

DILEMMAS NEW ECONOMY – ORGANIZATIONS IN ACTION

Зростаюча кількість компаній знаходиться у пошуку розширення видів професійних послуг, що надаються ними у зарубіжних країнах, що забезпечує для одних з них безпрецедентні можливості скорочення витрат та заснування стратегічних відносин, у той час, як для інших - створює загрози поточній діяльності.

A growing number of companies are opting to perform increasing types of professional services in foreign countries, creating, for some companies, unprecedented opportunities to reduce costs and nucleate strategic relationships, while, for others, representing a major threat to current prosperity.

James Thompson in *"Organizations in Action"* emphasize the fact that varieties of environmental constraints: the elements constraints of task environment to which the organization must adapt vary from organization to organization. They may also change over time. Organizations find their environmental constraints located in the geographic space or in the social composition of their task environments¹. Geographic space: distance, costs of transportation/communication. Social composition: individual members, aggregates of individuals, organizations. Task environments: hostile or benign, homogeneous or heterogeneous, stable or rapidly shifting, confined or segmented, stable, or fluctuating (see Conger J.A. (2002), *The Leader's Change Handbook: An Essential Guide to Letting Direction and Taking Action*, Jossey-Bass Business & Management Series, New York, pp. 34-38). According to the Giga Group experts if organizational structure is an important means of achieving bounded rationality, then the more difficult the environment, the more important it is to assign a small portion of it to the core unit. Under norms of rationality, organizations facing heterogeneous task environments seek to identify homogeneous segments and establish structural units to deal with

each. Under norms of rationality, boundary spanning components facing homogeneous segments of the task environment are further subdivided to match the surveillance capacity (data collecting, etc.) with environmental action.

T. Kasprzak says, the more heterogeneous the task environment, the greater the constraints presented to the organization. The more dynamic the task environment, the greater the contingencies presented to the organization. Under either condition, the organization seeking to be rational must put boundaries around the amount and scope of adaptation necessary, and it does this by establishing structural units specialized to face a limited range of contingencies within a limited set of constraints. The more constraints and contingencies the organization faces, the more its boundary – spanning component will be segmented. Variations within organizations can be accounted for as attempts to solve the problems of concerted action under different conditions, such as techno and environmental constraints and contingencies. These conditions vary as:

- 1) organization's task environment changes;
- 2) innovations modify technologies;
- 3) the organization changes its domain and hence its task environment.

Table 1

Core arguments about structure

Number	Core arguments about structure – elements
1	Organizations face the constraints inherent in their technologies and task environments. Since these differ for various organizations, the basis for structure differs and there is no "one best way" to structure complex organizations

¹ See J. Thompson *Organizations in Action*, Handbook of Organization, 2005, pp. 268.

Continuation of the table 2

Number	Core arguments about structure – elements
2	Within these constraints, complex organizations seek to minimize contingencies and to handle necessary contingencies for local disposition. Since contingencies arise in different ways for various organizations, there is a variety of structural responses to contingency
3	Where contingencies are many, org.'s seek to cluster capacities into self-sufficient units, each equipped with the full array of resources necessary for the organization to meet contingencies. i.e.: variables controlled by the org. are subordinated to the constraints and contingencies it cannot escape. The more its technology and task environment tend to tear it apart, the more the organization must guard its integrity

Source: Own elaborate

When technical core and boundary spanning activities can be isolated from one another except for scheduling, organizations under norms of rationality will be centralized with an overarching layer composed of functional divisions. Under conditions of complexity, when the major components of an organization are reciprocally interdependent, these components will be segmented and arranged in self-sufficient clusters, each cluster having its own domain (“decentralized division”). By identifying several separable domains and organizing its technical core and boundary spanning components in clusters around each domain, the organization attains a realistic bounded rationality. Organizations adapt their structures to handle constraints and contingencies. Core arguments about structure (tab. 1):

- 1) Organizations face the constraints inherent in their technologies and task environments. Since these differ for various organizations, the basis for structure differs and there is no “one best way” to structure complex organizations.
- 2) Within these constraints, complex organizations seek to minimize contingencies and to handle necessary contingencies for local disposition. Since contingencies arise in different ways for various organizations, there is a variety of structural responses to contingency.

Where contingencies are many, org.'s seek to cluster capacities into self-sufficient units, each equipped with the full array of resources necessary for the organization to meet contingencies. i.e.: variables controlled by the org. are subordinated to the constraints and contingencies it cannot escape. The more its technology and task environment tend to tear it apart, the more the organization must guard its integrity.

Thus organizations facing many contingencies should exhibit quite rigorous control over those variable they do control. This helps to explain the paradox that the total institution is so highly routinized. There is a paradox in institutions between the double requirement for standardization and flexibility. J. Meyer and B. Rowan impression is that they try to make things like an organization's

relation with the environment and persistence of structural features in an industry into some kind of cosmic enigma². And don't say the word “efficiency” to them – because performance apparently has nothing to do with an organization's adoption of institutionalized standards. Rowan and Meyer, for instance, try to make institutional conformity into some kind of shell game that has to do with institutional myths and organizations where the formal structure doesn't have anything to do with its practical activities. They bring up this last bit a number to times, but like most of the article this is real vague and I still don't have any idea about what they are trying to say. So, in short, I think this article is basically crap – probably the stupidest thing I have read thusfar for the prelims (and keep in mind that I had to read *Civilization and Its Discontents* – and I “hate” Freud). Rowan and Meyer basically don't have anything to say (at least not anything important) and try to hide that fact by wallowing in a bunch of vague language. This summary is much longer than it deserves to be, but I tries to take the parts below pretty directly from the article in case someone can find out if they are actually saying anything. Formal organizations are typically understood to be systems of coordinated and controlled activities that arise when work is embedded in complex networks of technical relations and boundary-spanning exchanges. But in modern societies, formal organizational structures arise in highly institutional contexts (Bryant Ch., *Builders and Banks in the Winner's Circle*. Financial Times, February 3, 2008, p. 13).

Network Petri and organizations are driven to incorporate the practices and procedures defined by prevailing rationalized concepts of organizational work and institutionalized in society. Organizations that do so increase their legitimacy and their survival prospects, independent of the immediate efficacy of the acquired practices and procedures. There can develop a tension between on the one hand, the institutionalized products, services, techniques, policies, and programs that function as myths (and may be ceremonially adopted), and efficiency criteria on the other hand. To maintain ceremonial

² J. Meyer, B. Rowan (2005), *Institutionalized Organizations: Formal Structure as Myth and Ceremony*, Handbook of Organization, pp. 233-240. NY.

conformity, organizations that reflect institutional rules tend to buffer their formal structures from the uncertainties of the technical activities by developing

a loose coupling between their formal structures and actual work activities.

Table 2

The myths generating formal organizational structure have two key

Number	Formal organizational structure key
1	They are rationalized and impersonal prescriptions that identify various social purposes as technical ones and specify in a rule-like way the appropriate means to pursue them rationally
2	They are highly institutionalized and thus in some measure beyond the discretion of any individual participant or organization. They must be taken for granted as legitimate

Source: Own elaborate

E. Bagci, S. Aykul believe that a distinction should be made between the formal structure of an organization and its actual day-to-day work activities³. They see a problem in that prevailing theories of formal structure assume that the coordination and control of activity are the critical dimensions on which formal organizations have succeeded in the modern world. J. Meyer and B. Rowan believe that there is a need for an explanation of the rise of formal organizations that is partially free from the assumption that, in practice, formal structures actually coordinate and control work. J. Meyer and B. Rowan believe that fitting attention to the role of legitimacy of rationalized formal structures is woefully missing from prevailing theories of organization (List Alex'a Osborn'a). In modern society, the myths generating formal organizational structure have two key properties (tab. 2):

- 1) They are rationalized and impersonal prescriptions that identify various social purposes as technical ones and specify in a rule-like way the appropriate means to pursue them rationally.
- 2) They are highly institutionalized and thus in some measure beyond the discretion of any individual participant or organization. They must be taken for granted as legitimate.

Big CXO count professions, technology, and programs among the many elements of formal structure that function as myths⁴. These myths make formal organizations both easier to create and more necessary. Since these building blocks are considered proper, adequate, rational, and necessary, organizations must incorporate them to avoid illegitimacy:

1. As rational institutional rules arise in given domains of work activity, formal organizations form and expand by incorporating these rules as structural elements. Implied here are:

a) as institutional myths define new domains of rationalized activity, formal organizations emerge in these domains;

b) as rationalizing institutional myths arise in existing domains of activity, extant organizations expand their formal structures to become isomorphic with these new myths.

2. The more modernized the society, the more extended the rationalized institutional structure in given domains and the greater the number of domains containing rationalized institutions.

Team PMBOK and Research Foundation **CASE (Center for Social and Economic)** emphasize the fact that organizations are structured by phenomena in their environments and tend to become isomorphic with them. One account (the one by bad prevailing theorists) says that this is comes about through technical and exchange interdependencies – ie. boundary-spanning exigencies.

The second (good) account says that organizations structurally reflect socially constructed reality in a broad sense not captured by the bad theorists (see Peter Evans (Foreword), Lowell Turner (Editor), Daniel B. Cornfield (2007), *Labor in the New Urban Battlegrounds: Local Solidarity in a Global Economy* (Frank W. Pierce Memorial Lectureship and Conference Series), ILR Press, pp. 35-56). J. Meyer and B. Rowan say that a real discussion is beyond the scope of this reading, but they do cite three processes as generating rationalized myths of organizational structure (fig. 1):

- a) Elaboration of complex relational networks and look *New Economy Indicator* – Information and Communication Technologies (ICT);
- b) Degree of collective organization of the environment (I think this has something to do with mandate legitimacy of certain myths);
- c) Leadership efforts of local organizations⁵.

³ Bagci E., Aykul S. (2006), *A Study of Taguchi Optimization Method for Identifying Optimum Surface Roughness in CNC Face Milling of Cobalt Based Alloy*. International Journal of Advance Manufacturing Technology, vol 29, pp. 67-78.

⁴ See J. Meyer, B. Rowan (2005), *Institutionalized Organizations: Formal Structure as Myth and Ceremony*, Handbook of Organization. NY, pp. 231-246.

⁵ R. Beetsma, M. Giuliadori, F. Klassen, *Trade Spill – Overs of Fiscal Policy in the European Union: a Panel Analysis*. Economic Policy, 2006, no 48, pp. 99-121 and Marcin Piatkowski, *The Impact of ICT on Growth in Transition Economies*. TIGER Working Paper Series, no 59, Warsaw, 2004, pp. 3-45.

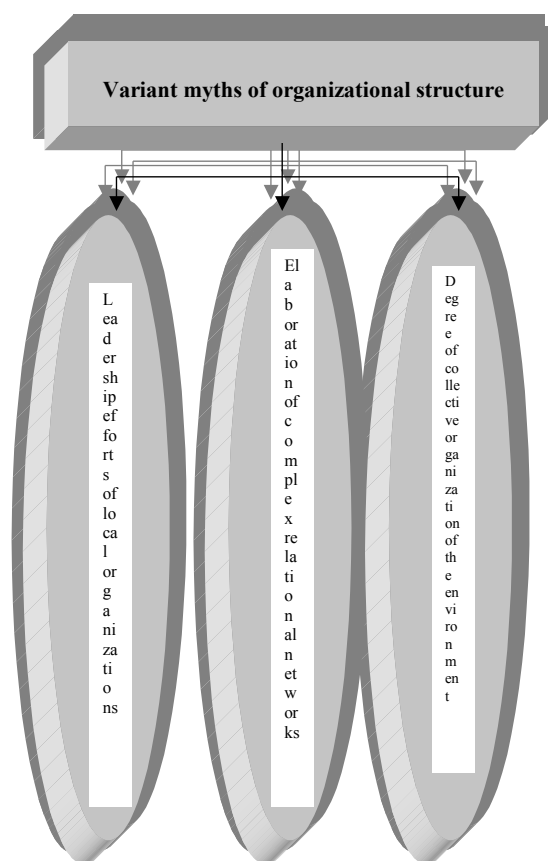


Figure 1. Myths of organizational structure
(Source: Own elaborate)

C. Rand says, efforts to mold institutional environments proceed along two dimensions:

1. Powerful organizations force their immediate relational networks to adapt to their structures and relations.
2. Powerful organizations attempt to build their goals and procedures directly into society as institutional rules.

Isomorphism with environmental institutions has some crucial consequences for organizations:

- a) they incorporate elements which are legitimated externally, rather than in terms of efficiency;
- b) they employ external or ceremonial assessment criteria to define the value of structural elements;
- c) dependence on externally fixed institutions reduces turbulence (buffers the organization) and maintains stability. As argued by J. Meyer and B. Rowan, institutional isomorphism promotes the success and survival of organizations.

3. Organizations that incorporate societally legitimated rationalized elements in their formal structures maximize their legitimacy and increase their resources and survival capabilities. The survival of some organizations depends more on managing the demands of internal and boundary-spanning relations (like the bad theorists say), while others depend more on the ceremonial demands of highly institutionalized environments (like new institutionalism says). In the case of the latter, the uncertainties of unpredictable technical contingencies

or of adapting to environmental change cannot be resolved on the basis of efficiency, so internal participants and external constituents alike call for institutionalized rules that promote trust and confidence in outputs and buffer organizations from failure.

Delphi Group calls organizations whose success depend primarily on isomorphism with institutionalized rules are confronted with two general problems:

- 1) Technical activities and demands for efficiency can conflict with efforts to conform to ceremonial rules of production.
- 2) Ceremonial rules transmitted by myths originating from different parts of the environment may conflict with each other.

Ceremonial activity is significant in relation to categorical rules, not in its concrete effects. Activity that has ritual significance, therefore, maintains appearances and validates an organization. These categorical rules conflict with the logic of efficiency. This is, in part, because institutional rules are couched at high levels of generalization, whereas technical activities vary with specific, unstandardized, and possibly unique conditions (see French W.L., Bell C.H. (1990), *Organization Development. Behavioral Science Interventions for Organization Improvement*, New York, 133-145). There are four partial solutions to the inconsistencies facing institutionalized organizations (tab. 3):

Table 3

Four partial solutions to the inconsistencies facing institutionalized organizations

Number	Four partial solutions institutionalized organizations
1	The organization can resist ceremonial requirements
2	The organization can maintain rigid conformity to institutionalized prescriptions by cutting off external relations
3	The organization can cynically acknowledge that its structure is inconsistent with work requirements
4	The organization can promise reform

Source: Own elaborate

1. The organization can resist ceremonial requirements (although such a practice could result in an inability to document/portray its efficiency).
2. The organization can maintain rigid conformity to institutionalized prescriptions by cutting off external relations.
3. The organization can cynically acknowledge that its structure is inconsistent with work requirements (although I still have no idea what J. Meyer and B. Rowan mean when they say this).
4. The organization can promise reform.

4. Because attempts to control and coordinate activities in institutionalized organizations lead to conflicts and loss of legitimacy, elements of structure are decoupled from activities and from each other. This may take the form of: encouraging professionalism, making goals ambiguous or vacuous (ie. categorical rather than technical), avoiding integration, or emphasizing human relations. Decoupling enables organizations to maintain standardized, legitimating, formal structures while their activities vary in response to practical consideration (see M. Piatkowski, *The Impact of ICT on Growth in Transition Economies*.

TIGER Working Paper Series, no 59, Warsaw, 2004, pp. 45-56).

5. The more an organization's structure is derived from institutionalized myths, the more it maintains elaborate displays of confidence, satisfaction, and good faith, internally and externally. Confidence and good faith allow the organizations to appear useful in spite of lack of technical validation. Taking off from Goffman, they say the considerations of face characterize ceremonial management. Confidence in structural elements is maintained through three practices – avoidance, discretion, and overlooking. Participants not only commit themselves to supporting an organization's ceremonial facade, but also commit themselves to making things work out backstage through **informal coordination**⁶.

6. Institutionalized organizations seek to minimize inspection and evaluation by both internal managers and external constituents, both of which could uncover conditions that undermine legitimacy and ceremonial aspects of the organization (see R. Beetsma, M. Giuliodori, F. Klassen, *Trade Spill – Overs of Fiscal Policy in the European Union: a Panel Analysis*. Economic Policy, 2006, no 48, pp. 641-650).

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⁶ See Center for Social and Economic Research – Foundation Global Economy, 2003, no 2, pp. 45-56 and J. Meyer and B. Rowan *Institutionalized Organizations: Formal Structure as Myth and Ceremony*, Handbook of Organization, 2005, pp. 341-352.

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