existing processes, the scorecard pushes companies to thing "outside-of-the-box" and build their processes, including creating totally new ones, around satisfying the specific demands of customers In order to do this, companies should go through a three-step process: innovation (i.e., identifying the market, understanding the customers and creating an innovative product); operations (i.e., building the product and delivering it to the customer, business development and improving productivity); and post-sale service (i.e., serving the customer through more rapid responses, building solid customer relationships and identifying opportunities for cross-selling products). The company should focus on improving the internal methods used for each of the three steps in order to achieve the goals set in the company's overall strategy. A number of different initiatives may be required such as assessing internal quality system to improve acquisition excellence and assessing management information systems in order to enhance the accuracy, timeliness and effectiveness of data collection. Measures of performance would include a combination of lagging (i.e., share of segment and revenue from new products) and lead (i.e., product development cycle) indicators.[69]

Learning and Growth Perspective

The last perspective acknowledges the importance of building sustainable capabilities within the organization to continuously change and improve. There are three important elements of success for this perspective: employee capabilities, which should be enhanced by educating them on the processes and mission of the company; information systems capabilities; and organizational procedures that develop motivation among employees to improve, empower employees to suggest or make changes in the organization and align the goals and activities of disparate parts of the organization through information and resource sharing. Implementing an effective learning and growth perspective gives employees a sense of pride and a feeling of contribution with respect to the pursuit and achievement of current goals and provides a foundation for collaboration on generating new ideas for addressing unforeseen future challenges.

Each of the elements measured above should have its own specific goals and related measures. For example, with respect to employee empowerment a company might focus

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[68] Id. at 62-63.
[69] Id. at 72.

on improving the quality of the workforce as measured through self-assessment, improving the quality of the work environment as perceived by employees and meeting the expectations of employees with respect to the quality and integrity of executive leadership. Other employee-based measures might include employee satisfaction, employee retention, employee training and employee skills based on a detailed index of the specific skills that employees should be expected to have in order for the organization to be successful in its competitive environment. Information systems capabilities can be measured by reviewing real-time availability of accurate customer and internal process information to front-line customers and measures of organizational procedures should include alignment of employee incentives with overall organizational success factors, which will improve motivation, and how quickly the organization is achieving improvements in critical customer-based and internal processes.[70]

Implementing a Balanced Scorecard Management System

While the implementation and effectiveness of the balanced scorecard approach is tied to various measures of performance, Kaplan and Norton made it very clear that they conceived of the scorecard as a management, and not a measurement, tool. They explained: “This distinction between a measurement and a management system is subtle but crucial. The measurement system should be only a means to achieve an even more important goal—a strategic management system that executives can use to implement, and gain feedback about, their strategy."[71] Kaplan and Norton suggested several guiding principles that should be followed in implementing the balanced scorecard:

- The balanced scorecard measures must be linked to the company’s strategy using three core principles: cause-and-effect relationships, performance drivers and linkage to financials. These principles must be considered together in order to be effective. For example, while steps may be taken to improve a performance driver, the effort is not really meaningful unless improvement in financial performance also occurs.
- The structure and strategy of an organization must be reflected in the balanced scorecard and in many cases it is appropriate and useful for each of the strategic business units of the company to have their own scorecard and for executive leadership to focus on identifying and disseminating a common theme or strategy that covers all of the business units and monitoring the individual scorecards to ensure that they are effective in progressing toward achievement of the common strategy.
- As mentioned above, effective implementation of the balance scorecard requires empowering employees by educating them about the organization’s strategy and the methods that have been selected to achieve it. Similar education efforts should be launched with key outside constituents and organizations should support the scorecard through communication and education programs, goal setting programs and reward systems.

[70] R. Kaplan and D. Norton, “Linking the Balanced Scorecard to Strategy”, California Management Review, 39(1) (Fall 1996), 53, 64.
[71] R. Kaplan and D. Norton, The Balanced Scorecard: Translating Strategy into Action (Boston: Harvard Business School Press, 1996), 272.

- The balanced scorecard is part of a larger long-range strategic plan and operational budget process that is achieved by following four steps: setting ambitious "stretch" targets for all performance measures that are understood and accepted by employees; identify and rationalize strategic initiatives and make sure they are aligned with the scorecard objectives; identify critical cross-business objectives on the scorecard and make sure that initiatives of different business units or the corporate parent are aligned to achieve those objectives; and linking the three to five year plan to budgetary performance in order to compare the performance to the strategic plan.
- The balanced scorecard should be subjected to rigorous and ongoing feedback with the overall goal of maintaining continuous improvement. Everyone in the organization, particularly employees, should be empowered to implement or suggest changes and contribute to the development of new ideas that can be incorporated into the organizational strategy. In this way, the balanced scorecard provides a roadmap for everyone in the organization to work together toward a common goal and performance of the organization can be measured by reference to the strength and effectiveness of its strategic management system.

The Balanced Scorecard Institute noted and explained how the balanced scorecard framework and elements could be effectively used in a process called "strategy mapping", which the Institute described as a tool for visualizing and communicating how value is created by the organization and for clearly illustrating a logical "cause and effect" connection between the strategic objectives established for each of the four perspectives in the framework.[72] Developing a strategy map begins with assessing the organization's overall environment and taking all the steps necessary to develop an appropriate strategy for the organization, hopefully one that is aligned with the organization's mission and vision. They next step is to break down implementation of the strategy into actionable steps, which are referred to as "objectives" in the balanced scorecard framework. There should be objectives for each of the four perspectives, such as "increasing revenue", "improving the customer or stakeholder experience" or "improving the cost-effectiveness of the organization's programs".

The strategy map itself begins with four rows on what may be referred to as a "mapping grid", one for each of the perspectives in the balanced scorecard. The ordering of the rows depends upon the priorities of the organization. For example, the ordering for a "for-profit" organization that needs to prioritize financial performance might have "learning and growth" at the bottom, internal process above it, customers above it and, finally, financial as the top row. In contrast, a non-profit organization might have reverse the top two row so that the customers who are the main beneficiaries of the organization's mission and activities are on the top row and financial is on the second row. Regardless of ordering, each row includes a box for each of the strategic objectives, which are continuous improvement activities, chosen for that perspective. For each objective there will be one or more "initiatives", which are the programs that they organization has decided to implement in order to achieve its objectives. The mapping

[72] The discussion in this section on "strategy mapping" is adapted from the Balanced Scorecard Institute's "Balanced Scorecard Basics", which is available at http://www.balancedscorecard.org/BSC-Basics/About-the-Balanced-Scorecard [accessed June 6, 2017]

process is arrows between the various boxes that lays out the path that the organization can follow based on objectives from each of the perspectives.

Kaplan and Norton made it very clear that although the balanced scorecard was based on four perspectives, the strategy map should be designed to identify a clear causal path among the perspectives that leads to the most important overall strategic objective for the organization. It is no accident that the financial perspective is at the top of the grid for for-profit organizations since financial outcomes, such as sales growth, return-on-capital employed or economic value added are the key strategic outcomes for those types of organizations. Kaplan and Norton noted that many managers embrace isolated improvement programs such as total quality management and employee empowerment, but fail to link those programs to specific targets for improving customer satisfaction and financial performance. The result, in most cases, is that managers become disillusioned about the initiatives because they fail to deliver tangible "bottom line" results. Done correctly, the business scorecard framework ensures that the objectives and initiatives for each perspective are not implemented until they are part of the cause-and-effect path leading to improved financial performance (or, in the case of "non-profits", improved delivery of services to the organization's intended beneficiaries).[73]

In order for an objective to be meaningful and to know whether the associated initiatives are appropriate and successful, there must be a way to measure progress toward the desired outcome (i.e., level of performance), which is referred to as the "target". The Balanced Scorecard Institute referred to these measures as "Key Performance Indicators", or "KPIs", and explained that they should be used to monitor the implementation and effectiveness of an organization's strategies, determine the gap between actual and targeted performance, and determine organization effectiveness and operational efficiency. According to the Institute, good KPIs provide an objective way to see if strategy is working, offer a comparison that gauges the degree of performance change over time, focus employees' attention on what matters most to success, allow measurement of accomplishments, not just of the work that is performed, provide a common language for communication and help reduce intangible uncertainty.

Ordering, objectives, metrics, targets and initiatives are the building blocks of the balanced scorecard strategy mapping process. The Balanced Scorecard Institute noted that organizations often begin by focusing on improving performance related to objectives found in the bottom two rows (i.e., "learning and growth" and "internal processes") and then move forward to leverage gains in those perspectives to achieve more desirable results with respect to customer satisfaction and/or financial performance. A strategy map is an important tool for communicating with employees and other stakeholders how the actions taken in connection with initiatives from one perspective will ultimately influence performance on other perspectives. For example, employees can and should be motivated to engage in improving their knowledge and skills when they understand that this will increase process efficiency that will eventually allow the organization to reduce costs and/or improve the quality of customer interactions. As with

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[73] R. Kaplan and D. Norton, "Linking the Balanced Scorecard to Strategy", California Management Review, 39(1) (Fall 1996), 53, 67.

any other managerial process, implementation of strategic mapping should be accompanied by appropriate training and continuous evaluation to determine whether there is correct alignment. If performance is not meeting the established targets, changes should be made and the entire process should be re-launched.

Strategic Mapping: Using the Balanced Scorecard Framework

One of the most valuable byproducts of implementing the balanced scorecard framework is the ability to create dynamic “strategy maps”, which organizational leaders can use as a tool for visualizing and communicating how value is created by the organization and for clearly illustrating a logical “cause and effect” connection between the strategic objectives established for each of the four perspectives in the framework. The Balanced Scorecard Institute provided two illustrations of how an organization might develop a strategy map that incorporates each of the four perspectives of the balanced scorecard framework, and the summary below should be read in conjunction with the description of the mapping process and the various elements included in the main text of this Guide.

The first illustration assumed a “for-profit” organization and ordered the four perspectives from top to bottom as follows on a “mapping grid”: financial, customer, internal process and organizational capacity. The map proceeded through the following objectives, from start to finish:

- Starting with the learning and growth, or organizational capacity, perspective, the organization focused on improving knowledge and skills among its workforce and improving the tools and technology that they worked with.
- Leveraging the improvements in organizational capacity, the organization moved to the internal process perspective and concentrated on increasing process efficiency in order to lower cycle times.
- The lower cycle times achieved through investments in the internal process allowed the organization to lower wait times for its customers, thus improving overall customer satisfaction.
- Ultimately, improved customer satisfaction translated into increased revenues at the financial perspective. At the same time, the increased process efficiency lowered costs, which improved the “bottom line”. The combination of increased revenues and lowered costs meant that the organization had been successful in achieving the key financial strategic objective of increased profitability.

Each of the strategic objectives discussed above associated with the various perspectives were pursued by specific initiatives, all of which had their own performance metrics and performance targets that could be included in the balanced scorecard framework for the organization. For example, the efficacy of employee training and improving employee skills should be measured against a detailed index of the specific skills that employees should be expected to have in order for the organization to be successful in its competitive environment. Improvements in the capabilities of information systems, which provide the tools and technology to enable employees to do their jobs more effectively, can be measured by reviewing real-time availability of accurate customer and internal process information to front-line customers.

Also important to note is the “cause and effect” connection between the organization’s overall “vision and strategy” and objectives and related activities undertaken in connection with each of the four perspectives. Kaplan and Norton emphasized that a strategy is really a set of hypotheses about cause and effect that are expressed on the strategy map as a sequence of “if-then” statement that create a path throughout the four perspectives and tell the story of the organization’s strategy. For example, every organization wants to achieve higher profitability; however, the strategy map shows how improving sales training of employees can eventually lead to increased profitability: more training leads to a sales team that is more knowledgeable about the organization’s products, which leads to improved sales effectiveness, and ultimately causes average sales margins of the products to increase.

The second illustration assumed a “non-profit” organization and ordered the four perspectives from top to bottom as follows on a “mapping grid”: customer, financial, internal process and organizational capacity.

In this instance, the central strategic objective of the organization could be identified from the customer perspective (i.e., the principal beneficiaries of the organization's activities); however, financial objectives remained of paramount importance since the organization necessarily needed to ensure it had sufficient capital to fulfill its obligations to its customers and that it was able to continue attracting financial support from its donors. The map proceeded through the following objectives, from start to finish:

- As is common with the learning and growth, or "organizational capacity" perspective, the objectives were to improve knowledge, skills and abilities of employees, which also increased employee innovation, and improve the use of technology.
- With a more knowledgeable and motivated group of employees, the organization was able to focus on internal processes that enhanced stakeholder relationships. At the same time, the organization used its improved technology profile to improve customer communications and the efficiency and reliability of its services. Another objective pursued at this perspective was developing more value added services.
- The combination of objectives successfully undertaken at the internal business process perspective led to an expansion of the customer base and improved financial performance.
- Finally, improved financial performance along with the expanded range of services allowed the organization to achieve its key objective of enhancing the organization's value in the eyes of its customers.

Sources: Balanced Scorecard Institute's "Balanced Scorecard Basics", which is available at http://www.balancedscorecard.org/BSC-Basics/About-the-Balanced-Scorecard [accessed June 6, 2017]
See also the two case studies provided as illustrations of translating strategic objectives into balanced scorecard performance measures in R. Kaplan and D. Norton, "Linking the Balanced Scorecard to Strategy", California Management Review, 39(1) (Fall 1996), 53, 69-77.

Balanced Scorecard and Corporate Social Responsibility

Corporate social responsibility ("CSR") has become an increasingly popular theme, particularly among larger for-profit organizations, and has triggered a search for new and dynamic tools for strategy and development. According to the Dow Jones Sustainability Index, CSR is "a business approach that creates long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social developments." CSR involves a broader stakeholder perspective and challenges managers to develop strategies that effectively integrate consumer and employee values while the company continues to make a profit or surplus. Operating in an environment in which CSR is valued means that managers must be concerned with more than just profitability and must also grapple with a broad range of corporate values and concerns such as reputation, transparency, social impact, ethical sourcing and civil society.[74]

Crawford and Scaletta argued that because the balanced scorecard had become a recognized and established management tool, it was well positioned to support a knowledge-building effort to help organizations make their values and vision a reality.[75] In addition, they believed that the balanced scorecard was an effective way to help executives, managers and employees make day-to-day decisions based upon values and

[74] For detailed discussion of corporate social responsibility, including the reporting strategies discussed in this section, see "Corporate Social Responsibility: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).
[75] D. Crawford and T. Scaletta, "The Balanced Scorecard and Corporate Social Responsibility: Aligning Values for Profit", CMA Management (October 2005).

metrics that could be designed to support an organization's CSR initiatives. The balanced scorecard also allows organizational leadership to articulate its CSR strategy, communicate the details of the strategy throughout the organization, motivates the members of the organization to execute the plans associated with the CSR strategy, and enables leaders to monitor results using both financing and non-financial metrics.

The balanced scorecard is well suited to CSR given that the scorecard framework explicitly incorporates and balances shareholder, customer and employee perspectives. The balanced scorecard can be used to improve the way in which organizations meet the expectations of their stakeholders with respect to reporting on their economic, social and environmental performance and impacts. CSR reporting is a crucial aspect of the transparency demanded by stakeholders such as employees, regulators, investors and non-governmental organizations, and more and more organizations have committed to disclosing CSR-related information in addition to their traditional annual financial reports. CSR reporting generally tracks the "triple bottom line" ("TBL"), which includes measurements along three dimensions of performance: economic, social and environmental. The leading standard for TBL reporting is the Global Reporting Initiative ("GRI"), which has championed the development of the GRI Sustainability Guidelines that include both qualitative and quantitative indicators.

Crawford and Scaletta argued that the balanced scorecard could be an effective format for reporting TBL indicators since the scorecard illustrated the cause-and-effect relationship between being a good corporate citizen and being a successful business.[76] They specifically recommended that organizations should adapt or introduce a balanced scorecard that specifically included and integrated key market forces driving CSR and the indicators of CSR performance and impact taken from the GRI Sustainability Guidelines.[77] The market forces would be "objectives" in the balanced scorecard framework and success or failure toward achieving the specified targets (i.e., the level of performance or rate of improvement required) would be tracked through measures taken from the GRI Sustainability Guidelines. Examples provided by Crawford and Scaletta across all four of the balanced scorecard's perspectives included the following:

Balanced Scorecard Perspective	**Market Forces (Objective)**	**GRI Measure**	**Target**
Financial	"Green" consumers	Energy consumption footprint (i.e., annualized lifetime energy requirements) of major products	Annual reduction in energy consumption footprint for new products
Financial	Energy crunch	Direct energy sue	100% renewable energy

[76] Id.

[77] For the key market forces driving CSR, Crawford and Scaletta relied on Willard, who argued that attention to CSR was driven during the early 2000s by a combination of mega-issues (i.e., climate change, pollution/health, globalization backlash, the "energy crunch" and erosion of trust) and demands from emerging stakeholder groups including "green" consumers, activist shareholders, civil society/non-governmental organizations ("NGOs"), governments and regulators and the financial sector. See B. Willard, The Next Sustainability Wave (Gabriola Island, British Columbia CN: New Society Publishers, 2005).

		segmented by source	
Financial	Financial	Increase/decrease in retained earnings at the end of period	Percentage
Internal	Pollution and health	Standard injury, lost day and absentee rates and number of work-related fatalities (including subcontractors)	0 lost-time injuries and fatalities, or long-term illnesses
Internal	Climate change	Total greenhouse gas emissions	Annualized reduction
Internal	Governments and regulators	Incidents and fines for non-compliance with all laws and regulations	0 incidents or fines
People and Knowledge	Civil society/NGOs	Policies, guidelines and procedures to address needs of Indigenous people	Number of Indigenous employees
People and Knowledge	Activist shareholders	Business units currently operating or planning operations in or around protected or sensitive areas	Number of employees trained in environmental management practices
Customer	Erosion of trust and push for transparency	Policy to exclude all child labor	No child labor
Customer	Globalization backlash	Supplier performance related to environmental commitments	Use of 100% organic cotton or coffee

Crawford and Scaletta suggested that using the balanced scorecard framework to introduce and explain CSR initiatives can overcome resistance to such initiatives among managers, employees and shareholders who may be skeptical of deviating too much from the traditional financial focus of organizational strategy and decision making. For example, the balanced scorecard makes it easier to see the path that an organization might take to creating a competitive advantage based on cost leadership: investing in new technology and more effective and efficient processes that lead to improved ecological protection and better risk management that allows the organization to lower its cost of capital. Similarly, a differentiation-based strategy can be pursued through community building activities that improve organizational reputation and brand equity such that customer satisfaction and demand for the organization's products and services is enhanced such that the organization is able to increase sales.

As mentioned above, CSR reporting generally tracks the TBL (i.e., economic, environmental and social dimensions), and Jackson et al. explained that TBL reporting connects traditional financial reporting with the business's everyday activities in a way that provides a broader awareness of the impact of the business on society, and argued that TBL reporting was important because it expanded stakeholders" knowledge of the company to include not only financial performance but also the positive and negative impacts that the company and its operations are having on the environment and society.[78] TBL reporting involves a commitment by the company to provide its stakeholders with additional information and to communicate that information in ways that the stakeholders can understand and which are consistent with their expectations. Stakeholders are demanding transparency and TBL reporting must be balanced and include negative items accompanied by an explanation by the company as to what it is doing to correct unsustainable results and impacts. By increasing knowledge about the sustainability-related impacts of the company's operations, TBL reporting builds relationships among stakeholders and enable stakeholders to participate in the improvement processes that are necessary for the company to pursue and achieve sustainability.

Jackson et al. pointed out that several arguments had been made against TBL reporting, beginning with the concern that focused and detailed sustainability reporting might expose significant shortcomings in the ways that companies actually operate in relation to the flowery commitments they might have made in their public statements.[79] Of course, companies should not expect to be able to "get away" with announcing sustainability goals and commitments and not being held to account by stakeholders. In fact, sustainability commitments should not be made without performance metrics and plans and procedures for collecting and reporting on the data that stakeholders would reasonably need in order for them to determine the progress of the company with respect to those commitments. A related concern is the possibility that critics may focus on ethical problems that come to light as a result of reporting on negative impacts, thus damaging the company's reputation and undermining the positive messaging that the company is trying to send regarding its shift toward becoming more environmentally and socially responsible.[80]

Another concern about the implementation of TBL reporting is that in order for it to be completely effective, the corporate environment has to be eradicated and rebuilt.[81] Jackson et al. noted that companies have structured their policies and operations around the requirements of the financial regulations that have traditionally driven reporting and that adding the TBL to the company's reporting process would require new policies and extensive readjustments of the company's operations that would be costly, time-consuming and stressful and require that employees receive training to prepare them for new responsibilities and tasks.[82] New responsibilities and tasks for the workforce also means that individual performance evaluation metrics will need to be changed, which will almost certainly cause some disruption and confusion among employees. At the same time, however, surveys have shown that a strong commitment to sustainability has a number of positive impacts on employees including improvements in morale and reductions in turnover. The new policies and procedures associated with TBL reporting are also likely to improve productivity over the long-term and provide insights into

[78] A. Jackson, K. Boswell and D. Davis, "Sustainability and Triple Bottom Line Reporting—What is it all about?", International Journal of Business, Humanities and Technology, 1(3) (November 2011), 55-56, 58.
[79] Id. at 56.
[80] Id. at 58.
[81] Id. at 57.
[82] Id.

products and processes that will ultimately improve the quality of the customer's experience with the company.

Empirical Research

The balanced scorecard has been seen as an innovative way to incorporate and balance financial and non-financial performance measures, lagging and leading indicators and internal and external perspectives of performance measurement.[83] A number of empirical research studies on the implementation of the balanced scorecard have been conducted.[84] According to Anthony & Govindarajan, the balanced scorecard can be a valuable tool for focusing the organization, improving communications, setting organizational objectives and providing comprehensive feedback on strategy.[85] On the other hand, challenges to the validity of the balanced scorecard approach include the need to rely on management's own assessment of their performance for factors that cannot easily be measured objectively and the fact that it utilizes operational measures that are unique to each organization, thus making it difficult to identify generalizations across companies.

Organizational Effectiveness

An organization will survive only if it proves to be an effective means for realizing its stated goals and objectives. The primary goal of organization design, including the selection and implementation of an organizational structure, is to enhance the effectiveness of the organization with respect to pursuit and achievement of its goals and objectives, such as producing goods and services that satisfy the requirements of their customers, fulfilling the requirements of outside stakeholders, and, not to be forgotten, meeting the personal needs of members of the organization and developing and maintaining their human potential. Organizational effectiveness requires astute and carefully management of what is essentially a complex socio-technical system and achieving the proper balance between what goes on inside the organization (i.e., its internal environment) and the external environment in which the organization operates. Whether or not a particular organization will be "effective" depends on the specific circumstances surrounding the creation and maintenance of that organization; however, it is useful to identify and understand certain universal issues that the leaders of any organization—executives and managers in the case of a business organization—should expect will need to be addressed when preparing an organizational strategy and determining what aspects of organizational performance should be measured.

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[83] I. Abu-Jarad, N. Yusof and D. Nikbin, "A Review Paper on Organizational Culture and Organizational Performance", International Journal of Business and Social Science, 1(3) (December 2010), 26, 34.

[84] Z. Hoque, L. Mia and M. Alam, "Market Competition, Computer-aided manufacturing and use of multiple performance measures: an empirical study", British Accounting Review, 33 (2001), 23; J. Lingle and W. Schiemann, "From balanced scorecard to strategic gauges: is measurement worth it?", Management Review, 85(3) (1996), 56; and A. Maiga and F. Jacobs, "Balanced scorecard, activity-based costing and company performance: an empirical analysis", Journal of Management Issues, 15(3) (2003), 283.

[85] R. Anthony and V. Govindarajan, Management Control Systems (New York: McGraw Hill Higher Education, 2003).

The ability of an organization to use its available resources in an effective manner has often been included in conceptualization of organizational performance. As noted above, Venkatraman and Ramanujan argued that three aspects of organizational performance should be considered: financial performance, business performance and organizational effectiveness, and explained that "organizational effectiveness" should be measured using operational indicators such as new product introduction, product quality, manufacturing value-added and marketing effectiveness.[86] Specifically, Venkatraman and Ramanujam argued that the domain of organizational effectiveness was comprised of three primary dimensions, each with their own set of lower-level dimensions: (1) overall financial performance, with sub-dimensions such as profitability, growth, efficiency, financial structure, survival, cash flow, and resource accumulation; (2) operational performance, with sub-dimensions such as market building, organization building, network building, product quality, product and process innovation, quality, employee satisfaction, and customer satisfaction; and (3) the influence of organizational stakeholders, which acknowledges the that organizational performance should be understood and assessed using a multi-constituency model.[87] They pointed out that the various operational indicators reflect the organization's competitive position and might lead to better financial and business performance and that tracking those indicators would broaden the strategic opportunities available to organizational managers.

Others have also studied organizational effectiveness, which Gaertner and Ramnarayan defined as "the ability of an organization to account successfully for its outputs and operations to its various internal and external constituencies" and then suggested that appropriate criteria for measuring effectiveness would include productivity, profit, return on investment, decision making, organizational structure, flexibility, openness to information, and adaptability.[88] Judge's description of organizational effectiveness included both financial (i.e., profitability, sales growth, and/or stock returns) and "operating" performance measures (i.e., market share, productivity and product quality).[89] Steers conducted an extensive review of the multivariate models of organizational effectiveness used in 17 different multivariate studies of organizational effectiveness and found that 15 different evaluation criteria were used among those studies to reach conclusions and that the authors of the studies lacked detailed rationales or empirical defenses for the criteria they selected.[90] Adaptability-flexibility was the most commonly used criteria (10 out of the 17 studies) and other criteria, listed in descending frequency of use, included productivity (6), satisfaction (5), profitability (3),

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[86] N. Venkatraman and V. Ramanujam, "Measurement of Business Performance in Strategy Research: a Comparison Approaches", Academy of Management Review, 11 (1986), 801.

[87] Id. Inclusion of organizational stakeholders, and the need to use relationships with stakeholders to accomplish both organizational goals and stakeholder goals, had also been suggested earlier in R. Freeman, Strategic Management: A Stakeholder Approach (Pitman Publishing, Inc., 1984).

[88] G. Gaertner and S. Ramnarayan, "Organizational effectiveness: An alternative perspective. Academy of Management Review", 8(1) (1983), 97.

[89] W. Judge, Jr., "Correlates of organizational effectiveness: A multilevel analysis of a multidimensional outcome", Journal of Business Ethics, 13 (1994), 1. For additional review of the literature on organizational effectiveness, see K. Abston and V. Stout, Organizational Effectiveness: Exploring What It Means in Human Resource Development, http://files.eric.ed.gov/fulltext/ED492748.pdf

[90] R. Steers, "Problems in the measurement of organizational effectiveness", Administrative Science Quarterly, 20 (December 1975), 546 and 549.

resource acquisition (3), absence of strain (2), control over environment (2), development (2), efficiency (2), employee retention (2), growth (2), integration (2), open communications (2), and survival (2). The results of this survey led Steers to comment: "The concept of organizational effectiveness is encountered repeatedly in the literature on organizations, but there is only a rudimentary understanding of what is actually involved in or constitutes the concept. In fact, although effectiveness is generally considered a desirable attribute in organizations, few serious attempts have been made to explain the construct either theoretically or empirically".[91]

According to Cameron, researchers up to the beginning of the 1980s had generally relied on four primary performance dimensions to evaluate effectiveness: (1) whether the firm accomplishes its goals and objectives, (2) the acquisition of critical resources, (3) if the firm has effective systems and internal trust, and (4) if the firm has satisfied stakeholders.[92] Quinn and Cameron and others qualified the criteria for performance by arguing that the criteria changes depending on the situation that the organization is in, notably the lifecycle stage of the organization.[93] In their 1983 survey of differing lifecycle models, Quinn and Cameron identified four primary stages that appeared in each models and the performance criteria that was most important during those stages: (1) an entrepreneurial stage in which resource accumulation, creativity, and innovation are stressed; (2) a collectivity stage in which human relationship and team building are stressed; (3) a formalization stage in which efficiency, goal attainment, and internal processes are stressed; and (4) a formalization stage in which organizational renewal and expansion are emphasized.[94]

Cameron also identified the eight most commonly used models of organizational effectiveness that had appeared in the literature through the mid-1980s, noting that each had its own advantages and disadvantages and that while they were useful it was not possible to draw generalizations because the models were not the same and did not measure the same outcomes. Cameron described each of the models by identifying what the model had to say about when an organization is effective and when the model is likely to be the preferred means for measuring effectiveness[95]:

- Goal Model: An organization is effective to the extent it accomplishes its stated goals. The model is most preferred when goals are clear, consequential time-bound, measurable.

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[91] Id. at 546.

[92] K. Cameron, "Critical questions in assessing organizational effectiveness", Organizational Dynamics, 9(2) (1980), 66.

[93] D. Katz and R. Kahn, The Social Psychology of Organizations (New York: John Wiley & Sons, 1978); R. Quinn and K. Cameron, "Organizational life cycles and shifting criteria of effectiveness: Some preliminary evidence", Management Science, 29(1) (1983), 33; and R. Quinn and J. Rohrbaugh, "A spatial model of effectiveness criteria: Towards a competing values approach to organizational analysis", Management Science, 29(3) (1983), 363.

[94] R. Carton, Measuring Organizational Performance: An Exploratory Study (Athens, GA: University of Georgia Doctoral Dissertation, 2004), 57 (citing R. Quinn and K. Cameron, "Organizational life cycles and shifting criteria of effectiveness: Some preliminary evidence", Management Science, 29(1) (1983), 33).

[95] K. Cameron, "Effectiveness as paradox: Consensus and conflict in conceptions of organizational effectiveness" Management Science, 32(5) (1986), 539.

- System Resource Model: An organization is effective to the extent it acquires needed resources. The model is most preferred when there is a clear connection between inputs and performance.
- Internal Process Model: An organization is effective to the extent it has an absence of internal strain with smooth internal functioning. The model is most preferred when there is a clear connection between organizational processes and performance.
- Strategic Constituencies Model: An organization is effective to the extent all strategic constituencies are at least minimally satisfied. The model is most preferred when constituencies have powerful influence on the organization, and it has to respond to demands.
- Competing Values Model: An organization is effective to the extent that the emphasis on criteria in the four different quadrants meets constituency preferences. The model is most preferred when the organization is unclear about its own criteria, or changes in criteria over time are of interest.
- Legitimacy Model: An organization is effective to the extent it survives as a result of engaging in legitimate activity. The model is most preferred when the survival or decline and demise among organizations is of interest.
- Fault-Driven Model: An organization is effective to the extent it has an absence of faults or traits of ineffectiveness. The model is most preferred when criteria of effectiveness are unclear, or strategies for improvement are needed.
- High Performing Systems Model: An organization is effective to the extent it is judged excellent relative to other similar organizations. The model is most preferred when comparisons among similar organizations are desired.

Neilson et al. created a list of "the 17 fundamental traits of organizational effectiveness" with respect to implementation of strategy, each of which was ranked in order of their relative influence.[96] Five of the top eight traits were related to "information" and included the following:

- Important information about the competitive environment gets to headquarters early.
- Information flows freely across organizational boundaries.
- Field and line employees usually have the information they need to understand the bottom-line impact of their day-to-day choices.
- Line managers have access to the metrics they need to measure the key drivers of their business.
- Conflicting messages are rarely sent to the market.

Neilson et al. stressed that headquarters will only be able to provide guidance about opportunities and trends in relevant business segments if it is able to obtain, analyze and disseminate information to managers and employees involved in operational activities that are closer to the company's ultimate customers. They made it clear that information must flow horizontally across different parts of the company so that the company is not held back by individual units acting as isolated "silos". Dissemination of information also allows the company to build a strong bench of managers with knowledge of all

[96] Id. at 63-66.

aspects of the company's business activities. Sharing information goes beyond numbers and includes face-to-face discussions among different groups that build mutual understanding and trust and serve as a foundation for the collaboration that is necessary for the use of team to engage with customers and complete other relevant projects. Finally, information helps managers and other employees make the best decisions possible with an understanding of how their choices are likely to impact the bottom line and the company's progress toward its strategic objectives.

Three of the top seven traits were related to "decision rights" and included the following:

- Everyone has a good idea of the decisions and actions for which he or she is responsible.
- Once made, decisions are rarely second guessed.
- Managers up the line get involved in operating decisions.

Neilson et al. pointed out that companies need to be aware that blurring of decision rights will inevitably occur as they mature and grow. During the early stages of business when the company is relatively small it is fairly easy for everyone to have an idea of what others are doing and seeking and obtaining a decision from a colleague is a quick and straightforward process. Problems arise when growth brings turnover among the management team and continuously changing expectations regarding consultations and approvals, generally reinforced by more formal rules. The byproduct of all this can be a lack of clarity among managers and employees as to where their accountability begins and ends and how much authority they have to act on their own in pursuit of what they perceive their specific role to be in the overall strategic plan. Another issue relating to problems with respect to decisions is that it can impair the company's ability to move quickly to address problems and/or take advantage of opportunities.

The following traits were ranked ninth and tenth and were related to "alignment of motivators": the individual performance-appraisal process differentiates among high, adequate and low performers; and the ability to deliver on performance commitments strongly influences career advancement and compensation. Managers and employees working in a system where motivators were aligned with performance could expect that they would be fairly rewarded in relation to their colleagues if they excelled at execution and consistently delivered on their individual performance goals. This was consistent with the other building blocks in that it pushed everyone in the organization to seek information to make sound decisions.

Finally, the following three traits related to "structure" were ranked thirteen through fifteenth on the list:

- Promotions can be lateral moves (from one position to another on the same level in the hierarchy).
- Fast-track employees here can expect promotions more frequently than every three years.
- On average, middle managers here have five or more direct reports.

Neilson et al. pointed out that structural changes are relatively easy to announce and come with high visibility that demonstrates that a change initiative is in the works; however, Neilson et al. argued that structural changes along produce little more than short-term gains in efficiency and will not be effective over the long run unless they are accompanied by better decision making rules supported by a free flow of information.

Neilson et al. argued that once companies knew and understand the issues and practices that were most important for effective strategy execution, they could implement targeted initiatives to improve their execution capabilities. Suggestions that were offered, and the "building blocks" they were intended to impact, included the following[97]:

- Focus corporate staff on supporting business-unit decision making (decision rights)
- Clarify and streamline decision-making at each operating level (decision rights)
- Focus headquarters on important strategic questions (decision rights)
- Create centers of excellence by consolidating similar functions into a single organizational unit (decision rights, information flows)
- Assign process owners to coordinate activities that span organizational functions (decision rights, information flows and alignment of motivators)
- Establish individual performance measures (decision rights and alignment of motivators)
- Improve field-to-headquarters information flow (information flows)
- Define and distribute daily operating metrics to the field or line (information flows)
- Create cross-functional teams (information flows and aligning motivators)
- Introduce differentiating performance award (aligning motivators)
- Expand non-monetary rewards to recognize exceptional performers (aligning motivators)
- Increase position tenure (information flows and structure)
- Institute lateral moves and rotations (information flows and structure)
- Broaden spans of control (structure)
- Decrease layers of management (structure)

Neilson et al. cautioned against trying to implement too many of the initiatives, which they referred to collectively as a "transformation program" at one time and recommended that companies turn first to implementing practices that will positively influence freer flow of information and clarification of decision rights throughout the organization. Once those areas have been improved, the executive team can turn to alignment of motivators and identifying and implementing the structural changes that will help institutionalize decision rights, information flow and collaboration among the right people. Neilson et al. summed up the sequence of transformation of strategy execution as follows: "… [ensure] that people truly understand what they are responsible for and who makes which decisions—and then [give] them the information they need to fulfill their

[97] Id. at 67.

responsibilities. With these two building blocks in place, structural and motivational elements will follow."[98]

Understanding the universal issues that executives and managers of any organization are likely to face is essential for the development and implementation of an effective organizational strategy. Organizational strategy should demonstrate an attempt to adhere to the characteristics of an effective organization. Accordingly, organizational leaders should develop and disseminate a clear and concise statement of their aspiration vision for the future of the organization and prepare an organizational mission statement that describes what the organization does, why the organization exists, how the organization seeks to achieve its mission, and the persons who will be positively affected by the organizational activities. Other important characteristics of an effective organization include a formal strategic plan; organizational governance procedures; a system for organizational communications; clear definition of organizational tasks and responsibilities; and implementation of organizational procedures for training, rewards and resolution of problems.

Checklist of Characteristics of an Effective Organization

- Is there a clear statement of the vision of the organizational leadership as to where the organization aspires to be in the future? A vision statement provides stakeholders with an image of what a successful organization would look like and serves as an important motivator for organizational members.
- Is there a short, clear and concise mission statement for the organization that describes what the organization does, why the organization exists, how the organization seeks to achieve its mission and the persons who will be positively affected by the organizational activities? The mission statement should be regularly reviewed.
- Does the organization have a written strategic plan as well as an annual operating plan with implementation steps? The strategic plan should include specific goals and objectives that are related to achievement of the stated mission of the organization and the operating plan should have detailed steps and budgets. Each plan should be created by the executives of the organization with input from managers and supervisors at all levels. There should be a regular strategic planning process.
- Does the organization have a formal process for monitoring progress toward its goals and objectives and making adjustment to the strategic plan as necessary? A strategic plan has little value unless the organization continuously tracks progress and measures new initiatives against the objectives of the existing plan.
- Does the organization have a strong and well-organized board of directors or governance body? The duties of the governance body should be clearly delineated and members of the body should collectively provide experience in each of the areas that are crucial to the success of the organization's strategic plan. Procedures should be established for continuously training members of the body and ensuring that they receive adequate information to discharge their duties.
- Does the organization have a group of strong leaders who believe in the mission and values of the organization and who convey their passion and excitement to the members? The organizational leaders serve as role models and teachers for the members and should always act in a way that is aligned with the expressed values of the organization.
- Does the organization have a system for clearly defining the roles and activities of each of the members? Members need to know their duties, with whom they are expected to communicate with, and how they are going to be evaluated and rewarded.

[98] Id. at 70.

- Does the organization have a formal system for communications and sharing of information? Communication and information sharing is essential for coordinating activities throughout the organization, keeping members informed of news and defining and reinforcing cultural values and norms.
- Does the organization have a formal system for training members about their job responsibilities and broadening their knowledge base so that they can assume different roles during their career path with the organization? Training improves job satisfaction and makes it easier for members to work collaboratively with other members.
- Does the organization have well defined systems for allocating rewards among the stakeholder groups based on their performance in pursuit of the organizational goals and objectives? Allocation of property rights, including profit-based rewards, is a key issue in determining the culture of an organization and it is important for the reward system to be clear to everyone and encourage behaviors that support the mission, values and norms of the organization.
- Does the organization have adequate policies and procedures for resolving problems that may arise during the day-to-day activities of the organization? Things don't always go according to plan and the mark of an effective organizational structure and culture is the ability to address problems quickly through coordinated effort from all relevant groups within the organization.

Organizations should not rely on just one approach to measuring organizational effectiveness since they run the risk of ignoring important dimensions of performance. Moreover, just because an organization is effective in one area does not mean that the organization is performing at its highest level. For example, a organization may become quite successful in reducing the costs of production associated with a particular line of products; however, this advantage may ultimately fade if the organization is not able to simultaneously succeed with respect to innovation and development and commercialization of new products that will take the place of the prior line of products once they have reached maturity and there is no longer a large market for additional new sales. Similarly, an organization may be able to reduce production costs by pushing workers to work harder and accept lower wages; however, the organization may ultimately fail if these steps create a culture that is not attractive to skilled employees that are needed in order to sustain a steady stream of new products and services.

Organizational Effectiveness of High-Growth Firms

In this section we will focus on a handful of core issues that have been identified in the course of studying the management of high-growth firms as they develop, expand and react to changes in their organizational environment. It is certainly true that not all organizations will confront the challenges described below since in fact many organizations consciously seek and retain stability by avoiding rapid changes and/or limiting growth beyond a certain size. Our goal is to simply illustrate the need for organizations to develop a strategic approach to defining and attaining their goals and objectives.

The framework used for the discussion in the remainder of this section is based on the following issues identified by Hendrickson and Psarouthakis in their own research and in their survey of the work of other commentators: resource acquisition, resource allocation, workflow, human relations, technical mastery, market strategy and public-relations.[99] Hambrick and Crozier, based on a sample of INC 500 companies in the early 1980's, also noted the importance of resource acquisition, including recruitment of experienced senior managers and effective middle managers; human relations, including development and reinforcement of a distinctive culture; workflow, including implementation of formal systems and establishment and use of decentralized teams; and resource allocation, including attention to cost controls.[100]

A review of the relevant literature by Kazanjian further confirmed the importance of, and provided further details on, the issues of resource acquisition, resource allocation and workflow. Kazanjian identified an organizational systems factor that included the following issues that fit under the general topic of workflow—development of management information systems; reduction of administrative burden (i.e., "red tape"); definition of organizational roles, responsibilities and policies; and development of financial systems and internal controls. In addition, development of financial systems and internal controls, as well as another organizational systems issue—cost controls—fit under the general topic of resource allocation. Other issues that Kazanjian identified as external relations, production and people factors included issues that fit under the general topic of resource acquisition—secure adequate financial resources (external relations); recruit board members and key outside advisors (external relations); develop reliable supplier network (production); and recruit qualified personnel (people).[101] Finally, Terpstra and Olson identified the following potential problems for growing firms that fit under the general issue of human relations—training and development; employee satisfaction and morale; turnover and retention; and general human resource management problems.[102]

The issues identified by Hendrickson and Psarouthakis correspond to the view of an organization as a dynamic social system that seeks and obtains required inputs and uses conversion or transformation processes to create outputs (i.e., products or services) that can be sold or traded in order to attain financial viability and acquire additional inputs to sustain the system. Inputs include capital, people, materials and information. The conversion or transformation process requires resource allocation, workflow, technical mastery and attention to the human needs of employees and managers. Successful sale or exchange of outputs is dependent upon market strategy. Other relevant considerations include the public relations strategies used to manage the relationship between the social system and elements in its external environment other than investors, suppliers and customers involved in the input-transformation-output process and the broader vision of

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[99] L.U. Hendrickson and J. Psarouthakis, Dynamic Management of Growing Firms: A Strategic Approach (Second Edition) (The University of Michigan Press, Ann Arbor, MI: 1998), xxii.
[100] D.C. Hambrick and L.M. Rozier, Stumblers and Stars in the Management of Rapid Growth, Journal of Business Venturing, 1 (1985), 31-45.
[101] R. Kazanjian, Relation of Dominant Problems to Stages of Growth in Technology-Based New Ventures, Academy of Management Journal, 31-2 (1988), 257-79.
[102] D. Terpstra and P. Olson, Entrepreneurial Start-Up and Growth: A Classification of Problems, Entrepreneurship Theory and Practice, 17-3 (1993), 5-20.

the chief executive officer with respect to the activities and performance of the organization.[103]

It is unlikely that the organization will need to invest the same amount of attention and resources in every issue at the same time and experience shows that specific issues become more or less important as the organization grows and develops. In addition, the difficulty associated with managing certain issues will vary depending on the organization's size and stage of development. For example, when the organization is in the start-up stage and has a small number of employees, problems with respect to workflow and human relations can generally be resolved quickly and informally. However, as the organization grows specialization will increase placing a higher premium on coordination and communication between employees and departments and it becomes more difficult to ensure that all employees understand the cultural values of the organization and that their individual needs and goals are identified and respected.

Using the issues discussed below as a means for developing strategies to make an organization more effective is clearly different from the popular focus on the activities and responsibilities of functionally-defined departments. For example, the activities of the human resources function should not be strictly limited to human relations issues. Consider the following ways in which human resources specialists can and should play an important role in the following issues:

- Recruitment strategies and policies are actually one of the strategies necessary for resource acquisition.
- Administration of compensation and benefits programs, as well as compensation planning, is part of the strategies for resource allocation and human relations.
- Development and dissemination of job descriptions, as well as overall job development, is part of the workflow strategy of the organization.
- Initiatives to increase employee involvement and promote team building will impact workflow and human relations.
- Planning for company meetings and preparing employee manuals and newsletters are ways to communicate the vision and culture of the organization to employees and are part of the human relations strategies.
- Development and administration of compliance programs for satisfying affirmative action and other legal requirements is part of the organization's public relations strategies.
- Design and executive of training and development programs are part of the strategies for several issues including market strategy (i.e., sales training programs), technical mastery (i.e., technical and quality control training programs), and workflow and human relations (i.e., management and supervisor training focusing on leadership and motivational skills).

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[103] L.U. Hendrickson and J. Psarouthakis, Dynamic Management of Growing Firms: A Strategic Approach (Second Edition) (The University of Michigan Press, Ann Arbor, MI: 1998), xxiv.

The list illustrates how a functional unit, such as human resources, can and should impact strategies and decisions across the whole range of issues that must be addressed in order for the organization to operate smoothly and efficiently. The need for a coordinated cross-functional approach is now widely recognized in a number of areas. For example, teams composed of representatives from various functional units are now routinely organized to improve the technical mastery necessary for new product development. As a result, product development costs have been reduced, quality has improved and new products can be brought to market more quickly.

Understanding the universal issues that executives and managers of any organization are likely to face is essential for the development and implementation of an effective organizational strategy. Organizational strategy should demonstrate an attempt to adhere to the characteristics of an effective organization (see Table 1). Accordingly, organizational leaders should develop and disseminate a clear and concise statement of their aspiration vision for the future of the organization and prepare an organizational mission statement that describes what the organization does, why the organization exists, how the organization seeks to achieve its mission, and the persons who will be positively affected by the organizational activities. Other important characteristics of an effective organization include a formal strategic plan; organizational governance procedures; a system for organizational communications; clear definition of organizational tasks and responsibilities; and implementation of organizational procedures for training, rewards and resolution of problems.

Resource Acquisition

Resource acquisition refers to the need to develop strategies for the organization to identify and obtain the resources necessary to conduct its operations including cash, personnel, materials, and external information. Some of the strategies relevant to this issue relate to investor relations, recruitment, purchasing and research and development.[104] While the first challenge in this issue area for a business organization is generally obtaining sufficient capital to finance the initial launch of the business the biggest issue for the firm as it grows is often identification and recruitment of managerial and technical talent.[105]

Resource Allocation

Resource allocation includes addressing the need to assign or allocate the resources of the organization appropriately and effectively. Strategies for resource allocation include budgeting and planning. In the early stages of the organization resource allocation may be done informally through the intuition of the founders or by responding to the cries of the squeaky wheel; however, as the volume of work increases, and the number of transactions grows, organizations can no longer avoid establishing some form of formal budgeting and planning system. While some organizations still start out with a

[104] L.U. Hendrickson and J. Psarouthakis, Dynamic Management of Growing Firms: A Strategic Approach (Second Edition) (The University of Michigan Press, Ann Arbor, MI: 1998), xxiii.
[105] Id. at 13.

rudimentary bookkeeping system, it is now more common to plan for resource allocation issues well in advance and invest in computerized accounting systems from the very beginning in order to minimize the disruption that could occur as the activities of the organization escalate quickly.[106]

Hendrickson and Psarouthakis found that top performing firms established monitoring systems for overall net profits, costs, net profits by product and inventory. The specific financial indicators for success tracked by these firms included: sales -- either generally or by product; gross and net profits; costs; cash flow, cash in bank and working capital; accounts receivable; inventory; and assets-to-liabilities ratio. The top performing firms were also more likely than all firms taken to together to focus on net profits, inventory and assets-to-liabilities ratio and less likely to be concerned about the cash-related indicators and accounts receivable. Other indicators mentioned included return on investment, budget (year-to-date comparisons) and accounts payable.[107]

A formal budgeting system becomes essential as the organization reaches the point where it has 60 to 70 employees due to the volume of decisions that are then required. Hendrickson and Psarouthakis found that top performing firms were most likely to have some sort of budgeting process, supported by appropriate software. Formal budgets allow the CEO to delegate mid-range spending decisions to lower levels of the organization with minimal concern that significant amounts of money will be misspent;. A capital spending plan also assures that financial resources will be channeled toward those assets and activities that are most directly related to the key goals and objectives of the organization. However, the CEO should still remain heavily involved in monitoring and controlling costs. In fact, one distinguishing factor of top performing firms was the greater likelihood that the CEO would make significant cost decisions alone as opposed to delegating to other managers or basing such decisions on a consensus among a team of senior managers. Formal budget strategies commonly used, in order starting with the most popular, included formal preparation of a budget, financial analysis other than budgeting (i.e., job costing and break-even analysis) and non-financial planning (i.e., solicitation of formal budget request by managers and establishment of goals and targets). Top performing firms were more likely to seek out an outside accounting firm to provide general support and specific assistance for preparation of tax returns and financial statements.[108]

Workflow

The workflow issue includes decisions made about how to assign or divide and coordinate the work to be done in transforming inputs into outputs. When making decisions about workflow consideration must also be given to how information flows within the organization in order to provide all workers with all of the data that they need to properly perform their work activities and make the decisions for which they have been assigned responsibility. If the workflow is not clearly defined, or internal

[106] Id. at 14-15.
[107] Id. at 130-131.
[108] Id. at130-131.

information does not flow freely and quickly, delays and cost overruns will occur. Success in relation to the workflow issue has been linked to greater profitability, more effective recruiting, improved allocation of resources, higher employee commitment, greater technical mastery and higher growth rates.[109]

Workflow evolves as the organization matures and expands. At the very beginning there is often very little, if any, differentiation in the roles played by the members of the founding group and each of the founders will pitch in to do what is required in all of the relevant functional areas. As the organization grows, more information is collected, more transactions occur and more employees, customers and other business partners are added, and there is a decided shift from generalization to specialization in the roles played by managers and employees. This often begins within the founding group as the founder with the best skills and experience in sales gradually focuses most of her time and attention on sales including supervision of additional sales managers and employees. Similarly, those founders that are stronger in technology, engineering, manufacturing and finance will begin to specialize in those areas.

In general, specialization makes sense from the perspective of quality control, customer service and other factors; however, it does require attention to coordination issues. For example, different groups may be responsible for sales, installation and service, respectively, and coordination and communication among them is essential to ensure that customers requiring each activity are efficiently managed and do not suffer from misunderstandings between the groups as to their responsibilities. In addition, the sheer growth in the number of employees requires changes in the processes used by the organization for coordination and communication. When the organization was first launched, typically with just a handful of employees, it was quick and easy to check on the activities of others and informally work out issues that required coordination. However, this is no longer possible when the organization reaches the point where is has 50 or more employees.[110]

A related event associated with the increase in the volume of activities and number of employees is the need for the CEO to escape the avalanche of information from all parts of the organization by delegating authority and responsibility for decisions to lower levels of the organization.[111] The CEO should not be afraid to delegate responsibility for decisions about day-to-day operations; however, the CEO should make sure that she remains informed about every aspect of the activities of the organization and delegation should be made within a framework of clear standards, a well-developed monitoring system and a clear, monitored chain of command.[112]

Human Relations

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[109] Id. at xxiii and 66.
[110] Id. at 14.
[111] Id. at 14.
[112] Id. at 189.

Issues relating to human relations focus on what needs to be done in order to ensure that the members of the organization, such as the employees, meet their own needs and personal goals while simultaneously performing at the level that allows the organization to fulfill its overall performance goals and objectives. It is obvious that a business organization is more likely to be successful if the employees are satisfied and motivated and thus it is important to track absenteeism and turnover, particularly among the better performing employees and managers, to evaluate how well the company is doing with respect to managing the human relations issue.[113]

While human relations issues are ultimately as important as product development in ensuring smooth organizational growth, most organizations invest little time and effort in developing a human relations plan until personnel issues begin to arise when the organization reaches and exceeds 70–100 employees. While the delay is understandable, particularly when the organization is focusing on all of the challenges that arise during the launch stage, consideration should be given to taking the following steps from the very beginning to carefully manage the human relations problems that will come up as growth takes off[114]:

- The organizational structure should be well defined at all times particularly when strategic changes dictate modifications and additions of new business units.
- Managers and employees should be given a clear understanding of their roles and responsibilities. In addition, there should be a clear chain of command that is observed and respected by senior management who should refrain from going around lower level managers to give order to employees who do not directly report to them.
- Clear performance standards should be established and programs and procedures should be put in place to ensure that employees know exactly how they stand in relation to such standards. The performance standards should be closely linked to the roles and responsibilities that have been assigned to each manager and employee.
- The CEO and other senior managers must not neglect the need to remain knowledgeable about events outside the organization and events within the organization that are likely to impact how employees see their roles and responsibilities.

The human relations are also heavily related to organizational culture. As the size of the organization grows and new generations of employees are brought aboard it becomes more difficult to effectively communicate and disseminate the values and beliefs of the founders that form the foundation for the organizational culture. At the beginning the founders are available to everyone and have the opportunity to share their values with employees and demonstrate those values directly through their actions. However, as time goes by the founders and senior managers become too preoccupied other issues and are unable to invest sufficient effort in building trust with new employees and explaining their values the fundamental reasons for forming the organization. It is important to recognize this tendency and senior managers should be prepared to talk to employees one-on-one in order to gather information about their concerns and impart their vision of

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[113] Id. at xxiii.
[114] Id. at 125-126.

the philosophy and mission of the organization. In addition, senior management should convene regularly scheduled meetings with all managers and employees to share information about the strategy and performance of the organization and educate attendees about the philosophy and mission of the organization.[115]

Technical Mastery

Technical mastery refers to the acquisition and deployment of the skills, technology and related resources necessary to produce the output with adequate quality, speed, and quantity and with the appropriate technical features. Strategies for achieving technical mastery include recruiting and training employees with the necessary technical skills, investing in appropriate technical tools and materials, and in-house product testing and development.[116] In order to set and achieve high standards of technical mastery, organizations should ensure that employees are involved and that special training programs are established. In addition, technical mastery requires ongoing commitment from the CEO to keep abreast of current development by reading trade and business publications, attending trade shows and attending seminars on specialized topics.

Technical mastery is also a human relations issue and often requires hiring managers and employees with specialized training even though they may be most costly. Technical mastery is easier to achieve when employee morale is good and employees are clear about their roles and responsibilities. The most successful organizations find ways for employees to contribute to resolution of day-to-day technical and operations issues through problem-solving meetings, employee involvement programs, profit-sharing plans, or other incentive programs.[117]

Market Strategy

Market strategy refers to the methods used by the organization to ensure that there will be adequate customer interest in purchasing the outputs of the organization (i.e., the products and services) at prices that are sufficient to generate the revenues and profits necessary for the organization to continue to operate and achieve its performance goals and objectives. The elements of market strategy include decisions about which products or services to offer, which features and benefits to include with those products or services, which customers and markets to target, what prices to charge, and what advertising and promotional strategies to select. Measures of success or failure for a marketing strategy include total sales, the rate and steadiness of sales growth, and market share.[118]

Public Relations

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[115] Id. at 14-15.
[116] Id. at xxiii.
[117] Id. at 190.
[118] Id. at xxiv.

The first six issues all relate to the process of obtaining the necessary inputs for the organization and transforming those inputs into outputs (i.e., products and services) that can generate revenues in the marketplace and profits that can be recycled through the same process once again. The last issue, public relations, focuses on developing strategies for dealing with systems and influences in the environment in which the organization must exist other than external groups directly involved with the input-transformation-output process (e.g., investors, suppliers and customers). Examples of such systems and influences include governmental entities, consumer and other public interest groups, labor unions and communities in close physical proximity to each of the locations at which the organization conducts operations. Governmental regulation touches a number of issues and areas relating to the activities of any business organization including environmental quality, product liability, recruitment and promotion policies and practices, health and safety protections in the workplace, and zoning. An organization can be presumed to be successful at public relations if it has achieved a favorable public image and there is community acceptance of the existence of the organization; however, in turn, indicators of public relations problems include litigation, fines and governmental investigations.[119]

Measuring Organizational Effectiveness

Organizations are formed and operated to create value and it is essential for the organizational managers to develop processes and procedures for measuring how effective the organization, specifically the chosen structure and culture, has been in attaining its value creation goals and objectives. Researchers have identified several different approaches for measuring organizational effectiveness—the external resource approach, the internal systems approach, and the technical approach. Each approach emphasizes different dimensions such as management and control of the organization's external environment, the capacity of the organization for innovation, and the efficiency of internal operational activities of the organization.[120] Still another method for measuring organizational effectiveness is to compare the performance of the organization against its stated mission and objectives and any specific short- and long-term operational goals that may have been established by the managers. Organizational members, such as managers and employees of a for-profit business, may also use a simple list of descriptive statements of effective organizations (i.e., "our organization's priorities are clearly stated") to quickly assess the effectiveness of their organization and identify actual or potential issues that might eventually create problems for the smooth functioning of the organization's and the member's ability to understand and carry out his or her specific role within the organizational structure (see table below). No single method of measuring organizational effectiveness should be relied upon and managers should be sure that they establish tracking systems that provide regular and clear feedback on all of the dimensions that are relevant to the activities of the organization.

Checklist for Member Assessment of Organizational Effectiveness

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[119] Id. at xxiv and 13.
[120] See L. Galambos, "What Have CEO's Been Doing?" Journal of Economic History, 18 (1988), 243-258.

- Our organization's priorities are clearly stated.
- Managers and employees working in our organization understand their roles and their responsibilities.
- Our organization has a clearly written, well-structured plan for the next year.
- Our organization has a clearly written, well-structured plan for the activities we would like to undertake over the next four years.
- Members working in our organization have an opportunity to contribute to the planning process at least once a year.
- Most of the members in our organization know our objectives for the next three or four years.
- I know the main purpose of our organization, and I know how I can help to further its objectives.
- The policies and procedures governing our organization's operations are well written.
- The tasks that need to be performed by managers and employees in our organization are logically broken down.
- I have the information I need to do good work in this organization.
- Organizational members generally get along well and work effectively together.
- The level of conflict in our organization seems reasonable considering the number of people who are working together.
- Our organization has good ability to adapt.

External Resources Approach

The external resources approach to measurement of organizational effectiveness focuses on how effective the managers of the organization have been in managing the external environment in which the organization conducts its activities and establishes its strategies. In particular, the organization must evaluate how well it is doing with respect to obtaining, managing and controlling scarce and valuable resources that are available in the external environment including customers, raw materials, capital (i.e., cash for operations and investments) and talented employees. In order to measure effectiveness using the external resources approach, the organization must establish performance goals with respect to relevant external resources—the quality of, and costs of obtaining, raw materials; the skill levels of new employees; market share as a measure of customer satisfaction; stock price (or professional independent valuation while the organization is still privately owned) as a measure of how the investment community sees the performance of the organization; and brand recognition and public image as a measure of the support that the organization can expect from other stakeholders such as regulators and interest groups (e.g., consumer advocates and environmentalists).[121]

Internal Systems Approach

The internal systems approach to measurement of organizational effectiveness focuses on various ways in which an organization can be innovative and respond quickly and effectively to new opportunities and changes in environmental conditions. One obvious way in which organizations innovate is when they create and successful exploit new

[121] See Campbell, "On the Nature of Organizational Effectiveness," in P.S. Goodman and J.M. Pennings (Eds.), New Perspectives on Organizational Effectiveness (San Francisco: Jossey-Bass), 13-55; and F. Friedlander and J. Pickle, "Components of Effectiveness in Small Organization," Administrative Science Quarterly, 13 (1968), 289-304.

products and processes. However, the concept of innovation should be expanded to include success with organizational design that results in a structure and culture that allows the organization to be more effective than its competitors in changing and adapting to its environment and continuously improving the efficiency of its day-to-day operational activities. In order to measure effectiveness using the internal systems approach, the organization must establish performance goals that are tied to objective measures of certain indicators of innovative activity within the organization—the length of time required to make decisions; the number of new innovative products and processes; the length of time required to complete development and launch of new products and services; the level of coordination and conflict among employees, which may be measured by the volume of resources required to coordinate activities within the organization; and the level of energy and satisfaction among employees. Organizations can focus on specific design changes in order to increase their skills in relation to innovation. For example, a design decision to form product development teams and provide them with the necessary resources and support can substantially improve the performance of the organization with respect to getting more new products to market and launching those products quickly and efficiently. Moreover, organizations that become more innovative can improve their ability to control and manage their environment since they will be better positioned to obtain capital from investors and attract entrepreneurial managers and employees.

Technical Approach

The technical approach to measurement of organizational effectiveness focuses on how well an organization is able to convert or transform the resources that it collects from its environment into finished goods and services that can be sold to generate additional value for the organization. When this approach is used the analysis will focus on appropriate measures of productivity and efficiency and organizations may establish performance goals that include objective measures of product quality, number of defective units, production costs, quality of customer service, and the time required to deliver finished goods to customers. In cases where the organization produces services, rather than goods, the measures of productivity may include sales-per-employee. Organizations using the technical approach will generally establish rewards for improvements in productivity and it is important to select the right measures and make sure that there is no ambiguity as to how productivity and efficiency will be measured and reported. Organizational design has a significant impact on productivity since the way in which work is structured will determine how efficient the workflow is and the culture of the organization will how an effect on how motivated employees will be to take the steps necessary to increase productivity.

Comparison of Performance against Goals and Projections

A final approach to measurement of organizational effectiveness focuses on a comparison of the actual performance of the organization against the goals that management has laid out in its mission statement and in the short- and long-term budgets and projections that are created during the course of the organization's ongoing operations. A mission statement is created in order to inform internal stakeholders about the planned activities of the organization and assist the organization in obtain the support and cooperation of those stakeholders. For example, one of the missions of an organization may be to become and remain a leader in the development and commercialization of new health care products. Such a mission allows the organization to obtain support from investors interested in that area and recruit talented scientists and managers with experience in the health care industry. Admittedly, however, it is sometimes difficult to measure how well an organization is doing against the goals in its mission statement since those goals are often less than fully specific. In contrast, budgets and projections are more specific and objective and can include a wide range of important indicators of performance including market share, costs of production, and product quality. Many companies try to compare their performance against that of acknowledged industry leaders ("benchmarking").

Need for Multidimensional Assessment of Organizational Effectiveness

Organizations should not rely on just one approach to measuring organizational effectiveness since they run the risk of ignoring important dimensions of performance. Moreover, just because an organization is effective in one area does not mean that the organization is performing at its highest level. For example, a organization may become quite successful in reducing the costs of production associated with a particular line of products; however, this advantage may ultimately fade if the organization is not able to simultaneously succeed with respect to innovation and development and commercialization of new products that will take the place of the prior line of products once they have reached maturity and there is no longer a large market for additional new sales. Similarly, an organization may be able to reduce production costs by pushing workers to work harder and accept lower wages; however, the organization may ultimately fail if these steps create a culture that is not attractive to skilled employees that are needed in order to sustain a steady stream of new products and services.

Organizational Performance Measurement Systems

Wolk et al. argued that performance measurement provides vital information for advancing social innovation, which they defined as the process of developing, testing, and honing new and potentially transformative approaches to existing social issues.[122] They believed that having the right performance metrics, data, and analysis in hand allowed social innovators (i.e., nonprofit organizations, government agencies, and businesses that offer innovative, results-driven solutions to social problems) to make well-informed management decisions to drive continuous improvement and long-term social impact and answer the following fundamental questions[123]:

- How do we know how well our organization is progressing against our mission and goals?

[122] A. Wolk, A. Dholakia and K. Kreitz, Building a Performance Measurement System: Using Data to Accelerate Social Impact (Cambridge, MA: Root Cause, 2009), iii.
[123] Id. at 3-4.

- What should we measure in order to have critical information without becoming overwhelmed with data?
- How should we report and discuss our performance internally among staff and board members to maximize learning?
- Where should we focus our organization's limited resources in order to increase our effectiveness today and achieve sustainability over the longer term?
- How can we most effectively measure and communicate our performance and impact to external stakeholders?

Wolk et al. advocated for the adoption of a performance measurement system as a means for organizations to efficiently collect and make use of data about their activities (i.e., programs, services and initiatives run by the organization) and operations (i.e., human resources management, technology, financial management, governance etc.). From their perspective, a performance measurement system constituted a cycle that included four major phases of activity[124]:

- ***Measure:*** Organizations operating performance measurement systems use indicators, metrics that are tracked regularly, to assess their activities and supporting operations.
- ***Report:*** Organizations can use several types of reporting tools to compile performance measurement data into a format that is easy to analyze including a dashboard, which includes a focused selection of indicators to provide periodic snapshots of the organization's overall progress in relation to past results and future goals, and/or a report card, which contains highlights from an organization's internal dashboards and facilitates sharing data externally with social impact investors and other stakeholders.
- ***Learn:*** Using the selected reporting tools, an organization's leadership and other key staff members review and interpret performance data in order to make well-informed decisions and identify opportunities for improvement and necessary course corrections.
- ***Improve:*** The organization implements its decisions to improve its activities and operations and the performance measurement cycle begins again.

Wolk et al. counseled organizations that they could and should follow a five step process to build or refine their performance management systems: planning to measure; choosing what to measure; determining how to measure; preparing to use the data; and implementing the performance measurement system. However, before embarking on the process organizations need to commit to employing the knowledge drawn from their data to drive decision-making, particularly among members of the senior leadership team; devoting staff time to build the performance measurement system (i.e., designing the system, developing measurement tools and implementing processes) and oversee performance measurement once the planning process has ended; and reach agreement on the organization's mission and vision of success so that the organization can identify exactly what needs to be measured and reported.[125]

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[124] Id. at 6.
[125] Id. at 7-9.

Planning to Measure

The goals for organizations during the first step in the development and implementation of a performance management system are assembling a working group that will develop the system and completing an audit of the organization's current measurement activities. Wolk et al. recommended that the working group include the leader of the organization (i.e., the managing director or CEO) and others chosen from among the senior staff members from each of the organization's key programs and functional units. The size of the group will vary depending on the size of the organization and its activities; however, care should be taken to include anyone who has the organizational visibility and skills required to design and implement the performance management system. One person should be designed to lead the efforts of the group. While members of the board of directors do not necessarily have to be included in the group, they should be kept informed about the progress that the group is making from the very beginning.[126]

The first big project for the working group should be conducting a performance measurement audit that will make it easier to build on any existing measurement practices that the organization already has in place. Wolk et al. called on organizations to ask the following key questions during the audit process[127]:

- What indicators, both quantitative and qualitative, is the organization currently tracking?
- How and when is the organization tracking these indicators including a list of all current measurement practices (i.e., who is measuring, when and how)?
- Where and how is the organization storing that data (e.g., file collections, spreadsheets, databases, accounting systems and other tools)?
- How is the organization reporting the data, both internally and externally (e.g., dashboards, report cards, annual reports, stakeholder newsletters and internal program reports), who is developing the reports and what indicators and other content are reported, to whom (i.e., who are the audiences for the reporting), and how often?

The working group also needs to ask and answer a series of questions regarding how the organization is currently reviewing and using the collected data. For example, who is actually reviewing the organization's performance reports and when? Does the organization hold regular performance review meetings? What methods are being used to analyze and interpret data? Most importantly, how is the organization incorporating conclusions drawn from the analysis of the collected data into decision making?[128] The purpose of considering all of these questions is to establish a clear and reliable reference point that can be used during the forthcoming process of designing and implementing a comprehensive performance measurement system.

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[126] Id. at 11.
[127] Id. at 11-12. Wolk et al. also included a "Performance Measurement Audit Tool" as Appendix A to their publication as a resource for use in conducting the performance measurement audit. Id. at 60-62.
[128] Id. at 12.

Choosing What to Measure

Once the planning is completed attention can turn to selecting the indicators that the organization will use in order to track its progress toward carrying out its mission. Wolk et al. noted that there was a wealth of literature relating to measurement and evaluation of social impact, particularly with respect to nonprofit organizations, and organizations could choose from among a range of indicators to assess the fundamental areas of organizational performance. However, they counseled organizations to take a simple approach to performance measurement and focus on three major categories of indicators: organizational health indicators, which provide critical insight into the organization's capacity to carry out its mission including financial sustainability, team capacity and implementation effectiveness; program performance indicators, which focus primarily on the activities of the organization, the outputs or short-term results produced by those activities, quality and program costs; and social and economic impact indicators, which track the organization's longer-term program toward meeting its mission and realizing through by measuring outcomes, outcome costs and systemic impact generated. Indicators from each of these categories should be selected and all of the indicators should be included on a master list that will be used for developing additional elements of the performance measurement system during later stages of the process.[129]

When selecting indicators, reference should be made to the results of the performance measurement audit, which should disclose what is already being measured and what indicators are already being tracked, and the proposed strategic or business plan that identifies goals that should be accompanied by appropriate performance metrics. Wolk et al. also recommended that organizations look to choose indicators that will provide them with a variety of data points, such as a proper mix between quantitative and qualitative indicators. Within the general category of quantitative data, choices need to be made between numbers and percentages, and Wolk et al. pointed that both may be necessary and appropriate in certain circumstances such as when an organization placing high school students in colleges would elect to track both the absolute number of students who complete its program and the percentage of participants who complete the program.[130]

While the primary purpose of selecting indicators is to measure performance, organizations needs to remember that indicators can and generally do have a significant impact on behaviors of individuals working inside the organization. Wolk et al. discussed the experience of an organization that provided lifelong learning classes and service opportunities for older adults. Not surprisingly, the organization was interested in tracking growth in participation in its programs and had generally done so by keeping tabs on the number of older adults who were registered members at each affiliate organization in its network. The organization discovered that focusing on this indicator was driving each affiliate to sign up as many members as possible—the numbers on new members were impressive; however, many of those new members, who could join for free, were not taking advantage of the programs once they signed up because the affiliates were concentrating their resources on recruiting. The organization concluded

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[129] Id. at 15-17.
[130] Id. at 18 and 22.

that growth for the sake of growth was not going to bring it closer to achieving the goals associated with its mission and determined that more emphasis needed to be placed on measuring the number of active members, which drove affiliates away from focusing strictly on signing up new people toward spending more time with new members to get them involved and continuously connected with the organization's programs.[131]

Organizational Health Indicators

Wolk et al. explained that organizational health indicators provided critical insight into your organization's capacity to carry out its mission, including the organization's progress toward financial sustainability in the form of the capacity to capture a reliable and varied stream of revenue sources to ensure that organization the organization will survive and thus be able to carry out its social mission. Simple indicators of financial sustainability include[132]:

- Total revenue, expenses and net surplus (loss)
- Percentage of the expense budget covered by currently committed revenue
- Percentage variation between budgeted and actual revenue and expenses
- Number of months of cash available at current spending rate
- Percentage of the organization's income sources that can reasonably be considered renewable and reliable
- Distribution of the organization's income between various sources such as foundation funding, individual donors, government and earned income
- Distribution of funders at various funding levels, funding amount and percentage of revenue contributed

In addition to financial resources, the stability and potential efficacy of an organization's efforts relating to social causes is significantly impacted by its human resources and organizational health indicators should track "team capacity" (i.e., the size and quality of the organizational team) by measuring the number of full-time and part-time staff, the number of board members, the number of volunteers, the number of staff hours devoted to each program and ratings of staff and volunteer satisfaction. Wolk et al. also called on organizations to track implementation effectiveness by measuring the percentage of milestones met and the percentage of goals achieved.[133] Organizational health indicators should be monitored on a regular basis to track progress and identify changes that may be occurring as time goes by.

Program Performance Indicators

Wolk et al. described program performance indicators as focused on the organization's activities and the outputs, or the short-term results, produced by those activities. The nature of the organization's work (i.e., the programmatic areas selected by the organization) will shape its key program performance indicators; however, in general,

[131] Id. at 26.
[132] Id. at 19.
[133] Id.

such indicators could include the number of individuals enrolled in a given program, members in an association, partner organizations, individuals engaged through advocacy efforts, or individuals reached through a communications campaign; demographic information on beneficiaries or other key stakeholders; measures of program quality, such as the satisfaction levels of beneficiaries; measures of program efficiency; and costs of programs. When selecting program performance indicators, attention should be paid to those factors that the organization believes are the key drivers of program performance and reference should also be made to indicators used by other organizations engaged in similar programmatic activities.[134]

Wolk et al. presented a representative list of program performance indicators for four different types of programmatic areas commonly pursued by nonprofit organizations[135]:

Direct Service

- Activities: # inquiries or applicants, # classes or sessions, average length of service
- Outputs: # beneficiaries served, % participants who complete program
- Quality: % beneficiary satisfaction, % beneficiaries recommending the organization to their peers, qualitative interview data
- Program Costs: $ amount for individual program areas, $ amount per beneficiary served

Advocacy/Policy

- Activities: # petitions launched, # supporters recruited
- Outputs: # petition signatures submitted, # emails, letters or calls to legislators, # policy proposals developed
- Quality: % petition drives meeting signature target, % supporter satisfaction, qualitative interview data
- Program Costs: $ amount for individual program areas, $ amount per campaign, petition, or policy recommendation

Association/Network

- Activities: # members, # events, # member communications
- Outputs: # members engaged through program activity, % members using services
- Quality: % member satisfaction, % members recommending the organization to their peers, qualitative interview data
- Program Costs: $ amount for individual program areas, $ amount per member

Capacity Building

- Activities: # workshops, # articles disseminated, # coaching hours

[134] Id. at 16-17 and 19.
[135] Id. at 21.

- Outputs: # clients served, # clients engaging in programming
- Quality: % client satisfaction, % clients recommending the organization to their peers, qualitative interview data
- Program Costs: $ amount for individual program areas, $ amount per client

Wolk et al. provided an example of how program performance indicators customized to a particular situation might be selected, doing so by focusing on the approach taken by Big Brothers Big Sisters of Bermuda ("BBBS"). They explained that BBBS had a mission to "create and support one-on-one relationships between caring mentors and young people in need" and a vision of ensuring that "every young person in Bermuda has access to the consistent, caring relationships and positive role models they require to meet their developmental needs and reach their full potential". In this situation it is apparent that one of the indicators needs to be the number of youth-mentor matches; however, in order to ensure that information is available about the entire process of creating those matches BBBS selected the following program performance indicators: number of inquiries received from potential mentors; number of applications received from candidates; percentage of adults who submitted an application after inquiring about the program; number of applications in process; percentage of applications accepted; and satisfaction levels of youths and mentors participating in the program.[136]

Social and Economic Impact Indicators

Social and economic impact indicators fit well with program performance indicators in that they go beyond concerns about day-to-day operations and short-term results to bring in an assessment of the outcomes that are the integral pieces of the organization's long-term efforts to pursue its mission and realize its vision of success. Wolk et al. noted that, like program performance indicators, social and economic impact indicators vary greatly depending on the organization and that indicators in this category are perhaps the most challenging to select and define given that they intersect with more complex questions raised by the social sciences. Wolk et al. recommended that organizations begin by reviewing their mission and vision statements, in addition to their latest strategic or business plan, and make sure that they take into account indicators used by other organizations and/or by social scientists working in the field to which the organization's issues focus falls.[137]

Wolk et al. called on organizations to define and measure desired outcomes based on their specific mission and vision and the particular type of program. For example, with respect to direct service outcomes might be the number of beneficiaries experiencing targeted outcomes and the percentage success rate; with respect to advocacy and policy programs the outcomes might be the number of policy changes implemented and the number of new coalitions created; with respect to association and network programs the indicators might be the number of members indicating that they experienced targeted outcome and the percentage success rate; and with respect to capacity building the outcomes might be the number of clients demonstrating improvement in key capacity

[136] Id. at 21-22.
[137] Id. at 23.

area and the percentage success rate.[138] Organizations should also determine the costs associated with each successful outcome and assess the larger, systemic economic and social impact of the work performed by the organization (e.g., amounts saved in social service costs, amount of new economic activity generated and quantitative and qualitative measures of new practices that the organization has brought to the field or new stakeholders engaged in addressing the target social issue).[139]

Wolk et al provided an example of how to choose social and economic indicators by discussing the process used by a nonprofit organization seeking to provide financial literary education and individual budget counseling to low- and moderate-income individuals along with assistance and loan guarantees to help those individuals buy cars that could be used to get to and from work and otherwise have greater access to community services and activities for themselves and their families.[140] The group defined its vision of success as follows: "One day, very low to moderate income people will have access to credit at affordable interest rates and a variety of broadly available educational opportunities to obtain a selection of reliable and affordable cars, which lead to improvements in their lives and are consistent with maintaining a sustainable environment." The group believed that it was necessary to focus on three major categories of impact: the economic situation of its beneficiaries, the health and lifestyle of its beneficiaries and the group's systemic impact on the environment. As such, the group elected to do the following:

- To measure its impact on the economic situation of its beneficiaries, the group tracked improvement in its beneficiaries' credit scores, improvement in their wages; whether or not they were able to keep jobs for longer periods of time; and increases in their disposable income
- To measure its impact on the health and lifestyle of its beneficiaries, the group focused on access to healthcare; improvements in overall health and well-being; and family and community involvement
- To assess its systemic impact on the environment, the groups measured the gallons of gasoline saved and reduced carbon emissions as a result of helping clients to buy more fuel-efficient cars than they would otherwise have been able to afford

Master List of Indicators

Once the indicators for each of the categories have been selected, they should all be placed on a master list of indicators that will be used during the ongoing process of creating and maintaining the performance measurement system. The list should include columns that can be used to check off whether each indicator is currently being tracked and whether each indicator will be included in the management dashboard or a program-level dashboard, tools that are discussed in greater detail below.[141]

[138] Id. at 24.
[139] Id. at 17 and 24.
[140] Id. at 25.
[141] Id. at 27-28.

Determining How to Measure

Once the organization decides what it wants to measure it needs to put together a set of tools that will make it easy to capture the necessary data and store it safely in a way that it can be easily accessed for use in setting strategy, making decisions and reporting on performance. Wolk et al. noted that the measurement tools and processes selected by an organization will depend on the organization's specific needs and the programmatic areas that it engages in. For example, a human services organization may rely on inquiry and intake forms to collect data on the process of accepting beneficiaries into one or more programs and on the beneficiaries themselves. Once beneficiaries are accepted, further information is collected by coordinators, case works and other personnel in the course of compiling files on beneficiaries. All or some of this information is transferred into an online database that can be used to compile aggregated statistics. Since multiple people and departments may be collecting information on a particular beneficiary, it is important to assign responsibility for ensuring that the information is sufficient to address all of the selected indicators and is properly stored.[142]

Among all the possible measurement tools, surveys are a commonly used approach for tracking a range of indicators. Wolk et al. pointed out that surveys are particularly useful for social and economic impact indicators, measuring beneficiary or staff satisfaction, assessing progress toward a particular short-term goal and/or soliciting opinions from stakeholders about new programs and activities that are under consideration. Online survey tools have made the process easier and more efficient and Wolk et al. recommended that the following guidelines be used to create an effective survey[143]:

- Know what information the organization is trying to obtain with the survey (i.e., what indicators is the organization seeking to track with the survey and what questions is the organization ultimately trying to answer about itself, the organization's programs and the organization's stakeholders)
- Specify the target audience of the survey (e.g., staff, board members, beneficiaries or other external stakeholders)
- Develop questions that will address the organization's audience clearly and generate the information that the organization needs by referring back to the indicators the survey will seek to track[144]
- Determine the best way to reach the organization's target audience with the survey (e.g., online, by phone or in person)

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[142] Id. at 31.

[143] Id. at 32-34.

[144] Wolk et al. counseled organizations to seek streamlined methods of collecting data that made it easier for respondents to participate without excessive invasion of privacy. For example, an organization working with low-income adults was reluctant to ask participants to disclosure their household incomes; however, the organization found that it could get a "good enough" estimate of income levels by asking participants to provide their zip codes and then comparing that information to publicly available census data. In this way the organization was able to use "the number of program participants living in poverty-area zip codes" as an indicator to measure its progress toward the goal of increasing the number of low-income residents served by its programs. Id. at 34.

- Determine the frequency with which the organization will conduct the survey, a decision that will depend on such factors as the purpose of the survey, the structure of your programs, the way in which beneficiaries are served, and internal and external reporting requirements
- Test the survey with a small sample group to ensure it provides the required information before using it with a larger target audience

As mentioned above, consideration also needs to be given to storing the data in a way that streamlines the data tracking process and makes the data readily available for integration into daily operations and the culture of the organization. Wolk et al. recommended that organizations consider spreadsheet software; standardized or packaged database, customer relationship management, accounting, or other software; and custom-built database or other software, and noted that the decision will depend on the size of the organization, available resources and how long the organization has been operating. Finally, responsibility for collecting data for each of the organization's programs should be assigned and the responsible parties should be provided with guidelines on when data should be collected (collection schedules for each indicator should be determined and may vary in frequency and/or timing over a particular assessment/reporting period), how it is stored and how and when it should be distributed throughout the organization.[145]

Preparing to Use the Data

Wolk et al. observed that raw data was about as useful as no data at all and that all the work that the organization may have done with respect to setting up processes to collect data on the selected indicators would have little value unless the organization created reporting tools, including a management dashboard and additional program-level dashboards, to facilitate review and analysis of the data. At this stage the organization should also select and empower the team members who will review performance results regularly and establish a review schedule that this team will follow. The team members should also have a better idea of how to analyze the data, develop and refine data collection processes and, as necessary, delegate data collection activities to others throughout the organization. Finally, in the course of developing and using the reporting tools, the organization will learn more about how to use the data for continuous improvements to its operations and programmatic activities.[146]

In the performance measure system recommended by Wolk et al. the primary tools for reviewing data and drawing conclusions are "dashboards" that include a focused selection of indicators drawn from the organization's master indicator list with a "baseline", or initial measurement, for each indicator and a "target" for each indicator that describes the results with respect to that indicator that the organization is working to achieve within a specified period based on both the organization's specific goals and recognized standards applicable to the organization's activities. According to Wolk et al., all performance measurement systems should include a management dashboard, which is intended to provide the management team and board members with a birds-eye

[145] Id. at 35-36.
[146] Id. at 37.

view of organizational performance through a selection of key indicators that can be easily and regularly reviewed. In addition, organizations that are large enough to have multiple programs or departments should have one or more program-level dashboards which track the performance of individual programs, initiatives, operating areas or departments at a more detailed level. A program-level dashboard will contain only the information relevant to managers and other key team members working in the specified area. When program-level dashboards are deployed they should be connected to the management dashboard by including a few key indicators from any program-level dashboards in the management dashboard in order to ensure that the management team stays connected to the work and goals of individual programs and activities.[147]

Creating Dashboards

Wolk et al. provided a detailed illustration of the elements of a management dashboard and the steps that might be taken to create one. The illustration was based on the assumption that the management team and board of directors were interested in developing a tool that could be used to efficiently review the organization's data and results on a quarterly basis and track progress on the various indicators included in the dashboard from the baseline position of the organization at the beginning of the year and the target goals set for the end of the year. At the top of the dashboard, the columns representing the following data were created (flowing from left to right) [148]:

- Indicators, which are taken from the organization's master indicator list and includes the three main categories of indicators (i.e., organizational health, program performance and social and economic impact) and subheadings based on the most pressing management concerns and goals (the indicators themselves are placed under the appropriate subheading)
- Baseline, which typically is quantitative or qualitative description of the status of the indicator as of the end of the prior reporting period (e.g., the end of the organization's prior fiscal year)
- Quarterly Results, which would be four columns representing each of the quarters during the entire reporting period and which can be used to assess the core elements of performance and how they are changing as time goes by
- Year-to-Date Results, which would be updated quarterly
- Target, which should be aligned with the baseline and be a quantitative or qualitative description of the desired status of the indicator as of the end of the current reporting period (i.e., the end of the current fiscal year)
- Difference from Target to Date, which provides readers with a sense of how well the organization is progressing during the reporting period toward the achievement of its goals for that period

The rows of the dashboard are reserved for indicators and, as noted above, will be separated out into headings for each of the three main categories and subheadings for the

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[147] Id. at 38-39.
[148] Id. at 39-40. See "Management Dashboard Template" as Appendix C to Wolk et al.'s publication. Id. at 64.

key issues for each of the main categories. For example, typical subheadings (and related indicators) for organizational health might include financial sustainability (indicators include revenue, expenses and net surplus/loss) and team capacity (indicators include number of case or program managers and case/program manager hours per week). With respect to program performance, BBBS, which was mentioned above, selected three subheadings (and related indicators) that were central to its core mission of establishing and maintaining mentoring relationships: recruitment of mentors (indicators include inquiries, applications, orientations, application/inquiry ratio and applications in process); recruitment of mentees (indicators include inquiries, intakes and intake/inquiry ratio); and current matches. For social and economic impact, BBBS focused on one subheading—success of matches—and tracked percentage of mentees reporting improved self-esteem, percentage of mentees reporting improved values/responsibility and percentage of mentees reporting improving academic performance. Wolk et al. pointed out that while there may be numerous ways to organize a management dashboard, the presentation must be laid out in a logical and intuitive format and should include those indicators from the organization's master indicator list that are most close related to the key organizational goals for the reporting period and which will provide users with the best sense of the organization's overall capacity, its progress toward its mission, and any current strategic priorities that require management attention.[149]

As mentioned above, program-level dashboards supplement the management dashboard and should be created and used to managing projects and/or internal departments such as marketing or operations and tracking their progress with respect to their own goals and targets. Wolk et al. maintained that a program-level dashboard could be created by following the same steps used to create a management dashboard, which have been outlined above.[150] For example, program financial sustainability and team capacity are generally fundamental organizational health indicators of every program and each program should also have its own unique sub-categories of program performance and social and economic indicators. Once the program-level dashboard has been completed, the master indicator list should be updated with notations for each indicator that has been included in a program-level dashboard. In addition, indicators should be included on the management dashboard that allows the senior management team and board of director to follow the progress of each of the programs at a high level.[151]

Once the initial versions of the management and program dashboards have been created, reference should be made to the master indicator list to see whether all of the indicators have been included in the dashboards. If an indicator has not been included at this point, consideration should be given to whether or not the indicator should be tracked and

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[149] Id. at 40-41. Wolk et al. suggested that a copy of the master indicator list be distributed to the members of the management team and the board of directors at the beginning of the dashboard preparation process to gather their input on which of the indicators they believe are most important to review at the management level. As the dashboard preparation process continues, changes to can be made to the subheadings to ensure that the indicators are clearly organized. The master indicator list should be updated to reflect which of the indicators have been selected for the management dashboard. Id. at 42. See "Master Indicator List Template" as Appendix B to Wolk et al.'s publication. Id. at 63.

[150] Id. at 43.

[151] Id.

analyzed at that juncture of the development and use of the performance measurement system. If there is no logical place for the indicator on the dashboards it probably makes sense to set it aside for the time being and review it at a later point once the organization has completed several cycles of data collection and analysis using the indicators that have been included on the dashboards.[152]

Preparing Dashboards for Performance Reviews

Once the management and program-related dashboards have been created by deciding which sub-categories and related indicators should be included for measurement, attention should turn to determining the preliminary baselines for each of the indicators and defining the targets for each of the indicators. With regard to determining the baselines, Wolk et al. advised that organization should refer to their performance measurement audit to locate any currently stored data that pertains to the indicators. In most cases there will be indicators for which historical data is not readily available since they may not have been tracked in the past and in those situations a notation of "to be determined" should be included in the dashboard at this point with the intention that they will be completed later once the system is up and running.[153]

Defining the targets for inclusion on the dashboards is the most challenging, yet arguably most exciting, part of the entire process of developing the performance management system. Targets must reflect the organizational commitments with respect to each of the three main categories and be grounded in solid and pragmatic strategies and tactics that will be deployed to achieve the targets within the desired timeframe. When setting targets, deference should also be given to past performance, although it is likely that it will not be a perfect predictor given that the organization is likely to invest more time and resources toward a particularly indicator once it has been identified as material and placed on one of the dashboards. Wolk et al. noted that targets could be moving or fixed, pointing out that an organization might either set a target for a particular indicator (e.g., client satisfaction) at a level that remains constant over time or continuously raise the target for each performance period as improvement occurs.[154] While in most cases the organization will have sufficient information to establish a reasonable target for the selected indicators, the organization may have included some new indicators for which there are not sufficient historical information to set a target when the dashboard is initially launched. In those situations, those indicators should be marked "To Be Determined" and then updated once the performance measurement system is launched and relevant data has been collected and analyzed.[155]

Wolk et al. recommended that the organization should set improvement-oriented, but realistic, targets that members of the management team and key personnel involved in the particular project feel confident can be achieved within the desired timeframe given available resources and progress that has been made in previous periods. They provided

[152] Id.
[153] Id. at 44.
[154] Id.
[155] Id. at 45.

an example of a membership organization that had chosen, not surprisingly, to focus on the total number of members as one of its primary performance indicators. In their illustration, Wolk et al. postulated that an organization had a baseline membership of 20,000 and was considering whether to set a target of 30,000 members by the end of its next annual performance measurement period. Wolk et al. noted that targeting a 50% membership increase might make sense if the organization was in an early phase of growth and seeking to expand to new geographic areas or new member types; however, if the recent history of growth for the organization was significantly lower, such as 4%-5% per annum over the last three years, a lower target would make sense, particularly if the organization was investing heavily in strengthening its infrastructure and improving and maintaining programs for existing members in order to support membership retention. Wolk et al. suggested that the targets be linked to specific performance expectations established for the managers and employees directly involved in the performance measurement system so that they have a sense of accountability for the outcomes.[156]

Planning for Regular Performance Reviews

Once the management and program-level dashboards have been created and populated with the initial baselines and targets for each of the selected indicators, the next step is to establish a formal plan for regular performance reviews, a topic discussed in more detail below. Wolk et al. suggested that the organization begin by identifying the group that will review the management dashboard and creating a regular meeting schedule for that group. The group should include the organizational leader, such as the CEO or executive director, leaders of relevant programs and operational areas and members of the board of directors. The primary responsibility of the group is to draw lesson from the performance measurement system and ensure that they are integrated into organizational decision making and the specific actions taken by the organization's management team. The group should meet often enough to ensure that the dashboards and entire system are embedded into the organizational culture. Meetings should occur no less frequently than quarterly, soon after the latest results are added to the dashboard, and are often held contemporaneously with otherwise scheduled meetings of the entire management team and board of directors.[157] A process for reviewing program-level dashboards should also be established and this would include creating review teams for each of those dashboards and a review schedule. The review team for a program-level dashboard should include the leader of the program, department or initiative that the dashboard addresses as well as key personnel who have direct responsibility for actions relating to the indicators included in the dashboard.[158] The review teams for each of the dashboards should determine which staff members will hold the responsibility for compiling data relating to the indicators on the dashboard and preparing the dashboard in advance of scheduled review meetings.[159]

Analyzing and Using the Data from the Dashboards

[156] Id.
[157] Id. at 46.
[158] Id. at 46-47.
[159] Id. at 47.

A thorough and robust performance measurement system will generation a rich reservoir of data that will need to be analyzed and then put to use in improving operational effectiveness and making and implementing strategies directed at the achievement of the organization's mission, goals and targets in each of the three main performance categories described above. Wolk et al. recommended that the analysis begin with the following basic questions for each indicator[160]:

- How have results changed over time, either positively or negatively?
- How do results compare to the baseline and targets?
- For indicators being tracked for the first time, what do the results show?

In addition, consideration should be given to:

- Why have results exceeded or missed the targets?
- What are the underlying drivers?
- How does the data align or not with intuitive expectations regarding activities and operations?
- What areas require further research?

Wolk et al. noted that in the initial stages of using the dashboards a good deal of weight will be given to management and staff expertise and intuition when analyzing the data; however, as time goes by the dashboard will produce evidence of patterns and connections that can be used to test intuition, challenge established assumptions and build a more accurate picture of organizational performance and its underlying drivers. The goal of the entire process is to develop answer to fundamental questions such as[161]:

- What is working and what is not?
- What opportunities for improvement exist?
- What challenges need to be addressed and how?
- Where should the organization focus its attention and resources?
- Which decisions regarding activities and operations should the organization ultimately make based on this knowledge?

With regard to how a dashboard system might assist organizations in making better decisions regarding how best to focus their attention and resources, Wolk et al. discussed an organization established to provide mentoring and other support to entrepreneurs. In reviewing its management dashboard, the management team observed that while there had been a decline in the average of total annual sales among the entrepreneurs admitted to the program in the current year compared to previous years, the average annual growth rate among its current entrepreneurs had increased in relation to previous years. These findings led to deeper analysis and the realization that the businesses of the entrepreneurs accepted into the current year program were smaller than those accepted in previous

[160] Id. at 47-48.
[161] Id. at 48.

years and that the organization's programmatic activities with businesses of that size were potentially more impactful overall than if the organization worked with larger businesses that might be more mature and less opportunities for growth. As a result, the management team implemented changes to its selection criteria for admission to the program to focus on slightly smaller businesses in order to increase its overall impact.[162]

Wolk et al. suggested that organizations transfer data from their dashboards to graphs and charts in order to create a different perspective on the data and focus attention on specific trends and relationships that might better inform strategies and operational activities. Graphs and charts are particularly useful in presenting data from past reporting periods in ways that it can easily be compared to current results and presenting data in a detailed manner that is not feasible in the relatively abbreviated dashboard format. For example, the management dashboard for BBBS, which was described above, tracked inquiries from potential mentors on a cumulative basis over the course of the annual reporting period, thus helping management track progress toward the annual target. However, when the data was placed on a graph that highlighted inquiries from month-to-month, it became clear that activity was greater at certain times of the year. When management considered why this might be the case—similar variations had been spotted when reviewing comparable data for prior years—it learned that spikes in inquiries in current and past years tended to coincide with media coverage of the organization's programs. With this new understanding, the organization decided to invest more time and resources in marketing activities in order to develop a more continuous presence in the attention span of key media outlets. BBBS also found that while the number of applications from potential mentors had increased, the percentage of initial inquiries that resulted in submitted applications had been declining slightly, a trend that led management to pay more attention to improving the steps used to follow up on inquiries and the speed at which applications were processed.[163]

Putting the Performance Measurement System into Action

The last stage of the performance management system proposed by Wolk et al. focused attention on putting the system into action, a process that includes launching the system, updating baselines and targets, refining the system and making and maintaining an external commitment to continuous improvement by reporting on the results of the performance management system and the actions taken by the organization in response to those results. Wolk et al. explained that the process of and tasks associated with implementing and maintaining the performance management system is based on a performance measurement cycle that includes the activities in the steps outlined above[164]:

- ***Measure:*** Designated staff members will collect data for the selected indicators using various measurement processes and tools described above
- ***Report:*** Designated staff members complete and send the management dashboard and any program-level dashboards to the appropriate review teams

[162] Id. at 48-49.
[163] Id. at 50-51.
[164] Id. at 54.

- ***Learn:*** Following the review schedule for the organization's dashboards the management and program-level review teams meet regularly to interpret and analyze reported data
- ***Improve:*** Based on the insights and conclusions drawn from the reported data, the review teams assign responsibilities for implementing improvements to the organization's strategy, activities and operations

Launching the Performance Measurement System

The first reporting cycle for the performance measurement system is effectively the "launch stage" during which the organization gets used to focusing on each of the following issues and activities[165]:

- Measuring the indicators that the organization has decided to track using appropriate tools and processes including spreadsheets and more sophisticated software-based storage tools
- Reporting the available data using management and program-level dashboards at the time determined by the established review schedule
- Conducting initial performance reviews to begin interpreting and analyzing the reported data, paying particular attention to how the reviewing process itself works
- Making decisions regarding activities and operations based on data reviews
- Updating existing or develop new measurement tools and processes as needed
- Identifying and tracking questions and issues that might need to be addressed in future reporting cycles

Updating and Refining Baselines, Targets and Indicators

Once the organization has completed its initial cycle of the new performance management system and collected data for each of the indicators on the dashboards, it should be easier to establish preliminary baselines for any indicators for which the organization did not have historical data before the system was launched. In addition, the organization can make adjustments to targets that were originally set before the system was launched to take into account past trends, current performance in relation to past targets, contextual factors, the most current strategic or business plan of the organization and the input of the stakeholders involved in meeting those targets. The organization should always strive for targets that are ambitious and which motivate the persons and parties involved; however, targets also need to remain realistic and grounded in data and analysis that is sound. Targets should be continuously revisited as data comes in and the sophistication of the performance management system improves.[166]

In addition to reviewing, and perhaps adjusting, the baselines and targets included in the dashboards, it is always important to assess the relevancy and utility of each of the indicators with respect to collecting and reporting the information that is most useful to

[165] Id. at 55.
[166] Id. at 55-56.

the organization in its decision-making processes. For example, the organization may decide that an additional indicator is required in order to obtain a fuller picture regarding performance with respect to a particular performance issue or the impact of a specific program. It may also be appropriate to adjust, or even remove, an indicator that is just too resource-intensive to track effectively. However, while adjustments to indicators should be considered when it is clear that they will significantly improve the measurement process, organizations should resist too much tinkering lest they lose the benefits of collecting consistent data over an extended period of time.[167]

Report Cards

Once the organization has completed several cycles of use with its performance management system and had an opportunity to make necessary and appropriate adjustments to the baselines, targets and indicators such that the system reaches a point where it is reliably producing the necessary information, the organization should begin sharing the information and related conclusions with its stakeholders. Organizations may choose from among a number of different strategies for reporting on its sustainability performance including through existing publications and/or preparing and distributing a separate sustainability report. Wolk et al. discussed the use of a "report card", which presents highlights of the data collected in the management dashboard to demonstrate the organization's commitment to being accountable to its stakeholders and provide the information necessary to build trust and confidence among stakeholders in the organization's commitments to its mission and sustainability generally.

While the data included in the internal dashboard is generally presented almost entirely in numerical format, supplemented by graphs and tables in many instances, a report card needs to have contextual information in order to make it all more understandable to readers who will not be as familiar with the day-to-day operations of the organization as the users of the internal dashboards. Wolk et al. recommended that the report cards include an explanation of the organization's mission and vision and a description of the key lessons and insights derived from the data that is included in the report card. In addition to the quantitative data, which should include both successes and areas where the organization has fallen short of its targets and expectations (disclosures that should be accompanied by a discussion of what the organization intends to do in order to improve lagging performance), the report card should be seen as an opportunity to share qualitative data through the use of testimonials, case studies and photographs that provide a fuller story that goes "beyond the numbers" to showcase how far the organization has progressed and where it intends to go in the future. For example, a report card may be included as one of the sections in a long-form sustainability report and include a chart or other form of diagram that lays out the results of key performance indicators on a year-to-year basis to demonstrate progress along with bullet point descriptions of the ways in which a program has made a substantial impact and a set of testimonials and spotlights on success stories and experiences of a few of the program beneficiaries. In that case, the report itself would include other sections that provide more detailed descriptions of relevant programs that include information from each of the applicable program-level

[167] Id. at 56.

dashboards. However, while the organization can and should be creative about how information is presented in a report card, there should be a familiar “look” to the report that allows readers to quickly access the relevant data and compare it to information provided in previous report cards.[168]

Dashboards and report cards are just two of many ways that organizations can report the information that has been collected using the performance measurement system and, as noted above, when planning for the launch and maintenance of the system provision should be made for reporting processes. When establishing the reporting processes, consideration should be given to the various target audiences among the organization’s specific stakeholder groups and for each audience decisions must be made regarding the type of reporting, the information to be included in the report (e.g., the indicators and targets that will likely be of most importance and interest to the audience), the frequency of reporting and the personnel who will be responsible for collecting and organizing the information for the report and ensuring that it is adequately distributed. Performance indicators may be reported on as part of an ongoing newsletter series for a particular stakeholder group. For internal stakeholders (e.g., employees), information appearing on a program-level dashboard may be accompanied by additional analysis in a comprehensive internal program report. At the same time, the program-level dashboard can serve as the foundation for a shorter report to program participants and outside parties that might be interested in lending support to the particular program.

Auditing

The project of designing and launching the performance management system began with a performance measurement audit and continuous auditing is an important activity to ensure that the system is working and identify improvements that might be necessary to remediate reporting issues and generate even more useful data. The team responsible for the maintenance of the management dashboard should establish and maintain a regular auditing schedule to review and, as necessary, revise the master indicator list and determine where the indicators on that list should appear in the organization’s overall dashboard library. The audit should also include all of the questions discussed above in connection with the initial audit; however, special attention should be paid to understanding how the dashboards and performance reports are actually being used throughout the organization. If the management and program-level dashboards and reports are not being fully utilized, the reasons need to be determined and steps need to be taken to rectify any issues.[169] Finally, the audit process should focus on how a rigorous data-driven performance measure system can be effectively utilized to enhance the environmental and social impact of the organization’s activities and programs. It is not always sufficient to have a goal of “doing well” because tough problems require sophisticated strategies that need to be carefully tracked to determine program and identify necessary adjustments quickly given the stringent demands and expectations of investors and other external stakeholders.

[168] Id. at 57.
[169] Id. at 12.

Chapter 8
Organizations and Networks

§1 Introduction

Porter and Powell argued that networks "are a ubiquitous and critical feature of organizational life" and that all organizations, and the individuals within them, "are enmeshed in networks at varied, multiple levels".[1] While networks have always been important and relevant in understanding organizations, their impact and variety has expanded in recent decades due to a number of environmental factors: a shift away from the traditional vertically integrated company structure toward greater reliance on outsourcing; the urgency to access knowledge and resources that can only be found outside the legal boundaries of an organization; the need for greater coordination of activities as a result of strategic decisions to set up operations in multiple locations around the world; and the recognition that networks can and do provide significant benefits to the organization and its members in terms of access, timeliness and referrals. Networks come in different types (e.g., formal and informal) and can be found at different levels (e.g., intra- versus inter-organizational networks); however, their common value lies in the support that they can provide organizations in acquiring valuable resources such as advice, financial capital, technical knowledge, human capital, customers, suppliers and positive relationships with other stakeholders.

§2 Types and classifications of networks

Hoppe and Reinelt suggested a framework for classifying networks with a particular focus on networks that organizational leaders might join as part of their leadership development efforts to gain access to resources and other support.[2] They noted that while leadership networks may be intentionally created, they also often emerge from a strong need or desire of the members of the networks to become and remain connected. The four types of networks in their framework were as follows:

- *Peer Leadership Network*: A peer network is based on social ties among leaders who are connected with one another on the basis of the shared interests and commitments, shared work, or shared experiences. A peer network provides leaders with access to resources that they believe are trustworthy and can be used by leaders to share information, provide advice and support, learn from one another and collaborate together. Gaining access to a peer network is often one of the fundamental goals of a leadership development program.
- *Organizational Leadership Network*: The social ties established in an organizational leadership network are focused on increasing performance. Ties in this type of

[1] K. Porter, and W. Powell, "Networks and Organizations" in S. Clegg, C. Hardy, T. Lawrence and W. Nord, The SAGE Handbook of Organization Studies (Second Edition) (Thousand Oaks, CA: SAGE Publications, 2006), 776.
[2] B. Hoppe and C. Reinelt, "Social Network Analysis and the Evolution of Leadership Networks", The Leadership Quarterly, 21 (2010), 600, 601.

network are often informal and exist outside of the formal organizational structure and provide leaders with the means to consult with colleagues outside of their departments or business units in order to solve problems more quickly. In some cases, organizational networks are intentionally created, in the form of cross-functional teams or communities of practice, to bridge gaps in the formal organizational structure that may be impeding performance and progress toward organizational goals (e.g., completing a new product and/or delivering services to customers more efficiently).

- *Field-Policy Leadership Network*: Leaders who share common interests and a commitment to influencing a field of practice or policy may come together to form a network that can be used to shape the environment surrounding the topic of mutual interest (e.g., frame the issue, clarify underlying assumptions and/or establish standards for what is expected of key stakeholders). This type of network can be a powerful tool for collective advocacy on issues and policies that are of common importance to multiple organizations and can facilitate mobilization of support and allocation of resources.
- *Collective Leadership Network*: A collective leadership network, which is based on a common cause or share goals, emerges and enlarges over time. The process begins with local groupings that eventually interact with groups in other areas to form larger networks and a much broader community that allows members to pursue specific goals while feeling a part of something that is larger than oneself.

Other researchers and consultants have identified a number of important networks that are generally operating within an organization[3]:

- *Work:* The connections in an individual's work network include the persons that he or she interacts with frequently on a formal and informal basis to complete their day-to-day work tasks and activities. A person's work network typically overlaps heavily with the organization chart and the organization's regular business processes.
- *Social:* People use their social networks to gather and share information about all sorts of things relating to life inside the organization including information on new business initiatives and gossip about why someone left or who is arguing with whom. While information shared in social networks is not always accurate, the process can have a significant impact on perceptions within the organization.
- *Expert Knowledge:* People use expert networks to seek and obtain advice from those persons within the organization who have a reputation as being experts in important areas such as technology, sales techniques, industry trends or how customers make decisions. While the information gathered from experts is often technical, they also dispense practical guidance on how things really work based on their unique experiences.
- *Strategy:* Certain people in an organization are sought for their unique ability to evaluate problems and opportunities from a strategic perspective and give advice on decisions that need to be made regarding overall direction and strategy. Strategists

[3] See, e.g., A. Kleiner, "Karen Stephenson's Quantum Theory of Trust", Strategy + Business, 29 (2002); K. Stephenson, "Trafficking in Trust: The Art and Science of Human Knowledge Networks". http://drkaren.us/pdfs/chapter15.pdf

are people with the ability to understand how the organization relates to its overall environment including customers, suppliers and competitors and identify the best strategies for overall positioning and the positioning of specific products or services.

- *Innovation:* People at the center of innovation networks bring a variety of skills similar to those in other networks, such as expertise and a head for strategy; however, people in these networks also have a special gift for creative thinking and a comfort with taking on risky projects and tackling seemingly impossible development problems. Effective innovation networks are cross-functional and include gurus from each step of the path that must be crossed from idea to commercialization.[4]
- *Improvement:* Persons in improvement networks have a special gift and passion for collecting and applying information to improve the way things work within the organization including better processes and procedures and ideas for improvements to products and services. Members of improvement networks collect information from a variety of sources including articles, industry conferences and participation in communities of practices with colleagues inside and outside of the organization.
- *Decision Making:* While decision making generally tracks reporting paths set out in the formal organizational chart, most people inside the organization realize that there are certain key individuals who exercise the most influence and can be counted on to access issues and problems quickly and issue directives that will be respected and implemented.

§3 Networks as tools for tracing relationships

Porter and Powell noted that there is extensive research and scholarly literature that focuses on networks as an analytical tool that illuminates social relations in several different types of contexts: among individuals or groups within an organization; in the inter-organizational ties that link organizations together; or in the environments in which organizations form and operate. Some of the key concepts and findings in this thread of research, as described by Porter and Powell, include the following[5]:

- Every person has their own "webs of affiliation" that define their social identity and consist of multiple, sometimes overlapping, group affiliations with family members, social organizations and/or occupational groups. These connections, sometimes referred to as "social circles", can be viewed as entities without formal membership, rules or leadership that nonetheless provide individuals with a rich environment for forging inter-personal relationships. While a variety of webs has its advantages, it can also create challenges when conflicts arise (e.g., when fulfilling the role of an employee causes strains on parenting time).
- In order for relationships between a triad of individuals to be maintained, there must be a balance or equilibrium of relationships among them. Specifically, as explained

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[4] See also D. Dougherty, "Organizing for Innovation in the 21st Century" in S. Clegg, C. Hardy, T. Lawrence and W. Nord, The SAGE Handbook of Organization Studies (Second Edition) (Thousand Oaks, CA: SAGE Publications, 2006), 598.

[5] K. Porter, and W. Powell, "Networks and Organizations" in S. Clegg, C. Hardy, T. Lawrence and W. Nord, The SAGE Handbook of Organization Studies (Second Edition) (Thousand Oaks, CA: SAGE Publications, 2006), 776-778.

by Porter and Powell, "if person A was positively linked to person B and vice-versa, their opinion of person C needed to agree in order for the triad to be balanced". Research in this area has uncovered evidence to that "people tend to perceive relations close to them (e.g., two of their closest friends) and far from them (e.g., two of their acquaintances) to be more balanced then relations in-between (e.g., two of their co-workers whom they interact with on a regular basis at work, but not outside of work)".

- Adding only a small number of remote links to a large network when local clustering (e.g., friends of friends) is high will be sufficient to create a "small world network", a finding famously illustrated by Milgram's experiment in the 1960s that began with him sending letters to individuals in a small town in Middle America with a request that they return the letter to a stranger in New York by sending the letter to someone that they personally knew and whom they thought might know the person in New York. Milgram found that it took an average of six mailings for the letter to reach its destination in New York, leading to the now well-known phrase of "six degrees of separation" and the observation that it "really is a small world".
- The theory of the "strength of weak ties" emerged from observations that job seekers were more likely to receive novel, and presumably more valuable, information from people with whom they were merely "acquainted" than from close friends because parties in strong friend relationships generally shared common information. This ultimately led to additional work on the role and value of individuals who served as the sole link that connects and binds other unconnected parts of a network (e.g., a middle manager who collects and passes information from his/her supervisees to higher levels of the organization and vice versa, a role that provides the manager with higher compensation, faster promotion and access to good ideas and provides the organization and its members with opportunities to better utilize resources).

§4 Networks as a form of governance structure

In addition to using networks as a means for tracing relationships, researchers and scholars have devoted a good deal of time to studying networks as a form of governance (i.e., a form of organizing economic activities that governs relations among individuals and/or organizations).[6] Network organizations have been widely touted as a viable and powerful alternative to traditional organizational structures based on vertically integrated hierarchies. Network organizations can take a variety of different forms and offer companies the advantages of large size with the ability to remain small. Network organizations generally retain centralized control over major strategic decisions; however, smaller and relatively independent nodes of the network, which can be separate business units or cross-functional project teams, are allowed to operate with considerable autonomy in carry out the activities necessary to execute those decisions. The overall result for the entire organization is a flatter hierarchy, reduced reliance on formal rules and individual nodes that have greater access to information and the ability to achieve economies of scale due to their connections with other nodes in the network.

[6] Id. at 778.

Griffeths and Petrick argued that "[a] major strength of network architecture lies in its ability to grow (by adding on new firms), whilst keeping the constituent units small, flexible, responsive and innovative".[7] They felt that networks were well suited to the pursuit of sustainability because they were generally able to respond quickly to changes in market conditions and provide the flexibility required to meet the evolving requirements of customers. In addition, networks structures have been adept at developing new products and services that have transformed markets. It is important to note, however, that efficient operation of networks requires skills that are different than those used to manage traditional hierarchical organizations. In particular, time and effort must be invested in coordinating the activities of each of the nodes in a network and Griffeths and Petrick emphasized that the success of networks is "strongly dependent on the skills, dexterity and knowledge base of their employees".[8]

Porter and Powell observed that networks can be seen as an alternative to markets and hierarchies with respect to the organization of economic activities. They explained that markets are governed by contract and property rights and work through a series of transactions involving the exchange of goods based on price and that hierarchies are defined by an employment relationship in which employees are committed to their employer, subject to supervision and administration and go through their daily routines following formal and bureaucratic norms and rules. In contrast, networks, both within and across organizations, are based on neither transactions nor rules, but on "ongoing relationships, embedded in friendship, obligation, reputation and possibly trust" which eventually cause the parties to "develop norms of reciprocity that lead to open-ended relationships and mutual benefits".[9]

Implementing a network form of organizing has been touted as an important and valuable strategy for organizations that are seeking to simultaneously enjoy the benefits of being small, such as the ability to respond quickly to opportunities and threats, while also being able to operate with the advantages of economies of scale that are generally only available to larger organizations with a broader array of proprietary resources. Porter and Powell provided the following examples of some of the ways that the network form of organization has been used[10]:

- Work in craft industries, such as construction and film production, is typically organized around specific projects with a fixed term and objective, and firms are continuously linked to one another through their short-term joint involvement in these projects. In these industries, networks are embedded in technical communities and the formal organizations that are created to house a particular project are often more temporary and less durable than the long-term relationships among the members of the relevant technical communities.

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[7] A. Griffeths and J. Petrick, "Corporate architectures for sustainability", International Journal of Operations and Production Management, 21(12) (2001), 1573, 1578.
[8] Id. at 1579.
[9] K. Porter, and W. Powell, "Networks and Organizations" in S. Clegg, C. Hardy, T. Lawrence and W. Nord, The SAGE Handbook of Organization Studies (Second Edition) (Thousand Oaks, CA: SAGE Publications, 2006), 778.
[10] Id.

- Models of decentralized, yet coordinated, production can be found in the Taiwanese system of organization and in the small firm-led industrial districts in the Third Italy (e.g., machine tools, leather, furniture, clothing and foodstuffs).
- The "hub and spoke network" can be found in heavy production industries such as automobile and aircraft manufacturing and involves the development of networks of suppliers geographically clustering around a central core firm (or firms) (e.g., suppliers of automotive parts setting up operations in closely proximity to the central production lines of the large automobile manufacturers).
- Larger organizations, particularly those operating in knowledge-based industries such as information technology, semiconductors and biotechnology, have moved aggressively toward disaggregating production through the use of outsourcing, strategic alliances and other strategies calculated to improve access to new knowledge.

While there may be two distinguishable approaches to looking at networks, as a practical matter there is a fair amount of overlap and elements of both approaches can generally be seen when looking at the way in which a particular organization is operating, both internally and in relation to outside organizations. For example, the inter-personal relationships forged by individuals with members of their technical communities, including persons outside of their formal organization, can be a valuable resource for information and new knowledge for the organization, an opportunity that organizations may exploit by encouraging and supporting the formation of internal "communities of practice". Similarly, the ability of a single person, or a small group of persons, to effectively manage the relatively weak formal ties of a strategic alliance can enable the organization gain access to new ideas and resources and many companies have proactively formalized their learned "best practices" relating to formation and management of strategic alliance. Of course, while the networks an organization develops on its own are important, organizational leaders must also be mindful of how competitors are using networks to pursue their specific strategies. The type of networks found within, or otherwise relied upon by, an organization depends on a variety of factors including size, organizational structure and culture, line of business, competitive factors and stage of development.

§5 Networks and organizational lifecycles

While it should be clear from the discussion above that a network can and does play a wide variety of roles in the development and operational success of an organization, Porter and Powell suggested that certain types of networks are more prevalent at certain stages of the organizational life cycle.[11] For example, when an organization is first being launched, the social networks of the founders, both informal and formal, will often be the primary path used to acquire the financial resources and know-how that will be needed for the organization to get started. While most entrepreneurs invest time and effort in attempting to develop links to "influential strangers" whom they believe can provide the new venture with a special advantage, research indicates that "most entrepreneurs tend to

[11] Id. at 778-779.

maintain an existing set of affiliations rather than strategically constructing new networks when they form an organization".[12] Relying on known individuals reduces search costs and risks of opportunism and makes sense given that entrepreneurs often launch their new ventures in geographic areas and industries in which they have previously worked in order to address an opportunity that they identified as they progressed in their careers. A preference for familiarity naturally extends to the selection of the initial customers and suppliers for the new venture.

If the launch is successful and the organization begins to grow, identity-based networks remain important, and the organization will be begin to develop its own set of embedded internal networks; however, more time and effort will be spent on identifying and pursuing arm's-length relationships and collaborations with external partners to gain access to information and other resources not readily available within the organization on a cost effective basis. As the organization continues to grow and otherwise mature, it becomes more embedded in its environment and the organizational leaders must be mindful of the boundaries of their organizations and continuously monitor organizational relationships and the organizations networks of affiliations. Monitoring should take into account not only the benefits to be derived from participation in the network but also actual or potential constraints on the organization. Finally, mature organizations must purposefully renew their affiliations or run the risk that they will fall to the sidelines as their environments continue to change.

§6 --New businesses

It has long been contended that in order for organizations to form and prosper the organization must have access to sufficient resources of wealth, power and legitimacy. Since a new organization does not have its own network, this means that during its initial organizational stages it is heavily, if not exclusively, dependent on the then-existing social networks of the organizational founders and the efforts of those founders to tap into those networks and expand them in ways that can help support the launch of the organization.[13] Powell and Porter described these social networks as consisting of "relational ties that foster the flow of a wide variety of resources among individuals" and which "enable individuals to engage in activities that would be much more difficult (if not impossible) if they were not socially connected to the person with whom they were interacting".[14]

The importance of social network and the resources they can provide to new organizations has been validated by various studies.[15] For example, according to Reynolds and Miller, the start-up process for launching a new business can begin with any of four key events--commitment, first financing, first hire or first sale—and will be finished when and if each of those four events have been successfully completed. Among a group of more than 3,000 organizations surveyed by Reynolds and Miller, 85%

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[12] Id. at 783 (see article for citations, which have been omitted from the main text in this Guide).
[13] Id. at 779 (see article for citations, which have been omitted from the main text in this Guide).
[14] Id.
[15] Id. at 780 (see article for citations, which have been omitted from the main text in this Guide).

of the respondents reported that commitment was the first event for them, an activity that included gathering information and resources and identifying potential customers and suppliers.[16] Researchers have also found that among high growth firms that successfully completed an IPO, those with extensive social resources, as measured by the companies' business networks, personal networks and number of underwriters subscribed to the IPO, were more successful in accumulating financial capital in the years leading up to their IPO than those firms who had fewer social resources. In addition, studies have provided support for the proposition that science-based start-ups in the biotechnology sector have benefitted from early access to support and resources available from a diverse portfolio of highly central organizations.

§7 ----Advice

The primary reason that entrepreneurs contact others during the launch stage for their new businesses is to gain support and test their business ideas. In most cases, entrepreneurs will turn first to their family and friends for advice; however, there is evidence that during the launch stage the development and maintenance of social contacts, and where entrepreneurs invest the most time and effort in seeking advice and information, varies depending on the specific phase of organizational development. A study of how entrepreneurs in four countries developed their contacts found the same pattern in each country: entrepreneurs generally limited the size of their discussion networks when they were involved in developing the initial motivation necessary to support a decision to move forward with launching a new venture; the size of their networks, and the time spent attempting to connect with others, expanded during the planning stage for the new venture; and the size of the network contracted, as did the time spend on working the network, as the entrepreneurs shifted their attention and energies toward actually establishing the new venture.[17] Much has been written about networking activities of entrepreneurs; however, it would be valuable to see further research on the individual networks of entrepreneurs, the structural placement of entrepreneurs within their networks and the relations between those with whom the entrepreneurs are linked.[18]

While informal networks are important to entrepreneurs during the launch stage, it is clear that many entrepreneurs also seek advice, information and other support from more formal role models, particularly potential sources of financial capital. Much attention has been paid to the role of "angel investors", who have been cited as being not only sources of seed capital but also as mentors who have been through the launch process and can provide entrepreneurs with access to a larger pool of potential resource providers and advice on how to be more effective in their entrepreneurial actions. In fact, one survey of angel investors in the US found that more than half of them had provided one or more types of non-financial support to the entrepreneurs they had backed including

[16] P. Reynolds and B. Miller, "New Firm Gestation: Conceptions, Birth and Implications for Research", Journal of Business Venturing (1992).
[17] K. Porter, and W. Powell, "Networks and Organizations" in S. Clegg, C. Hardy, T. Lawrence and W. Nord, The SAGE Handbook of Organization Studies (Second Edition) (Thousand Oaks, CA: SAGE Publications, 2006), 780.
[18] Id. at 783 (see article for citations, which have been omitted from the main text in this Guide).

involvement in creating or reshaping the business concept, helping recruit additional managers or members of the management team and finding additional sources of financial capital. Only one in five of the angel investors helped their entrepreneurs with expanding their networks of personal and/or professional advisors or identifying prospective customers or suppliers.[19] Some studies of venture capitalists suggest that they play a similar role in "professionalizing" new ventures; however, rather than mentoring founders who may have more technical than managerial experience venture capitalists "contribute" by pushing to bring in outsiders to fill in an experienced management team. Attorneys specializing in providing legal guidance to startups have been another source of formal mentoring for entrepreneurs and have been able to provide them with information on the most effective path to forming and organizing a new company.

§8 ----Financial capital

While a good deal of attention is paid to the pursuit of funding from venture capitalists from entrepreneurs seeking to launch technology-based businesses, the reality is that many of those entrepreneurs rely heavily on family and friends not only for advice and information but also for access to the crucial financial resources needed to supplement their own savings. One interesting study in the early 2000s of nascent entrepreneurs involved in a variety of industries in Silicon Valley revealed the following: seed stage investment funds for a little more than a third of the new firms came from friends and family of the founders; a quarter of the new firms were successful in raising capital from professional investors; 21% of the firms collected funds from friends, family and professional investors; and the remaining firms, a little under 20% of the survey group, did not obtain outside financial support.[20]

§9 ----Social capital and reputation

Entrepreneurs typically seek to overcome skepticism about their skills or business ideas by "signaling social capital or reputation in the field by demonstrating valuable experience and relying on the endorsements of others".[21] For example, biotechnology startups are generally eager to establish alliances with universities and other research institutions and/or established pharmaceutical companies, and surveys indicate that firms successful in their efforts achieve higher early performance growth. Entrepreneurs often seek and accept funding from "reputable" venture capitalists, even though the cost of the funds is higher than it might be if they firm took capital from other sources. The cost is justified, hopefully, by the mentoring provided to the founders and the ability and willingness of the venture capitalists to provide them with the tools and connections necessary to forge additional non-financial alliances. Interestingly, the likelihood of success for entrepreneurs seeking venture capital investing depends on the breadth and strength of the social networks of the entrepreneurs and the social capital of the

[19] Id. at 781 (citing Ardichvili et al, 2000).
[20] Id. at 781 (citing Ferraro 2003).
[21] Id. at 782 (see article for citations, which have been omitted from the main text in this Guide).

individuals and the organizations with which they are affiliated, particularly when the technology underlying the new venture is perceived to be uncertain and risky.

§10 --Networks in growing organizations

Porter and Powell reported on several studies that supported the proposition that companies that were able to effectively use external resources (i.e., resources that were outside of their direct control) experienced more rapid growth than competitors that lacked the same connections.[22] A common example is the ability to successfully partner with an original equipment manufacturer as opposed to investing in an internal proprietary manufacturing function that would require the purchase of specialized equipment and recruitment of manufacturing expertise. As firms grow, they begin to shift the balance within their strategic alliances and other networks toward greater power for themselves. At the same time, management must monitor the impact of organizational growth on communication and information sharing given that the company no longer has just a handful of employees all working in the same location. In order to efficiently access new information, companies must develop internal knowledge management processes to determine if the information is readily available inside the company. If not, management must be able to executive alternative strategies to acquire the information such as internal expansion and/or forming strategic alliances or otherwise looking into external networks. For example, organizations may hire individual(s) with the necessary expertise and connections to fill in gaps in existing organizational networks. In addition, as companies seek to grow geographically they will establish a presence in a new foreign country, either through establishing a new subsidiary staffed by local personnel or acquiring a local firm, in order to gain access to country-relevant information and connect with local networks that are not available to outsiders.[23]

As organizations grow, the scope and complexity of their internal networks expands and the challenges associated with gathering information in order to reduce uncertainty increase. Porter and Powell explained that “seeking information from another person is a function of knowing and valuing what the other individual knows, as well as being able to gain timely and affordable access to that person’s thinking”.[24] In order to efficiently and successfully mine the information that is already available from persons within an organization, it is necessary to understand the structure of the networks within the organization and how individuals and/or operating units within the organization are connected. In some cases, groups are loosely connected while in others individuals work in tightly formed clusters. Some individuals have positions that place them in a central position within the organization’s key networks; however, the best information is often only available from individuals who work in a peripheral location.

It is natural to assume, and a large amount of literature supports the proposition, that highly cohesive teams is the optimal way to harvest information; however, there is by no means a universal consensus on this point. Smaller cohesive groups have delivered

[22] Id. at 783-784.
[23] Id. at 785.
[24] Id. at 784 (see article for citations, which have been omitted from the main text in this Guide).

greater efficiency and performance in certain instances because the members of those groups are able to quickly share information with everyone in their group, but as the size of the group increased it became more difficult to optimize information sharing and larger groups often broke up into sub-groups that horded information and did not share it with other sub-groups, ultimately bringing down the overall performance of the entire group. Proponents of promoting moderate levels of internal socializing among organizational members, as opposed to insisting upon tight cohesiveness, argue that their preferred approach allows organizations to gain the benefits of "strength of weak ties" referred to elsewhere in this Guide. For example, a study of interactions among relationship managers at a commercial bank demonstrated that when managers worked with other managers with whom they did not have especially strong ties the outcome was deals that were better in terms of meeting both the bank and customer's criteria. This does not mean that managers in similar situations should not be allowed to consult with peers with whom they have strong ties, but speaks for the value of establishing approval processes that require managers to go outside of their usual circle to gain information and advice from others who may look at the situation differently and bring creative approaches to achieving the desired operational results. At a minimum, forging of informal social ties that help to link disparate parts of the organization and provide access to divergent points of view should be encouraged even as work teams are used for day-to-day project management.[25]

One of the structural challenges of organizational growth is the creation of multiple operating units and the corresponding need to find effective ways to transfer information across the real and artificial boundaries of those units. According the research studies referred to by Porter and Powell, organizational units with a dense network structure (i.e., a network in which the number of links of each node is close to the maximal number of nodes) are more productive than those with a sparse network, units with both high internal density as well as numerous connections to other operating units finish projects more quickly and the likelihood that units will communicate and form ties with others is positively correlated to the amount of information that those units contain.[26] As noted above, there is also evidence to support that promoting informal social relations and tacit social arrangements across units can lead to improved performance outcomes, such as higher levels of product innovation when such cross-unit relationships facilitate productive exchange and combination of information and other resources. Sparse networks may be traced to difficulties in creating appropriate and desired links and the measures that need to be taken to promote informal relationships may be unclear and must be chosen carefully; however, something must be done to overcome the natural tendency of persons and teams to approach people that they know rather than others who may understand the relevant technology better and thus be able to make a stronger contribution to resolving a particular problem or issue. Geographic distance is also a problem since research indicates that experts in distant subsidiaries will generally not be consulted unless pre-existing informal relations have been established in advance.[27]

[25] Id.
[26] Id. (see article for citations, which have been omitted from the main text in this Guide).
[27] Id. at 785.

Understanding the real networks at play within an organization, as well as the limitations of relying primarily on the formal organizational structure and the position of persons therein, is important to successful implementation of new policies and procedures and selecting the people who will be most effective in leading cross-unit project teams.[28] For example, researchers found evidence to suggest that when attempts are made to unionize a group within an organization the more effective approach might be to concentrate attention on gathering the support of leaders of the informal networks within the group as opposed to persons who have high positions in the formal hierarchy but lack the scope of personal influence necessary to coax enough group members to support the initiative. Another study of a group of managers at a large European multinational computer firm found that managers with "cohesive networks" (i.e., networks composed primarily of persons the managers knew from their own prior operating unit) had more difficulty in shaping their networks to effectively lead team members drawn from multiple units to work on a cross-functional initiative. Managing a cross-functional initiative requires a broad network and while the manager certainly must have the requisite technical qualifications he or she should also be able to provide value based on his or her position within the network structures of the organization.

§11 Informal networks

Informal networks, cliques and social ties are commonplace within organizations and serve as important sources of solidarity, conflict and shared perceptions that should not be ignored by organizational leaders.[29] Porter and Powell reported that earlier studies on informal networks, which began in the 1950s, were often detailed ethnographies based on long periods of observation; however, interest in that type of research waned and contemporary studies have relied less on field work and more on surveys and/or interviews.

Porter and Powell described several studies that have been done on the role that informal networks play in the sharing and transfer of knowledge across organizational boundaries.[30] One study based on interviews with scientists from multiple industries found that they frequently did share information and resources, such as samples, across organizational boundaries; however, sharing only occurred in situations where the scientist was working with someone that they felt they knew and trusted and when scientist believed that sharing would not have negative consequences for his or her organization. Studies of Silicon Valley have identified a positive relationship between the region's innovative vitality and the free flow of individuals between companies and the common occurrence of informal meetings among peers from different companies working on similar projects. There is also evidence the informal information-transfer networks among engineers working in the specialty steel and mini-mill industries improved overall economic performance and provided a means for the participating engineers to enhance their personal reputations within their industry-wide professional networks.

[28] Id.
[29] Id. at 786.
[30] Id. at 786 (see article for citations, which have been omitted from the main text in this Guide).

§12 --Interfirm networks as a source of knowledge

Porter and Powell observed that "[a]s organizaitons growth, their need for information and resources, reduced uncertainty, enhanced legitimacy and/or attainment of collective goals may lead to formal partnerships with external parties rather than in-house development".[31] They reported on several research studies that confirmed that growing organizations tend to prefer partnerships and other alliances with organizations with which they have worked successfully in the past. Specifically, one study found that prior mutual alliances, common third parties, increased interdependence and joint centrality in the alliance network all had a significant influence on the likelihood that two organizations would decide to forge an alliance. As for the structure of these alliances, it is true that direct and indirect ties have a positive influence on desired outcomes such as "innovation"; however, the outcome of an alliance from a performance perspective can be adversely impacted if the bureaucratic measures and operational controls necessary to manage the relationship become too cumbersome. A study of semiconductor firms found that those that participated in actively innovating segments and/or had a track record of developing prestigious inventions formed alliances at the highest rates. That same study also found that a firm's position in the overall network was an important predictor of how often the firm entered into alliances and the range of other firms that would reasonably be available to them for potential selection as alliance partners.

While partnerships and other alliances between just two organizations are the most common form of inter-firm collaboration, there are instances where more than two organizations will come together to create and/or share knowledge or collaborate on development of basic technologies that would ultimately be available to all members of the consortium. For example, in the US the National Cooperative Research Act of 1984 was adopted to permit competitors to lawfully pool resources and engage in joint decision making to complete research and development projects that would otherwise be too expensive or complex for just one party to undertake. Porter and Powell described the efforts of Toyota to supplement its own alliances with its suppliers with collaboration among the suppliers themselves that focused on direct sharing of best practices between members of Toyota's supplier network, as opposed to Toyota acting as a gatekeeper; encouraging members of the network to share information freely; and matching the correct type of knowledge with the appropriate routines in order to improve the overall efficiency and value of knowledge shared among members of the network.[32] Another method for collaboration among multiple organizations is through technical committees found in many industries which include representatives from different industry participants who work together to develop standards that the participants can use and rely upon in their own product development and commercialization activities.

§13 Impact of location on networking opportunities and network structure

[31] Id. at 787 (see article for citations, which have been omitted from the main text in this Guide).
[32] Id. at 788 (see article for citations, which have been omitted from the main text in this Guide).

Location does appear to matter with respect to networking opportunities and the structure of networking relationships available to organizations and the individuals who work for them. Economists and other researchers have long written about regions where there are dense overlapping ties, strong local norms of behavior and abundant resources. In the US, heavily analyzed regions recognized for their innovative activities have included Silicon Valley and Route 128 outside of Boston. The famous comparison of these two "innovation clusters" by Saxenian in the 1990s included suggestions for getting the best out of the available resources in these areas, particularly encouraging Silicon Valley's "open environment" where "conversations, resources and employees moved with relative freedom among organizations".[33] Other studies of these types of regions, which can be found elsewhere in the US and in other countries such as Ireland, Israel, Taiwan and India, have noted the impact of inter-firm mobility of engineers on the local transfer of knowledge and the important role that universities in those regions has played in diffusing knowledge and providing commercial opportunities and human capital to private sector firms operating in the region. It is especially important to recognize and understand the informal connections between university labs and industry personnel, although many scientists have opted for more visible and formal dual affiliations with universities and for-profit companies. Special interest groups and ethnic-specific industry groups are also embedded as important network participants in these regions. Location in one of these regions also tends to place firms closer to the center of relevant networks and thus increases the likelihood that they will be involved in alliances.[34]

§14 Social network analysis

In order to understand the structure and impact of networks within their organizations, managers have turned to new tools, such as social network analysis, to supplement what they think they already know from the formal organizational chart.[35] Social network analysis—which often produces graphical depictions of various types of informal relationships between and among employees, managers and business units—provides a window into the "informal organization" and identifies the persons who tend to have the most information or who are most sought out by their peers when a project or request for resources comes up. Social network analysis can also help managers understand why connections in the organizational chart may not be working. For example, by asking the right questions to members of different teams, executives and managers may discover that the leaders of those teams dislike one another, a situation that can certainly contribute to an overall lack of collaboration between the teams.

Hoppe and Reinelt described social network analysis as "a set of theories, tools, and processes for understanding the relationships and structures of a network".[36] Typically, social network analysis depicts networks through the use of "nodes", which are the

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[33] Id. (see article for citations, which have been omitted from the main text in this Guide).
[34] Id. at 789 (see article for citations, which have been omitted from the main text in this Guide).
[35] The discussion in this section, including the case studies, are adapted from J. Reingold and J. Yang, "The hidden workplace: What's Your OQ?", Fortune (July 23, 2007).
[36] B. Hoppe and C. Reinelt, "Social Network Analysis and the Evolution of Leadership Networks", The Leadership Quarterly, 21 (2010), 600, 601.

people in the network, and "links", which are the relationships between those people. Nodes are sometimes used to represent other things such as events, ideas or objects. Hoppe and Reinelt explained that practitioners of social network analysis collect data from and about the network, analyze that data using special purpose social networking analysis software and generally produce maps or pictures that graphically display the patterns of connections between the nodes in the network. Hoppe and Reinelt went on to describe some of the key terms commonly used to describe and evaluate networks[37]:

- *"Bonding" and "Bridging":* These terms define two basic, yet very different, types of connectivity in a network. Bonding (sometimes called "closure") refers to connections among members of a tightly knit group while bridging (sometimes called "brokerage") refers to connections that members have to diverse others within the network. Bonding connections are "strong ties" that create a sense of trusted community where interactions are familiar and efficient. In contrast, bridging connections are "weak ties"; however, they are essential paths to accessing new resources and developing new opportunities for innovation and profit.
- *"Clusters":* A cluster is a tightly knit, highly bonded, subgroup within a network and one of the most important benefits and activities of social network analysis is identifying clusters that may have otherwise been ignored when relying solely on formal organizational charts. Identifying clusters depends on analysis of "density and links per node" and "core and periphery structures", concepts which are described below.
- *"Core/Periphery Structure"*: Hoppe and Reinelt reported that many networks have a core/periphery structure that includes a dominant central structure as the core and a few nodes with relatively few connections on the periphery of the network.
- *"Directed" and "Undirected" Links:* These terms refer to the purpose of the link and the direction of sharing within the link. A "directed" link involves "seeking advice from", while an "undirected" link involves "sharing information" (i.e., parties have spoken to one another but not sought or given advice). Directed links can be one-way (e.g., A knows who B is but B does not know who A is) or two-way A seeks advice from B and vice versa).
- *Density and Links per Node:* The "density" of a network is determined by dividing the number of links that exist in a network by the maximum possible number of links that could exist in the network. Hoppe and Reinelt explained: "The maximum possible number of links in a network (referred to as "M") depends on the number of nodes (referred to as "N") and on whether the network is undirected or directed. For an undirected network, the maximum possible number of links is $N(N-1)/2$; for a directed network it is $N(N-1)$." They noted that density is an important tool in identifying clusters, which are essentially a local region in a network with relatively high density and a relatively low number of links to other clusters in the network.
- *"Bridgers" and "Betweenness Centrality":* A "bridger" is a person in a network who has connections to different clusters. A bridger is someone who has high "betweenness centrality", which is calculated by determining how often a person is likely to be an important relay point between other network members. Bridgers also

[37] Id. at 601-604.

have "low network constraints", which means that they have a large number of links to other persons in the network who are not already linked to one another.

- *"Hubs" and "Indegree Centrality":* Hubs are the persons in a network who have the most influence, something which is best measured using "indegree centrality" that counts how many relationships point toward a particular person (i.e., "directed links" to that person). In other words, a person is a hub in a network if he or she is a highly-sought resource for advice by other members of the network. The influence of a hub increases to the extent that the persons who seek his or her advice are themselves relatively more influential in the network.

Hoppe and Reinelt also discussed the importance of "structural equivalence" in social network analysis.[38] They illustrated the concept by referring to the way that Amazon informs customers that "people who bought books A and B also bought books C and D". Amazon's network analysis focuses on links between customers and the books they have purchased and customers who purchase mostly the same books have high structural equivalence while persons who tend to purchase different books have low structural equivalence. Hoppe and Reinelt point out that structural equivalence in other networks would be based not on commonality in terms of reading preferences, but rather on other criteria such as shared activities, goals or interests. Using social network analysis, it is possible to identify groups of people who engage in the same set of activities, or who have the same goals, and these people are said to have "high structural equivalence" with one another. Similarly, groups of people that engage in similar activities have high structural equivalence. Hoppe and Reinelt pointed out that the concepts of structural equivalent and clusters are similar in that both bring previously unidentified sub-groups of the network into focus; however, structural equivalence is different because it does not require information about who knows whom within the network, which is sometimes difficult to collect, but rather relies on data about preferred activities, goals and interests that is easier to obtain from network members.

The reality is that informal networks are often the best way to get things done inside a company, even when it means ignoring formal rules. As such, companies have taken steps to better understand the informal networks in their organizations and provide appropriate support and encouragement. Experts on social networking within organizations caution that companies should not simply create "fun spaces" for people to congregate and let them work it all out. The better approach is to invest in identifying existing networks, using social network analysis, and then providing the right amount of leadership, supervision and other resources to motivate members of the network to use their connections to achieve organizational goals and objectives. It is important to avoid layering on too much bureaucracy and executives and managers must learn how to strike the right balance between the formal and informal power structures in the organization.

Reingold and Yang laid out several case studies of how well-known organizations had used social network analysis to identify informal networks and leverage them to effectively address several common business issues. They began with the efforts of Bell Canada to energize its organizational culture in order to be more competitive after the

[38] Id. at 604.

company had lost its monopolist position in the marketplace. The company used a combination of surveys, performance reviews, and recommendations from executives to identify 14 low- and mid-level managers among nearly 50,000 employees who appeared to have the desired traits of commitment, passion and competitiveness. Interviews with these managers revealed that they had unique problem solving abilities and had gained the trust of those who worked with them: in other words, very influential people in the informal organizational network. The initial group recommended 40 other among their peers that they felt had the same traits and the larger group tapped to be “Pride Builders” tasked with helping the company’s leadership to lead a transformation of the organizational culture. The group gradually grew to 150 people who worked together to help resolve problems identified in company-organized conferences where employees could air grievances and make suggestions. The group also formed its own “community of practice” to share ideas. Eventually, the group became much larger and local chapters could be found in many of the company’s offices away from headquarters. The activities of the chapters were coordinated through a central administrative structure and chapters met regularly to share best practices. Surveys indicated substantial improvements in employee satisfaction among those exposed to the groups and overall customer satisfaction also improved.

A story about Lehman Brothers illustrated how social network analysis could be used to identify and retain top talent and leverage their unique strengths among informal networks. 300 vice presidents were identified by Lehman managers as top performers, given leadership training and surveyed about whom they relied on for information and which collaborations led to increased revenues. The results of the survey were used to create a graphic that included a web of nodes and networks that allowed each of the vice presidents to see whom was connected to whom, the strength of each person’s networks in relation to the others, how information flowed within the network and whether someone was in middle of his or her networks or on the periphery. The information on the graphic was used to identify several “types”: "connectors", who had the most extensive direct ties; "brokers", who had the most diverse networks and appeared to be important to getting things done; and "bottlenecks", who appeared to be impediments to getting things done. The executives and their managers used the results of the survey to make immediate improvements in the existing information flows and develop strategies for each of the executives to become more effective in their networking skills. The information could also be used to analyze existing job responsibilities and career development paths. For example, while an executive might appear to fall into the “bottleneck” type, it did not necessarily mean that he or she was reluctant to share information but rather because he or she was simply overworked by the formal duties of the position. As for career development, executives who were on the periphery of their networks might be good candidates for temporary assignments in other parts of the organization that would bring them into regular contact with more members of their networks in order to build relationships and trust.

Fluor provided an example of how mentoring programs can be used to build and improve informal networks. Responding to input from employees that they wanted more access to high-level executives, Flour launched a a mentoring program that matched one executive with between five to nine lower-level employees from different parts of the company. Participation in these "mentoring circles" was voluntary and every effort was made to keep them informal and allow the members of each group to set their own agendas. Once a month for a year the groups met for about 90 minutes and talked about a wide range of topics covering company strategy to career development programs and ideas. While the original program was relatively small--32 employees in three locations—it eventually grew to include a much larger group of employees in other locations. By opting for small groups as opposed to one-on-one mentoring arrangements the company was able to expose participants to different perspectives while building a sense of belonging to a broader organization. Members of the groups came to understand how people from other departments viewed opportunities and problems and developed relationships that could be used in the future when cross-functional cooperation was needed, if only to have a contact in another part of the company who could make introductions to the right people in their departments.

An extensive social network analysis at Proctor and Gamble confirmed that the strongest connections of most people could be found among colleagues in the same location followed by persons who worked elsewhere but were in the same business unit. Other members of "communities of practice" with which employees were affiliated were also important contacts; however, the study also found that employees and business units separated by geography and culture had difficulty getting involved with informal networks and gaining access to important information that they need in order to perform their responsibilities and that it was taking longer than it should for new employees to get accepted into networks. At Raytheon, the formal organizational structure for engineers was set up along traditional disciplinary lines such as systems and software; however, this meant that engineers who shared a common expertise in a particular area of technology, such as mission management, were distributed among several groups and that there was no supported means for them to communicate with one another. Using social network analysis to identify where these experts were in the formal organizational chart, Raytheon then established "centers of excellence" that facilitated cross-disciplinary communications via e-mail and occasional face-to-face meetings. Raytheon also tapped an engineer to lead a steering committee of other engineers who had a common interest in a potential growth area but were not well connected with other networks. Members of the committee would meet to exchange ideas and develop strategies and the group eventually grew to include others with connections to other parts of the company, thus bringing the group closer to the rest of the organization and providing the critical mass required to develop three serious proposals that would allow the company to pursue what it considered to be a high potential technology niche.

Reingold and Yang noted that the benefits of informal networks come from the fact that they are outside of the traditional organizational structure and this means that companies must take care not to create barriers to the collaboration and flow of information that can come from a well-functional informal network. This means avoiding micro-management and limiting support to facilitating resources, such as the steps outlined in the illustrations above. At the same time, however, companies need to appreciate the limitations of informal networks and recognize that such networks alone will generally not be sufficient to address problems, such as cost reductions, that typically require formal leadership, planning and tactics. Reingold and Yang pointed out that organizational networking experts believe that the networks are most valuable when companies are looking to influence behaviors and bring about change in the organizational culture and climate.

While simply having a reliable map of a network is valuable, it is also important to assess the performance of the network. Hoppe and Reinelt identified several different dimensions for evaluating network effectiveness.[39] The first dimension was "connectivity", which focused on how well companies were able to identify which individuals were core or peripheral members of the network and the points in the network where bonding and bridging were occurring. Companies also need to be able find the persons who appeared to be the most influential within the network and provide those persons with training and development to leverage their commitment and passion. The second dimension was "overall network health", which focused on assessing the levels of trust and diversity within the network and whether the network was providing ample opportunities for leadership and participation in decision making. Overall network health also included the fundamental question of whether or not the company's organizational structure was properly aligned with network relationships and vice versa. The third dimension, closely related to network health, was "network outcomes and impact" including the influence that the network had on improving coordination and collaboration, promoting civic participation and engagement, accelerating development of new products and improving allocation of resources.

Another important byproduct of social network analysis is improvements to the organization's leadership development programs. As mentioned above, social network analysis is often used to identify promising organizational leaders who have already demonstrated commitment, problem solving skills and an ability to generate a sense of trust among their colleagues. The information can be used to evaluate existing job responsibilities and career development paths and prospective leaders can be counseled on ways in which they can improve their specific skills as "connectors" or "brokers". While training programs should be customized to the particular individual, they should include exposure to persons from other parts of the organization, with contacts pulled from both different departments and areas of the network with which the person may not have pre-existing ties. Social network analysis can also help prospective leaders identify and cope with challenges to their progress including shifting them away from activities that are making it difficult for them to apply their skills in the most efficient and appropriate fashion. In addition, when social network analysis identifies talented outliers with skills and interests that should be shared with others, the company can proactively integrate them into the mainstream and create ways for them to collaborate.

Evaluating the Effectiveness of Social Networks

While simply having a reliable map of a network is valuable, it is also important to assess the performance of the network. Hoppe and Reinelt reported on several different dimensions for evaluating network

[39] B. Hoppe and C. Reinelt, "Social Network Analysis and the Evolution of Leadership Networks", The Leadership Quarterly, 21 (2010), 600, 604-606.

effectiveness, beginning with "connectivity". The purpose of social network analysis on this topic is to identify which individuals are core or peripheral members of the network; identify the points in the network where bonding and bridging are occurring; and identify the persons who appear to be the most influential within the network. Evaluation questions relating to connectivity include:

- Does the structure of network connectivity enable efficient sharing of information, ideas, and resources?
- Is the network expanding and growing more interconnected over time? How far does the network reach?
- Does the network effectively bridge clusters (e.g., sectors, communities, fields, and perspectives)? Where in the network are there unlikely alliances?
- What changes in connectively have resulted from explicit interventions, such as a leadership development program?

Social network analysis alone is not sufficient to fully understand all the connections that appear when a network is mapped and the data analysis should be supplemented by other research techniques, such as interviews, to get a fully picture of what persons are actually doing with one another and how and why they connect.

A second topic is "overall network health", which focuses on various measures of network performance and calls for consideration of the following evaluation questions:

- What is the level of trust among members in the network?
- How diverse is the network?
- Are people participating and exercising leadership as they are able to and would like?
- Is the structure appropriate for the work of the network?
- What are the power relationships within the network and how are decisions made? How well do networks manage conflicts?
- Is the network balanced and dynamic (e.g., capable of growing more inclusive while sustaining collaboration)?
- What changes in network health have resulted from explicit interventions, such as a leadership development program?

Hoppe and Reinelt pointed out that evaluating overall network health requires collecting and analyzing responses from a diverse group of network members in both the core and periphery parts of the network. When conducting surveys, copies of the network maps should be distributed so that respondents can get a clear picture of what the network appears to look like and the types of connections that are present and working.

A third topic of interest is "network outcomes and impact" which can be evaluated using the following questions:

- Is there evidence of greater coordination or collaboration among leaders?
- Does the network promote higher levels of civic participation and engagement in each of its members?
- Does the network make the most of scarce resources to produce desired results? Are more innovative products being developed?
- Is the network positively influencing policy decision-making or how resources are allocated?
- What changes in network outcomes and impact have resulted from explicit interventions, such as a leadership development program?

The best ways to gather information on network outcomes and impacts are interviews, case studies and traditional survey methods.

Source: B. Hoppe and C. Reinelt, "Social Network Analysis and the Evolution of Leadership Networks", The Leadership Quarterly, 21 (2010), 600, 604-606.

§15 Communities of practice

Communities of practice have joined cross-functional teams, customer- or product-focused business units and work groups as dynamic and innovative organizational forms that can be used to collect and disseminate ideas and information throughout organizations. Wenger and Snyder described communities of practice as “groups of people informally bound together by shared expertise and passion for a joint enterprise—engineers engaged in deep-water drilling, for example, consultants who specialize in strategic marketing or frontline managers in charge of check processing at a large commercial bank”.[40] The Wenger-Trayners defined communities of practice as “groups of people who share a concern or a passion for something they do and learn how to do it better as they interact regularly” and explained that communities of practice are formed by people who wish to “engage in a process of collective learning in a shared domain of human endeavor”.[41] Griffeths and Patrick described communities of practice as having “amorphous and in some cases fluid structures that form around areas of interest, expertise and/or project orientation”.[42]

A common example of a community of practice is a group of professionals working in a common field who come together on a relatively informal basis to gather and share information, pass on knowledge and contribute to the development of their field of expertise. The end product of this process, which has become easier to achieve due to the development of communications technologies, is innovative solutions that can be deployed and commercialized within the formal organizations where the community members work. Communities of practices may be found within a formal organization or may develop independently and draw on participants from different organizations who share common interests. Key features of communities of practice highlighted by Griffeths and Patrick included the following[43]:

- Reliance on architectures that enable them to take on new members, acquire new information and bind people together based on common interests, desire for learning and an enhanced ability to achieve collective and individual goals;
- Reliance on both formal and informal processes for skills development and learning;
- Reliance on a core or nucleus of people who are responsible for creating and sustaining the community’s collective memory; and
- Absence of hierarchy, with member status based on expertise and contribution to the development of leading ideas rather than position or authority.

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[40] E. Wenger and W. Snyder, “Communities of Practice: The Organizational Frontier”, Harvard Business Review (January-February 2000), 139, https://hbr.org/2000/01/communities-of-practice-the-organizational-frontier

[41] E. and B. Wenger-Trayner, Communities of Practice: A Brief Introduction (April 15, 2015).

[42] A. Griffeths and J. Petrick, “Corporate architectures for sustainability”, International Journal of Operations and Production Management, 21(12) (2001), 1573, 1580.

[43] A. Griffeths and J. Petrick, “Corporate architectures for sustainability”, International Journal of Operations and Production Management, 21(12) (2001), 1573, 1580.

Sampselle argued that Herman Miller's implementation of "cradle-to-cradle" design principles was emblematic of communities of practice organization design principles and the impact they could have on sustainability. In that instance, Herman Miller supported the communal efforts of organic committees of engineers and chemical analysts to determine the ideal chemical makeup of product components, and then leveraged the findings of those communities to develop its own overall environmental strategy.[44] Griffiths and Petrick argued that communities of practice could be used as entry points into the organization in order for companies to capture and diffuse ecological information for strategic purposes.[45]

The Wegner-Trayners identified and explained three critical characteristics of communities of practice.[46] First, there must be a "shared domain of interest", which means that a community of practice is something more than a club of friends or a network of connections. Second, there must be a real "community" in which members engaged in joint activities and discussions, proactively help one another and share information. Having the same job or title does not create a community of practice, nor is a website itself a community of practice. Finally, a community of practice is more than a community of interest (i.e., a group of people who like the same music or art); it is a group composed of members who are practitioners that are looking to help one another to become better at what they practice through sharing of experiences, stories, tools and solutions. In other words, a community of practice is based on the commitment among the members to the development of a "shared practice". All of these things take time to nurture and depend on sustained interaction.

Wenger and Snyder emphasized that communities of practice have developed creative ways to share experiences and knowledge including regular meetings and/or e-mail-based networks. While some communities follow an explicit agenda when they meet, others just let conversations flow on their own. The Wegner-Trayners listed the following activities that communities of practice commonly engage in in order to develop their practice and engage and inform their members: problem solving, requests for information, seeking experience, reusing assets, coordination and synergy, building an argument, growing confidence, discussing developments, documenting projects, visits and mapping knowledge and identifying gaps.

Wenger and Snyder observed that communities of practice have improved performance among many organizations in a number of ways including driving strategy, generating new lines of business, solving problems, promoting the spread of best practices, developing people's professional skills, and helping companies recruit and retain talent. However, while the benefits of communities of practice seem to be clear, many

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[44] D. Sampselle, Sustainable Organization Design Principles, OTMT 608.13. http://www.brevolutionconsulting.com/assets/Sustainable-Organization-Design-Principles.pdf [accessed December 6, 2016], 11-12 (describing the decision in Dodge v. Ford Motor Co., 170 N.W. 668 (Mich. 1919)).

[45] A. Griffeths and J. Petrick, "Corporate architectures for sustainability", International Journal of Operations and Production Management, 21(12) (2001), 1573, 1581.

[46] E. and B. Wenger-Trayner, Communities of Practice: A Brief Introduction (April 15, 2015), 2.

companies shy away from using them due to perceived difficulties of installing and nurturing them and ensuring that they are sustainable and properly integrated into the other activities of the organization.

While communities of practice has been active for a long time, many of them involved people who were working on their own and who joined the communities to stay in touch with other independent workers and persons working for formal organizations who had similar interests. Examples can be found in the various communities of practice that have emerged to discuss and address political, economic and social issues such as education, health and security and in the associations of professionals that have emerged to exchange information and develop "practice standards". Recently, however, communities of practice have become popular among persons working inside organizations for a variety of reasons. For example, following an internal reorganization that shifts from a function-based to team-based structure persons with functional expertise may decide to remain connections with their peers using a community of practice. Communities of practice may also appear in response to new company strategies and/or the emergence of new technologies or markets that may be of interest to the company.

The characteristics that explain the interest in communities of practice among organizations identified by the Wegner-Trayners included the following[47]:

- Communities of practice enable practitioners to take collective responsibility for managing the knowledge they need, recognizing that, given the proper structure, they are in the best position to do this.
- Communities among practitioners create a direct link between learning and performance, because the same people participate in communities of practice and in teams and business units.
- Practitioners can address the tacit and dynamic aspects of knowledge creation and sharing, as well as the more explicit aspects.
- Communities are not limited by formal structures: they create connections among people across organizational and geographic boundaries.

They noted while these characteristics all contributed to the value that communities of practice provided to organizations in terms of stewarding knowledge, they also presented challenges for organizations used to operating the traditional hierarchical and formal structure given that communities of practice rely on autonomy, informality and the ability to seamlessly communicate and share information across formal internal boundaries. Communities often include members from different business units, provided that information on the community is properly disseminated, and sometimes includes members from different companies. While there is no limit on the size of a community of practice, it is usually the case that there is a core group of members with the passion to keep the community energized and the ability and motivation to provide intellectual and social leadership.

[47] Id. at 4.

Wenger and Snyder provided a description of how communities of practice differed from other organizational forms (i.e., formal work groups, project teams and informal networks) along four critical dimensions (i.e., purpose, membership, what holds the group together and duration):

- The purpose of a community of practice is to develop members' capabilities to build and exchange knowledge. Members select themselves and organize themselves and the group is held together by passion, commitment and identification with the group's expertise. A community of practice lasts as long as there is interest in maintaining the group and the members believe they have something to contribute and something to learn from remaining connected.
- The purpose of a formal work group is to deliver a product or service. Members include everyone who reports to the group's manager and the group is held together by job requirements and common goals relating to the product or service. A work group remains in place until the next reorganization.
- The purpose of a project team is to accomplish a specific task. Members include employees assigned by senior management based on the managers' assessments of the ability of the member to contribute and the team is held together and guided by the project's milestones and goals. A project team remains in existence until the project is completed.
- The purpose of an informal network, which has been discussed extensively in this Guide, is to collect and pass on information relevant to the business of the organization. A basic informal network is composed of friends and business acquaintances and the network is held together by mutual needs. A network remains in existence as long as the members have a need to connect.

The Wegner-Trayners cautioned that communities of practice are not the solution to everything and they should be seen as an organizational form that compliments the other mentioned above.[48] Wenger and Snyder commented that the strength of communities of practice is self-perpetuating and that once they are launched and begin to generate knowledge they tend to reinforce and renew themselves. The challenge for organizations and their managers is to take appropriate steps to help communities get started and become sustainable while avoiding too many bureaucratic requirements and restrictions that will inevitably inhibit the creation and sharing of new knowledge. Wenger recommended that managers should focus on three basic steps for getting communities of practice going in their organizations and maintaining their sustainability: identifying potential communities of practice that will enhance the company's strategic capabilities; providing the infrastructure that will support such communities and enable them to apply their expertise effectively; and developing and using nontraditional methods to assess the value of the company's communities of practice.

Many organizations find that they already have informal networks of people in their organizations who are engaged in communications that are similar to those that occur in

[48] Id. at 7.

communities of practice and the challenge for organizations is to establish processes that can help support the launch of new communities. Some organizations make consultants available to persons interested in starting a community of practice and facilitate meetings and interviews with prospective members. These meetings build enthusiasm and once they have been completed the members of the new community can come together and start making plans for their activities. One of the most important things that needs to be done during the planning stage is to define the domain of the community, taking care to be sure that it is not too broad and thus not immediately applicable to the day-to-day tasks that must be carried out in the individual practices of the members. For example, rather than focusing on "technical capability", the community might organize itself along lines that follow the roles of various groups of members (i.e., members involved in customer service can collaborate on develop new ways to make the customer experience more efficient and friendly and members involve in training can work together to develop new training modules and improve existing training techniques).

In addition to initial help in bring members of the community together, organizations need to provide infrastructural assistance and other support beginning with the investment of time and money by senior executives to launch the communities and integrate them into the organization in ways that will allow them to have the most positive impact. Organizations should serious consider providing their new communities of practice with official sponsors composed of small groups of senior managers and support teams that can help with development of the communities, coordinate a regular schedule of community events such as conferences, set up and maintain community libraries and provide technical support. Organizations should make it clear that membership in a community of practice is a privilege and that members are expected to make contributions to the knowledge development and sharing efforts of the community. In turn, contributing members of the communities should be recognized and rewarded. Although admittedly many of the benefits of community membership are intrinsic, members nonetheless appreciate nonfinancial rewards such as recognition of their participation and contribution in the community and modest special privileges such as business cards that include attestation of the member's expertise.

Finally, like any initiative that calls for investment of organizational resources, it is necessary to determine the value of nurturing communities of practices. The problem, of course, is that all of the benefits of the communities are generally not observed in the communities themselves but in the actions of the members as they engage in their practices in their individual groups and teams throughout the organization. Even then, benefits are difficult to quantify as they often include "feelings" of a community member that he or she was able to do a better job of engaging with customers or was able to accelerate the time required to complete various tasks. Wenger and Snyder recommended that anecdotal evidence of the diversity and range of activities engaged in by the communities should be systematically gathered and published in newsletters and reports. An organized database of evidence makes it easier to conduct analyses that can be turned into more traditional performance measures, such as quantifying savings enjoyed by the organization and/or increased revenues and identifying ways in which organizations are changing their processes and practices.

For their part, the Wenger-Trayners provided some guidelines for nurturing communities of practice as they discussed various "myths" about such communities[49]:

- While there are communities of practice that are able to organize largely on their own and become effective, in most cases communities need support and nurturing from their organizations during the crucial early stages when members are considering joining and assessing the value of participation.
- Communities of practice are driven by the interests and needs of their participants; however, they do need leaders or coordinators who are willing and able to make decisions, establish basic ground rules for participation and set an agenda to be considered by members for the overall strategy of the community. In general, communities of practice are harmonious places; however, differences are part of the creative process and should be tolerated so long as they can be discussed and the dialogue contributes to the overall learning process.
- Communities of practice can be both formal and informal and it appears that the necessary level of formality depends on the degree to which the community is being relied upon as a tool for developing the strategic capability of an organization or a cause.
- While communities of practice are good vehicles for sharing existing knowledge, their real value lies in facilitating collaboration among people with diverse experiences in a common domain that leads to innovative solutions to problems encountered in practice. In the words of the Wenger-Trayners, communities can "invent new practices, create new knowledge, define new territory, and develop a collective and strategic voice".
- While facilitation is an important contributor to the effectiveness of a community of practice, communities are ultimately successful only if the domain is relevant and important to the members and the members see results from their participation and their participation is recognized by the organization as a whole. In other words, community members must not only be able to improve their "practice skills" but see that these improvements are having a positive impact on their relationship with the organization.

In Practice

Launching and Supporting Communities of Practice

Communities of practice have joined cross-functional teams, customer- or product-focused business units and work groups as dynamic and innovative organizational forms that can be used to collect and disseminate ideas and information throughout organizations. Wenger and Snyder defined and illustrated communities of practice as being "groups of people informally bound together by shared expertise and passion for a joint

- Communities of practice should develop and rely on both formal and informal processes for building and exchanging knowledge and skills development and learning. Organizations should consider providing communities with support teams that can help with development of the communities, coordinate a regular schedule of community events such as conferences, set up and maintain community libraries and provide

[49] Id. at 6-7.

enterprise—engineers engaged in deep-water drilling, for example, consultants who specialize in strategic marketing or frontline managers in charge of check processing at a large commercial bank". In general, a community of practice can be viewed as a group of professionals working in a common field who come together on a relatively informal basis to gather and share information, pass on knowledge and contribute to the development of their field of expertise. The end product of this process, which has become easier to achieve due to the development of communications technologies, is innovative solutions that can be deployed and commercialized within the formal organizations where the community members work.

While communities of practice thrive relatively autonomously on the individual passions of their members, something which cannot be artificially created or maintained, communities nonetheless need some level of support and nurturing from their organizations and should adopt certain key operational features such as the following:

- In general, the members of a community of practice select and organize themselves based on shared passion, commitment and identification with the expertise of the membership; however, even though some of the members may already be communicating and sharing informally through social networks, it is often necessary for their organizations to establish processes that help support the formation and launch of new communities. For example, some organizations may hire consultants with experienced in identifying, designing and working with networks and communities and practice.
- Communities are often launched through a series of initial meetings and interviews with prospective members that serve as the foundation for the development of plans for the activities of the community. At this stage it is important to reach out across organizational and geographic boundaries to broaden the scope of the community members and, at the same time, expand the various points of views that will be represented within the community.
- Undoubtedly the members of the community will share a range of common interests; however, in order to be effective the members must define the domain of the community, technical support.
- Senior executives should be prepared to invest time and money to launch the communities and integrate them into the organization in ways that will allow them to have the most positive impact. Organizations should serious consider providing their new communities of practice with official sponsors composed of small groups of senior managers and should ensure that time spent participating in communities is acknowledged as having value to the organization. Organizations often taken steps to recognize the efforts of community members and emphasize that participation in communities is a privilege that carries both status and obligations.
- While members will undoubtedly enjoy exchanging information, anecdotes, tips and grievances with their colleagues, the value of their participation in the community lies in enhancing their ability to achieve both individual and collective goals should be assessed. Improvements in individual skills are relatively easy to measure; however, members also want to see that these improvements are having a positive impact on their relationship with the organization.
- Like any initiative that calls for investment of organizational resources, it is necessary to determine the value of nurturing communities of practices. The problem, of course, is that all of the benefits of the communities are generally not observed in the communities themselves but in the actions of the members as they engage in their practices in their individual groups and teams throughout the organization. Anecdotal evidence of the diversity and range of activities engaged in by the communities should be systematically gathered and organized into a database and published in newsletters and reports. An organized database of evidence makes it easier to conduct analyses that can be turned into more traditional performance measures, such as quantifying savings enjoyed by the organization and/or increased revenues and identifying ways in which organizations are changing their processes and practices.
- A community of practice should last only as long as there is interest in maintaining the group and the members believe they have something to contribute and something to learn from remaining connected. Core members of the community should monitor the level of interest and activity and ensure that if and when the community is no longer sustainable that the artifacts of the knowledge created within the

taking care to be sure that it is not too broad and thus not immediately applicable to the day-to-day tasks that must be carried out in the individual practices of the members.
- While members are drawn to communities of practice as vehicles for sharing and acquiring existing knowledge, the overall goals of the community should be to discover new knowledge and invent new practices and innovative solutions to problems encountered in practice. Communities of practice should also seek to develop a collective and strategic voice that drives change within their organizations.
- Absence of hierarchy, with the status of each member being based on expertise and contribution to the development of leading ideas rather than any formal position or authority, is a hallmark of communities of practice; however, there must be a core or nucleus of people who assume responsibility for creating and sustaining the community's collective memory, often with technical and administrative support provided by the organization.

community are collected, organized and stored so that they can still be accessed when necessary.

Sources: E. Wenger and W. Snyder, "Communities of Practice: The Organizational Frontier", Harvard Business Review (January-February 2000), 139, https://hbr.org/2000/01/communities-of-practice-the-organizational-frontier; A. Griffeths and J. Petrick, "Corporate architectures for sustainability", International Journal of Operations and Production Management, 21(12) (2001), 1573; and E. and B. Wenger-Trayner, Communities of Practice: A Brief Introduction (April 15, 2015).

§16 Virtual organizations

Griffeths and Patrick explained that virtual organizations could be seen to be designed on two levels.[50] At the first level, a virtual organization is an organization with a limited life used for discrete, limited term projects. For example, a virtual organization might be formed to solve or address specific issues and when the work is completed it will disband and participants will return to their prior activities. Researchers have noted that while virtual teams have certain advantages, they present challenges in terms of structure, technology and functioning of work.[51] At the second level, a virtual organization can appear to be large but remain small in terms of number of employees and other proprietary resources. The hallmark of these types of virtual organizations, such as Amazon in its early days, is flexibility, nimbleness and the ability to compete on speed. They rely heavily of technology operated by a small staff of highly trained and committed employees and use strategic alliances with other organizations for key functions such as warehousing and distribution. Griffeths and Patrick observed: "These organizations will tend to leave a minimal environmental footprint, however they will

[50] A. Griffeths and J. Petrick, "Corporate architectures for sustainability", International Journal of Operations and Production Management, 21(12) (2001), 1573, 1579.
[51] For further discussion of "virtual teams", see A. Townsend, S. DeMarie and A. Hendrickson, "Virtual teams: echnology and the workplace of the future", Academy of Management Executive, 12(3) (1998), 17; and N. Ebrahim, S. Ahmed and Z. Taha, "Virtual Teams: A Literature Review", Australian Journal of Basic and Applied Sciences, 3(3) (2009), 2653.

need to be responsible for the environmental impacts of their suppliers and distributors rather than take the attitude that it is none of our responsibility how they operate."[52]

Sampselle observed that virtual organizational design principles were exemplified by the "jams" organized by IBM involving thousands of its employees worldwide to provide input of new sustainability goals.[53] Team-based organizational architectures, based on project teams and virtual teams and using new technologies, have been adapted by companies looking to foster the generation and use of employee knowledge in developing and implementing sustainability initiatives. Four "working groups" at Volvo, essentially virtual project teams with members drawn from throughout the formal organization, were instrumental in developing that company's environmental programs. Specific interests of these groups included developing structures and systems that could capture the benefits of product recycling; structuring organizational systems for acquiring and diffusing environmental information; reviewing production processes for environmental efficiencies; and meeting applicable regulatory standards relating to environmental management.[54]

§17 Limits of knowledge sharing

Porter and Powell cautioned that when seeking the benefits of networking, both individuals and organizations should be mindful of certain limits to knowledge sharing. They observed that individuals and organizations are not equally capable of accessing, transferring and processing information.[55] For individuals, the transfer of knowledge appears to be easier when there is "social cohesion", described as "a willingness to invest the time and energy in sharing information with someone else", and "when the person sharing the information has connections to different knowledge pools".[56] For organizations, studies have indicated that there are limits on the extent to which they are able to recognize the value of new, external information, assimilate it, and apply it to commercial ends and that the capacity of organizations to absorb and integrate new information is closely tied to the level of prior related knowledge within the organization. Another factor that is important when knowledge is to be shared in alliances is the structure position of the organization in the overall industrial network.

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[52] A. Griffeths and J. Petrick, "Corporate architectures for sustainability", International Journal of Operations and Production Management, 21(12) (2001), 1573, 1579.

[53] D. Sampselle, Sustainable Organization Design Principles, OTMT 608.13. http://www.brevolutionconsulting.com/assets/Sustainable-Organization-Design-Principles.pdf [accessed December 6, 2016], 11.

[54] A. Griffeths and J. Petrick, "Corporate architectures for sustainability", International Journal of Operations and Production Management, 21(12) (2001), 1573, 1581 (citing J. Maxwell, S. Rothenberg, F. Briscoe and A. Marcus, "Green schemes: corporate environmental strategies and their implementation", California Management Review (39(3) (1997), 118).

[55] K. Porter, and W. Powell, "Networks and Organizations" in S. Clegg, C. Hardy, T. Lawrence and W. Nord, The SAGE Handbook of Organization Studies (Second Edition) (Thousand Oaks, CA: SAGE Publications, 2006), 776, 789-790.

[56] Id. at 790 (see article for citations, which have been omitted from the main text in this Guide).

Chapter 9
Organizational Change and Development

Much time and effort are spent, and rightly so, on the launch phase of a new company and decisions made and actions taken during that phase will impact the future of the business and how the focus of the members of the senior management team will change as the company evolves. The launch phase is dominated by brainstorming about new business ideas, clearing the decks for concentrating on product development and marketing, forming a new entity and finding the funds required to make the dreams of the founders come true. If all goes well the company will transition into a growth phase marked by climbing revenues, an expanding line of products and services and, perhaps most important from a management perspective, an explosion in the size of the organizational structure and the challenges of coordination and communication. Growth is not necessarily constant, and the expansion path of the business may include peaks and valleys, with each downturn bringing its own set of issues in terms of diagnosing problems and taking corrective action. At some point the rapid growth generally slows and the company reaches a plateau or even begins to experience signs of decline as customer requirements change and new technologies and competitors emerge. In some cases, the symptoms for decline cannot be reversed; however, it most cases the company can stave off extinction by consciously focusing on renewing its business model and, in effect, launching a new business that can succeed in the changed business environment in which the company is operating. However, renewal is not easy since it requires not only new ideas, technologies and capital but also changes in culture and in the ways in which things are done within the company.

Targets for Organizational Change

Companies, like all organizations, must continuously evaluate the need for redesigning their organizational structure to deal with changes in their business environment and ensure that the mechanisms and procedures for coordination and control continue to operate effectively. The process by which companies move from the current state to some desired future state in order to maintain, and hopefully increase, organizational effectiveness is referred to generally as "organizational change." Companies should create and implement strategies for planned organizational change in order to strengthen and expand the value-creation activities of the firm. For example, even successful companies understand the need to re-align their resources and core competencies in ways that will allow them to continue to grow by introduction of new products and/or entry into new markets. Unplanned organizational change may also be needed in situations where companies have fallen on hard times and need to quickly restructure their organization in order to survive and launch new business initiatives. According to Jones, the most common targets for organizational change initiatives include human resources, functional resources, technological capabilities and organizational capabilities.[1]

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[1] See G.R. Jones, Organizational Theory, Design and Change (5th Ed) (Old Tappan N.J.: Prentice Hall, 2007), 269-271.

§3 --Human resources

The skills and abilities of the managers and employees of the company (i.e., human resources) are essential to the efforts of the company to develop and maintain its core competencies and thus establish a competitive advantage. Accordingly, an important part of continuous organizational change for any company is taking the necessary steps to strengthen its human resources through training and development, socializing new employees into the organizational culture of the company, consciously altering cultural norms and values to keep them consistent with current company strategies and establishing promotion and reward systems that effectively motive personnel and sustain morale. Other human resources issues that arise in the context of a change initiative include adjustment to the management team, leadership and communication styles of the CEO and other senior executives and recognition of the individual-level barrier to changes discussed below.

Functional Resources

The ability of functional departments to increase their value-creation capabilities depends on identifying and implementing necessary changes in their organizational structure, culture and technology. As companies grow and competitive conditions change the relative importance of functional departments will also change and companies will be forced to realign the resources that are invested in particular functional activities. For example, as the pace of innovation increases in the company’s chosen market the essential focus of organizational change may be in the functional area in the form of a transition from the traditional function-based organization to a product team structure that is more effective in accelerating new product development. Another illustration of function-focused organizational change is the decision to abandon mass production manufacturing in favor of small self-managed work teams that have the autonomy to make decisions about product design and manufacturing processes that will hopefully improve the quality of products and enhance the overall productivity of the workforce in the manufacturing area.

Technological Capabilities

Companies may seek organizational change through strengthening their technologies capabilities in order to improve their ability to rapidly develop and launch new products, reduce manufacturing costs, increase the quality and reliability of products, and create customized versions of products to achieve differentiated advantages. While technological capabilities generally have the strongest impact in product design and development and manufacturing companies may also be able to restructure their organization in way that allow them to turn their technology-based skills and resources into revenue streams. For example, the knowledge created during the process of designing and manufacturing new products can be leveraged into value-added consulting services that can be marketed with the tangible products.

§6 --Organizational capabilities

An important, but often forgotten, source of organizational change is planned changes to the organizational structure and culture of the company in order to enhance the ability of the company's human and functional resources to create new value. For example, a company can modify its organizational structure to improve communication and coordination between functional departments. Companies may also need to make changes in cultural norms and values if they wish to successfully transition into more dynamic markets that require continuous innovation and rapid new product development.

Complex Process of Executing Organizational Change

While the targets of organizational change can be categorized in the manner described above, it usually necessary to make appropriate changes in several areas at the same time in order for the company to actually achieve the targeted goals and objectives for increased value. For example, assume a company decides to launch a whole line of new products based on technology that the company has not controlled or used in the past. In order to pursue this strategy the company will need to recruit the necessary human resources (e.g., scientists and engineers with training and experience in the relevant technology) and support their activities by investing in the necessary functional resources and technological capabilities. In addition, changes will need to be made in the organizational structure and culture in order to integrate the new business activities into the company and ensure that other functional departments and business units are willing and able to support the initiative. Among other things this may mean spinning off human and other resources from various functional departments and placing them into a new product team structure that is better suited for the innovative activities necessary for the planned new products to be developed, launched and supported.

Forces Triggering the Need for Organizational Change

The need to undertake some form of organizational change can arise from any of the same forces that define the environment in which companies must compete: competitive forces, economic forces, political forces, global forces, demographic forces, social forces and ethical forces. Jones has provided the following examples of how each of these forces can impact organizational design[2]:

- Competitive forces generally require actions that will allow the company to keep up with and surpass the skills of competitors with respect to efficiency (e.g., cost of production), innovation and product quality and reliability.[3]
- Economic and political forces continuously impact the market conditions and rules under which companies produce and sell their goods and services and will cause them to reconsider how and where they engage in production and sales activities. The rise of economic and political unions (e.g. European Union) and increasing use of free

[2] See G.R. Jones, Organizational Theory, Design and Change (5th Ed) (Old Tappan N.J.: Prentice Hall, 2007), 271-273.
[3] See also C.W.L. Hill and G.R. Jones, Strategic Management: An Integrated Approach, 3d (Boston: Houghton Mifflin, 1995).

trade agreements has changed traditional notions of market entry strategies and provided foreign competitors with new advantages.[4]

- Global forces are clearly important as companies expand into new foreign markets with different languages, cultures and business practices. Changes in the organizational structure will be required in order to allow companies continue to achieve the economies of scale and other advantages associated with global strategies while simultaneously acting like a local firm in foreign markets and satisfying the specific requirements of customers in each country.[5]
- Demographic forces are important internal and external factors for companies. In the workplace companies must address the rising levels of diversity among personnel and must create and effectively administer managerial and reward systems that take into account the needs and expectations of employees drawn from a wide demographic spectrum.[6] In the marketplace companies must be prepared to tailor their products and services to the unique demands of specific demographically defined customer groups.
- Social forces have a substantial impact on what employees expect and want out of their careers and the companies they select for employment. Employees have a keener interest in lifestyle balance that employers must consider accommodating and firms must also be prepared to offer employees more opportunities for professional development through training and job rotation.
- Ethical forces are continuously pushing companies to embrace socially responsible business practices and act in an honest and ethical manner. Laws and regulations pertaining to ethical behavior have proliferated in the United States and in many foreign countries and companies must establish and follow internal rules and procedures to ensure that laws are obeyed and ethical problems are brought to light, independently reviewed and positively resolved. Ethical forces are also at work when companies develop strategies to carry out their activities in ways that preserve the environment and respect the human rights of others (e.g., ensuring the foreign suppliers refrain from operating “sweatshops” and otherwise mistreating their workers).[7]

Barriers to Organizational Change

There is no shortage of stories about successful companies that suddenly encounter hard times and one of the main reasons for these difficulties is usually their inability to effectively deal with new developments in their environment and identify and execute the necessary organizational changes. For these companies organizational change is often stymied by various barriers to change that push toward the maintenance of the “status

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[4] See also C.W.L. Hill, International Business (Chicago, IL: Irwin, 1994).

[5] See also C.W.L. Hill, International Business, (Chicago, IL: Irwin, 1994); C.A. Barlett and S. Ghoshal, Managing Across Borders (Boston: Harvard Business School Press, 1989); and C.K. Prahalad and Y.L. Doz, The Multinational Mission: Balancing Local Demands and Global Vision (New York: Free Press, 1987).

[6] See also D. Jamieson and J. O’Mara, Managing Workforce 2000: Gaining a Diversity Advantage (San Francisco: Jossey-Bass, 1991).

[7] See also W.H. Shaw and V. Barry, Moral Issues in Business, 6e (Belmont, CA: Wadsworth, 1995) and T. Donaldson, Corporations and Morality (Upper Saddle River, NJ, Prentice Hall, 1982).

quo," even though the traditional way of doing things clearly is no longer effective in light of the forces for the change that are overwhelming the firm and its managers. Barriers to organizational change can be found at every level within the company—organizational, group and individual—and efforts to change will inevitably be greeted by skepticism, turf battles, an inability or unwillingness to think "outside the box," and difficulties in transferring resources from existing uses or obtaining new resources required in order to execute strategies that are fundamental to the desired change. Organizational change may also flounder when managers and employees lack incentives to modify behavior or senior management fails to clearly articulate the reasons for change and actively lead the process. In any event, allowing these barriers to change to restrict the ability of the company to execute necessary modifications to strategy can have disastrous consequences and place the overall survival of the firm at risk.[8]

Organizational-Level Resistance to Change

One of the main impediments to change at the organizational level is the natural interest of people, functions and other business units to protect their "turf" and avoiding ceding actual or perceived power and influence to others as part of a redesign of the organizational structure to address environmental forces. In addition, each functional department has its own way of viewing specific opportunities and problems and will necessarily look to their own interest when an organizational change is proposed rather than considering what might be best for the entire company. For example, senior management may be seriously entertaining a proposal from the materials management department that would significantly reduce the costs on inputs to the product process; however, the managers in the manufacturing department may vigorously oppose the idea based on concerns that the new strategy would make it more difficult for them to control the costs of production and the quality of the finished products that are the outputs of the manufacturing process. Unless senior management can convince the two involved departments to cooperate necessary organizational change may be slowed or prevented altogether and the result will be that the entire company will suffer competitively in relation to other firms that are able to execute the changes necessary to reduce costs and increase profits. The existing organizational structure and culture may also cause problems. The best illustration is when a company with a long-standing mechanistic structure is suddenly forced to engage in complex innovation that calls for extensive collaboration and mutual adjustment. A mechanistic structure is rigid and inflexible and managers and employees used to operating in that structure may find it difficult to transition to an organic structure that is optimal for innovation. Values and norms, which are the foundation of organizational culture, are also challenging to overcome and change since managers and employees must learn, understand and apply a whole new set of informal ways of thinking and carrying out activities and interpersonal relationships.[9]

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[8] See G.R. Jones, Organizational Theory, Design and Change (5th Ed) (Old Tappan N.J.: Prentice Hall, 2007), 271 and 274.

[9] See G.R. Jones, Organizational Theory, Design and Change (5th Ed) (Old Tappan N.J.: Prentice Hall, 2007), 274-275. See also M. Hannan and J. Freeman, "Structural Inertia and Organizational Change," American Sociological Review, 49 (1989), 149-164; L.E. Greiner, "Evolution and Revolution as Organizations Grow," Harvard Business Review (July-August 1972), 37-46; and J.P. Kotter and L.A. Schlesinger, "Choosing Strategies for Change," Harvard Business Review (March-April 1979), 106-114.

Group-Level Resistance to Change

Much of the work performed within an organization is carried out by two or more persons collaborating as teams or groups. An obvious example of an organizational group is a department that focuses on a particular functional activity such as research and development, manufacturing or marketing. When organizational change is necessary it can be anticipated that resistance may occur at the group level due to factors such as norms, cohesiveness and "groupthink." Norms include the strong informal rules that groups develop and internally force regarding appropriate and inappropriate behaviors and these norms, which are generally explicitly passed on to newcomers to the group, form the basis for interactions within the group and between group members and outsiders. To the extent that organizational change disrupts task and role relationships within a group it will be necessary for the group to overcome existing norms and develop a new set of internal rules that fit the new organizational structure of the group—a process that is often difficult for group members to accept and execute. Group cohesiveness refers to the attractiveness of a group to its members and often causes group members to resist change in favor of the "status quo" and protect the interests of the group in the midst change even if this causes harm to other groups that would benefit from the change. Groupthink occurs when group members discount negative information—generally some factors that objective observers would agree dictate some level of change within the group—to reach and maintain a consensus that change is not necessary and should be opposed. Resistance to change at the group level becomes more challenging as the importance of the role of the particular group in the overall activities and workflow of the organization increases and senior management must be prepared to discuss proposed change initiatives with group leaders very early in the process.[10]

Individual-Level Resistance to Change

Change will impact everyone in the organization—executives, managers and employees—and every individual member of the organization will have his or her own concerns about proposed changes in the "way things work" including cognitive biases, uncertainty and insecurity, selective perception and retention and habit. In general, individual-level resistance to change typically flows from natural concerns regarding uncertainty and insecurity about what the new organizational scheme might bring in terms of duties, responsibilities, performance expectations and day-to-day interactions with colleagues and supervisors. While senior management will engage in continuous communications throughout the organization regarding the "benefits" of the proposed to change to "the company" the reality is that most individual members of the organization are most concerned about the impact of the initiative on them and those close to them in the existing organization.[11]

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[10] See G.R. Jones, Organizational Theory, Design and Change (5th Ed) (Old Tappan N.J.: Prentice Hall, 2007), 275.

[11] See G.R. Jones, Organizational Theory, Design and Change (5th Ed) (Old Tappan N.J.: Prentice Hall, 2007), 275-276.

Types of Organizational Change—Evolutionary and Revolutionary

This discussion above of forces for, and barrier to, change dictate that senior management implement an organized approach to change management that includes regular periodic analysis of the organizational environment to identify potential forces for change; analysis of the impact of a proposed change on the organization as a whole, key groups within the organization and individual managers and employees; and development and implementation of "change plans" that recognize impediments to change and include specific strategies for overcoming resistance and executing changes that are tightly aligned with environmental forces. The strategies to be included in any "change plan" depend on the type of change that senior management is pursuing and types of changes have been neatly segmented into two categories—evolutionary change and revolutionary change—that each have their own particular strategies for implementation.[12]

Evolutionary change has been described as change that is gradual, incremental and narrowly focused and rather than being an attempt to make drastic and sudden change in the basic nature of an organization the goal is to improve, adapt and adjust strategy incrementally to accommodate to changes taking place in the environment.[13] An important and common example of evolutionary change is the effort of organizations to identify and implement improved methods for operating a technology or organizing the work process and strategies to accomplish this objective include creation of empowered, flexible work groups, total quality management and quality circles.[14]

In contrast to the gradual and incremental nature of evolutionary change, revolutionary change is change that is rapid, dramatic and broadly focused and driven by a perception of senior management that major organizational changes are needed and must be made quickly in order to respond to drastic and unanticipated changes in the organizational environment and/or long periods of neglecting necessary evolutionary changes.[15] Revolutionary change almost certainly touches every group and person in the organization and typically comes with new ideas about organizational design and structure, work processes and strategic goals and objectives. Important and well-known instruments of organizational change include reengineering, restructuring and

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[12] Id. at 277. See also D. Miller, "Evolution and Revolution: A Quantum of Structural Change in Organizations," Journal of Management Studies, 19 (1982), 11-151.

[13] See G.R. Jones, Organizational Theory, Design and Change (5th Ed) (Old Tappan N.J.: Prentice Hall, 2007), 277. See also P.C. Ystrom and W.H. Starbuck, "To Avoid Organizational Crises, Unlearn," Organizational Dynamics, 12 (1984), 53-65.

[14] For detailed discussion of the referenced instruments of evolutionary change, see G.R. Jones, Organizational Theory, Design and Change (5th Ed) (Old Tappan N.J.: Prentice Hall, 2007), 277-282. Jones also refers to sociotechnical systems theory, which emphasizes the importance of changing role and task or technical relationships as a means to increase organizational effectiveness. Id. at 277. See also E.L. Trist, G. Higgins, H. Murray and A.G. Pollock, Organizational Choice (London: Tavistock, 1965) and J.C. Taylor, "The Human Side of Work: The Socio-Technical Approach to Work Design," Personnel Review, 4 (1993), 17-22.

[15] See G.R. Jones, Organizational Theory, Design and Change (5th Ed) (Old Tappan N.J.: Prentice Hall, 2007), 277.

downsizing.[16] Larger organizations may also attempt revolutionary change by embracing the focus on "innovation" commonly found among smaller emerging companies and marshalling their skills and resources to purposefully execute a radical change in strategic direction based on the creation and commercialization of new technologies and/or goods and services.[17] Revolutionary change generally focuses on drastic alterations to business processes, which are activities that cut across functional boundaries—thus requiring extensive coordination and planning during the change process—and are considered to be vital to competitive delivery of products and services to customers.[18]

Development and Administration of Effective Change Processes

Successful companies recognize from the beginning that change is inevitable and that it will be necessary for the organizational design and structure and strategy of the company to be adjusted, sometimes radically, as the business evolves and matures. It is therefore essential for senior management to develop and administer effective change processes as part of the company's overall strategic planning process. As discussed above, even clearly needed changes will encounter resistance and senior management must create and use the appropriate tools for modifying the current state of organizational affairs and driving the organization and its key constituent parts (i.e., groups and individuals) toward the new, desired state of affairs that senior management believes is appropriate for the organizational environment in which the company will be operating.[19]

An effective change process begins with diagnostic exercises that identify the need for change, specific problems areas and the anticipated barriers to change that will need to be overcome. The diagnostic process requires collection and analysis of information from all parts of the organization—managers and employees—and from key external stakeholders such as customers, vendors and distributors. The output of the diagnostic process should be a revised set of goals and objectives that reflect the desired future state of the organization and remediation of the problems and issues uncovered during the diagnostic phase. Strategic analysis is the key at this point and senior management must

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[16] Useful references for change instruments associated with revolutionary change include M. Hammer and J. Champy, Reengineering the Corporation (New York: HarperCollins, 1993) (reengineering); and G.J. Freeman and K.S. Cameron, "Organizational Downsizing: A Convergence and Reorientation Framework," Organizational Science, 4 (1993), 10-29 (downsizing).

[17] For detailed discussion of the referenced instruments of revolutionary change, see G.R. Jones, Organizational Theory, Design and Change (5th Ed) (Old Tappan N.J.: Prentice Hall, 2007), 283-288.

[18] Hammer and Champy, who popularized reengineering, one of the major instruments of revolutionary change, defined it as "the fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical, contemporary measures of performance such as cost, quality, service and speed". See M. Hammer and J. Champy, Reengineering the Corporation (New York: HarperCollins, 1993).

[19] For detailed discussion of the change management processes summarized in this section, see G.R. Jones, Organizational Theory, Design and Change (5th Ed) (Old Tappan N.J.: Prentice Hall, 2007), 288-292. Jones relied heavily on the "action research" ideas presented in K. Lewin, Field-Theory in Social Science (New York: Harper and Row, 1951). Jones explained that Lewin viewed organizational change as a three-step process: (1) unfreezing the organization from its current state; (2) make the desired organizational changes; and (3) refreezing the organization in the desired state with the aforementioned changes in place. See also P.A. Clark, Action Research and Organizational Change (New York: Harper and Row, 1972.

decide such issues as whether to try and cope with customer concerns about the "value" of the company's products by reducing costs and increasing efficiency, thereby providing opportunities to lower prices, or raise quality and responsiveness in order to maintain and perhaps increase prices. Once the strategy has been selected change action must be implemented using one or more of the instruments applicable to the particular type of change that is being pursued.[20] As with any strategic initiative, change plans must include tools for measuring the effectiveness of the change actions and their impact on the performance of the organization. Finally, change processes must be institutionalized so that change is an accepted, and even welcome, part of the organizational culture. This can be accomplished through reward systems that recognize positive change initiatives by groups and individuals and through the implementation of organizational development techniques that increase the adaptability of the organization (e.g., education and communication, participation and empowerment, counseling and process consultation and team building and intergroup training).[21]

[20] Useful references for change instruments associated with evolutionary change include W.E. Deming, Out of the Crisis (Cambridge, MA: MIT Press, 1989) (total quality management); J. McHugh and B. Dale, "Quality Circles," in R. Wild ed., International Handbook of Production and Operations Research (London: Cassel, 1989) (quality circles); and S.M. Young, "A Framework for the Successful Adoption and Performance of Japanese Manufacturing Techniques in the U.S.," Academy of Management Review, 17 (1999), 677-700 (flexible work and flexible work teams). Typically, several instruments are used simultaneously—flexible work teams are assigned responsibility for implementing and executing total quality management programs. See note above for references for change instruments associated with revolutionary change.

[21] For detailed introduction to the organizational development techniques and methods referenced in the text, see G.R. Jones, Organizational Theory, Design and Change (5th Ed) (Old Tappan N.J.: Prentice Hall, 2007), 292-297. See also W.G. Bennis, Organizational Development: Its Nature, Changes and Perspectives (Reading: MA, Addison-Wesley, 1969); W.L. French, "A Checklist for Organizing and Implementing an OD Effort," in W.L. French, C.H. Bell and R.A. Zawacki, Organizational Development and Transformation (Homewood, IL: Irwin, 1994), 484-495; W.L. French and C.H. Bell, Organizational Development (Upper Saddle River, NJ: Prentice Hall, 1990).