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Shouldn't Organization Theory Emerge from Adolescence?

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Having lost its connection to world affairs, today organization theory lacks an external mission. Yet organizations lie at the heart of major conflicts that are shaping the course of the 21st century, and in principle, organization theory could contribute significantly to human welfare.

Organization theory had roots in the emotions of everyday life, disgust about the deficiencies of bureaucracy and optimism that better organizations could benefit humanity. From the 1860s to the 1960s, two themes characterized writings about organizations. The earliest organizational writings by sociologists and economists focused on the effects of governmental bureaucracies on societies. Most expressed concern about bureaucracies' propensity to ignore their environments. The early organizational writings by consultants and former managers reflected hope that organizations could become more productive. They concentrated on improving structural features to raise productivity, efficiency, or morale.

Complaining about the Deficiencies of Bureaucracy

The term 'bureaucracy' originated as a protest against incompetence and inefficiency. In 1665, the French King made Jean-Baptiste Colbert his Comptroller General of Finance. The French economy was in turmoil, and to improve the situation, Colbert prosecuted corrupt officials and reorganized commerce and industry. To assure the populace that the government would act fairly, Colbert insisted that officials abide by rules and apply them uniformly to everyone (Wolin, 1960: 271). About 80 years later, in 1751, another French King appointed Jean-Claude Marie Vincent de Gournay to be France's Administrator of Commerce. Gournay judged the numerous governmental regulations to be suppressing business activity. To symbolize the idea that rule-makers and rule-enforcers who did not understand or care about the consequences of their actions were ruining the French government, he coined the sarcastic term *bureaucratie*—government by desks.

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Because Gournay defined bureaucracy as an undesirable form of government administration, it is understandable that 'bureaucracy' has had unpleasant connotations. Nearly everyone who has written about bureaucracy has complained about it, the exceptions being a few German economists and sociologists writing between 1870 and 1915 (Michels, 1911; von Schmoller, 1898; Weber, 1910–14). By the 1930s and 1940s, complaints about governmental bureaucracies were coming from France, Germany, the United Kingdom, and the United States (Mannheim, 1935; Von Mises, 1944; Warnotte, 1937).

Following the Second World War, writers began to see bureaucracies outside the governmental context and began complaining about 'organizations' rather than just bureaucracies. People had not complained about 'organizations' earlier because the word 'organization' did not acquire its current meaning until around 1930. By the late 1950s, complaints about organizations had become widespread. One very influential book was Whyte's (1956) best-selling critique of American corporate society, which asserted that a troubling 'Social Ethic' gripped America. Many employees, at all levels of management and in technical specialties, were allowing their employing organizations to dominate their lives and the lives of their families. Organizations were shaping employees' personalities, were specifying employees' dress and behavior, and were cutting off employees' roots in communities by moving them and their families frequently. Another influential book was Argyris's (1957) academic critique, which documented how organizations impede employees' development and foster unhealthy personalities.

Seeking Prescriptive Generalizations to Make Things Better

Large organizations remained rare until steam power became safe and reliable around 1900, making it feasible to undertake large-scale construction projects, to build and operate railroads and large ships, and to power factories. Internal combustion engines added transport via automobiles, trucks, and aircraft. Large construction projects and geographically dispersed markets called for large organizations. As these new organizations proliferated and imitated each other, they created a population of similar social systems that invited generalizations.

These new organizations brought problems as well as accomplishments. Specialization and division of labor made women and children more employable and skilled workers less valuable. Compliance received larger rewards and skill smaller ones. Division of labor lowered job satisfaction and increased the advantages of owners versus employees (Engels, 1872; Marx, 1867). Much greater productivity, an absence of government control, and predatory business behavior enabled owners to reap enormous profits.

Nevertheless, most of those who wrote about organizations wanted to help make them work better. The widespread strife between business owners and employees gave impetus to the Scientific Management movement, which purported to reduce conflict by increasing productivity and allowing higher wages (Merkle, 1980; Shenhav, 1995). Taylor (1903) showed business how to extract value from white-collar work that emphasized measurement and calculation and looked like 'science'. Early in the 1920s, books began to view organizations as integrated systems and to discuss the best structures of these systems. Fayol (1923) initiated a debate by offering prescriptions that he claimed would apply in all kinds of organizations. Others, however, expressed skepticism about the validity and usefulness of general principles and advocated separate theories about distinct types, such as churches, armies, governmental agencies, and business firms (Dennison, 1931).

From the 1910s through the 1940s, prescriptive writings generally derived from the experiences of managers and consultants and focused on administrative functions. Barnard (1937) reacted by arguing that propositions about organizations should have bases in social psychology, and Simon (1946, 1950, 1952) began to campaign for scientific theories of management and organizations. As Simon (1952) used the term, 'organization theory' was a large category encompassing scientific management, industrial engineering, industrial psychology, the psychology of small groups, human resource management, and strategy.

A Loss of Relevance

From the late 1950s organization theorists started to become more numerous, and the following decades offered the largesse of expanding degree programs in business. Expansion and affluence brought fragmentation, self-absorption, and a lack of concern for environmental issues.

Pressures to become self-absorbed and irrelevant have come partly from organization theory's growing numbers and rising status and partly from support by degree programs in business. By 1956, almost 43,000 Americans were receiving baccalaureates in business annually, and by 1998, this rate had quintupled to 233,000 annually. In 1956, slightly over 3000 Americans per year were receiving MBAs annually, and by 1998 this rate had exploded to over 100,000 annually. For people who could teach about organizations, every year brought more jobs, higher salaries, and more academic journals in which they could publish.

As organization theory grew larger and gained respectability, it also became more autonomous from external constraints, more organized, and more fragmented. Academics gained freedom to focus on what interested themselves. Research methodology received progressively more respect, almost to the exclusion of validity or relevance. The most prevalent forms of empiricism became stylized types that encouraged observers to remain detached from the situations observed. Subtopics within organization theory proliferated and derived their popularity from their intellectual properties, and theories and methodologies evolved differently in different societies. Social fragments separated along academic fissures. People with psychological orientations labeled their focal interest as 'organizational behavior' to distinguish it from 'management' or 'organization theory', a secession that linked 'organization theory' more closely to sociology. Other people first defined their interest as 'strategic management', then they began splitting into two subfields, one closer to economics and the other closer to behavioral science.

Immersed in their academic milieus, few organization theorists have focused on connections between organizations and social problems, although long-standing social problems persist and new ones appear. The problems have reluctant audiences within universities, as business students dislike hearing that their future occupations have negative aspects. Students generally want to learn how to succeed within the existing system, not why they should overturn it.

When academic organization theorists write easy-to-read books or articles for managers, the authors lose status as other academics sneer. The influential management fads—such as Japanese management, downsizing, reengineering, teamwork, Quality Circles, Six-Sigma quality management, the Learning Organization, outsourcing, knowledge management—have originated from managers and consultants, and the most respected organization theorists have ignored them. Indeed, the most respected organization theorists have ignored long-run changes in organizations arising from technological and population changes such as rising educational levels, computerization, telecommunication capacities, or globalization.

Three Arenas of Conflict

For organization theorists to focus on their self-centered academic interests while ignoring their environment is wrong. It is wrong because it deprives organization theory of an extrinsic reason to exist, wrong because the issues arising in the environment are both challenging and interesting, and wrong because organization theorists might actually have something to contribute to world affairs. However, for a science to benefit anyone but scientists themselves, the science needs to develop predictive power. Not until a science can predict reliably the consequences of alternative actions, can people use it to choose better actions.

As the 21st century is beginning, organizations are participating significantly in at least three grand arenas of social conflict: the conflict between corporations and nations, the conflict between top managers and other stakeholders, and the conflict between the short run and the long run. Organization theorists could map their dimensions, describe their development, and propose changes to mitigate them. Of course, these are not the only arenas in which conflicts are going to be occurring. Organizations will also be dealing with the chronic conflicts that arise from differences in wealth and ethnicity and from social and economic changes. However, organization theorists should be able to offer useful insights and ideas about these three arenas at least.

The Conflict between Corporations and Nations.

Berle and Means (1932: 313) long ago observed, 'The rise of the modern corporation has brought a concentration of economic power which can compete on equal terms with the modern state.' At that time, few corporations had ventured abroad, so Berle and Means were pointing to the power of large corporations within their home nations. Over the last seven decades, large corporations have indeed shown their economic power, but 'competition' has proven to be a misleading description because large corporations cooperate with national governments as well as compete with them.

Nevertheless, corporations and nations do compete in the sense that some activities of large corporations undermine the loyalties that citizens feel toward their nations and their national governments. Bonds of nationalism may be weakening as bonds of allegiance to corporations strengthen.

After the Second World War, many large corporations offered reliable employment and benefits such as medical care and insurance in exchange for the employees' committing themselves to their jobs. Thus, for some people, corporations were supplanting local and national governments. In the mid-1950s, *The Organization Man* and *The Man in the Grey Flannel Suit* made the public aware of organizations' influence on lives outside of jobs (Whyte, 1956; Wilson, 1955), and the social importance of large corporations became a topic of widespread discussion. There was also widespread discussion of the idea that business and government had formed coalitions that might oppose the interests of the public (Eisenhower, 1961). Then corporations' human resource practices ran into financial problems and changing managerial ideologies. Executives discovered that they could lose their jobs if they did not achieve short-run goals. The 1980s brought a wave of aggressive takeovers that often used target firms' own cash to pay for their acquisition and frequently produced layoffs and actions to raise short-run profits. The 1990s brought management fads—reorganization, reengineering, and downsizing—that emphasized efficiency and profitability and deemphasized loyalty to employees, paternalism, or continuity. So, corporations retreated from the human resource practices that had made them alternatives to governments.

However, during the last decades of the 20th century, corporations accelerated a long-term global expansion that had been infringing national loyalties and national governments (Vernon, 1977, 1998). From 1985 to 2000, organizations created about 600 million new jobs worldwide, but only 5 percent of these jobs were in Europe, Japan, or North America. Transoceanic travel more than tripled from 1985 to 1998 and transoceanic communications multiplied 28 times from 1986 to 1997. For instance, McDonald's has restaurants in 118 nations, and British Petroleum has facilities in 100 nations. Mitsui has offices or subsidiaries in 87 nations and its stock trades on eight exchanges in four nations. Daimler

Chrysler manufactures in 37 nations and has sales organizations in 19 nations, and its stock trades on 19 exchanges in seven nations. According to the World Bank, in 1999, 73 nations had annual incomes over $15.6 billion, Sri Lanka had an annual income of $15.6 billion, and 73 nations had annual incomes below $15.6 billion. In 2002, *Fortune* magazine listed 324 corporations with annual revenues exceeding $15.6 billion, and only 20 nations had Gross National Incomes greater than Wal-Mart's annual revenues. Not only have corporations created social bonds that span national boundaries, but hundreds of corporations are big enough to have membership in the United Nations.

Corporate control has been loosening from nationality during the last decade. Owners of corporate stock may live outside the corporation's home nation. As well, more and more senior executives have come from outside the corporations' home nations. Some corporations have been emphasizing their multinationality to please host nations and to attract potential employees. Corporate human resource practices have been alienating employees in their home nations even as they have been attracting employees elsewhere. Some corporations have moved their locations of incorporation to nations that offer them tax or legal advantages. Many corporations that originated in nations speaking languages other than English have shifted their official language to English.

These changes suggest an evolution in which large corporations are challenging the traditional roles of nations. Geographic location and societal traditions give strength to national governments but also limit what they can do. For people working in globalizing firms or buying their products or supplying their inputs, aspects of organizational culture are overlapping aspects of national cultures. This evolution is almost inevitable in the face of free commerce and advanced telecommunications, which give mobility and flexibility to corporations. As well, corporations, with their clear hierarchical structures and rewards that link to compliance, usually act more agilely than do national governments, with their conflicting goals and long-tenured civil servants. Although corporations presently seem to have competitive advantages with respect to national governments, both corporations and governments can gain from cooperation and so coalitions between them may be multiplying.

The competition between corporations and governments has been developing slowly and it seems likely to continue at a slow pace. The many corporations and nations form a sizeable population with substantial variations. The differences between governments and corporations suggest some plausible hypotheses. Thus, not only is this topic an excellent candidate for familiar forms of academic research but it is a domain in which simple extrapolations may give fairly accurate predictions, at least over the short run.

The Conflict between Top Managers and Other Stakeholders. Two hundred years ago, managers were few and little respected because people saw them as menial tools of the wealthy (Starbuck, 2003). As late as 1900, people generally viewed businesses as properties owned by identifiable individuals who employed managers as agents. Such managers kept records and relayed instructions, but few of them exercised power autonomously. However, this conception of managers grew less and less tenable throughout the 20th century. By the 1930s, Berle and Means (1932) were reporting that stock ownership in large corporations had so dispersed that stockholders could not effectively control half of the largest corporations. Thus, it was becoming unrealistic to think of managers as agents of owners:

> On the one hand, the owners of passive property, by surrendering control and responsibility over the active property, have surrendered the right that the corporation should be operated in their sole interest . . . At the same time, the controlling groups [managers], by means of the extension of corporate powers, have in their own interest broken the bars of tradition which require that the corporation be operated solely for the benefit of the owners of passive property. (1932: 311–12)

By the start of the 21st century, nearly all stockholders had ceded their voting rights to corporations' senior executives, who consequently control shareholders' meetings and the choice of directors. Directors, in turn, have endorsed these executives' decisions and they have bestowed vast wealth on them. *Business Week* has reported that whereas the average chief executive of a large American corporation made 42 times the pay of a factory worker in 1980 (Reingold, 1997), this ratio had multiplied ten times by 2001.

The spiraling compensation of senior executives has borne weak relationship to their contributions to corporate performance and has too often diverted corporate wealth to executives themselves. In 2002, 23 large American corporations were investigated for accounting irregularities. The chief executives of these corporations had compensation that averaged $62 million from 1999 to 2001, in contrast to an average of $36 million for all CEOs of large corporations (United for a Fair Economy, 2002). In 2003, Paywatch, a website maintained by American labor unions, argued:

> The flagging economy and poor corporate performance—including falling stock prices, declining profits and big layoffs—have barely made a dent in executive pay. Median pay actually grew by 7 percent—meaning half of all executives made more and half made less. This rate is twice the growth of workers' paychecks. Elite corporate chiefs at the top of the CEO pay range took some cuts—lowering average CEO pay by 8 percent—but the majority of CEOs got raises. In contrast, a typical company's corporate profits declined by 35 percent in 2001.

Generous stock options have turned some senior executives into major stockholders and so partly undermined Berle and Means's idea that management was separating from ownership. Lavelle et al. (2002) remarked, 'Salaries and bonuses are now afterthoughts compared with the potential wealth that options represent.' However, to make options valuable, executives have to raise their corporations' profits. If they achieve short-run profits at the expense of long-run profits, only the executives themselves gain (Kay, 2003). Some stockholders have been trying to restructure corporate governance (Deutsch, 2003). They are proposing limits on executive compensation, changes in accounting practices for executive compensation, and changes in the make-up of boards of directors. However, changes in rules and structures may have negligible effects. Sonnenfeld has said:

> The key isn't structural, it's social. I'm always amazed at how common groupthink is in corporate boardrooms. Directors are almost without exception intelligent, accomplished and comfortable with power—but if you put them into a group that discourages dissent, they nearly always start to conform. (Hymowitz, 2003: R3)

Executives' financial gains have cost them respectability. The Harris Poll (Taylor, 2001) has surveyed Americans regarding the prestige of 17 occupations since 1977. In 2001, the occupation of 'businessman' was the least prestigious of these occupations, and just 12 percent of the respondents rated 'businessman' as having 'very great prestige'. A year later, Taylor (2002) reported that 87 percent of those surveyed said that top managers get more pay than they deserve, and 87 percent said they thought top managers became rich at the expense of ordinary workers.

The powers of senior executives lie at the heart of organizational phenomena, their rise to power exemplifies a structuration process that converts informal practices into formal structures, and the conflicts between executives and others are exposing the limitations of existing norms about governance. The last decade has indeed brought rising public concern about corrupt corporate governance and senior executives' power, but governmental agencies have made only weak responses and public understanding of corporations has changed only faintly. Research could enhance understanding of what has been going on, raise public awareness, and generate useful proposals. Perhaps organization theorists can generate useful proposals about better forms of corporate governance. These issues, no doubt, seem to challenge accepted beliefs about what corporations actually are, what their legal rights ought to be, and what roles they should play in society.

The Conflict between the Short Run and the Long Run. Organizations oscillate endlessly between short-run targets and long-run goals. Prosperity brings forth long-range plans, large-scale projects, and policies that benefit long-term employees. Recessions focus attention on short-run targets and temporary measures, and companies sell off non-essential facilities and fire personnel. Management fads may have effects unrelated to economics. Downsizing and reengineering became fashionable during the munificent 1990s. In the 1980s and 1990s, aggressive acquisitions led to actions to boost short-run profits. Wall Street and television gave new prominence to quarterly results, and companies replaced executives who had failed to meet quarterly targets. In some instances, short-run results stimulated deceptive accounting (Glassman, 2002; Rockwood, 2002).

Long-run plans are usually beneficial and sometimes necessary. Problems that would become insoluble after they build up may be soluble if attacked early. Global warming and overpopulation may be such (Natural Resources Defense Council, 2003; World Population Awareness, 2003). Simon (1996) studied 500 very profitable small and medium-sized companies. He remarked that their significant characteristics included long-run thinking and avoidance of management fads such as diversification, outsourcing and strategic alliances. Miller and Le Breton-Miller (2004) have said that some large family-controlled companies have been considerably more successful than large publicly owned corporations because family control has enabled these companies to gradually achieve dominant positions in specialized domains. According to Miller and Le Breton-Miller, publicly owned corporations have too often pursued short-run goals that diverted their efforts from more valuable long-run goals.

However, long-run plans fail because long-run forecasts turn out to be wrong. The simple extrapolations that work well in the short run rarely hold up over long periods (Pant and Starbuck, 1990). Since adhering stubbornly to an obsolete long-run plan will bring ruin, effective behavior eventually requires deviations from long-run plans. Too-strong commitments to current methods of operation gradually render people and organizations incapable of responding to current challenges (Starbuck and Hedberg, 2001). Miller (1990) documented many cases in which firms had focused so intently on what they deemed their strategic strengths that they overlooked important developments outside the range of their attention.

Short-run targets are also usually beneficial and sometimes necessary. Organizations may require never-ending changes merely to remain vital. Not only may fleeting opportunities be extremely profitable, but immediate threats may prove extremely costly. Statistics indicate that strategizing has erratic effects and it produces harmful results nearly as often as it produces beneficial results (Starbuck, 1992). Starbuck and Nystrom (1981: xiv) observed:

> . . . the most impressive characteristic of current organizations is how unsuccessful they are. Large organizations do not grow out of small ones: nearly all small organizations disappear within a few years, the great majority of middle-sized organizations are just a few years old, and many large organizations are new organizations. For a small organization to grow into a large organization is very rare, and it is quite unusual for a middle-sized organization to grow large. The very smallest organizations are more prone to disappear . . . but so are the largest new organizations . . . Three-eighths of all new corporations reach the age of five; 65 percent of the ten-year-old corporations attain the age of 15; 83 percent of all 50-year-old corporations survive to the age of 55. Thus, older organizations are more

likely to survive. But even very old organizations are far from immortal: approximately one-eighth of all 100-year-old corporations disappear without reaching the age of 105.

Nevertheless, the emphasis on short-run results that distinguished the 1990s may have done more harm than good. The profits that made senior executives wealthy may not be renewable or sustainable, and they may not have benefited most shareholders, most employees, and most suppliers. Cooper (1999) argued that in Britain, weakened commitments to long-run employment have lowered job satisfaction and morale and they are undermining workers' belief that work provides more than financial benefits.

This conflict again raises governance issues and poses questions about the nature of organizations and their roles in society. When are tightly controlled organizations superior to widely held ones? Should societies provide for different organizational forms that promote longevity versus opportunism? If so, in what circumstances should societies foster the more rapid replacement of narrower-purpose organizations that have shorter life spans versus the slower replacement of broader-purpose organizations that have longer life spans? How do criteria for organizational performance relate to the distribution of wealth among people?

Conclusion

Occupations, like people, need reasons for being that are greater than themselves.

Most people go through a self-centered stage during adolescence, and then as they mature, they come to recognize the importance of their relations to others and the importance of functioning effectively as a part of society. Although self-absorbed people may be very content in their egocentrism, others see such people as aberrant. Self-absorption produces a vicious cycle that makes people more dependent, shortens their time horizons, and limits their behavior repertoires. Certainly, such people make poor communal contributions and receive no satisfaction from influencing their environments.

Thanks to the popularity of business education, organization theory has been living in a self-indulgent state in which external impacts have little or no significance. Although this state may seem pleasant, it does not encourage organization theorists to attain their full potential or to demonstrate the value of their work. In order to develop into a healthy and robust maturity, organization theory needs to engage and contribute to the rest of the world. It will be better able to attract good minds if it can demonstrate an ability to benefit people other than students. Confronting real-world problems forces theorists to rethink their assumptions, dislodges them from ritualistic patterns of thought, and stimulates them to try new methods.

Data-gathering strategies vary along many dimensions, of course, but two dimensions seem particularly critical to the maturation of a science.

Scientists must decide whether to focus on retrospective explanations of events that have taken place or to attempt to predict events that might occur. Scientists must also decide whether to restrict their work to passively observing events that occur naturally or whether to engineer events (Starbuck, 1974, 1976). Passive-retrospective orientations are healthy for a science's early development. They highlight prominent, non-pathological phenomena. They reduce distortions caused by scientists' observational activities. They minimize the costs of erroneous theories and thereby foster the generation of alternative hypotheses. They promote revision, modification, correction, combination, and elaboration. They insulate scientific development from extra-scientific payoffs. However, just as an adolescent needs to venture out from the family and to engage the world independently, a science should start to venture out of its passive-retrospective mode when it grows strong enough to do so.

Firstly, as long as the costs of error are low, incentives remain weak to discriminate carefully between better hypotheses and worse ones. Secondly, because the scientists who propose retrospective theories know what phenomena their theories must explain, all serious proposals are generally consistent with the most prominent facts. Thirdly, scientific disciplines develop social structures and codes of behavior that, despite their fundamental virtues, can stifle innovation, creativity, and progress. To prevent this drift into sterility, scientific development needs punctuation by extra-disciplinary influences (Gordon and Marquis, 1966; Starbuck, 1974). Fourthly, a focus on naturally occurring phenomena generates data dominated by uninteresting events—nearly everyone has brown eyes, nearly all rock formations are stable, nearly all prices are the same as last week. To expose differences between theories, in quantities that make comparisons conclusive, scientists must be able to select settings that are likely to yield interesting, revealing observations—meaning that scientists have predicted what they will observe. Lastly, until organization theorists test their theories by suggesting ways to improve organizations, their research will remain a version of historical analysis.

Organization theory can and should contribute more to human welfare. Efforts to make such contributions can inject vitality into organization theory as well as benefit our neighbors, our societies, and people far away.

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