

Günter Dlugos / Wolfgang Dorow / Dan Farrell (eds.)

Organizational Politics

From Conflict-Suppression
to Rational Conflict-Management

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Introduction

The political analysis of organisations has gained increasing significance in the last 10 years. In the Anglo-American research in particular the most significant and up-to-date questions from the broad research field of Organizational Politics, have been taken up and examined from a scientific perspective that is essentially empirical. Much attention has been paid to the phenomena of power, the generation and handling of conflict in organisations (with emphasis on the managerial viewpoint), as well as to industrial conflict as a conflict between employers and trade unions. Interesting research results have been achieved in these areas, which can also be found in the German literature.

Despite this progress, no consensus can yet be traced in the existing literature upon the definition of the object of research, the problem formulation and the research goal. In view of the different perspectives of the object of research that exist, the integration of multiple research results presents difficulties: the advantage of cooperative, particularly international research results cannot be exploited to the full, and as a result of the absence of a complete research "road map", gaps in the research are discovered more by chance, rather than being identified and elaborated systematically. Furthermore, the economic problems of power, conflict and conflict-handling, which are of great significance for business corporations have received surprisingly little attention. Another weakness is the rather loose relationship that exists with Political Science, which provides important impetus, but which is as yet insufficiently used as a permanent corresponding discipline.

This situation induced the primarily model-analytical orientated Department of Business Politics in the Faculty of Economics and Business Administration at the "Freie Universität Berlin", to invite colleagues who have recently been tackling fundamental issues in this research field, and who have expressed their wishes for a further discussion of this theme, to the "Organizational Politics: Research and Concepts" Symposium. Colleagues who participated were asked to make a contribution to the general theme from their own field of study and to explain in particular the basic decisions which were fundamental to their research framework.

Cynthia Hardy (McGill University, Montreal) deals with the fundamental conceptions of the subject "Power" and "Politics" in her introductory contribution. She gives a general view of literature with special regard to the studies on power and politics in management. She arrives at the conclusion that, in North American research, as a result of an almost negative connotation of these terms, restricted research activities had been developed, which had only permitted a restricted understanding of the problems of power and politics in organizations. She stresses the contextual character of power and politics and examines the progress through extended definitions which determine politics as a use of power, as a necessary support of one's own interests as well as a support for public policy. She asks for the management process to be seen as a political process in a

broader sense. She supports the view of the symposium organizers that a broader definition for the field of study in Organizational Politics is needed.

Three contributions were devoted to the attempt to define the object and the field of research differently:

Anthony C. Cobb (Virginia Polytechnic Institute and State University) postulates with his contribution, a political subsystem of the organization and analyzes the central variables of such a subsystem: the structure of the organization as a result of negotiated exchange agreements, the role of the political subsystem, which manifests itself at three distinct levels of the overlaying social system (governance, the distribution of resources and the specification of system goals) as well as the elements of the political subsystem, which he adjoins to the political actors, the nature of their political relationships and the interrelating political ideology. This theoretical specification is an instrument which can approach the political processes not as an interfering, but rather as an integral part of a functioning organization and it shall help in the continuing analysis of central variables for a more coherent definition of political subsystems.

Victor V. Murray and **Patricia Bradshaw-Camball** (York University, Ontario) ascertain in literature, the comprehensive agreement that four elements must be present to be able to speak of politics: two or more parties, interdependencies as well as interactions between the parties, a perception of divergent interests and a potential or manifest conflict on behalf of at least one of the parties. The investigation of this phenomenon may be due to different perspectives which have divergent assumptions. The authors outline the divergent perspectives distinguished by Burrell and Morgan (1979) and exemplify the peculiarities and advantages, in particular of the interpretative perspective. The decisive variable of this perspective is the interpretation of reality by the actor. The authors prove the usefulness of this attempt for the analysis of conflict relations and the prediction of results of conflict handling.

Günter Dlugos (Freie Universität Berlin) defines the research object of his "Business Politics" approach with reference to subject definitions of Political Science as a special kind of action, i.e., as a power dependent action of securing goals against conflicting interests. He delimits the field of study to the business sector. Through this concentration on the conflict problem within business corporations and between them and their environment, a variable system had been developed, whose essential elements are the functional goal systems of the actors, the underlying causes of conflict which result therefrom, alternatives for conflict-handling, and the power bases. This variable system aims at facilitating the early identification of conflicts. It shall serve as a checklist for rational conflict handling and is the conceptual basis for the explanation and prediction of the results of conflict handling.

All the other participants, some of them basing their contribution on the Berlin Business Politics approach, dealt with specific problems of the field of study:

Frank C. Danesy (Freie Universität Berlin) analyzes the decision between the various alternatives of conflict handling as a special process of goal setting. He discusses the consequences of the different alternatives for conflict-handling in relation to the business political goal criteria and their evaluation for the selection of an optimal alternative. He exchanges this model by including the power bases which, as intervening variables, determine the consequences and therefore the success of the conflict handling. He emphasizes the necessity to initiate interdisciplinary research in order to arrive at a practical approach to the consequences of conflict handling, which are dependent on specific situational factors.

Andreas Nikolopoulos (The Athens School of Economics and Business Science) developed a dynamic concept for the measurement of conflict intensity on the basis of goal criteria, ranked by the actors, and the expected deviations of the aspired goal realization. He sees the significance of this research question not only in the possibility of gaining reliable measurements of the interdependencies that exist between the intensity of conflict and the use of power but also in the support of rational conflict management which must endeavour to be efficient and economical with its limited power potential.

Anke Frieling (Freie Universität Berlin) is concerned with industry wide codes, which are agreed upon for the prevention of restrictive legal proceedings in the case of environmental pollution and for the avoidance of possible disadvantages in competition, compared with isolated individual self restriction. She focuses on the conflicts between the contracting parties, which originate in the noncompliance of agreements and she discusses the chances of successful conflict handling on a basis of systematically structured alternatives for handling those conflicts. She holds the view that industry wide codes, despite poor expectations of preventing non-compliance with contracts, are already a popular instrument as it is much easier for the legislative authorities to appease opposition groups through the implementation of an industry wide code than to tread the lengthy path of legislation with all its risks.

Dan Farrell and **James C. Petersen** (Western Michigan University, Kalamazoo) question, with reference to the increasing significance of mergers, acquisitions, and joint ventures, why such actions increase disputes and conflicts instead of efficiency, and why they lead to failure. In order to achieve a better understanding of the interrelations, the authors pleaded for a systematic analysis of the political consequences of organizational cultures, as management activities based on rational authority and expert systems are often politicized by these cooperations, and the success of the thus altered management activities is therefore determined by the organizational cultures as an intervening variable. They present a typology of the organizational cultures and give recommendations for avoiding conflicts related to the modification of management activities.

Wolfgang Dorow (Europäische Wirtschaftshochschule, Paris, Oxford, *Berlin*, Madrid) proves through a critical analytical discussion, the contribution of transaction-cost theory for identifying success and failure factors of alternative contractual modes of

internationalization. The paper reveals the extensive conflict potential between international partners, and shows that the neglected business political dimension of the generation and handling of conflicts is crucial for the efficiency of international exchange relations.

At the symposium, different opinions on central questions of the subject were discussed and the advantage of having immediate dialogue or divergent points of view was exploited. As the discussions of the reports showed, there remains a lot of work to do before a broader consensus upon the basis of the subject can be reached and before the prerequisites for the desirable coordination of research work can be fulfilled. The advance in research is not only of pure scientific interest but is also of great practical relevance for the narrower field of Business Politics, since the early identification of conflicts in the business sector and the constructive rational handling of those conflicts is more and more necessary in order to preserve the efficiency of business corporations.

Theorists and practitioners, who are interested in this field of study, should not only be informed of the contributions of the participants at the symposium, but also invited to cooperate with them. Interdisciplinary and international cooperation will be aspired to, not only for a better predictive relevance of the research results, but also for an improved scientific support for handling the business political problems of companies, particularly those operating in diverging cultures.

We would like to thank all participants at the Berlin symposium for their assistance in making the symposium a success and for their support in the publishing of the results of their discussions. Thanks are also due to the Department for External Relations at the Freie Universität, Berlin for their financial support, without which the symposium could not have taken place. We would like to thank Mrs. Gabriele Krautschick (Europäische Wirtschaftshochschule, Berlin) who prepared the texts for publishing, for her patience and careful handling of the manuscripts. Finally, a special note of thanks is extended to the Gabler-Verlag for publishing the manuscripts and thus providing us with the chance to gain the cooperation of other colleagues in the field of Organizational - particularly Business - Politics.

The Editors

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What do we really Mean by Power and Politics?

A Review of the Literature

By Cynthia Hardy

Introduction

The definition of power and politics has long been the subject of debate of philosophers, sociologists, political scientists as well as management theorists. This paper reviews the study of power and politics in the management literature. It is argued that, in general, the North American approach has produced a narrow view of these phenomena which has, in turn, circumscribed our research and, hence, our understanding of the way in which they shape organizational life. This paper examines the shortcomings of this approach and suggests the direction that future research might take to avoid these problems.

The remainder of this paper is structured as follows. A general introduction to the study of power and politics in the world of business is provided. It is followed by a discussion of some key definitional problems inherent in much of the North American research. It is suggested that these problems are linked to the discomfort associated with the study of power and politics, as researchers engage in definitional contortions in attempts to avoid confronting the political aspects of management. The result has been narrow, rigid definitions, inappropriate research methods, and the restriction of scholarly debate. Following this critique of existing definitions, the paper summarizes what we do know about power and politics and proposes an alternative approach to the study of power and politics.

The Study of Power and Politics in Management

The recognition of the political dimensions of management and administration goes back to Niccolò Machiavelli and beyond. Machiavelli was, perhaps, the first de facto management consultant to point out the importance of political skills. In the context of more modern management theory, Martin & Sims pointed out the following.

Executives - whether in business, government, education or the church - have power and use it. They manoeuvre and manipulate in order to get a job done and, in many cases, to strengthen their own power position. Although they would hate the thought and deny the allegation, the fact is that they are politicians¹.

Early work in management appeared intermittently in both North America and Europe². The field of public administration built up a coherent body of literature on, first, the limitations of rational decision making and, second, the role of politics in budget processes during the fifties and sixties³. Political scientists, as one might expect, were also focussing on the role of politics in decision making⁴.

British management literature started to examine these concepts during the early seventies⁵. North America followed a similar trend slightly later⁶.

Despite the increasing recognition of the role of power, many writers have continued to experience difficulty in coming to terms with the role of political behaviour in business organizations⁷. Martin & Sims pointed to the "instinctive revulsion" of Americans against the term power in 1956. They argued that, while the prevalence of politics had been acknowledged, most managers and academics preferred not to talk about it because it implicitly challenged the legitimacy of management. Little has changed in this respect during the last thirty years. Management theorists and organizational analysts may have paid more attention to the role of power and politics over the years, but they continue to experience considerable ambivalence about it, as Mintzberg has so neatly articulated.

"In the Apocalypse, the number 6 would have a clearly pejorative meaning; it would be the number of sin. It is also the number of Nero, the sixth emperor. One

¹ Martin & Sims (1956: p. 25)

² e.g. Burns (1961), Cyert & March (1963), Crozier (1964), French & Raven (1968), Wrapp (1967)

³ e.g. Simon (1955), Meyerson & Bamfield (1955), Wildavsky (1961, 1964, 1966), Braybrooke & Lindblom (1963), Gore & Dyson (1964), Lindblom (1965, 1968), Dror (1967)

⁴ e.g. Lipset (1959), Leoni (1964), Easton (1965), Allison (1971)

⁵ Hickson et al. (1971), Pettigrew (1973), Mumford & Pettigrew (1975), Greenwood et al. (1976), Martin (1977)

⁶ e.g. Pfeffer & Salancik (1974), Salancik & Pfeffer (1974), Kotter (1977, 1978), Mayes & Allen (1977), Tushman (1977), Nord (1978), Allen et al. (1979), Bacharach & Lawler (1980), Madison et al. (1980), Pfeffer (1981), Farrell & Petersen (1982), Schilit & Locke (1982), Mintzberg (1983)

⁷ Kotter (1977)

could say here that things ended up badly..." How fitting then, is six configurations for a book on power⁸.

The following section examines how this ambivalence has influenced our definitions of these concepts.

⁸ Dictionnaire des Symboles quoted in Mintzberg (1983: p. 307)

Definitions of Power and Politics

This section presents a number of definitional contortions that have occurred as writers have studied power and politics in the business setting. It reviews the idea of "ethical" politics; the concept of illegitimate power; the linking of power and resistance; and the advocacy of circumscribed definitions.

Ethical Politics

Many discussions of the use of power by managers have been peppered with moral lectures on the need for controlling political behaviour. Many of these writers also emphasize that managers typically use power only for altruistic reasons, and not to benefit themselves. Managers are, apparently, "willing to sacrifice some of their own self interest for the welfare of the organization they serve. For example, they are willing to make contributions to charity"⁹. The result has been somewhat idealized views, in which the managerial use of power is only ever directed towards the common good.

Effective managers engage in power-oriented behaviour in ways that are tempered by maturity and self control. They seldom, if ever, develop and use power in impulsive ways or for their own aggrandisement¹⁰.

Some writers have gone further - and attempted to infuse political behaviour with an ethical dimension. The resulting discussions of the ethical use of power have produced such sanitized models that the essence of politics - the idea that power might be used for self interest - has been totally removed¹¹. Political acts are analyzed to see whether they respect organizational utility, individual rights and social justice. The result, however, is that political behaviour reads like a course in managerial ethics or a human relations manual - for example, get to know your colleagues; build shared interest; respect different interest; share information; minimize status concerns; get to know how people react¹². This is not to criticize these recommendations *per se*: they may well enable organizational performance. They do not, however, bear much resemblance to what we know as political behaviour and, so, do little to advance our understanding of that particular concept.

These views also lead to confusion between description and prescription. It is not clear whether the use of power *is* modified by a sense of obligation or whether it *should* be and, if the latter, whether it should be tempered in order to improve individual success, enhance organizational success, or protect the moral sensibilities of the researcher.

⁹ McClelland & Burnham (1976: pp. 105 - 106)

¹⁰ Kotter (1977: p. 136)

¹¹ c.g. Velasquez et al. (1983), Cavanagh et al. (1981)

¹² Benfari et al. (1986)

The Illegitimacy of Power and Politics

The above approach infuses the concepts of power and politics with ethical considerations, in an apparent attempt to make them more acceptable. In other words, power and politics are viewed (some might argue, somewhat naively) as typically being put to good use by managers. A second response has taken the opposite tack: to banish the concepts of power and, particularly, politics to a dark corner, by emphasizing their aberrant nature. Consequently, a number of writers have defined politics in terms of the unsanctioned/illegitimate use of power to achieve unsanctioned/illegitimate ends¹³. They argue that the concept of politics should be confined to a "subjective state in which organizational members perceive themselves or others as intentionally seeking self ends in an organizational context when such ends are opposed to those of others"¹⁴. While such authors claim their work is nonevaluative there is, clearly, an implicit assumption that politics is dysfunctional and should therefore be prevented¹⁵.

This approach begs the question: in whose eyes is the use of power deemed illegitimate, unsanctioned, or dysfunctional? What one person considers illegitimate, another person may sanction. What penalizes one person, may benefit another. Legitimacy is usually defined in terms of the "organization". Mayes & Allen (1977), for example, talk of nonpolitical behaviour, which is organizationally sanctioned and functional, and organizationally dysfunctional political behaviour, where the ends and means are not organizationally sanctioned. To confine political behaviour to illegitimate means and goals, while defining legitimacy in organizational terms has one very important ramification. It excludes the creation of legitimacy excluded from a political analysis. Yet as Astley & Sachdeva (1984) have pointed out, legitimacy is an important source of power and, to understand political processes, we need to include it in our analyses¹⁶.

Politics concerns the creation of legitimacy for certain ideas, values and demands - not just action performed as a result of previously acquired legitimacy. The management of meaning refers to a process of symbol construction and value use designed both to create legitimacy for one's own demands and to "delegitimize" the demands of others¹⁷.

To ignore processes of legitimation is to focus attention on the *status quo*, and to exclude one of the most important ways in which organizational elites maintain their dominance. In fact, the concepts of power and politics were originally used by many writers to highlight the fact that individuals - and not organizations - have goals¹⁸. By defining legitimacy in organizational terms, the fact that the "organization" represents an

¹³ e.g. Mayes & Allen (1977), Gandz & Murray (1980), Murray & Gandz (1980), Farrell & Petersen (1982), Mintzberg (1983), Vredenburg & Maurer (1984), Enz (1988)

¹⁴ Gandz & Murray (1980: p. 248)

¹⁵ Klein (1988)

¹⁶ Bendix (1956), Lipset (1963)

¹⁷ Pettigrew (1977: p. 85)

¹⁸ e.g. Silverman (1970), Martin (1977)

existing distribution of power that benefits some individuals, at the expense of others, and that powerful groups use the power embedded in organizational structures to further their own ends is ignored¹⁹. So, somewhat ironically, having acknowledged the existence of differing goals, interests and players, this approach immediately focusses attention back on a reified organization.

A second problem relates to the uneasy dichotomy between power and politics. "Political" behaviour is seen as a fixed sum and somehow dysfunctional game by these writers; while the use of "power" is acceptable and, by implication, functional. This work implies that it is possible to distinguish between political and nonpolitical power²⁰; between "normal everyday politics and extreme political behaviour"²¹; between dirty and clean politics; between "conflictful manoeuvring" and "blatantly self advancing/protecting actions"²². While labelling these different behaviours, the literature says little about how each might be recognized and is far from clear about what each involves, much less the link between them. For example, Mintzberg (1983) argues that politics is typically viewed as the use of power by individuals to "circumvent, resist, or even disrupt the other (legitimate) systems of influence in order to accomplish ends they personally believe to be important"²³. Political skill - "the ability to use the bases of power effectively"²⁴ - is related to a "set of intrinsic leadership characteristics (including) charisma"²⁵. So according to this view, it would seem that politics is bad, but political skills are good!

In summary, this approach to the study of power and politics defines politics as inherently evil, while admitting that power can sometimes be good. In so doing, however, a number of problems are ignored. This approach rules out many of the ways in which powerful actors use legitimacy for their own purposes. It implicitly supports the *status quo* embedded in existing, legitimated power distributions, and fails to question how they got there in the first place. While it acknowledges that power can be put to uses that are not purely dysfunctional or self-aggrandizing, it has difficulty in differentiating between the political and nonpolitical use of power and has done little to explore the latter.

¹⁹ see Perrow (1979), Ranson et al. (1980)

²⁰ Mayes & Allen (1977), Cavenagh et al. (1981)

²¹ Farrell & Petersen (1982: p. 406)

²² Murray & Gandz (1980: p. 16)

²³ Mintzberg (1983: p. 118)

²⁴ Mintzberg (1983: p. 26)

²⁵ Mintzberg (1983: p. 26)

Power and Resistance

Another common theme in the North American literature is the restriction of the use of power and political behaviour to situations in which resistance or conflict exists²⁶. It has developed from one of the most frequently quoted definitions of power as the ability of A to make B do something B would not otherwise do. From this definition came the focus on power as the ability to change behaviour and following Weber's definition, the ability of an actor to carry out his will despite resistance²⁷.

Dahl (1961) was part of a school of thought that has been called the pluralists²⁸. It assumed that individuals are aware of their grievances and acted upon them by participating in the decision making arena, which was considered to be open to anyone with an interest in it. Nonparticipation was, then, considered to reflect satisfaction with the system. Radical writers started to question these assumptions in the light of the civil rights movement, urban riots and backlash to Vietnam, which cast doubt on the "permeability" of the American political system²⁹. The concept of nondecision making was subsequently developed by Bachrach and Baratz (1962), who pointed out that powerful actors are able to exclude threatening issues and individuals from the decision making process³⁰. They continued to assume, however, that such strategies were employed by dominant groups only in the face of overt conflict³¹.

A number of European writers started to question this assumption. Lukes introduced a third dimension of power, which prevented conflict:

by shaping perceptions, cognitions, and preferences in such a way that they accept their role in the existing order of things, either because they can see or imagine no alternative to it, or because they view it as natural and unchangeable, or because they value it as divinely ordained and beneficial³².

Drawing on the work of Gramsci³³ and Habermas³⁴ on hegemony, and the Marxist concept of false consciousness, a number of writers developed the idea that dominant groups could use their power to change attitudes and perceptions, thereby preventing resistance and conflict from occurring, obscuring the visibility of power³⁵, and "engineering" or "manufacturing" consent³⁶. As C. W. Mills noted "among the means of

²⁶ e.g. Pfeffer & Salancik (1974), Tushman (1977), Nord (1978), Velasquez et al. (1983), Murray & Gandz (1980), Pfeffer (1981), Welsh & Slusher (1986)

²⁷ see Dahl (1961, 1986)

²⁸ see Lukes (1974), Hardy (1986)

²⁹ see Parry & Morriss (1975)

³⁰ also see Crensen (1971), Plott & Levine (1978)

³¹ see Ranson et al. (1980), Hardy (1985a,b, 1986)

³² Lukes (1974: p. 24)

³³ see Boggs (1976)

³⁴ Wilby (1979)

³⁵ Fox (1973)

³⁶ Miliband (1969), Burawoy (1979)

power that now prevail is the power to manage and manipulate the consent of men"³⁷. This use of power is inherently safer because, rather than risk defeat in open conflict, spheres of influence are sectioned off where dominant groups are unchallenged³⁸.

Researchers began to realize that they could not confine themselves to the study of power sources mobilized in the event of conflict. They also had to consider the question of inactivity and quiescence. In other words, the possibility that the absence of conflict was the result of the exercise of power, rather than satisfaction, had to be examined.

Power should not be defined in terms of conflict... as if power only exists, or is only exercised, when resistance has to be overcome³⁹.

As Hyman & Fryer (1975) point out, conflict will occur if groups possess the objective, structured sources of power (the ability to resist) *and* the subjective will be resist. Strategies can be employed to reduce or remove the latter⁴⁰. A series of studies has been built up around this use of power⁴¹.

This recognition that power could be used to prevent resistance does present some empirical problems. Clearly, if conflict does not exist, the use of power is covert and, if subordinate individuals are unable to articulate their true interests, how does one know that power is at work. Lukes argued that real interests could, in fact, be measured and, therefore, any actions that did not serve these real interests could be considered the result of the use of power. Despite extensive discussion around this issue, no satisfactory and objective way of measuring real interests has been established⁴². Other researchers argued, however, that it was possible to study this use of power without resorting to the measurement of real interests. By taking a clearly unequal situation, in which resistance might be expected by subordinate groups but was absent, qualitative research could trace its absence to actions on the part of dominant groups. If strategies could be seen to have had an influence on quiescence then power had been at work; if no such strategies could be identified, one would have to assume that the absence of conflict was a reflection of satisfaction⁴³.

Many North American writers have been reluctant to develop the idea that power can be used to prevent resistance. A good example is the work of Pfeffer (1981). He defines power and politics (the use of power) in terms of resistance. Without opposition or contest "there is neither the need nor the expectation that one would observe political

³⁷ Mills (1970: p. 50)

³⁸ Ranson et al. (1980)

³⁹ Giddens (1979: p. 94)

⁴⁰ Hardy (1985c), also see Fox (1973), Westergaard & Resler (1976), Hyman & Brough (1975), Giddens (1979), Clegg (1975), Benson (1977), Clegg & Dunkerley (1977), Martin (1977), Ranson et al. (1980), Brown (1982)

⁴¹ Dearlove (1971), Saunders (1980), Gaventa (1980), Hunter (1980), Hardy (1985a)

⁴² see e.g. Lukes (1974), Martin (1977), Young (1978), Saunders (1980), Benton (1981), Hindess (1982), Knights & Willmot (1982), Rosen (1984), Clegg (1989)

⁴³ see Gaventa (1980), Hardy (1985a,b)

activity"⁴⁴. Pfeffer then goes on to distinguish between substantive and sentiment outcomes of power. The former refer to physical outcomes determined by resource dependencies; the latter refer to the way people feel about these outcomes as a result of the use of political language, symbols, rituals, myths etc. Pfeffer, at first, insists that the symbolic aspect of power is used only to legitimize outcomes previously determined by resource interdependencies.

Language and the ability to use political symbols contribute only marginally to the development of the power of the various organizational participants⁴⁵.

He argues they are used only to quiet opposition. But, if symbolic power can be used to reduce opposition, why can it not be used to prevent it altogether, and enable actors to achieve their desired outcomes in the absence of conflict? And, if such is the case, do not these strategies represent the use of power despite (in fact, because of) the absence of conflict? Pfeffer himself seems drawn towards this conclusion.

The point is that political and symbolic language can have real consequences. Actors respond on the basis of perceptions and sentiments even when these perceptions and sentiments have been produced through evocative symbolic language... Symbolic language may serve to mollify groups that are dissatisfied with the organization, thereby ensuring their continued support of the organization and diminishing opposition and conflict⁴⁶.

Perhaps if Pfeffer had not confined his definition of power and politics to action taken only in the face of opposition, he might have acknowledged more fully how symbolic mechanisms can be used to prevent the threat of resistance from occurring in the first place.

This tendency to define power and politics in terms of resistance reflects another example of how narrow conceptions ultimately restrict our research and understanding. If power and politics are used only in the event of conflict, attempts to prevent conflict are automatically excluded from analysis. Yet, it has been pointed out that one of the most effective ways of promoting one's interests is to section off spheres of influence where actions and decisions are unchallenged⁴⁷. The ability to do so is often limited to more powerful actors and, so, this approach preempts the study of the ways in which dominant groups maintain their position by preventing opposition and conflict from occurring.

⁴⁴ Pfeffer (1981: p. 7)

⁴⁵ Pfeffer (1981: p. 184)

⁴⁶ Pfeffer (1981: p. 206)

⁴⁷ Ranson et al. (1980)

Constraining Debate

It would appear that researchers have experienced considerable discomfort in dealing with the political aspects of management; presumably because the legitimacy of the management process and business ethic on which North America is founded is called into question if managers are forced to resort to the use of power and politics. The result has been circumscribed definitions of these concepts that concentrate on their more socially acceptable elements. By arguing that power and politics are used only in the event of conflict, there is a sense of a fair fight between relatively balanced protagonists. The idea that management might use power behind the scenes to further its position by shaping values, using technology, information and the like is conveniently excluded. The exclusion of legitimation processes, removes the idea that organizations themselves can be created, structured and used for political ends.

Nor do we measure the more powerful and subtle forms of control found in premise setting. We are content to speak of socialization, or culture, or community norms, thus making it both sanitary and independent of the organization. But we could just as well label premise setting as indoctrination, brainwashing, manipulation or false consciousness⁴⁸.

These narrow definitions have often stifled debate⁴⁹. But debate is necessary if the layers of power are to be peeled back and its constituent parts revealed⁵⁰. As definitions have been circumscribed so, too, has our understanding. By restricting debate we are restricting our learning, precluding a more critical look at these phenomena, and obscuring the political biases of our own research⁵¹. Promoting definitions based on the reified organization; ignoring the process of legitimation; associating power with overt conflict and excluding the management of meaning directly or indirectly paint an ideologically conservative picture which advocates the existence of the *status quo* and focusses attention away from many of the ways in which elites maintain their position of dominance⁵².

⁴⁸ Perrow (1979: p. 152)

⁴⁹ Astley & Sachdeva (1984)

⁵⁰ Crozier (1973)

⁵¹ Martin & Sims (1956), Fox (1973), Watson (1982), Marsden (1982), Mulkey & Gilbert (1982), Daudi (1983), Astley (1985)

⁵² Zey-Ferrell (1982), Alvesson (1984), Deetz (1985)

What Do we Know about Power and Politics?

There is, then, considerable confusion about the terms power and politics and each has been defined in a number of different and contradictory ways. This section attempts to clarify the definitions of these concepts and present a broader understanding.

The Nature of Power

There is, for the most part, agreement in the literature around the concept of power. Power is considered to be a static resource. If it is to be successful in influencing outcomes, it must be effectively mobilized⁵³. Allusions are often made to power being a currency which, in order for it to buy anything, it must be carefully spent⁵⁴. Power is thus *potential* capacity to influence outcomes. It is also a relational phenomenon, rather than a possession or attribute of a particular individual.

Power is conferred through dependency⁵⁵. There is general agreement on the sources or bases of power, which revolve around expertise, information, the ability to control uncertainty, credibility, political access, position, control over rewards and sanctions⁵⁶. Dependency tends to be increased in situations of scarcity, where actors have to compete for resources.

Astley & Sachdeva (1984) have argued that dependency is not the only basis of power, the resource must be central to or valued by the organization, if actors are to compete for it. These authors also point out that the power of authority is grounded in legitimacy rather than dependency, and differentiate three types of power resource that have been identified in the literature: interdependency; centrality; and legitimacy.

The Use of Power

Disagreement starts to arise around the *use* of power. For some writers, any use of power is political⁵⁷. For others, politics represents a particular way in which power is used: often unsanctioned or illegitimate⁵⁸. As has been argued, such definitions involve difficulties in determining who or what sanctions the behaviour. They also give rise to other problems. They produce some unwieldy terminology which is difficult to

⁵³ Pettigrew (1973)

⁵⁴ Deutsch (1968)

⁵⁵ Emerson (1962), Kotter (1977, 1978)

⁵⁶ Mechanic (1962), Crozier (1964), Kahn & Boulding (1964), French & Raven (1968), Hickson et al. (1971), Pettigrew (1973), Martin (1977), Madison et al. (1980), Pfeffer (1981), Mintzberg (1983), Goh (1985), Benfart et al. (1986), Cohen & Lachman (1988), Enz (1988)

⁵⁷ e.g. Martin & Sims (1956), Hickson et al. (1986)

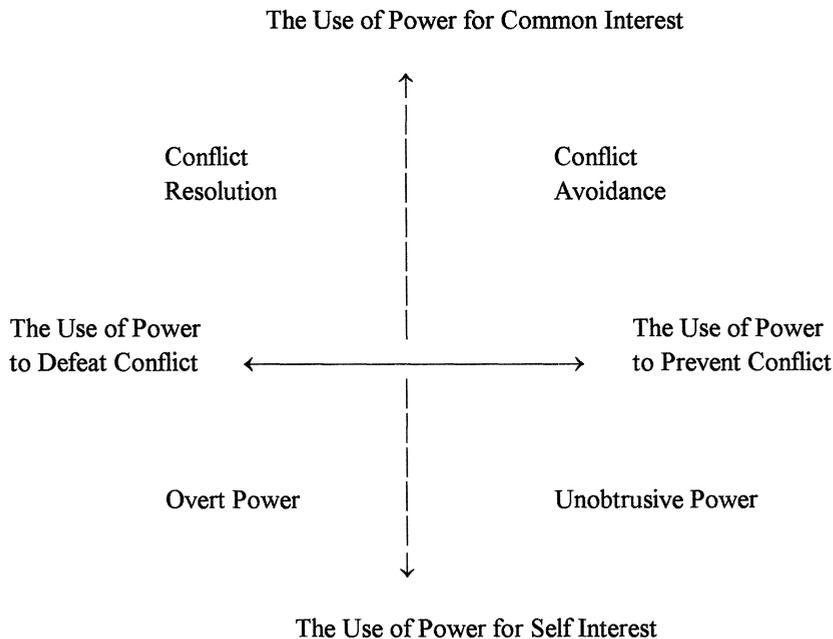
⁵⁸ Mayes & Allen (1977), Gandz & Murray (1980), Murray & Gandz (1980), Farrell & Petersen (1982), Mintzberg (1983), Vredenburg & Maurer (1984), Enz (1988)

operationalize. The term political, as opposed to nonpolitical is evaluative and, yet, because of the way in which the terms have been used, many managerial uses of power would be described as nonpolitical. Finally, while the existence of the nonpolitical use of power is acknowledged, researchers rarely explore it⁵⁹.

Finally! Defining Power and Politics

In view of these arguments, this paper defines power in general terms - as the ability to affect outcomes. It represents a potential capacity which must be mobilized to have any effect. Politics is defined as the use of power. Thus, power is a currency and politics represents the method of spending it. As with money, it can be used to further individual interests, or for the common good. Power can may be used both in the event of conflict and to prevent it (see diagram 1).

Diagram



Power can be used to prevent as well as defeat resistance. The latter has been termed unobtrusive⁶⁰. Actors in this situation recognize the potential for conflict and resort to the management of meaning and the creation of legitimacy in order to avoid it.

⁵⁹ with some exceptions such as Mintzberg (1983)

⁶⁰ Hardy (1985a,b)

Cooperation is engineered by influencing the attitudes of potential opponents which, in turn, brings about the desired behaviour; rather than using overt power⁶¹ directly on behaviour in order to enforce cooperation. We might consider these two situations as end points of a continuum: political actors may employ to power in a directly confrontational way; in a way that is intended to avoid all elements of conflict; or they may use it to reduce but not necessarily eliminate resistance.

If power can be used for self interest, there is no reason to suggest that it cannot be used to benefit the larger group⁶². The fact that politics can be beneficial has been noted. Writers have, for example, pointed to the necessity of politics for innovation⁶³. This view of power relates to the Parsonian view: of power to achieve system goals and involves "power to" rather than "power over"⁶⁴. Managers may have to resort to the use of power to bring about changes that are attended to benefit the organization.

Writers have, however, been reluctant to conceptualize these types of conflict resolution and avoidance strategies in political terms.

Political decision making in the literature usually refers to competitive strategies rather than mediation strategies aimed toward establishing mutual agreement or cooperative/collaborative strategies⁶⁵.

The problem is that we have divided behaviour - and the literature - into "strategies of conflict" and "the management of conflict"⁶⁶. The former tends to be exclusively political in that it assumes individuals act in accordance with self interest, at odds with organizational or managerial goals, to overcome manifest opposition. The latter is inherently functional since it assumes that cooperation is genuine and owes nothing to the use of power. In reality, however, they are two sides of the same coin. Divergent goals are not only motivated by vested interest: they may also be the result of sincere, but different, conceptions of what will best benefit the larger organization. If such differences exist, actors will have to resort to the use of power and rely on political skills in order to reconcile them, resolve conflict and create consensus. Moreover, many situations will produce *both* organizational and individual benefits and, so, self and common interest can be conceived of as opposite ends of a continuum.

⁶¹ Hardy (1985a,b)

⁶² see Hardy et al. (1983)

⁶³ Frost & Egri (1988), Pearce & Page (1988)

⁶⁴ Knights & Willmot (1982)

⁶⁵ Childers (1981: p. 43)

⁶⁶ Gamson (1968)

Conclusions: The Research Challenge

This final section examines some of the challenges researchers face if they are to adopt the definitions that have been proposed and avoid the problems discussed earlier.

Limitations in the Study of Power

Research has to accept the limitations inherent in the study of power. The definition of power and politics advocated here will require research that is able to uncover the nuances of power relations and focus on understanding, rather than measurement. While there is, undoubtedly, much more we can learn about power, it is not necessarily going to result in nice, neat, generalizable, and testable theories. Power is inherently a primitive term⁶⁷, which means it can help us reveal complexity, integrate ideas, and lead to more refined concepts, but it cannot operate at a high level of specificity. It is an "essentially contested" term⁶⁸ and "contextual in character". It is not an isolated temporary phenomenon abstracted from the "flow of life"⁶⁹. Findings will, therefore, be context specific⁷⁰ and generalization difficult. As a result, theoretical development will be limited.

At the level of practices, there is a directionality produced from petty calculation, clashes of wills, meshing of minor interests. These are shaped and given a direction by the political technologies of power. This directionality has nothing inherent about it and hence cannot be deduced. It is not a suitable object for a theory. It can, however, be analyzed⁷¹.

The problem is that, instead of accepting these limitations, much of the literature continues to fight them, thereby reducing the value of our research efforts.

Extant work on power usually attempts to impose on the concept a level of precision beyond that appropriate for a primitive term. Thus, we must ask not what *is* power but to what phenomena does the notion of power sensitize us⁷².

The aim, then, should be to move less towards a theory than "toward a definition of a specific domain" formed by power relations and toward a determination of the instruments that will make possible its analysis⁷³.

⁶⁷ Bacharach & Lawler (1980)

⁶⁸ Lukes (1974), Astley & Sachdeva (1984)

⁶⁹ Barber (1966: p. 47)

⁷⁰ Astley & Sachdeva (1984)

⁷¹ Foucault, quoted in Dreyfus & Rabinow (1982: p. 188)

⁷² Bacharach & Lawler (1980: p. 14)

⁷³ Dreyfus & Rabinow (1982: p. 185)

Broad Definitions of Power and Politics

If we are to increase our understanding of the way in which organizations work, we must acknowledge that power works in a variety of different ways. Limiting definitions of power and politics to small subsets of these social relationships does a disservice since it implies that the other uses and forms do not exist. So, there is a need for broader definitions, not narrower ones. At the same time, however, it is perfectly acceptable for research to focus on a particular subset.

No single research project can span the entire range of possible definitions of power. The only way out of the confusion is to investigate those aspects considered to be significant in a particular research setting⁷⁴.

Recognizing the breadth of power and politics and researching a relevant part of it is a very different matter to narrowly defining it to exclude certain actions and relationships. First, focussing a research project does not deny that other uses of power exist; whereas to focus the definition of the concepts often denies their existence outside that definition. Second, by being aware of diversity, the researcher is sensitive to which aspect is most appropriate to the study in question, and can pursue it accordingly: researchers unfamiliar with this diversity run the risk of misunderstanding organizational dynamics and forcing inappropriate frameworks on the data.

This paper has critiqued the narrow approach to the study of power and politics and offered alternative definitions which, it is felt, are an improvement. First, unlike definitions that focus on unsanctioned/illegitimate behaviour, they do not rule out the idea that legitimacy can be manipulated. Second, they avoid evaluative assumptions being attributed to one term or the other (unlike, for example, political vs nonpolitical uses of power). This, in turn, helps to prevent an artificial fragmentation of the concepts by: focussing attention on *both* uses of power/types of political behaviour; reflecting the fact that, in reality, the same behaviour may be used for both ends⁷⁵; and acknowledging that the same political action may have both individual and organizational benefits. Third, they attend to the fact that power can be used in different ways and, in particular, for the common interest. Leaders need to mobilize power to transform a neutral body into committed participants⁷⁶. To do so, they may engage in similar behaviour as the consummate, self-serving politician. Thus, effective leaders do have "political" skills.

The similarities between the influence processes of leadership and politics may be greater than their differences, particularly when viewed by higher level members of management. Lower-level supervisors may discriminate between personal objectives and the organizational interests that concern their leaders. Higher level

⁷⁴ Barber (1966: p. 74)

⁷⁵ see Hardy et al. (1983)

⁷⁶ Selznick (1957)

management may feel what is good for them is good for the organization and *vice versa*, blurring the distinction between politician and leader⁷⁷.

Finally, the paper argues for tolerance - tolerance of the idea that management is a political process; tolerance of the limitations that plague this field of research and which prevent the development of measurable hypotheses and testable theories; and tolerance of the broad definitions of these concepts that are so necessary if we are to further our understanding of how they work.

⁷⁷ Allen et al. (1979: p. 82)

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A Systems View of Organizational Politics

By Anthony T. Cobb

Abstract

A political subsystem of organizations is articulated. Specification of the political subsystem includes discussion of three principal subjects. The first is the theoretical context of the subsystem: the negotiated order. The second is the role of the political subsystem and the organizational areas addressed by it. The third subject is the components and configuration of the subsystem. It is argued that the study of organizational politics in the theoretical context of a political subsystem can reconcile past theoretical differences and provide coherence to future work.

A Systems View of Organizational Politics

The role played by organizational politics in organizational theory has varied a great deal since the turn of the century. It varies a great deal even now. On one extreme, the "classical ideal", organizational politics are an anathema to the organization. It is an aberrant condition that emerges periodically due to selfish personal interests and poor management. Given proper organizational design and managerial action, this political aberration can and should be "done away with".

A "mid-range view" is that organizational politics is a "fact of organizational life"¹. This view sees organizational politics as a kind of emergent "substratum" of organizations that broadly influences organizational function. Distinct from "legitimate" (i.e. "proper" or "rational") organizational phenomena, organizational politics emerge most often to cause conflict because of the competition of actors pursuing their own narrow self serving ends without regard to others or the organization as a whole.

At the other extreme, the organization is viewed as a political entity in and of itself². This entity has been variously described as either a well ordered system³ or a kind of "teeming" marketplace of political exchange⁴.

The perspective taken here lies somewhere between the latter two views. A political subsystem is postulated to exist within organizations that is something more than a substratum of activity but something less than the organization in its entirety. It is proposed that such a perspective can help reconcile past theoretical differences found in the organizational literature. More importantly, the theoretical specification of a political subsystem can provide a foundation for the more coherent study of organizational politics in the future.

The purpose of this paper is to help articulate this subsystem. Toward this end we address three general topics. The first is to articulate and explain the theoretical context of the political subsystem: the negotiated order. The second topic focuses on the role of the political subsystem and the primary areas addressed by it: governance, the organization and distribution of resources, and goal specification. The third and final topic attends to the components that compose and configure the political subsystem: the political "actors" of the subsystem (including political collectives), relationships and linkages within and among them, and the political ideologies that both bind them together and set them into competition.

¹ March & Simon (1958), Mintzberg (1983), Pfeffer (1981), Porter, Allen & Angle (1981)

² e.g. Bacharach & Lawler (1980), Cyert & March (1963), March (1962)

³ e.g. Lawler & Bacharach (1983)

⁴ Georgiou (1973)

The Theoretical Context of the Political Subsystem:

The Negotiated Order

The idea that the organization can be viewed as a negotiated order is not new⁵. The negotiated order is a social system constructed and maintained by the exchange agreements of its "stakeholders". Stakeholders are those who have a vested interest in the exchanges and exchange relationships of the social system⁶. The concept of a negotiated order as a context for a political subsystem, however, requires some additional specification.

The Negotiated Order is Composed of a Range of Exchange Agreements

There is a range of exchange agreements which constitute any given negotiated order and, together, they span a continuum. At one end of this continuum lies what might be labeled the "classical ideal". Here the exchange relationships are stabilized by long term agreements, broadly accepted criteria and norms governing exchange and intraorganizational relations (which serve to legitimate the negotiated order) and, importantly, *generalized* exchange. Generalized exchange has four properties important here⁷. First, generalized exchange involves more than two parties. Often these parties are groups whose members share a common interest in the exchange. Second, the resources used and exchanged are owned or held in common and/or are useful only to the collective as a whole. An example would be the use of different factory facilities by many subunits to produce a product to market for their collective benefit. The third characteristic of these generalized exchanges is that there is both broad and strong agreement among parties as to how resources are to be exchanged and used. Finally, and as a corollary to the second property, the collective as a whole suffers loss if any one party is rendered ineffective or withdraws from the relationship. The extent of loss would largely be a function of the centrality, substitutability, and immediacy of the party's resource exchange to the collective as a whole⁸.

Because of the collective interest in these generalized exchanges, the collective as a whole erects and subjects themselves (in whole and in part) to a broad range of structural controls and operations that enforce and stabilize the exchanges. These bureaucratic responses are augmented by a broad range of interrelated normative/value beliefs that regulate interaction.

⁵ March (1962), Cyert & March (1963), Lawler & Bacharach (1983), Strauss (1978)

⁶ see e.g. Mintzberg (1983)

⁷ Ashfort (1989)

⁸ cf. Hickson, Hinings, Lee, Schneck & Pennings (1971)

At the other extreme of the negotiated order lies no order at all. At this extreme, no collective or dyadic interests have yet been defined. No common perspective of either the social or physical world has been articulated. No common preference ordering of objectives and no common values regulating the relationships of parties and exchange have emerged. This end of the continuum can be labeled the "nascent end" of the negotiated order. (Referring to the beginning of existence, the term "nascent" is used here to characterize this end of the negotiated order as one "ripe" for the creation of agreement and order. It is hoped that the reader will bear with this poetic indulgence.)

The Negotiated Order is Dynamic

The negotiated order is a dynamic one and it remains so for at least three reasons. First, the negotiated order itself is an imperfect one. From the perspective of each party to the exchange, the negotiated agreements never quite cover their full range of interests nor completely address the uncertainty or dissensus that gave rise to the agreements. Secondly, the internal dynamics of organizational change affect the parties to the negotiated order. These changes affect the parties' needs and desires as relevant to the exchange which then lead to pressures for renegotiation. Finally, external forces impact the negotiated order. As a consequence of environmental changes, some parties become more important to (and powerful in) the negotiated order. In addition, the resource exchanges themselves may also be called into question as to their effectiveness or relevance to the order. In either case, exchange agreements are called into question and the pressure builds for renegotiation.

The Negotiated Order is Stabilizing

Another consideration to keep in mind is that the negotiated order is also a stabilizing one. At any given point in time, various interests are served by the existing order, the more so the more generalized the negotiated order. Thus, members must take the existing order as given and as a starting point for their own political efforts. The more radical the political action and goals called for, the greater and more inclusive is the threat to the interests served by the existing order. Thus, more radical reforms are restrained by the collective efforts of those whose interests may suffer. This inherent political conservatism of the negotiated order serves to stabilize the agreements that go to make it up.

The Negotiated Orders of Formal Organizations are Nested

A final consideration of the negotiated orders of organizations is that they exist within the context of an even broader negotiated order - indeed many orders. From the order of the nation state to the various negotiated orders of its resource suppliers and its

product/service consumers, the negotiated order of the formal organization must articulate with the demands and agreements of others. While the perspective here is "internal", due consideration must be given to the relationship of the formal organization to the larger social exchange system within which it functions⁹.

Summary

The negotiated order encompasses all the exchange relationships of the organization: from the generalized exchanges of its subunits to the "backstage" dyadic exchanges between any two of its members. Because of the dynamics involved in the negotiated order there will always exist some measure of uncertainty or dissensus that provides the conditions for political action and renegotiation. The scope and domain affected by negotiations will largely determine the interests of others in them and the extent and vigor of their participation. It is within this negotiated order, then, that the political subsystem operates and to which it targets its efforts.

⁹ see e.g. Benson (1975), Mintzberg (1983), Pfeffer & Salancik (1978), Provan, Beyer & Kruytbosch (1980)

The Role of the Political Subsystem and the Areas It Addresses

The basic role of the political subsystem within the negotiated order is change. The political subsystem becomes manifest both to challenge the existing order and, at the same time, marshal support for it. In addition, the political subsystem is manifest in the creation of negotiated order where none exists.

The challenge, support, and/or creation of order typically manifests itself in three areas of the larger social system: its governance, the organization and distribution of its resources, and the specification of its goals. These areas of the social system articulate with one another in such a way that it is difficult to separate them. Nevertheless, it is useful to focus on each area separately. Discussion of each area will first address why it is important to the political subsystem. Second, how each area is manifest across the range of the negotiated order will be explored. Finally, some of the more recent work relating organizational politics to the area will be presented.

Governance

It would, no doubt, belabor the point to argue that politics are often concerned with issues of governance. Who rules what and under which conditions do they rule are issues that go to the heart of organizational politics¹⁰. Historically, political research within this area has been concerned with who has power, how it is attained, and the scope, domain, and weight of power in the social system.

Governance manifests itself very differently depending on where in the negotiated order it is expressed. Near the end of the "classical ideal", governance typically lies in the hands of a managerial elite. The fact that power is concentrated in their hands, however, does not mean they have no constraints. They are bound by a rather elaborate set of prescriptions that emerge from the same foundation as their own rule: the effective and efficient operation of the "rational" organization. Thus, rather large negotiated orders invest power in the hands of a relative few and proscribe their governance with a complex set of values and customs.

At the other extreme of the negotiated order there is no governance at all. Governance typically emerges here as a function of raw power - often coercion. Traditional gaming theoretic research on coalition formation provides a good example of how governance emerges on the "fringe" of the negotiated order. In these "nascent" orders, governance is a function of raw power and negotiating skill. Unless governance evolves beyond such

¹⁰ Scott (1988)

simple short term dyadic negotiated ends, however, a larger more stable negotiated order remains impossible.

Some more recent work provides very interesting examples of the linkage between governance and the political subsystem. Eisenhart and Bourgois' (1987) study, for example, focuses directly on the matter of "who rules" and how the political subsystem emerges to address this issue. They studied management teams of organizations operating in "high velocity" environments. They found very different manifestations of the political subsystem in teams where all power was sought and used by the CEO than in more pluralistic management teams. In teams with authoritarian leaders, the other managers engage in a broad array of political activities to get around and outmaneuver the predominant power holder. In more pluralistic teams, governance was based within the team as a whole. Here, activities were described as "apolitical" (i.e., not aimed at governance per se). Rather the managers went about their normal jobs of organizing and distributing resources to accomplish the purpose(s) of the organization. In addition to pointing out the primacy of governance to the political subsystem, this study also points to the possible "match" of appropriate governance given the environment of the organization. This notion, of course, has a long history of its own¹¹.

The relatively new and emerging literature on procedural justice provides a different perspective on the political concerns of governance. Procedural justice includes not only the traditional notion of due process in governance¹², but also how decisions are made with regard to a broad range of allocation decisions¹³. This literature shows that procedural justice (as well as distributive justice) is not only of immediate concern to system members but it affects both their satisfaction with the system and their opinion of its political leaders¹⁴.

Finally, Scott (1988) has shown that organizational politics are also used to hold the more powerful accountable for their actions. Scott argues that even the powerful are subject to the dynamics of the political subsystem unless they operate as the other members in the negotiated order wish them to operate.

The Organization and Distribution of Resources

Laswell (1958) defined the study of politics in terms of "who gets what, when, and how". Reflecting this orientation, a great deal of literature has emerged examining this topic from a variety of perspectives. Much of this literature reflects an orientation to the distribution characteristics typical of the more "nascent" end of the negotiated order. At

¹¹ cf. Burns & Stalker (1961)

¹² Scott (1988)

¹³ see Bierhoff, Cohen & Greenberg (1986), Lewicki, Shepard & Bazerman (1986), Lind & Tyler (1988) for current reviews of this literature

¹⁴ Tyler & Caine (1981)

that end of the negotiated order, one examines how resources can be "wrestled" from those who have them or used to control those who do not¹⁵. Studies oriented more to the "mid-range" of the negotiated order examine how various units within the social system command resources (or their distribution) given their position, characteristics, or activities¹⁶.

Toward the more "classical" end of the negotiated order the political subsystem operates in a more constrained way. It allows political action but limits its disruptive effects. The budgeting process, for example, is a cyclic event that provides opportunities for more "mid-range" politics¹⁷ yet remains constrained by the needs and stabilizing elements of generalized exchange. As another example, the uncertainty that often arises in organizational operations calls forth not only "mid-range" grabs for power and resources but also collaborative political processes to help maintain the broad agreements of the generalized exchange.

The emerging literature in social network analysis holds considerable promise in terms of understanding how the political subsystem configures the organization and distribution of resources. Representative of this promise is Brass' (1984) and Miller's (1986) work. Brass demonstrated the inter-relationships of power, strategic contingencies theory, and the generalized exchange in work flow networks. Miller used network analysis to study resource distribution as a function of race and gender and other factors (e.g. activism, external ties, expertise)¹⁸.

Goal Specification

The political subsystem also attends to how goals are specified and how they articulate or mesh with one another: from the broader purpose(s) of the organization down through the goals of subunits, to individual members¹⁹. The organizational literature which ties goals to political efforts tends to orient itself toward the more "nascent" end of the negotiated order. Here goals are inherent in, arise from, and address narrow and material self interest. Georgiou (1973), for example, casts the organization as a "marketplace" where individuals come to pursue their own goals through exchange. The gaming theoretic coalition literature also typifies this orientation. The narrow material self interests of players forge a temporary alliance between them so that they can achieve together what would elude them alone.

It does not take much reflection, however, to see that no negotiated order of any complexity and stability (and certainly no elaborated social system) can evolve from such

¹⁵ e.g. Cook & Emerson (1978), Emerson (1962), Pfeffer (1981)

¹⁶ e.g. Brass (1984), Hickson et al. (1971), Pfeffer & Salancik (1974)

¹⁷ Pfeffer & Salancik (1974)

¹⁸ see Alba (1982) and Lincoln (1982) for overviews of this research

¹⁹ e.g. Cyert & March (1963), March (1962), March & Simon (1958)

narrow objectives by themselves. More stable negotiated orders can arise only with goals and objectives that can give broad meaning and purpose to the system as a whole, provide some measure of coherence to lower order objectives, and command allegiance to them beyond simple, and immediate gratification.

While organizational theorists have wrestled with this issue for some time, Mintzberg (1983) provides a more recent typology of goals that help capture how the political subsystem constructs various negotiated orders around different mission types: ideologic, shared personal, and system missions. In the "ideologic" organization, members share a set of very strong convictions and beliefs about the purposes of the organization²⁰. In a very real sense, ideologic goals become the goals of the organization's members. While we tend to think of religious orders and the like as representative (if not exhaustive) of this set, ideologic goals have wider application. Practitioners have strong beliefs about how and for what purposes an organization *ought* to be run. "Institutional" managers²¹, for example, will self sacrifice for the sake of higher order organizational goals as opposed to narrow self aggrandizement. Operating within the political subsystem, such managers can marshal support for goals beyond their simple material interest.

In the "shared personal" organization, members have common personal goals that can best be obtained by working together within an organization. Mintzberg (1983) gives as examples research oriented universities or certain kinds of hospitals that attract professors and physicians who can pursue their goals in those organizations better than others or by acting alone.

Finally, in the "system" organization, organizational goals are not held as important to the members in any personal way. Rather, members accept organization goals because participation in the organization provides them with some more narrow (often material) resources that they desire²².

The political subsystem, can employ all these kind of goals to challenge and support the negotiated order or help create it. "Ideologic" goals, of course, can command broad allegiance to various organizational goals and to the means of achieving them. But even "system" goals can command broad allegiance. In a negotiated order of generalized exchange, the goals of other subunits must be supported if, for no other reason, than self survival. If those subunits suffer, all parties to the generalized exchange may also suffer. Thus, the political subsystem can employ even a system goal orientation to marshal support for a diverse set of goals because it taps a broad domain of members who see their own long run interests tied to that support.

The political subsystem attends to governance, the organization and distribution of resources, and goals specification because each area is inherently political. Because each

²⁰ cf. Etzioni's "Normative" organization (1961)

²¹ McClelland & Burnham (1976)

²² cf. Etzioni's "remunerative" organization (1961)

area articulates with the others so closely, political efforts in any one creates political issues in the others. The *way* in which they articulate with one another will help determine how effective the negotiated order as a whole deals with its environment²³.

²³ cf. Hickson et al. (1971), Pfeffer & Salancik (1977) and (1978), Salancik & Pfeffer (1977)

The Elements that Configure the Political Subsystem

The organizational literature has given some attention to those elements that could structure and configure a political subsystem. Of these, three seem most basic to the structure of a political subsystem: the various political actors that operate in the subsystem, their political relationships and linkages with one another, and the broader political ideologies that bind them together or set them into conflict.

The "Political Actors" of the Subsystem

The "political actor" is the basic unit of analysis when exploring the political subsystem. As used here, the term "political actor" refers to the roles played by individuals (and various collectives of them) as they work within, or as they are relevant to the workings of, the political subsystem. These "actors" span several levels of analysis and include individual political actors, coalitions, and interest groups.

The Individual Political Actor

The individual political actor is described in a dispositional sense by Cobb (1986). The dispositional characteristics of primary political interest include the actor's power base and his or her proclivities toward its use. An individual's power base consists of various sources of power²⁴, their "importance" to the system (in terms of its normal operations and the resolution of any important issues at hand) and the actor's skill in deploying those resources to effect his or her ends. A political actor's proclivities toward power use is tied to his or her "basic political style", basic values and needs, and his or her orientation to a particular issue.

The Coalition

Bacharach and Lawler²⁵ argue that the coalition is the central actor in political action. The concept of coalition itself, however, defies consensus as to its meaning²⁶. Cobb (1986) comes close to capturing a broad range of characteristics typically applied to the concept. He defines it as an emergent interest group whose members work together to influence the policies and actions of others.

²⁴ e.g. Harsanyi (1962), French & Raven (1959)

²⁵ Bacharach & Lawler (1980), Lawler & Bacharach (1983)

²⁶ Stevenson, Pearce & Porter (1985)

The power of a coalition is tied to a number of group level characteristics²⁷. These include the group's resource base, group processes that underlie and determine group action, and the group's structural characteristics such as their norms and interests (providing direction to political action), their command and control structure (providing internal coherence to action) and their stability (providing needed persistence in the face of adversity).

Interest Groups

Interest groups are defined by Bacharach and Lawler²⁸ as "groups of actors who are aware of the commonality of their goals and the commonality of their fate beyond simply their interdependence with regard to the conduct of work". Such interest groups "provide a potential pool of coalition members"²⁹.

Lawler and Bacharach (1983) argue that interest groups emerge as a result of structure (e.g., functional specialization) and stratification (e.g., along lines of race, age, gender). Thus, interest groups can be discerned according to the *kind* of interests they share in common. How fundamental or broadly shared those interests are must also be considered. Interest in the predictability and stability of receiving financial remuneration for one's work, for example, is more fundamental and more broadly shared in remunerative organizations than the interest of early retirement.

The kinds of interest groups one finds in an organization will depend on the kind of interests one chooses to examine. While some interest groups clearly differ from one another (e.g., production vs. R & D) others will overlap. Still other interest groups will rise to connect once different and distinct groups (e.g., interest groups whose interests are to keep a continuing flow of new products to market which may well include members of both production and R & D).

While such overlapping interests provide obvious empirical difficulties, they are basic to an integrated negotiated order. Overlapping interests "knit" members together in a broad weave of interests. This, in turn, helps maintain integrated alliances and produces structural elements for stability to the negotiated order.

Individuals, coalitions, and interest groups are tied to one another in the political subsystem by a complex set of associations and exchange linkages. These relationships are the second basic element of the political subsystem.

²⁷ e.g. Cobb (1986)

²⁸ Bacharach & Lawler (1980: p. 8)

²⁹ Stevenson et al. (1985)

Relationships

The term "relationships" as used here refers to the informal associations and exchanges that link political actors to one another. Friendship and ethnic ties, some professional associations, and informal status relationships are examples of the associations that arise and help configure the political subsystem. The informal flow and exchange of information, political support, favors, and other such "goods and services" illustrate the kinds of exchanges that serve to structure the political subsystem.

These and more formal relationships have been the object of an emerging literature using social network analysis as its basic theoretical and methodological approach to the study of social systems³⁰.

The most basic political relationship is the dyad made up of two individual political actors with a single exchange between them. From this basic building block, social network analysis has shown that very complex, stable, and elaborated social systems can be built. One common component within larger networks are "clusters" or "cliques". These are collectives of many individuals more tightly tied together than to others in the rest of the larger system. Most often their relationships are "multiplex", composed of many different kinds of associations and exchanges. These multiplex relations produce a stability that single exchange relations would not. While theoretical specification of coalitions remains a problem, it is generally believed that some subset of these cliques are, in fact, coalitions³¹.

Informal political relationships elaborate beyond clusters to construct entire networks of collective action³². The configuration of these informal networks is influenced by the broader structure of the negotiated order³³, but they can also "cross over" those structures in a "weave" of informal relationships that are distinct from them³⁴.

Beyond associations and exchange, broad collectives are held together or set into competition with one another because of basic political ideologies. It is to this third component of the political subsystem that we now turn.

³⁰ see Alba (1982), Brass (1984), Burt (1982), Knoke & Kulinski (1982), Laumann & Marsden (1979), Lincoln (1982), Lincoln & Miller (1979), Miller (1986), Rogers & Kincaid (1981) and Tichy & Fombrun (1979) for some excellent reviews of this literature and specific applications of social network analysis to organizational politics.

³¹ c.g. Bristor (1987)

³² Laumann & Pappi (1976)

³³ Brass (1984), Tichy & Fombrun (1979)

³⁴ c.g. Miller (1986)

Political Ideology

The concept of ideology itself has been the subject of recent debate in the organizational literature between more traditional ³⁵ and more contemporary views³⁶. Without getting enmeshed in this debate, the concept of political ideology as used here incorporates elements of both perspectives.

Political ideology is oriented to material interests and aimed at legitimizing the acquisition of those material interests. Political ideology resides within and is manifest of coherent sets of beliefs about cause-effect relationships that explain how resources are best organized and deployed to effect certain ends. Political ideology also incorporates value preferences about the ends to which resources are deployed. Finally, political ideology addresses beliefs and values about the system of governance which is best oriented to this means-end relationship.

As used here, political ideologies are manifest of the interests of larger social groups or collectives but can easily vary across them. These political ideologies can share components in common but often put the social groups into conflict.

Given this approach, how political ideologies help to configure the political subsystem can readily be seen. Organizations can be composed of groups with competing ideologies or a single dominant one shared by all. Where ideologies bring interest groups into conflict, coalitions arise to advance specific interests in the broader social system. At this point interest groups can polarize, sending the negotiated order toward the nascent end of the continuum, or develop broad alliances that balance political interests in a broad system of generalized exchange.

The broad configurations of the political subsystem are determined by the relationships among political actors and by their basic political ideologies. Together, these structural elements not only configure any particular subsystem but largely determine how the negotiated order with the internal interests of its members and external demands of its environment.

³⁵ Weiss & Miller (1987)

³⁶ Beyer (1981), Beyer, Dunbar & Meyers (1988)

Conclusion

The theoretical specification of a political subsystem offers a number of advantages over current approaches to the study of organizational politics. Chief among these is that it encourages a focus on understanding the political side of organizations as an integral part of their functioning - not as some "troublesome" substratum or all inclusive metaphor for the organization as a whole. In addition, this perspective can well encompass and reconcile many past theoretical differences found in the organizational literature and help provide a foundation for the more coherent study of organizational politics in the future.

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Temptations and Dilemmas in the Interpretive Perspective on Organizational Politics

By Victor V. Murray and Patricia Bradshaw-Camball

Introduction

In recent years it has become more and more widely accepted that, to properly understand any phenomenon in the field of organizational behaviour, it is beneficial to examine it from the point of view of more than one theoretical perspective. Each perspective is based on a different set of assumptions and has both strengths and weaknesses embedded in it - directing attention toward one definition and analysis of the phenomenon and away from others.

While there are various ways of categorizing and differentiating theoretical perspectives in the social sciences, one of the best accepted and most cited in the context of organizational analysis, is that first articulated by Burrell and Morgan (1979) and subsequently elaborated upon by Morgan (1986)¹. This paper begins with a brief examination of how the four major perspectives identified by Burrell and Morgan regard the phenomenon of organizational politics. It then concentrates on the application of one of the less used perspectives to a case study of the politics surrounding the development of the annual budget of a hospital during a period of moderate financial constraint in the health care system of which it was a part. The objectives are:

- (a) to identify the kind of conditions under which this perspective - the interpretive perspective - would be likely to be the most valuable; and
- (b) to explore some of the more subtle, less well understood, consequences for the actors in a political situation of the behaviour associated with this perspective.

¹ Somewhat similar approaches have been developed by Bolman and Deal (1984) and Alison (1971), among others

Organizational Politics from Multiple Perspectives

While there are multiple definitions of politics in organizations² virtually all agree that for politics to occur certain conditions must exist. There must be two or more parties (individuals, groups or a larger entity); some form of interdependence and interaction between the parties; and a perception on the part of at least one of the parties that divergent interests exist between them such that there is, or may potentially arise, conflict between the parties. Once these conditions exist the subsequent actions of the parties involved will be deemed "political". Given this understanding of the phenomenon, a truly comprehensive theory of politics in organizations must adequately address three critical concerns having to do with

- 1) Structure (Who are the parties involved and what are their interests? How much power from what power bases do they have?)
- 2) Process (How does each party use power?), and
- 3) Outcomes (Who gets what and what is the impact on relationships?)

Given this simplified description of what is involved in the phenomenon of organizational politics, how does each of Burrell and Morgan's broad theoretical perspectives deal with it? It will be recalled that these authors use two fundamental dimensions in social science to differentiate between theoretical perspectives. On the one hand is the distinction between positivistic and interpretive approaches.

Positivistic theories emphasize a deterministic view of behaviour. Behaviour is "caused" by discoverable conditions in a person's environment or own psyche. The aim of social science is to discover these conditions which, if done, will allow such behaviour to be explained and predicted.

Interpretive theories, on the other hand, take the position that behaviour is *not* deterministically caused; rather people may choose to subjectively create their own interpretation of their world and their place in it. Their actions are thus shaped by these choices with any situation being open to a multitude of interpretations. Not being caused by external events, people may change their behaviour at any time that their interpretation of the situation changes. The object of social "science", therefore, is to understand how people subjectively observe and experience their world.

The second dimension which creates a fundamental differentiation between theories of human behaviour is that of stability and control, on the one hand, versus radical change and conflict, on the other. Equilibrium theories suggest that people inherently prefer a

² e.g. Gandz & Murray (1980), Gray & Ariss (1985), Kakabadse & Parker (1984), Krell et al. (1986), Vredenburg & Maurer (1984), Mayes & Allen (1977)

situation in which there is stability and a society which possesses sufficient control to provide it. While there are always forces creating change, the tendency is ultimately to try to bring about renewed stability and retain it as long as possible. Conflict theories assume that any stability that may exist is ephemeral and ultimately due to the subjugation of various groups in society by other groups. The inequality in power and resources that this situation creates is inherently unstable and will eventually provoke a radical change in social structure as those who are exploited seek to overthrow their exploiters.

Putting the two basic dimensions of social science together gives rise to four major theoretical perspectives for Burrell and Morgan: deterministic equilibrium theories which they label "functional structuralism"; deterministic radical conflict theories which they call "radical structuralism"; interpretive equilibrium theories (called simply the interpretive school) and interpretive radical conflict theories (called "radical humanism"). Let us briefly consider how each of these four perspectives would view the phenomenon of politics within formal organizations.

First of all, from the point of view of the radical conflict/equilibrium distinction, both sets of radical conflict theories focus attention on the relationship between those who control organizations and the larger society of which they are a part. By and large, as Burrell and Morgan point out, organizations are viewed as instruments in the hands of those in positions of dominance in society. Insofar as these theories consider the inner workings of organizations at all, they are interested in how organizations focus and enhance the power whether through their control of concrete resources (the "means of production" in Marx's terms); or by means of their manipulation of language, symbols, myths, etc. if one is looking at them from the radical humanist version of the interpretive perspective. By and large, however, intra-organizational politics - the maneuvering of various individuals and small subgroups (below the level of the broad classes of society-wide exploited and exploiters) in their efforts to gain influence or advantage over others, are of only minimal interest to those who view the world from a radical conflict perspective.

From the point of view of the interpretive vs. deterministic distinction, there is ample interest in the more microscopic world of politics within organizations. Those on the deterministic side tend to view politics as the outcome of consciously realized conflicts among actors. They therefore look for "objective" determinants of the bases of conflict and predict outcomes on the basis of their analysis of objectively measured power.

Interpretive theorists, on the other hand, would take nothing for granted but, instead, begin by trying to understand how organizational members define their own identity and that of others; how they come to perceive issues as being potentially areas of difference; how they create roles to be played by other parties in the situation; how the actors come to *believe* that certain actions will have certain outcomes, etc.

Since the ultimate purpose of this particular paper is to examine and understand, not to critique, the political behaviour engaged in by the top management group of a single hospital in the course of developing, and obtaining approval of, the hospital's next year's budget, the two radical conflict theories will not be further elaborated here³.

³ see Bradshaw-Camball & Murray (1991)

A Comparison of Functionalist and Interpretive Perspectives on Politics

As noted by Burrell and Morgan (1979), the functionalist paradigm contains the vast bulk of the literature having to do with organizational behaviour. It thus contains many competing sub-schools within it. For the purpose of analyzing organizational politics, two of these theoretical groups stand out. The first is the pluralist sub-school which focusses on overt stakeholder behaviours such as coalition formation and bargaining⁴.

The second sub-school, the rationalist view, focusses on the legitimate authority of top management and the intended rationality of their decision making activities⁵. While admitting that perfect technical/economic rationality is usually not possible, it assumes that top management decision-making will be calculated to optimally achieve organization wide objectives within given constraints.

The Pluralist Perspective

Politics from the viewpoint of the pluralist sub-school focusses attention on identifying who the key players in the game (stakeholders) are, how much power they have and what bases of power they utilize? It is taken that the players in the game have no questions as to who "they" are and who is against them. A key issue from this perspective is understanding who has how much of what kinds of power⁶. It is assumed that sources of power such as control of critical resources and coping with uncertainty⁷ or avoidance of routinization and substitutability⁸ are consciously realized and recognized by stakeholders in the political games.

The pluralist perspective also addresses one aspect of the process dimension of politics in providing a rich description of certain overt political strategies utilized by the various stakeholders such as coalition formation and bargaining tactics⁹. Since these theories tend to assume that conflict is consciously recognized by both parties, other process activities are not considered such as how *anticipated* conflict may be prevented from arising by one party¹⁰.

⁴ e.g. Bacharach & Lawler (1980), Pfeffer (1981), Mintzberg (1983), Crozier (1964), Hickson et. al. (1971)

⁵ e.g. March & Simon (1958), Cyert & March (1963)

⁶ e.g. French & Raven (1968)

⁷ Hickson et. al. (1971)

⁸ Crozier (1964)

⁹ e.g. Bacharach & Lawler (1982), Allen et. al. (1979), Anthony & Herzlinger (1980), Pettigrew (1973), Wildavsky (1964), Pfeffer (1981)

¹⁰ Gaventa (1980)

While providing a potentially useful description of the more overt surface structure of organizational politics and a limited description of the process, the outcome dimension is also not well addressed from the pluralist perspective. The outcomes studied are limited to an analysis of who gains or loses power or resources¹¹.

The Rationalist Perspective

The rationalist view, on the other hand, simplifies and deemphasizes the structural dimension of politics by assuming that top management holds power based primarily on their legitimate and formal organizational authority and also to some extent on their expertise. Other bases of power are not seen as important. It is assumed that conflict and opposition from internal or external stakeholders to the single and uniform position of top management will be dealt with through routine decision-making structures and processes. It is also assumed that these conflicting coalitions will express their disagreement by means of arguments based on "new data", which will be rationally appraised by those in authority vis a vis goals and objectives.

Process issues are similarly not well developed from the rationalist view. Techniques for rational management, such as management by objectives or zero based budgeting are explored but outcomes are considered only in terms of control systems which will measure and evaluate the degree to which goals are achieved thus forming feedback which starts a new round of rationalistic decision-making. How outcomes affect relationships is not considered. This perspective with its rational bias leaves unanswered many questions about the dynamics of the political process, the sources of power and the outcomes of politics.

The Interpretive Perspective

The interpretive perspective in organizational politics suggests that the parties involved exert influence by constructing the meaning of what others experience. Power increases to the extent that the powerless, implicitly or explicitly surrender to the powerful the ability to define the nature of their experience¹², for example, by controlling others thought processes the powerful can achieve their ends without the powerless being aware¹³. Meaning, and hence the structure of politics, is defined through the use of language, information, metaphor, symbols, myths and humour¹⁴.

¹¹ Pfeffer & Salancik (1974), Salancik & Pfeffer (1974), Hills & Mahoney (1978), Pfeffer & Moore (1980), Hackman (1985)

¹² Smircich & Morgan (1982)

¹³ Gaventa (1980)

¹⁴ e.g. Meek (1988), Schein (1990), Deal & Kennedy (1982), Pettigrew (1979), Frost (1987), Dandridge et. al. (1980), Pondy (1978)

While the pluralist perspective deals primarily with the surface structure of power, the interpretive perspective tends to focus on a deeper structure. Frost (1987) differentiates organizational politics at the two levels: activities directed toward consciously recognized issues and outcomes in decision making are at the surface level, while the meanings and interpretations that flow from symbols and other expressive artifacts are embedded in the deep structure level.

This perspective is most commonly used to describe the process dimension of politics, drawing on the culture literature and describing the use of symbols, myths, metaphors, stories etc. Goffman's (1959) work on impression management is one of the first descriptions of the use of a dramaturgical perspective to increase the capacity of one individual to influence another. Moch and Huff (1983) describe how language and ritual can engender and support hierarchical power. Smircich (1983) describes the use of the normative system as a mechanism of control in Mary Kay Cosmetics and Smircich and Morgan (1982) describe the use of words, images and symbolic gestures, by the president of an insurance company to bring subordinates to accept his vision of how to manage.

The outcomes dimension of politics from this perspective is less well addressed. It tends to be implicitly assumed that those who control meaning and the definition of reality for others will get what they want. Due to the deep structure of the political process this perspective helps explain the status quo and the taken-for-granted nature of much that makes up organization culture.

A Case Study of Organizational Budget Setting

Note on Methodology

The objective of the case study described below was to gain an understanding of the budget-setting process in one hospital in the health care system of the province of Ontario, Canada. Data were collected over ten months (March - December) in 1982 using participant observation¹⁵ and naturalistic inquiry¹⁶. Multiple data collection methods included structured¹⁷ and unstructured interviews with administrators, department heads and employee representatives; reviews of documents; and observation of formal and informal meetings. One of the richest sources of information was the sum of informal, unplanned and casual interactions with informants which were facilitated by frequent visits to the hospital.

As described by Glaser and Strauss (1967), grounded theory methodology begins with a researcher who is relatively free from preconceived expectations about how the politics of the budget setting process will evolve. The patterns and categories emerged from the research setting and were tested in an interactive fashion until it was felt that confidence could be placed in them. When sufficient data were collected to support the emerging conceptual framework and newly generated second order concepts the data collection stage ended.

Below is a brief description of the case presented chronologically, followed by an analysis. The case is based on observation of a 360 bed hospital in the suburbs of a large Ontario city. The interactions between the hospital and the Ministry of Health (MOH), which funds the hospitals, are the primary focus. The relationship between the hospitals and the Ministry at the time generally appeared to be politicized and adversarial¹⁸ and the funding situation over the previous few years had been slightly below the rate of inflation¹⁹.

Mr. MacMaster, the head administrator of Suburban Community Hospital (SCH) and his two assistants were working on the budget submission to the Ministry of Health (MOH) at the beginning of the data collection. They had been advised that hospital funding for 1982-83 would amount to \$25.9 million, an increase of 11.3% over the previous year. Expenditures were up 18.1%, however, and Mr. McMaster felt he faced a deficit of \$1.6 million.

¹⁵ Bogdan & Taylor (1975)

¹⁶ Lincoln & Guba (1985)

¹⁷ Structured interviews with all informants were based on an interview schedule containing basic questions about a person's position and history at the hospital, the budget allocation process and their role in it, how decisions were made and their satisfaction with allocation decisions. It further explored the hospital's internal and external responses to financial crisis, behavioral outcomes of constraints and attitudes and beliefs about cutbacks.

¹⁸ Murray, Jick & Bradshaw (1983, 1984)

¹⁹ Jick & Murray (1982)

Deficits were not new for Ontario hospitals, but the Ontario government had just introduced the new system of calculating income and expenses called the Business Oriented New Development Program (BOND). The purpose of the new program was to encourage the hospitals to raise money from outside sources in addition to their traditional government funding. But it also required that all non-governmental outside money be used to finance operating expenses. For SCH, this meant that its existing investment income (\$600,000), the hospital's share of private and semi-private room charges (\$300,000) and net parking revenue (\$100,000) were no longer available for such discretionary uses as funding expenses not approved by the Ministry. Given the *new* method of calculating income and expenses Mr. MacMaster in fact faced a smaller projected deficit of \$600,000. This was a larger projected deficit, however, than the hospital had ever faced before. He was concerned because the hospital could not submit a deficit budget to the MOH without first obtaining the approval of its Board of Directors and the Finance Committee of the Board. The minutes of the Finance Committee meeting reflected what happened in Mr. MacMaster's effort to persuade the Board to submit a deficit budget to the MOH.

Finance Committee of the Board - March 25, 1982 -

Mr. MacMaster described the BOND program to the Finance Committee in great detail and said: "The Ministry therefore has removed approximately \$1-million from what was formerly the discretionary funds for the hospital Board to use for whatever purpose it decided". As he told the Committee, the total operating deficit would be \$1.6 million but because of the new reporting under BOND this would look like \$600,000. He explained that the deficit could be reduced through bed closures and the elimination of the proposed 8% cash allowance in lieu of benefits for part-time workers. These savings would amount to \$227,000 and \$107,000 respectively. The Committee decided to recommend to the full Board a variety of revenue-generating steps allowed under BOND. A motion was then passed approving the budget without change and including the following: "The standard of health care at SCH should and will be maintained".

The Hit List

Mr. MacMaster then developed a "hit-list" of "potential reductions from the 1982-83 deficit by eliminating or reducing various programs", which he presented to the full Board on April 1st. The top three items proposed were summer bed closures, increases in parking rates and dropping cash allowances in lieu of benefits for part-time employees. The Finance Committee had wished to leave in the part-time benefits since SCH was the only local hospital not to provide part-time staff with pay in lieu of benefits, and because they feared a union of part-time employees. These were nevertheless included, along

with such potential sources of savings as permanently closing 19 beds and discontinuing the social services department and cancer chemotherapy programs.

Board Meeting - April 1, 1982 -

The Board responded to a seventeen page information package, hit list and another report with anger. Convinced hospital services should not be disrupted in order to present a balanced budget, Board members approved the submission to MOH showing a deficit of \$600,000.

Board Meeting - May 25, 1982 -

This meeting was primarily to obtain approval for the purchase of a new computer for the hospital. After a two-hour discussion, the purchase was approved. At no time did the issue of the cost of the computer, *versus* other competing priorities facing the hospital, arise.

This decision made, the minutes of the Employee Relations Committee generated considerable discussion, particularly about whether to pay part-time employees salary in lieu of benefits. The Board members, not wishing the part-timers to unionize, felt they should be given benefits. Mr. MacMaster maintained that if they implemented the part-time benefits, they would realize no budget savings and would "have an uncertain financial future given the current operating costs". Benefits of 12% were finally approved, with little discussion of the impact of this decision on the deficit.

Summer 1982

At the end of July Mr. MacMaster heard a rumour that the MOH was going to allow appeals from hospitals for extra funds. They had not known whether to send an appeal to the MOH since the Minister of Health had said that no appeals would be entertained.

By the end of August a budget appeal for the Ministry was developed to show that the hospital had a larger than originally expected deficit. The reported total operating deficit of \$1.6 million was projected to increase to a minimum of \$1.75 million. To calculate a deficit of \$1.75 million the hospital administrators developed their appeal on the same basis as its audited financial statements, which included building depreciation and other expenses not funded by MOH. They then reduced the projected deficit by savings made up of such cost containment efforts as bed closures and nursing cuts (savings \$250,000),

non-nursing staff cuts (saving \$100,000) and non-payroll savings (\$30,000). The new projected deficit, \$1,370,000, was arrived at by deducting \$380,000 from \$1.75 million.

Strategy Meeting - August 31, 1982 -

Mr. MacMaster called this "Strategy and Tactics" meeting to prepare for that evening's meeting of the Executive Committee of the Board. There he planned to "drop the bomb so they could survive to do better good", by insisting that in "this historic time the buck stops here". Discussing the financial situation of the hospital, the administration suggested implementing cost containment measures. Mr. MacMaster decided to use the lectern "and start beating his chest", "really pouring it on", and said he needed a "tape of tears". The hospital, for the first time would have to undergo hardship and take away from those it was serving. In his rehearsal he said that it was better that people not be served than that the hospital go bankrupt.

Mr. MacMaster, looking "for the psychological impact" of another hit list, had developed a package for the Board including a list of possible items to cut to save money. He remarked that they had a "package with symbolic as well as functional meaning" and that they had to convince the Board and the doctors of the seriousness of the situation. "It's the first time in my checkered career that I have had to beg for cuts", he declared. He said that a lean machine with a lean attitude was what he wanted to implement; some hospitals would go broke, but he hoped SCH wouldn't be among them. He referred to his "pink sheets", which not only indicated that this was a unique year but implied that this was a drastic year. He commented that the "illusion is more important than the reality" - i. e., it was of the utmost importance to convey to the Board the severe financial situation, even if things were not really that serious. The message was to be that the deficit was now \$750,000, instead of the originally estimated \$600,000, because of increased costs. They had to "say it with a forked tongue", however, because the straight line projection of the deficit did not rise that high.

The new "hit list" provided total savings of \$325,000 and administration also wanted to propose to the Board staff reductions totaling \$99,500. Insisting that they were not talking about small cuts, they said they wished to control costs and still provide more elaborate services than neighboring hospitals. In short, they wanted to present the "hit list" as a total, non-negotiable package; as Mr. MacMaster stressed, that there were "no throw a ways on the list" and "no negotiations". The reason for this hit list seemed to be the need to emphasize the gravity of the situation to both the Board and the doctors, in order to make some cuts and ensure the doctor's co-operation in lowering the patient length of stay.

They then discussed their "fall back position". While planning to call the list not negotiable, they knew programs such as the cancer-chemotherapy program "will keep

going - but we have got to talk control". They discussed the hiring freeze already in place and the porters who had already been "nailed" or laid-off. On the whole, they thought they had a "good dog and pony show" for the Board meeting.

Executive Committee of Board - August 31, 1982 -

Mr. MacMaster started his presentation on the severity of the financial situation and the unjust treatment they were receiving from the Ministry by going to the lectern and taking off his jacket. Several members of the Board responded, "Oh Boy, its getting serious now" and "No question you have scared us". Telling them that there was some rumor from "health guys" about extra money for appeals, Mr. MacMaster showed them his "hit list" and the proposed service cuts. "This is the time to do it and be seen doing it by the doctors and the public" he said. When the Chairman asked, "Can we write to the Ministry of Health asking when we can budget for extra funds?", Mr. MacMaster replied: "Yes, we have a brief prepared. It is so logical it will bring tears to your eyes".

A little later in the meeting Mr. MacMaster admitted that some of the cuts were "symbolic and others not", indicating there might be future opportunities for rationalizing services if the Board wanted to go that way - for example, sharing obstetrics with other hospitals. The total package of cuts, he affirmed, had "integrity and meaning".

During discussion of the proposed cuts to the cancer chemotherapy programme, administrators suggested that they could not treat everybody for cancer, people would have to line up for treatment and only receive treatment later on, if they survived that long. After much emotional debate the Chairman suggested that cancer chemotherapy be eliminated from the package of constraints because there could be no savings. Mr. MacMaster agreed and from the strategy meeting it was clear that he had intended to drop it anyway.

Success of Constraints

By early October, the constraints had not been introduced in the hospital, even though administration had approval from the Board and support of the doctors. The only layoffs we heard about were two porters. The new parking rates and higher cafeteria charges, however, were in effect and the routine summer bed closures had been implemented - as in previous years - while doctors were on holidays and demand for beds was reduced.

Administrative Meeting - December 24, 1982 -

This meeting was a rehearsal for what they were going to tell the Board about the financial situation at the calendar year end. After telling all their major constituents all year about the financial crisis and the projected deficit, they were ending the year with a significant surplus. They discussed whether they could "fool them" (the Board) and create a "myth" about all this money. An assistant administrator added, "this is crazy, with the terrible economy here we are the day before Christmas with all this money". They said they were afraid to keep talking about a deficit because the Board would just say they were "playing with the numbers".

Over the previous few months the originally projected deficit of \$600,000 (as reported under the BOND programme) had been reduced by savings from summer bed closures, hiring freezes, and by increased revenue from parking rates and differential room charges. In addition, not only had they received an unexpected \$400,000 refund from insurance but they were also successful in receiving \$1.1 million in extra money from the MOH based on their budget appeal.

Analysis

Let us now look at the events of the budget setting process at SCH from the point of view of the functionalist and interpretive paradigms. The rationalist school within the functionalist paradigm proves to be quite disappointing in that it directs attention toward actors attempting to resolve the problem of budget setting by rationalistic means. If management feels there is inadequate funding from the Ministry of Health we should be looking for them to gather additional objective data documenting their need for funds in order to convince all parties of the validity of their need. Instead we find that, though the management groups strove to *appear* as though they had indeed had a fully rational basis for their request for additional funds, in fact it was a very selectively chosen set of figures that were used for this purpose and that the figures could change significantly depending on the purpose for which they were being used. No attempt was made to come to a single, well supported conclusion as the basis for a problem-solving discussion with the Ministry.

The pluralist view of politics is of more value but still not adequate in itself to fully understand what was going on. A basic question in the SCH case was why the management group in the hospital resorted to the extensive use of so many different "illusions" or definitions of budgets in trying to persuade their Board, the Ministry of Health and other key stakeholder groups to believe that there would be a serious deficit in the coming year given the Ministry's projected level of funding. The pluralist perspective directs the analyst to identify the parties in the political system (from the point of view of the observer, not the actors) and assess the amount and kind of power they have vis a vis one another. In this case, the key actor is the hospital's chief administrator and his team of top managers. The other key actors are the hospital's board, the Ministry of Health, physicians who practice at the hospital and other employee groups.

The salient feature of management's relationships with these groups is that they have very little power over them based on their control of resources, the legitimacy of their position or anything else *other than* their "expertise" as managers and their control of information. In these two areas they have a strong potential ability to influence the other parties through the manipulation of information so long as the others believe that their expertise in gathering and interpreting such information is high. For this reason, the temptation to use other forms of political behaviour is low and the incentive to gain ones ends by impression management is high.

It is the interpretive perspective on organizational politics, therefore, which comes to the fore in directing our attention to a detailed appreciation of the way this impression management was carried out. The impression created by the hospital's management group throughout the year was that the hospital faced a significant deficit. At calendar year end, however, the hospital ended up with a cash surplus in addition to its previously

accumulated investment portfolio totalling over \$4 million. The best interpretation of what had happened was provided by one of the administrators when he jokingly suggested writing a book about the Ministry of Health entitled "the illusionists". We simply extended the term and use it to describe the administrators themselves. They created illusions of financial crisis using a variety of linguistic games the most obvious of which was the manipulation of the term "deficit". The interpretive perspective on politics highlights the process of meaning management and the use of language, metaphor, symbols, rituals, humour and stories in order to have others unquestioningly accept a particular definition of reality. Once one party controls the way reality is defined they have a source of influence which works to their advantage in ways which other stakeholders or parties are often not even aware. For this situation we have defined the primary process of reality construction as illusion making. The Webster's dictionary defines an illusion as follows:

"The state or fact of being intellectually deceived or deluded or misled by others or by oneself either intentionally or unintentionally in such a way as to have a false impression or idea marked by the attribution of something more or something less to something than is actually the case."²⁰

In this situation the claim that the hospital was in financial crisis was an illusion or a misleading statement. The term deficit was used in various ways to paint a picture of financial hardship. We identified at least five different ways of calculating a deficit at SCH, the particular definition projected by Mr. MacMaster was based on the most advantageous definition for him at that time vis a vis any given actor. The second critical aspect of the illusion was to play down the size of the hospital's investments, which by 1982 totalled over \$4 million. Until the introduction of BOND, the hospital had not been required by the MOH to report any income generated from investments. Only a look at the actual financial statements made it clear the extent of these resources. While reporting a deficit, SCH was building up an investment portfolio. Then, using the illusion of financial crisis, SCH successfully appealed for additional funds. Money was, of course, a scarce resource in the health care system. Control over this resource created power for the hospital. Additional funds could be used to acquire advanced medical technologies or attract and retain skilled medical professionals. All these would immeasurably enhance the prestige of SCH.

The strategies for creating the illusion of crisis were varied. Mr. MacMaster's primary strategy was to continuously release describing a projected deficit. In the 1982 budget appeal to the MOH three different deficits were referred to, the deficit based on the BOND calculation, the deficit based on calculations before BOND was introduced and the financial statement deficit. The additional \$1.1 million received by the hospital as a result of the appeal was based on an inflated projection using the deficit according to the financial statement, rather than the MOH calculation after BOND.

²⁰ Webster's Dictionary (1981)

Another strategy was to play "games" with the number of staff in the hospital or the number of beds. For example, the number of beds could be quoted before or after the routine summer bed closures, depending on which figure best supported the illusion. The "hit lists" of possible services to be cut were a favorite strategy of Mr. MacMaster. The items on the list were selected either because they had emotional value or because they were a priority of the target to whom the message was being sent. The objective of the hit list was to demonstrate how grave the hospital situation was and to provide no alternative to maintaining or increasing hospital funding levels. Thus the Board of Directors, for example, became so angry with the proposed cuts that they approved the original budget submission to the MOH showing a larger deficit rather than approve the cuts suggested in the hit list.

Such symbolic gestures as removing a jacket at a meeting certainly reinforced the illusions of the "seriousness" and crisis-like nature of the situation, as did the vocabulary ("disastrous deficits", "uncertain financial future", "historic times" and "drop the bomb"). Humour²¹ also played a role. Mr. MacMaster's favorite joke reflected his feelings that the MOH could not be respected or trusted: "What are the three most common lies?

- 1) The cheque is in the mail,
- 2) We will get married as soon as we can and
- 3) I am from the Ministry and here to help you".

It is here that the existing literature on the social construction of reality lets us down. By and large, the implicit story in such literature is of the success of the actors who manipulate the perceptions of others to gain their own ends. Those who write on organizational culture from this perspective, for example, have tended to document only the effectiveness of organizational leaders in persuading the organization's members of their "vision" of the enterprise²².

What has yet to be thoroughly studied, however, is the idea that most illusions, insofar as they deviate from either objective reality (assuming there is such a thing) or the firmly held interpretations of others, contain within them potential contradictions or dilemmas which could rise up at any time to shatter them and in doing so weaken the power of the illusion maker vis a vis the target recipients. Illusions ultimately depend on the sender having credibility and being trusted in the eyes of the receivers. Insofar as this is destroyed, the sender's power base (expertise and information control) declines proportionately. Consider the following dilemmas embedded in the SCH case.

²¹ Shrivastava (1985)

²² e.g. Smircich & Morgan (1982), Schein (1990)

Cry Wolf - The Credibility Dilemma -

The leaders of the hospital predicted the largest deficit in their history, yet ended the year with a significant cash surplus. In this situation Mr. MacMaster risked being disregarded in a future situation of real crisis, when a claim of emergency might not be seen as credible.

Another challenge for the administration was how to disguise the increases in their finances by the end of the year. Although they could keep "fooling" the Board, this would be difficult. They feared that the Board would say they were "just playing with the numbers". The 1982 year-end situation of no serious financial crisis was consistent with what had happened in previous years. A different potential problem would have existed had they been unsuccessful in getting extra funds and had they really faced a large deficit. In such a case the Board, expecting a surplus or small deficit based on the historical pattern and consistently successful magic of administration, would not have accepted this with equanimity. Either outcome posed a dilemma.

"Are You Snowing Us Again?" - The Consistency Dilemma -

A major problem facing the hospital administrators was the need for consistency in the illusions they presented to various groups. If they created a particular illusion of financial crisis for the Ministry of Health, they had to create a similar illusion for the Board of Directors and employees. If they were not consistent, they could be accused of creating illusions and manipulating information. Because they needed the Board of Directors to approve their budget submissions to the Ministry of Health, they could not let the Board know about the illusions they were creating. Given the Board's responsibilities it could not consciously accept a budget being submitted to the Ministry of Health which they knew was misleading; they, as well, had to accept and believe in a crisis. A constant worry of the administration at meetings with the board and other employee groups was being accused of "snow jobs" or being questioned about whether they were "snowing [them] again".

Another aspect of illusion making as a political process is that once committed to selling an illusion, ongoing and sometimes escalating effort is needed to sustain its credibility. The administration felt the need to prepare extensively for meetings of the Board, and the Board sometimes commented that they had been presented with too much information. The administration's problem became how to appear knowledgeable without overwhelming the Board with their specially prepared "information". Yet the pressure on administration to appear totally competent and on top of all potential problems was also intense. It required not only extensive preparation, but also such "political" activities as softening up potentially problematic Board members by taking them to lunch or

otherwise paying special attention to them. The administrators claimed that they resented such activities, but maintaining the illusion seemed to require them.

"You Shouldn't Let Us Off So Easily" - The Dilemma of Contradictory Roles -

The administration supported and maintained the credibility of the illusion by appearing competent and on top of the situation at all times. Their seemingly outstanding ability to deal with the "crisis" and the "deficit", however, resulted in still another dilemma. As one administrator said after the Board quickly accepted management's recommendation to purchase a computer, "You [the Board] shouldn't let us off this easily" (meaning that they wished to have their actions and recommendations scrutinized more carefully). Similarly, the Executive Director was afraid things were "getting away from" the Board members. He explained that they did not challenge administration's decisions because they relied on him to get them through just as he had every other year.

While the Board accepted administration's decision and advice and believed their illusion about crisis, the administration needed the Board to play a paradoxical role. For some purposes the administration wanted only a "rubber stamp" board which they could influence. Yet for other purposes they wanted (and needed) a board which challenged them and was aware, informed and involved. So while they could control the Board or - as one assistant said - "work" the Board, they also wanted a Board that was on top of things and that they could respect.

"We Need a Union" - The Dilemma of Creating a New Problem While Solving Another

Some of the employees and department heads clearly saw through the illusion being created by the administration and did not believe there was a serious financial crisis. Others, however, accepted the message as genuine and this created other problems for the administration. While morale in many places in the hospital was reported to be good, an employee representative described people as "very tense and very worried about their job security, especially people lower on the ladder". She said she had even "heard rumblings about part-timers unionizing". Ironically just as the Board was approving payment of benefits to part-time employees in the hope of avoiding a union, staff were talking about a union to protect their jobs because of the rumour created by the administrator's "hit list" exercise which suggested that positions be cut. The dilemma, therefore, was that lower morale and unionization might pose a bigger problem than the financial situation.

Conclusion

What has been described in this case study is not unique or unusual. Effective managers create reality and manage impressions in order to increase their power and achieve their objectives. What this article attempts to do is to illustrate the complex processes of political behaviour which the interpretive perspective on politics highlights. It also tries to go beyond existing analyses based on this perspective by pointing out the dangers to political actors in the extensive use of illusion making. They are almost bound to create dilemmas or potential contradictions in the eyes of the recipients of the illusions. These in time can threaten the power base of the illusionists. When the power bases are primarily those of expertise plus management of meaning, this can ultimately result in a major shift in power relationships.

Current efforts from a radical humanist perspective to "deconstruct texts" in organizational behaviour²³ are based on this type of understanding. If the ability to construct reality results in power for certain political actors, and if "exposure" of their illusions can weaken or shift power to other stakeholders then this is potentially a useful tool in the eyes of these theorists. Not only can deconstruction of existing meaning systems reveal to the exploited the "true" nature of their situation but may also expose the dilemmas which ultimately may be used to change that situation by weakening the power of the dominant group.

²³ e.g. Mumby & Putnam (1990), Martin (1990), Calas & Smircich (1989)

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Towards the Business Politics Approach and the Field of Research

By Günter Dlugos

Types of Political Activities

In order to outline our Business Politics approach and to introduce the central variables of our conceptual framework it would be advisable to start with an interpretation of political phenomena as phenomena related to the *state*, to the community, or to community institutions where possible conflicts of interests exist. From this viewpoint it is possible to distinguish *two types of problem* when examining what the politicians have to do (Fig. 1 (1)):

(1) They have to *set the goals for the group* (state and community), especially ultimate objectives, and they have to make decisions, especially vital and fundamental decisions. For example, the politicians have to decide how to promote education, culture, social services, public health, public amenities, national defence and so on. In this first field of activities they have to decide upon specific sets of alternatives. Each of these sets is quite different from the others; educational alternatives, social services alternatives, and national defence alternatives for example, all require a different approach. To be able to decide rationally, they require information regarding the specific consequences of each of these quite different goals.

(2) If there are conflicting interests, the politicians have to *secure the implementation of the goals* against potential opponents by using different kinds of power. In contrast to the first field of activities (primary activities), the field of secondary activities contains no different sets of alternatives. This field contains only the set of securing alternatives, which are alternatives for the delimitation of conflicting discretion, i.e., alternatives for managing conflict. These alternatives are quite different from the alternatives available in the first field of activities. To decide rationally in this field, the politicians need information regarding the consequences of the securing-goals only.

In practice, primary and secondary activities will often be integrated processes. - It is analytically possible, however to differentiate between these two types of activity.

The Different Meanings of Policy and Politics

In German, these two types of activity are both called "*Politik*"¹. Thus, there are two exemplified meanings for the one expression. The English language has two expressions: "policy" and "politics". These expressions are sometimes applied synonymously, but when a differentiation is made, "*politics*" rather than "policy" refers to the delimitation of conflicting discretion and the use of power, and "*policy*" rather than "politics" refers to the first type of activity² (Fig. 1 (2)).

With regard to the *business sector*, a distinction is made between *business policy* and *business politics*, the latter in the same manner as politics related to the state (Fig. 1 (3)). In business administration, management, and organization literature, we find almost the same application of "policy" and "politics", but with the difference that "policy" and "policy making" generally refer to vital and fundamental decision making, particularly on a strategic level.³

It is important to recognize the *essential difference* between the primary and secondary activities outlined in the first chapter. The essential difference *is not* the setting of ultimate objectives and the securing of goals, *but rather* the setting of "basic-goals" (primary activities), those which potentially may be secured and the setting of "securing-goals" (secondary activities) (Fig. 1 (4)). The differentiation in this manner is more akin to the political science viewpoint than to that of the business administration.

¹ Weber (1971), Sternberger (1978)

² Scharpf (1971) differentiates with these english terms the two types of political activity.

³ Glueck (1980), Bacharach & Lawler (1981)

	the first field of activities	the second field of activities
(1) the political phenomena as phenomena related to the state the community institutions as a group of individuals possibly with conflicting interests	setting GOALS for the group - especially ultimate objectives making decisions - especially vital and fundamental decisions	setting SECURING GOALS to secure the implementation of the goals of the first field of activities against conflicting actors by using power
(2) the two expressions	POLICY	POLITICS
(3) the political phenomena as phenomena related to the business cooperation	BUSINESS POLICY in general vital and fundamental, especially strategic decisions	BUSINESS POLITICS as above
(4) the essential difference between the activities	setting BASIC GOALS all the goals that potentially or possibly may be secured	setting SECURING GOALS as above
(5) expanding the field of investigation beyond the viewpoint of the management	BASIC GOAL Systems within the business corporation: of the contributors of capital owners of contractors outside the business corporation: of the business corporation: as a customer as a supplier as a debtor/creditor of borrowed capital as a member of the community and of actors with complementary functions	setting SECURING GOALS within the business corporation: by contributors by capital owners by contractors outside the business corporation: by the business corporation: as a customer as a supplier as a debtor/creditor of borrowed capital as a member of the community and by actors with complementary functions (except the community because this would be COMMUNITY politics)

Fig. 1: Fields of activities

Central Focus of the Business Politics Approach

Based on the considerations and definitions mentioned above, the *central focus of the business politics approach* can now be outlined. It is to analyse conflicts and also objective-setting for securing activities both within the business corporation and in its relationship with the business sector outside.

Within the business corporation the conflicts that must be resolved are those between actors with the basic function "contributer" on each hierarchical level, those between actors with the basic function "capital owner" and those which exist between these actors on the one hand and actors with the basic function "contractor" on the other.

Outside the business corporation, conflicts must be resolved between the business corporation with the basic functions "customer", "supplier", "debtor/creditor of borrowed capital" or "member of the community", and the actors with complementary functions (Fig. 1 (5)).

Thus, the field of investigation is *expanded* far beyond the viewpoint of management as being the only group legitimated to set and secure business corporation objectives. All actors in the business sector have the right to secure their interests within the legal and contractual framework. Furthermore, the field of investigation *concentrates* on the second field of activities, related to the business sector. In the first field, the research effort is confined to the basic-goal systems of the internal and external business corporation functions cited above.

Areas of Investigation

By analysing the conflict and deciding upon alternatives for handling that conflict the *details of the business politics approach* can be derived⁴ (Fig. 2):

The Causes of Conflict

The process of setting securing-goals is activated by latent or manifest conflicts between actors. Thus, the first area of investigation is the way in which conflicts arise. This is examined on the basis of a differentiated *analysis of basic-goal systems*.

The ends and means of the basic-goals are the goal criteria. In an exchange relationship, the ends are the demands and the means are the pledges that may possibly be jeopardized. The *specific demands and pledges* within the framework of business relationships are listed in Fig. 3. and are inferred on the basis of empirical findings and deduction⁵. With regard to the conflict handling process, it is necessary to have supplementary information regarding the importance of these goal criteria.

The relationships are conflictual whenever the adversaries have differing opinions regarding the mutual demands and pledges in question. The essential precondition for successful conflict handling is the detailed ascertainment, not of the extensive⁶, but rather, of the *direct causes of conflict* which are centered in the individual sphere of the opposing actor.

If the basic-goal of an actor is determined by a rational goal setting process⁷, then his optimal alternative is based on his expectations of the consequences that his demands and pledges will have, and on the values of the consequences found in his value system. Thus, the analysis of conflict emergence can be limited to the examination of the *two direct causes of conflict*: (a) disadvantageous realisation of expected consequences and (b) disadvantageous alteration of predetermined consequence values (Fig. 4).

The disadvantageous realization of expected consequences can be the result of insufficient fulfillment of one's own demands or of excessive claims upon one's own pledges. Both can be brought about either by a misconception or by an exchange partner's breach of agreement. For example, a voluntary gratuity of an expected amount may not be given, or the performance level required to receive a predetermined level of pay proves to be higher than expected. An alternative which the goal setting process excluded as being less than optimal would under certain circumstances thus appear more

⁴ Dlugos (1972), (1979), (1984), Dorow (1982), (1987)

⁵ e. g. see Wunderer & Grunwald (1981: p. 152 ff.)

⁶ for example March & Simon (1958: Chapt. 5)

⁷ "Rationality" means realistic rationality: formal and individual

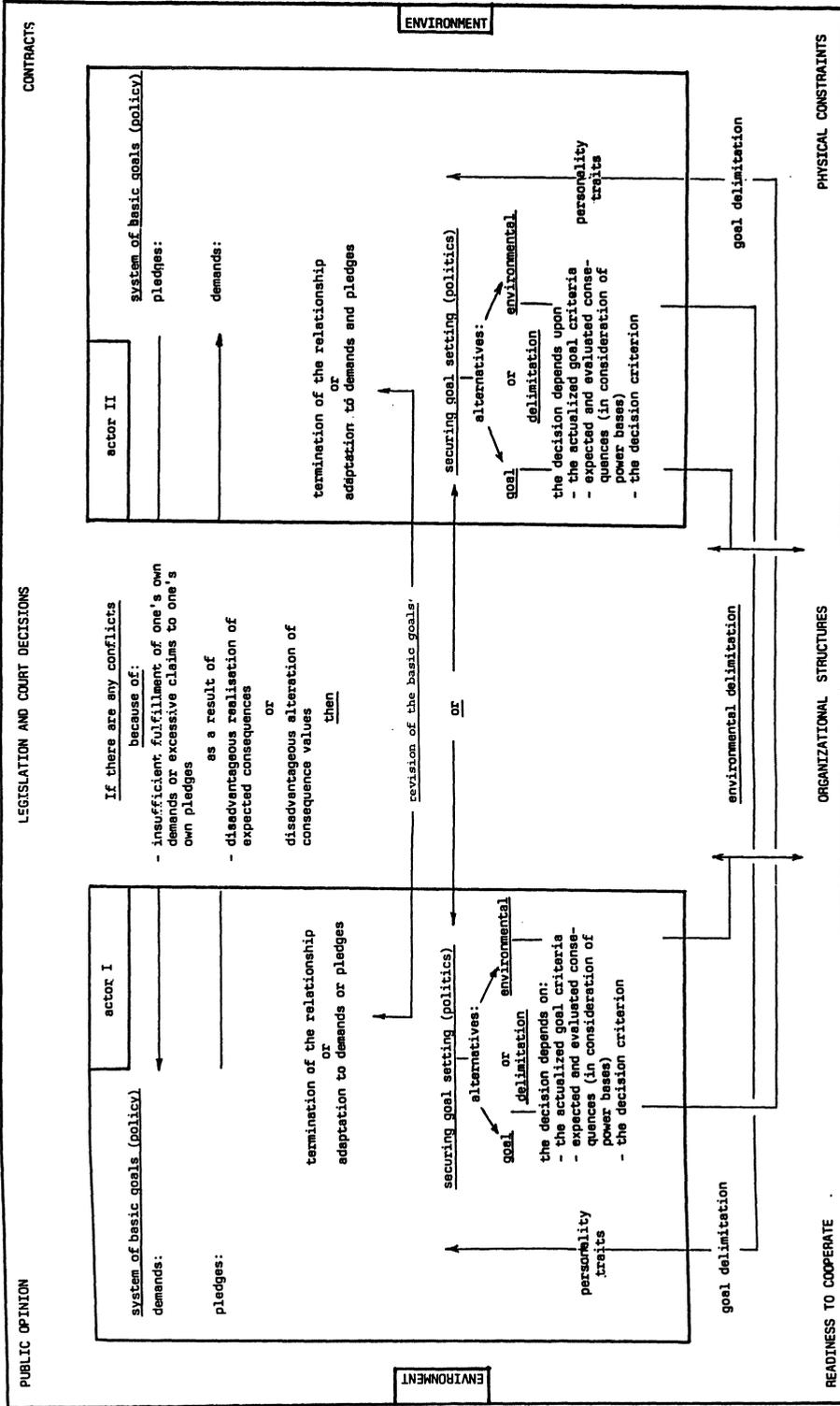


Fig. 2: Basic goal systems, causes of conflict, alternatives of reaction on conflicts, alternatives of conflict handling

Demands (D) and Pledges (P) Basic functions of the business sector	constitutive	complementary
<u>within the business corporation</u> Contributor	D nominal goods (wages) P work performance	D job security D self-actualization/ participation D technical and social conditions
Capital owner	D nominal goods (profit) P possibilities for using share capital with acceptance of liability	D capital security D the right to intervene D information
Contractor	D performance P nominal goods (wages)	P job security P self-actualization/ participation P technical and social conditions
	D possibilities for using share capital with acceptance of liability P nominal goods (profit)	P capital security P claim on supervise P information
<u>outside the business corporation</u> Customer	D products P nominal goods	contributions to the customer/supplier relation P/D
Debitor of borrowed capital	D possibilities for using borrowed capital P nominal goods	P capital security P information
Supplier	D nominal goods P products	contributions to the customer/supplier relation P/D
Creditor of borrowed capital	D nominal goods P possibilities for using borrowed capital	D capital security D information
Member of the community	D nominal goods (tax)	D contributions in the public interest P infrastructure

Fig. 3: Demands and pledges in the business sector

advantageous. Indeed, in principle there is the opportunity to contract for the fulfillment of expected consequences, but such a form of limiting risks is not possible for all consequences. Incompatibilities of the type mentioned above cannot be overlooked.

The second cause for exchange conflicts is the *disadvantageous alteration of predetermined consequence values* which can also be brought about by an insufficient fulfillment of one's own demands or by excessive claims upon one's own pledges. The reasons for this however, are either changes in expectations or general changes in values. The exchange relationship can become conflictual, because the salary which was agreed upon, no longer meets the increased aspiration level of an employee, or because a work performance no longer meets the increased aspiration level of an employer. Examples for the general changes in values are changes in the value of money, in work morale, in business morale or in other ethical values.

The two aforementioned causes of conflict can bring about conflict regarding each exchange related binary set of demands and pledges. Thus an exchange relationship can be *totally conflictive*. It can, however, also contain *elements of consensus*. This may even be the case when one of the parties is at an exchange advantage. The relationships between these elements can be portrayed by means of a *conflict-consensus-matrix*, which should simplify the process of ascertaining the advantages and disadvantages of an exchange relationship. By entering threshold values into the matrix, which represent the latitude of acceptance, the rationality behind goal securing and conflict handling actions can be increased.

Alternatives for Reacting to Conflict

The emergence of a conflict presents the adversaries with the problem of deciding *whether to revise* their jeopardized basic-goal *or to secure* their basic-goal by conflict handling.

With regard to the two components of basic-goals, *the revision of basic-goals* can either entail reducing demands or increasing pledges on the one hand (*adaptation*) or the termination of the exchange relationship (*exit*) on the other. Thus the dichotomy which is often associated with possible reactions to conflict (i. e. exit and voice) must be modified: exit is only one of two ways in which basic-goals may be revised. Determinants to the decision are the extent of disadvantages which result from the adjustment, as well as the possibility and the costs of terminating a relationship.

If therefore, the *conflict handling (voice)* is seen as necessary and the mutual power basis⁸ as successful, the actor is faced with a special type of goal setting process which pertains to the securing of basic-goals, and shall be termed the *process of setting*

⁸ Reber (1980, Krüger (1980)

(1) Direct causes of conflict emergence:

(2) Differentiated by exchange components:

(3) Brought about by internal:

external: events

Disadvantageous realisation of expected consequences	Insufficient fulfillment of ones own demands	Excessive claims to ones own pledges	Disadvantageous alteration of consequence values
	Excessive claims to ones own pledges	Insufficient fulfillment of ones own demands	
Misconceptions			Changes in ones expectations
Breach of agreement by the adversary			General change of values

Figure 4: Causes of Conflict Emergence

goal delimitation

area of influence
the adversary's basic goal system

alternatives
persuasion
manipulation

conditional announcement of
positive or negative sanctions

environmental delimitation

area of influence
the adversary's scope of action

alternatives
indirect
the basic goal system of
third parties
direct
exercising legal rights
limiting ones own readiness
to cooperate
the alteration of organizational
structures or physical constraints

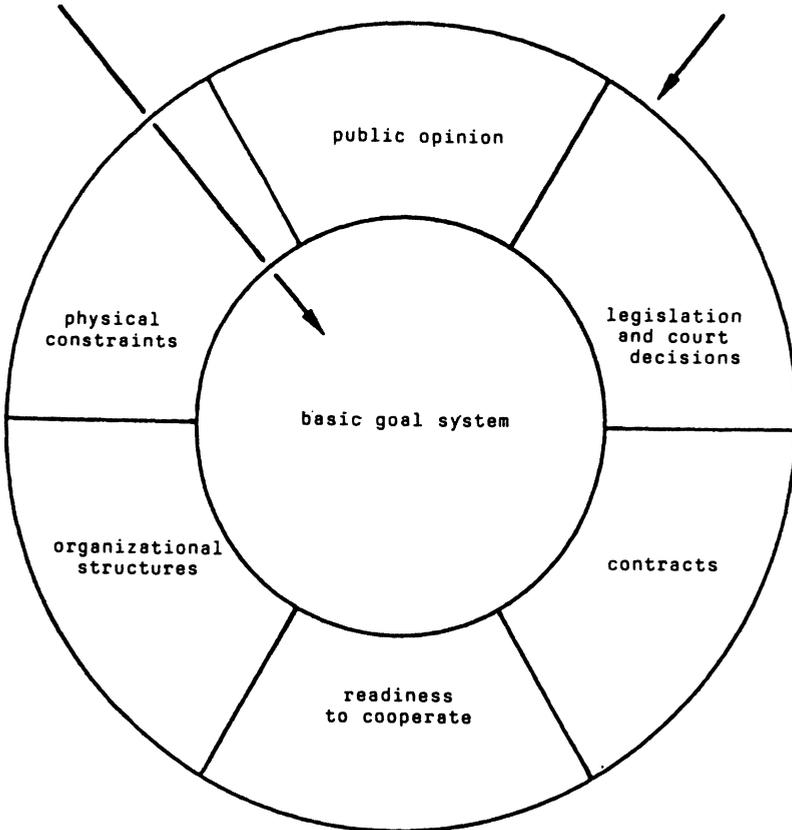


Fig. 5: Basic forms of conflict handling

securing-goals (politics). The ultimate goal of conflict handling is to limit the adversary's discretionary behaviour in order to secure the actualization of one's own basic-goal. The many goal securing alternatives which are discussed as methods of conflict handling in related literature⁹, can be divided into *two broad categories*: the delimitation of the adversary's goal setting process (goal delimitation) on the one hand and of his environment (environmental delimitation) on the other. These reflect the two areas which can be influenced, in order to limit an adversary's discretionary behaviour (Fig. 5).

The *delimitation of a goal setting process* involves exerting communicative influence on the adversary with the purpose of preventing his basic-goal setting or basic-goal actualizing process. The alternatives related to goal delimitation are persuasion, manipulation, and the conditional announcement of positive or negative sanctions. Persuasion encompasses the conveyance of information to one's best knowledge, and is assumed to be suited for correcting the adversary's decision. By contrast, manipulation, which may at times be difficult to distinguish from persuasion, entails a conscious effort to dilute, overload, distort, or falsify the information conveyed to the adversary. With the conditional announcement of sanctions, the adversary is offered improved consequences as a reward for compliance, or is threatened with negative consequences in the event of his non-compliance. While persuasion and manipulation can be utilized in all phases of the adversary's goal setting process, the conditional announcement of sanctions can only be directed at the phase in which the adversary analyzes the consequences of his alternatives. The effectiveness of a conditional sanction announcement is subject to certain limitations which result from the admissibility of the announced sanction. If the adversary is not prepared to receive the information which is to be directed towards him, it is necessary to attract his attention before the actual goal delimitation process can begin. This process may be considered successfully completed, when it has resulted in a sufficient restraint of the adversary's conflicting discretion.

Whilst the adversary is still at liberty to choose between alternatives when being subjected to goal delimitation, the *delimitation of an environment* inevitably limits the adversary's scope of action. The environmental components which serve this purpose and which can be altered through delimitation actions are public (business corporation) opinion, legislation and court decisions, contracts, readiness to cooperate on behalf of the adversary's opponents, organizational structures, and physical constraints (i. e. mobility, and access and availability constraints). Environmental delimitation can either be indirect or direct. *Indirect actions* are aimed at the basic-goal setting processes of third parties who, in some way, limit the adversary's environment. These actions are connected to the aim of having them impose restrictions on the adversary. They include influencing public opinion, legislation and court decisions, and the opponent's readiness to cooperate. By contrast, *direct actions* of environmental delimitation do not progress through others. They are focussed on the alteration of those environmental components which directly constrain the adversary's scope of action. This type of delimitation

⁹ Hellriegel, Slocum & Woodman (1986: p. 496 - 507)

includes exercising legal rights, limiting one's own readiness to cooperate, the alteration of organizational structures and physical constraints. As in the process of goal delimitation the process of environmental delimitation may be considered successfully completed, when it has resulted in a sufficient restraint of the adversary's conflicting discretion.

Securing-goal criteria are necessary for rating the alternatives of delimitation. The extent and duration, altered by delimitation, are the political criteria and the costs associated with the securing action are the economical criteria. Further rating criteria are the complementary and the adverse effects of any action. A stage further, the expected consequences of the conflict handling alternatives of each securing-goal criteria, taking into consideration the power basis, are to ascertain and to rate. The *decision criteria* which serve the selection of the optimal alternative and with it the final delimitation of the securing-goal, has to include both the political and the economic components.

The Securing Process

The process of *realization of the securing-goal* needs permanent control. If the securing-goal is realized then the securing activity is realizable. Divergences of the securing process from the securing-goal raise the issue of a possible *revision of the securing-goal* or the regulation of the securing process. The *revision of the securing-goal* may lead, in extreme cases, to a waiver of the securing-goal and in turn to a waiver of the securing activity. *The regulation of the securing process* means the maintenance of the securing-goal and requires supporting measures. In such a case, the problem of determining conflictual securing processes may follow and with it the problem of *securing on the meta-level*.

Conceptual Framework:

Relevance and further Development

It seems appropriate to us to use the Business Politics approach outlined above in order to *support research* by giving guidelines for the systematic analysis of conflicting interests in the business sector as well as of the possibilities of conflict-handling and to *support practitioners* to identify the direct causes of conflict and methods of rational conflict-handling.

The *next steps of our research program* will be to complete the conceptual framework through the development of a system of variables, and to incorporate the results of the research concerning the relationships between these recognized variables. It will be necessary to enforce interdisciplinary cooperation and to discuss the topics with colleagues interested in the field of organizational politics in the business sector.

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**Towards a System of Business
Political Goal Formulation**

By Frank C. Danesy

Introduction

The field of Business (Organizational) Politics directs its research activities towards the systematic exploration of conflict related phenomena within and around business enterprises. In this sense there are numerous problem areas which should eventually be clarified through business political research activity. These range from the determination of who the business political actors are, the criteria basis on which they set their objectives, and how they go about securing their objectives in view of the conflicting objectives of their business political opponents. In the context of this latter facet of business political inquiry, there are three aspects which should be subject to closer analysis and which will serve as a guide-line for the present paper:

1. Which are the elements and processes of business political goal formulation?
2. What influence do power bases have on the business political scope of action?
3. Which are the consequences of each business political alternative?

In the present paper, it will be the author's concern not only to analyse these three aspects, but also to systematically put them into relation with one another.

The Elements and Processes of Business Political Goal Formulation

Business political action is a goal directed activity which serves the purpose of securing one's own objectives specifically in view of the conflicting objectives of other business political actors. It includes (adversaries) both the formulation as well as implementation of business political goals¹.

The process of business political goal formulation may - in reality - be subject to a broad variety of goal formulation algorithms. However, the one which most lends itself to a detailed analysis of the elements goal formulation is the rational process of goal formulation. Thus, our exploration of these processes encompasses the analysis of business political alternatives, goal criteria, consequences, and finally the evaluations of the consequences and alternatives.

Business political alternatives are alternative courses of action which are meant to constrain the opponent's primary goal implementation processes. There are basically two forms of doing so: goal delimitation and environmental delimitation (see fig. 1). Goal delimitation actions aim at influencing the opponent's goal formulation processes so as to gain his compliance. Environmental delimitation targets the opponent's environment with the purpose of structuring it in such a way so as to prevent the opponent's non-compliant behavior².

With these two basic forms of delimitation in mind, it is possible to further differentiate the alternative courses of action. Goal delimitation is by necessity communicative in nature and requires a direct exchange of views between the business political actor and his opponent. The content of such communicative transactions may pertain directly to the object of conflict or to some other object which is drawn upon in the context of the current conflict. In the former instance, the business political actor attempts to alter his opponent's objective by means of persuasion or manipulation. If the business political actor opts to draw upon other objects, he may announce positive sanctions (side-payments) for compliant behavior or negative sanctions (threats) for non-compliant behavior³.

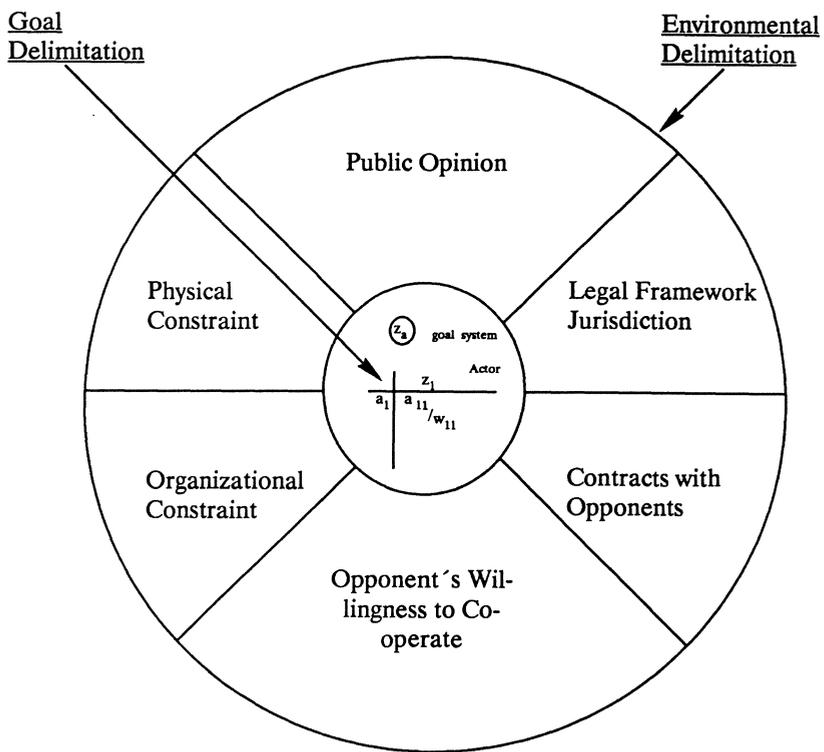
The alternatives of environmental delimitation can be directed at exercising contractual rights, withdrawing cooperation provisions, altering financial provisions, organizational structures or physical factors (direct actions) or at influencing third parties in the environment of the opponent with the goal of having them, in turn, influence the

¹ Dlugos (1974: p. 60), Dlugos (1982: p. 60), Dorow (1978: p. 120), Dorow (1982: p. 171)

² Dlugos (1981: p. 664), Dorow (1982: p. 173)

³ Dlugos (1981: p. 666), Dorow (1982: p. 177)

Figure 1: Targets of Business Political Action
 Source: Dlugos 1977



opponent (indirect actions). Since indirect actions are also communicative, the alternatives are identical to those employed in goal delimitation⁴.

Assuming rational goal formulation processes, business political actors will not only want to know which alternatives are available to them, but also which consequences will result from their choices. Thus, the determination of business political criteria becomes an essential element of the business political goal formulation process.

In this context, the foremost considerations are bound to be:

1. To what extent can a desired change in the opponent's behavior be achieved and
2. how long will this desired change prevail.

Since our approach is one related to conflict and political behavior in the business sector, rational goal formulation processes should also include financial considerations. In this sense, the cost of a given business political action must clearly be a further business political criterion. Rational goal formulation processes would, however, be incomplete if the positive and negative side-effects would remain unreflected. These are therefore also included in the criterion set⁵.

On the basis of these criteria and the alternatives cited above, it is now possible to develop a business political goal formulation system (fig. 2). This system allows a structured approach to the qualification and rational formulation of business political goals. It takes the consequences ($k_{i,j}$) of the choice of each alternative (a_i) in view of each criterion (k_j) into account and permits an evaluation of each consequence ($w_{i,j}$). The sum of the consequence values for each alternative ($\sum k_j$) in turn permits an evaluation of the alternative as a whole (W_i). Within the realm of a rational goal formulation process, this alternative value would then serve as the basis of the business political choice of action⁶.

⁴ Dlugos (1981: p. 666), Dorow (1982: p. 177)

⁵ Dlugos (1982: p. 311)

⁶ Danesy (1987: p. 202), Danesy (1989: p. 133)

Figure 2: Business Political Goal System
 Source: Danesy 1987

Criteria \ Alternatives	Extent	Duration	Cost	Complementary effects	Adverse effects	Amalgamation
Persuasion	$k_{1,1}$ $w_{1,1}$	$k_{1,2}$ $w_{1,2}$	$k_{1,3}$ $w_{1,3}$	$k_{1,4}$ $w_{1,4}$	$k_{1,5}$ $w_{1,5}$	W_1
Manipulation	$k_{2,1}$ $w_{2,1}$	$k_{2,2}$ $w_{2,2}$	$k_{2,3}$ $w_{2,3}$	$k_{2,4}$ $w_{2,4}$	$k_{2,5}$ $w_{2,5}$	W_2
Ann. of pos. sanct.	$k_{3,1}$ $w_{3,1}$	$k_{3,2}$ $w_{3,2}$	$k_{3,3}$ $w_{3,3}$	$k_{3,4}$ $w_{3,4}$	$k_{3,5}$ $w_{3,5}$	W_3
Ann. of neg. sanct.	$k_{4,1}$ $w_{4,1}$	$k_{4,2}$ $w_{4,2}$	$k_{4,3}$ $w_{4,3}$	$k_{4,4}$ $w_{4,4}$	$k_{4,5}$ $w_{4,5}$	W_4
Third party persuasion	$k_{5,1}$ $w_{5,1}$	$k_{5,2}$ $w_{5,2}$	$k_{5,3}$ $w_{5,3}$	$k_{5,4}$ $w_{5,4}$	$k_{5,5}$ $w_{5,5}$	W_5
Third party manipulation	$k_{6,1}$ $w_{6,1}$	$k_{6,2}$ $w_{6,2}$	$k_{6,3}$ $w_{6,3}$	$k_{6,4}$ $w_{6,4}$	$k_{6,5}$ $w_{6,5}$	W_6
Ann. of pos. sanct. toward third party	$k_{7,1}$ $w_{7,1}$	$k_{7,2}$ $w_{7,2}$	$k_{7,3}$ $w_{7,3}$	$k_{7,4}$ $w_{7,4}$	$k_{7,5}$ $w_{7,5}$	W_7
Ann. of neg. sanct. toward third party	$k_{8,1}$ $w_{8,1}$	$k_{8,2}$ $w_{8,2}$	$k_{8,3}$ $w_{8,3}$	$k_{8,4}$ $w_{8,4}$	$k_{8,5}$ $w_{8,5}$	W_8
Cooperation withdrawal	$k_{9,1}$ $w_{9,1}$	$k_{9,2}$ $w_{9,2}$	$k_{9,3}$ $w_{9,3}$	$k_{9,4}$ $w_{9,4}$	$k_{9,5}$ $w_{9,5}$	W_9
Exercising contractual rights	$k_{10,1}$ $w_{10,1}$	$k_{10,2}$ $w_{10,2}$	$k_{10,3}$ $w_{10,3}$	$k_{10,4}$ $w_{10,4}$	$k_{10,5}$ $w_{10,5}$	W_{10}
Organizational constraint	$k_{11,1}$ $w_{11,1}$	$k_{11,2}$ $w_{11,2}$	$k_{11,3}$ $w_{11,3}$	$k_{11,4}$ $w_{11,4}$	$k_{11,5}$ $w_{11,5}$	W_{11}
Physical constraint	$k_{12,1}$ $w_{12,1}$	$k_{12,2}$ $w_{12,2}$	$k_{12,3}$ $w_{12,3}$	$k_{12,4}$ $w_{12,4}$	$k_{12,5}$ $w_{12,5}$	W_{12}

The Influence of Disposable Power Bases on the Business Political Scope of Action

Casual observations of intra- and interorganizational behavior leave little doubt that two individuals employing the same form of goal delimitation (e.g. persuasion) may achieve very different results. Taking into consideration, that an actor A may attempt to directly influence (goal delimitation) another actor B to no avail and that a third actor C - using exactly the same form of influence as A may quite successfully influence B, - there is clearly another factor apart from the action itself which determines the effect of the action. Such observations receive substantial support through the numerous reports on laboratory and field studies conducted the areas of social-psychology and sociology. These events give rise to the notion that it is virtually impossible to determine the consequences of business political action without taking intervening variables into consideration. In the context of (business) political inquiry, one frequently finds references to the power bases of political actors. Yet, the role of power bases and their relationship to the actions employed by (business) political actors usually remains unclear. The author postulates that power bases are the propellers of a given action. Without the corresponding power base, an actor attempting to employ a given action will remain without the desired results. Similarly, if an actor has all possible power bases, but refrains from using them by employing a given action, he will also not achieve the desired results. Thus, to achieve the desired results, the actor must employ a given action only if it is supported by the necessary power bases as a source of thrust⁷.

The Business Politics Approach differentiates between two types of power base: formal and personal. The formal power bases is related to the function of the actor and includes all of the (tangible and intangible) commodities available to him because of that function as well as his function related rights. The personal power base is related to the actor as an individual, who has command over certain types of knowledge/expertise and who has certain personality traits. We therefore differentiate between four specific power bases: (1) commodities and (2) rights as formal power bases and (3) knowledge/expertise and (4) personality as personal power bases⁸.

Using the alternative business political actions cited above and these four power bases as a point of departure, the author has attempted to determine which power bases must be available to an actor for the successful employment of each business political alternative. The author postulates that both persuasion and manipulation can only be employed successfully if the recipient of such communications perceives them to be persuasive. If the opponent believes that the actor is attempting to manipulate him, he is unlikely to be very responsive⁹. It may therefore be assumed that the opponent's perception of the

⁷ Danesy (1989)

⁸ Dorow (1978)

⁹ Mann (1967: p. 89), Danesy (1989: p. 149)

actor's credibility is the one most important personality trait for the successful use of persuasion or manipulation. It should be noted that the actor's personality power is not to be viewed as a characteristic which he objectively has, but rather as a characteristic which is attributed to him by his opponent. It is therefore his opponent's perception which provides the actor with this power base¹⁰.

Similarly, the opponent is not likely to be responsive to the actor's line of argumentation if the opponent perceives the actor as lacking knowledge or expertise. The actor need not necessarily be an expert by any objective standard. It is perfectly sufficient, if the opponent perceives the actor as having more knowledge or expertise than he has himself. In this sense, it is again the opponent who provides the actor with his power base. The author further postulates that the formal power bases (commodities and rights) are of no relevance in the context of persuasive or manipulative action since the information exchange between the actor and his opponent is aimed directly at the primary decision process¹¹.

Whilst applying the announcement of positive or negative sanctions however, the situation is quite different. Here, the actor must be perceived by his opponent as in deed having the commodities and rights at his disposal with which the actor can positively or negatively sanction. Again, it is hardly relevant whether or not the actor in fact has the commodities or rights, but rather that his opponent believes he has. Since the opponent is motivated by his desire to attain positive sanctions (rewards) or to avoid negative sanctions (punishments), if he is at all swayed by the announcement, the actor's knowledge or expertise is not bound to be a major consideration in the opponent's decision process. The actor's knowledge/expertise will therefore not play a role in the previous sense, but it will in views of the commodities and rights which he has at his disposal. The opponent's perception of the actor's credibility will be a deciding factor since his assessment of the likelihood of a reward in the event of his compliance or the likelihood of punitive measures in the event of his non-compliance will undoubtedly be a consideration. Thus, the opponent's perception of the actor's credibility will again be a deciding variable¹².

The application of the communication forms of delimitation (persuasion, manipulation and the announcement of positive and negative sanctions) are clearly associated with variations in resistance depending on the recipient. However, regardless of whether the recipient is the actor's opponent or a third party the current conflict the required power bases are bound to be the same in both goal delimitation and indirect environmental delimitation. The actor may expect to receive more acceptance from a third party while employing persuasive or manipulative actions, but even a third party will be looking for some degree of knowledge/expertise and credibility. By the same token, a third party who is activated (mobilized) through the announcement of positive or negative sanctions

¹⁰ Hovland & Weiss (1951: p. 635), Kelman & Hovland (1953: p. 327)

¹¹ Klis (1970: p. 105), Jones & Gerard (1967: p. 442)

¹² Tedeschi & Lindskold (1976: p. 302), Tedeschi & Bonoma (1977: p. 217)

will also be checking whether the actor actually has the commodities and rights he implies by his action and also how credible the actor is¹³.

Direct environmental delimitation actions by contrast, all necessitate the actor's command of the corresponding commodities, rights, and knowledge expertise. For example, if an actor chooses to exercise contractual rights, he can obviously only do so if he has a contract (commodity) with the necessary clauses (rights) and an adequate understanding of the contract's content and its legal implications (knowledge/expertise). If the actor decides to call on a court for judicial action, he will, in addition, need credibility in the eyes of the court.

The withdrawal of cooperation provisions requires a status quo in which the opponent is dependent upon the actor's cooperation (commodity), the right to withdraw his cooperation and his cognition of possibilities to do so. The application of the other forms of direct environmental delimitation would necessitate the cited power bases in a similar fashion. These considerations lead to the realization that there may indeed be a significant difference between the hypothetical alternative set and the alternative set which an actor has at his disposal (actual alternative set). An actor can only expect the successful application of the alternatives if he has command of the corresponding power bases. If he lacks a certain power base, he will not be able to successfully apply the alternatives with which that given power base corresponds. The actor's alternative set can therefore be reduced substantially (see fig. 3). An actor lacking all commodities and rights will have only four alternatives to choose from (the two forms of persuasion and manipulation). If he lacks credibility, he will only have four as well. Without any of the essential knowledge/expertise he will actually have none. Thus, if a business political actor determines that he is missing the power bases for a certain alternative which he finds particularly desirable because of its consequences he must first build the necessary power bases before he can effectively become active¹⁴.

¹³ Danesy (1989: p. 147)

¹⁴ Danesy (1989: p. 190)

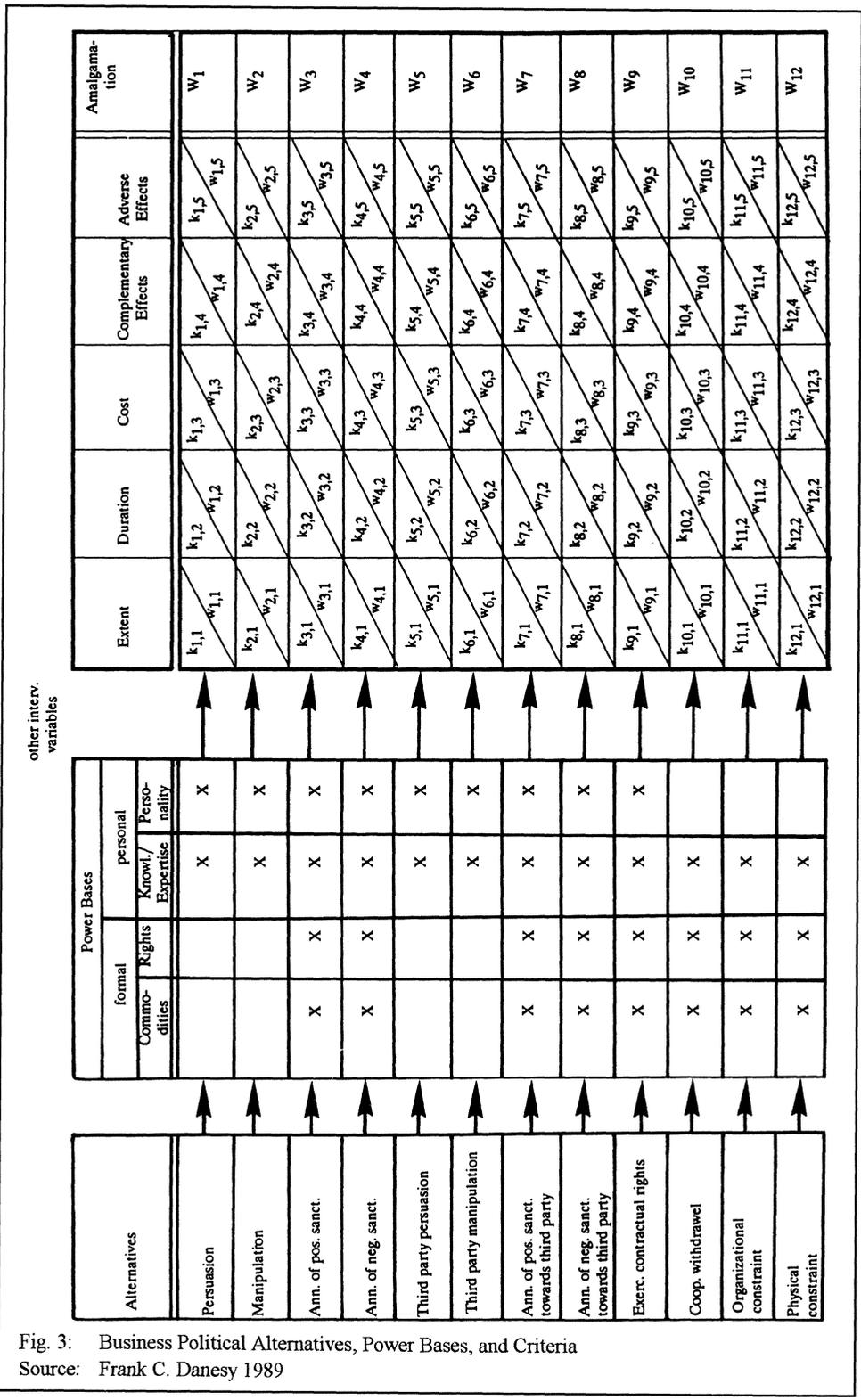


Fig. 3: Business Political Alternatives, Power Bases, and Criteria
 Source: Frank C. Danesý 1989

The Consequences of Alternative Business Political Actions

The scientific determination of the consequences of each business political alternative necessitates interdisciplinary research with inputs from the fields of political science, psychology, and sociology. With regard to the cost criterion, it also necessitates the development of a specific type of business political cost accounting, with which the costs incurred through the use of the business political alternatives can be systematically accounted for. To date, the field of business (organizational) politics is still far from providing a comprehensive, exhaustive, and systematic view of all the consequences of each business political alternative. First attempts to do so have, however, been undertaken ¹⁵. Drawing from isolated field and laboratory research findings out of this context, it has been possible to begin filling the empty spaces of the consequence matrix. Research findings from the field of psychology have proven to be invaluable in determining the effects of what is here called goal delimitation, particularly with regard to the extent and duration of an induced change. Other findings from the same field shed light on the extent and duration of change induced by third party influence (i.e. the influence of the third party on the target). On the basis of these findings, it has by means of logical reasoning, been possible to determine some of the types of business political costs incurred through specific basic political actions.

The positive and negative side effects of all business political actions are yet to be determined in a systematic manner. This is in part due to the lack of a complete overview of specific criteria related to such side effects. It is, for example, known that in terms of the (sub-) criterion "trust" persuasion will tend to produce positive side-effects, while manipulation once recognized as such by the opponent will do quite the opposite. The announcement of negative sanctions will cause resentment as a negative side effect. But these are only isolated observations; pieces in a mosaic which is yet far from complete.

Similarly, the consequences of the direct forms of environmental delimitation (including the extent, duration and cost) are still rather unclear and must be determined in a comprehensive manner.

¹⁵ Klis (1970), Danesy (1989)

Concluding Remarks

In discovering these avenues of past, current and future research activity, a significant break through in the field of business politics has been accomplished. Nonetheless, while this work provides a framework and a guide-line for further inquiry, there is still much to be done before the results can be considered satisfactory. The positive and negative side-effects of each action are yet to be differentiated in a systematic manner. The costs incurred through these effects must yet be added to those which have already been identified. On the whole, the field of business (organizational) politics stands at the very beginning of its determination of the consequences of business political action. On the basis of these criterion differentiations, it has become necessary to continue to job of determining the consequences of each business political alternative, either by drawing from the results of past research work or better yet by conducting empirical studies specifically in view of the business political field of research.

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Conflict Relationships in Organizations
A Concept of Measurement

By Andreas G. Nikolopoulos

Introduction

The quantification of the conflicts appears in literature on this subject in terms of intensity, grade, degree, size, measure or level of conflict. During the last twenty years this quantification has been carried out in different fields of management activity such as distribution and joint ventures. In these activities it becomes apparent that the method for measuring conflicts is independent of its field of application.

Despite these efforts, some basic questions still exist with regard to both their definition and their method. It is not by chance that although the measurement of conflict is part of the initial stages of conflict management, no further data have been collected up to now. In this paper, I shall attempt to discuss the motives for measuring conflict and to develop a method for covering the corresponding requirements.

Why Measurement of Conflicts?

All motives for measurement of conflicts arise solely from the field of conflict management and they can be summarized as follows:

- During the handling of a conflict there is not always an interest in conflict resolution but often in conflict creation. This goal is reached through an artificial increase in conflict intensity.
- When one knows the level of conflict intensity it is possible to anticipate the means required for facing it. This argument is based on an extension of Dahrendorf's belief ¹ that the greater the conflict intensity for a party, the greater the exercise of power for achieving the desired results.
- The permanent nature of conflict brings about the need for continuous control of its development. This control can be achieved by observing conflict intensity because the latter has direct influence on the conflict behaviour of the different parties. Therefore, as in real life situations, the dynamic approach to conflict relationships is possible.
- The limits between the appearance or the non-appearance of a conflict are unclear and the terms for defining them are underdeveloped. The study of conflict intensity could contribute to the clarification of these limits while quasi-resolution of conflict can be characterized as a low-intensity conflict.
- The relationship between the involved parties could be mutually conflictual but at the same time collaborative regarding certain of their objectives² or even advantageous for one side. The study of these relationships within the general framework of conflict intensity (e.g. relative decrease of conflict intensity due to the development of a collaborative relationship in other points of the system of issues of interested parties) facilitates the development of corresponding ways of dealing with conflicts³.
- It is possible to study the ways of handling conflict by involved parties during the long-term development of a relationship, i.e. the qualitative and the quantitative use of power on their side with reference to various levels of their conflict. Therefore the quite important problem of different

¹ Dahrendorf (1962: p. 221)

² Reber (1973: p. 64)

³ Mell (1979: p. 112 - 116)

systems of value, norms and mentalities affecting the expression of conflict and the handling of their power reserves could be faced.

Taking into consideration these motives or requirements, a corresponding definition of the conflict can be developed: conflicts arise when an actor has the impression that his aims are underfulfilled⁴. Consequently, the common causes of conflict are found in the disadvantageous realisation of expected consequences or in the disadvantageous alteration of consequence values⁵.

⁴ Pondy (1967: p. 299)

⁵ Długos (1981), Dorow (1981)

Previous Methods of Measurement

Since the end of 1960s attempts have been made to measure conflicts⁶. The most recent attempts to do this⁷ take three variables into consideration: N, F, I, and N concerns the intensity of disagreements. Its extent is recorded by interviewing and those who are personally affected. For this a random scale (e.g. "very intense" to "not very intense" on seven points) was used. F refers to the frequency of conflicts which arose in the past (e.g. the previous year). The measurement of F is carried out by means of a scale (e.g. 11 - point: 0 - 10) in relation to the appearance of a case of conflict.

The importance of each issue (I) is recorded by a further scale. With regard to the question of which of these variables or which of their contexts produce the better results (reliability, content validity, nomological validity, convergent validity), six alternative measurements are examined: F, N, F+N, F*N, I+F+N, I*F*N. From these I*F*N is preferred and three further good results (F*N, F+N, N) are obtained.

The orientation of these measurements only permits an ex post analysis of the conflict potential. Accordingly, their usefulness in relation to the motives mentioned above is limited. Moreover, figures collected in this way for comparisons of conflict intensities in different conflict situations or in a conflict field can only be used with great difficulty, i.e. in the case of several actors, as no external values or mean values are set. Apart from these general problems, the equivalent (to the others) consideration of the variable F must be questioned. Every case of conflict contains new elements and new structures. The existence of similar conflicts in the past signifies that these conflicts were not institutionalized or handled in a satisfactory way. This state of affairs does not, however, provide any evidence of the extent of the strain of present conflicts compared to earlier ones. In this context it would be conceivable that the parties have become accustomed to the appearance of certain conflicts and are therefore, both psychologically and with reference to their way of acting, prepared for their occurrence (underproportional effect). On the other hand, an explanation is also necessary for the situation that one of the participants is frustrated because of his earlier willingness to make a compromise and consequently intends to "take revenge" (overproportional effect). In this case the previous conflict potential could not only put a strain on similar conflicts but also on conflicts of other kinds. In other words, the addition of previous conflict potential to the present potential represents a simplification of the conflict measurement which can lead to non-representative results.

⁶ Assael (1968), Pruden (1969), Rosenberg & Stern (1971), Pearson (1973), Stern, Sternhal & Craig (1973), Foster & Shuptrine (1974), Lush (1976), Hunger & Stern (1976), Kelly & Peters (1977), Brown & Frazier (1978), Etgar (1979)

⁷ Brown & Day (1981), Habib (1987)

Measuring Conflicting Relationships

Churchman⁸ and Bidlingmaier⁹ determine conflict intensity as follows. Let us assume opposed Actors A and B and their expected goals O_A and O_B . The positive difference between the probable benefit P which O_B receives if O_A does not appear in the situation N , and the probable benefit P which is received by O_B if O_A is as desired by A gives a measure of conflict intensity:

$$P(O_B/\sim O_A, N) - P(O_B/O_A, N)$$

While this relationship shows that the absence or the appearance of O_A influences the probability of achieving O_B the relationship:

$$P(O_A/\sim O_B, N) - P(O_A/O_B, N)$$

shows the probable decrease of O_A if O_B is simultaneously desired. In the case where these differences give a positive result then a conflict intensity exists. On the contrary, a collaboration between A and B exists. If the result is zero, then there is no relationship between their objectives.

The result of this definition is the necessity for an equivalent consideration of the co-operation probabilities with regard to pure conflict potentials. Thus conflict intensities can be lessened by co-operation intensities. This orientation corresponds to the requirements of conflict management as in this case the isolated consideration of the conflicts is not abstracted from the total behaviour of an actor nor is this intended; rather, a relationship (conflicting or co-operative with conflicting elements) is steered towards its target. Furthermore, a justifiable claim is made that extreme values, e.g. +1, 0, -1 are fixed. Thus the characterization of a relationship is facilitated and also possibly the most important thing: the temporal comparisons of relationships or of conflict intensities in different conflict fields. In order to trace conflicts or cooperation, a matrix¹⁰ as in table 1, could be used.

$A_1 - A_4$ are the objectives of Actor A and his corresponding priorities: $Va_1 - Va_4$. The corresponding data for the Actor B are: $B_1 - B_4$ and $Vb_1 - Vb_4$. Let us assume that A and B are involved against each other in a conflict case. In spite of these conflicts, there is also some evidence of cooperation in the current case. The conflicts which are dependent on the current case, are denoted in table 1 by 1 1 and 2 2. Actor A feels a conflict to these aims because he reckons with a reduction of fulfilment of 30 % (11) and

⁸ Churchman (1961: p. 310)

⁹ Bidlingmaier (1968): p. 67)

¹⁰ Dlugos (1981: p. 658)

Table 1 : Conflicts and Cooperations in matrix format

Actor A	A ₁ Va ₁ : 20%	A ₂ Va ₂ : 30%	A ₃ Va ₃ : 40%	A ₄ Va ₄ : 10%
Actor B				
B ₁ Vb ₁ : 10%	1 1 -30% -30%	1 2 +20% +40%		
B ₂ Vb ₂ : 20%		2 2 -20% -10%	2 3 +30% +20%	
B ₃ Vb ₃ : 30%	3 1 -10% -20%		3 3 +20% +20%	
B ₄ Vb ₄ : 40%	4 1 -20% -10%			4 4 +50% +20%

20 % (22). The corresponding fulfilment reductions for B are: 30 % and 10 %. In spite of these conflicts, co-operation exists which also relates to the current conflict case. This co-operation occurs in the points 3 3 and 4 4. The overfulfillment of A's aims in these points is achieved at the level of 20 % and 50 %; B's aims are correspondingly overfulfilled by 20 % and 20 %. In addition, conflicts and co-operation which are independent of the current case must be considered.

In this context, conflict or co-operation potential, the content of which is subjective, e.g. sympathies, prejudices, tolerance and also impressions from past experiences, is involved. This type of conflict is recorded in points 3 1 and 4 1 since A feels a reduction of fulfilment by 10 % or 20 % and B correspondingly by 20 % and 10 %. The homogenous co-operation is fixed in the fields 1 2 and 2 3. A's overfulfillment is 20 % and 30 % and B's is 40 % and 20 %. With reference to the priorities the following data are achieved: V_{a1} : 20 %, V_{a2} : 30 %, V_{a3} : 40 %, V_{a4} : 10 % for A. For B the values are V_{b1} : 10 %, V_{b2} : 20 %, V_{b3} : 30 % and V_{b4} : 40 %. For the interpretation of these priorities the use of a ration scale is to be regarded as essential. The data for Actor A can be illustrated in figure 1.

In this figure the underfulfillment (right) and the overfulfillment (left) are measured horizontally. The priorities are recorded vertically. If these data are used separately and then together for the measurement of the conflicting relationship for each of the parties involved, then they do not provide concrete evidence. If, on the other hand, formal limits between conflict and co-operation as well as extreme values are to be developed, then the under- or overfulfillments for each actor are to be entered on a ratio scale. In this regard the extreme values are set at +1 for co-operation and -1 for conflict. The value zero points to a balancing-out of the fulfilments. The concrete measurement of the relationship of A is set out in table 2.

From this table it is clear that in spite of the conflicts arising, the relationship for both parties involved can be labelled co-operative. This label is more valid for A (+0,065) than for B (+0,042), who tends more towards indifference (i.e. to the mean value 0). The stability of their relationship in an open system then depends on the values which they can achieve by means of the alternatives they choose. In a similar way the relationships between several actors A, B, C and D, i.e. in one conflict field, can be measured. In this way, coalitions, alliances against third parties and the exertion of influence can not only be explained but also expressed quantitatively. Thus, the extent of overfulfillment of the aims of a third party, which he requires in order to develop a relationship or to wipe his existing relationship with one of our rival, could also be taken into consideration.

It is certain that the conflict intensities tend to vary during a conflict. Let us assume that an actor has the impression before the start of his negotiations that his aims can be achieved, on average, with 70 % fulfilment. But if it is confirmed during the negotiations that his reduction of fulfilment would probably lie on a different level (e. g. after the assertions of his negotiation partner are known), then his conflict intensity changes

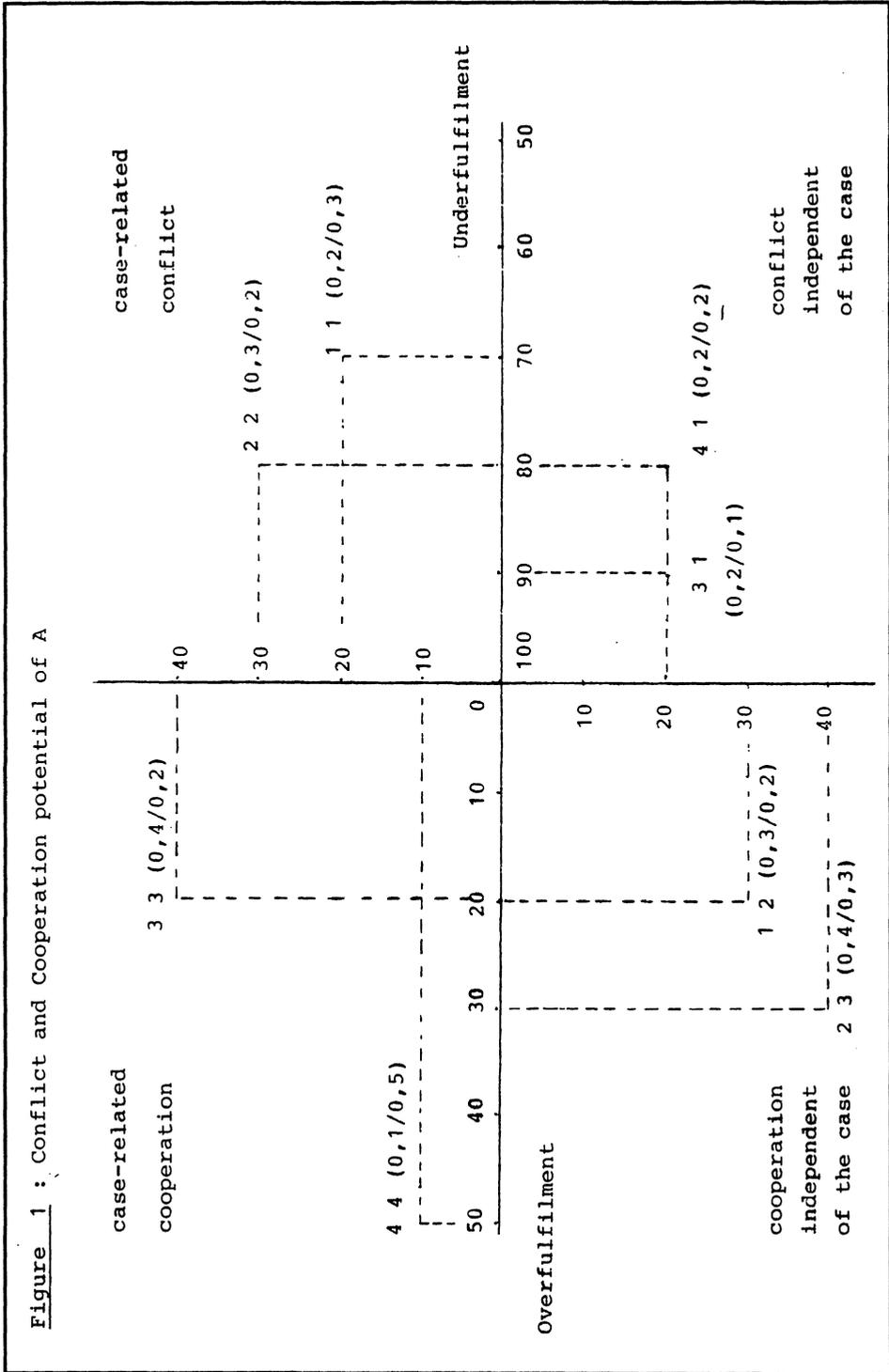


Table 2 : Measurement of the conflicting relationship

Intensity Conflict or cooperation	Degree of fulfillment		A' s Priorities (5)	Relationship for A (2)* (5) or (4)* (5)
	Underfulfilment	Overfulfilment		
	Total in % (1) (2)	Total in % (3) (4)		
Case related conflicts or cooperations	0,30 0,20	0,15 0,10	0,20 0,30 0,40 0,10	- 0,03 - 0,03 + 0,04 + 0,025
Conflicts or cooperations independent of the case	0,10 0,20	0,05 0,10	0,20 0,20 0,30 0,40	- 0,01 - 0,02 + 0,03 + 0,06
S U M	0,80	0,40	1,20	0,60 + 0,065

accordingly. This variation could also result because of a target-related orientation of information (persuasion or manipulation) towards the level of expectation of an actor or towards his priorities. In this case, a lowering of the level of expectation or a redistribution of the priorities would reduce the conflict intensity. A further problem area relates to the investigation of the different possible consequences of the behaviour of an actor, if he concentrates his conflict intensity on certain aims compared to the case that this conflict intensity is diversified (i.e. over a greater number of aims).

If one were to name problems in the measurement of these relationships, then the delimitation of the aims of the negotiation partner's priorities would have to be emphasized. This can result in manipulation attempts (e. g. putting very high claims so that a better result can be obtained) and data which are highly subjective. These problems exist predominantly in cases where the participants cannot obtain any information about their negotiation partners, i.e. they do not have a long relationship with each other and are unable to obtain any information about the structure and the course of similar cases. Such relationships occur very rarely in enterprises and therefore could be designated "extreme cases". These cases could be handled with the help of probabilities or mathematical models.

Summary and Conclusion

On the basis of earlier theoretical ideas and empirical research, a concept for the measurement of conflict intensity and of conflicting relationships has, generally speaking, been formed in this paper. In this context, the theoretical requirements of conflict management were given great consideration so that this attempt would not only provide reliable measurement results but could also be considered as a link in the chain to further problem areas of conflict management. Thus the urgency of conflict-handling could also be understood *ex ante*.

If one further considers that the power potential is, as a rule, limited, then on the basis of these conflict measurements, plans relating to the dividing-up or use of power potential (quantitative approach) can be supported and the selection of the means of power (qualitative approach) can be made easier. The fixing of an objective scale with extreme and mean values regarding the measurement results permits the investigation or explanation of complex relationships. Thus the course of the conflicts with several participants in open relationships systems (i.e. taking into consideration actors from the environment) can be controlled or predicted. For these predictions, no conditions regarding homogeneity of the conflict areas or temporal limits are set. Therefore the empirical relevance of this concept can be examined not only directly but also in relation to the examination of the above-mentioned relationships.

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Conflict-Handling in Industry-Wide Codes

By Anke Frieling

Introduction

Since the Second World War public opinion of companies and their behaviour has changed significantly. Until the beginning of the 1970s companies were primarily regarded as important contributors to the general welfare of the population. Since then, however many groups of the society have become very sensitive to the negative side-effects of companies' activities, e.g. the pollution of the environment.

Nowadays, companies have to act in a rather critically observing environment¹; individuals as well as interest groups follow closely every move of the companies and they are always prepared to draw the attention of the media and/or the politicians to any perceived misbehaviour. Dealing with these critics has become a major challenge for many corporations. They have to react to the new demands, which they are confronted with the public opinion - represented either by the media or by interest groups who declare themselves "advocates" of the general public².

It turns out that traditional public relations methods prove to be ineffective. There is a growing number of cases in which companies have to adapt - at least partially - to the demands of their critics. This adaptation strategy is quite often connected with a competitive disadvantage for the company: for example, as a result of interest group pressure the company has to adhere to higher environmental or safety standards, which often means higher costs and higher prices. This means a chance for the competitors to gain a bigger share of the market.

In Germany companies have developed a new "instrument" to cope with these demands of society without having to bear the disadvantages in competition: the arrangement of industry-wide codes (sometimes also called gentlemen's agreements)³.

¹ Lipset & Schneider (1987) have shown a similar trend in the U.S. and called it a "confidence gap".

² Haffner (1978: p. 80)

³ Tuchtfeldt (1968)

Definition and Contents of Industry-Wide Codes

Industry-wide codes are voluntary loose-knit arrangements of different companies within an industry. They agree upon a code of conduct (ethics) which restricts their discretion to some extent, e.g. in fixing certain environmental or safety standards. The determination of these standards often takes place in close cooperation with government agencies.

The participating companies regard the arrangement of the code as a voluntary action. This is only half of the truth⁴: public pressure of interest groups as well as the possibility of new laws occurring, force the companies to react. The prevention of new legal regulations is a significant motive for an industries' companies to restrict their discretion 'voluntarily'.

From the point of view of the companies, industry-wide codes have two main advantages:

- the avoidance of competitive disadvantage
- the prevention of government regulations⁵.

Industry-wide codes have become quite a popular instrument in Germany. A list published by the BDI⁶ in 1989 contains more than thirty agreements, most of them regulating environmental or health issues.

One of the most popular and successful industry-wide codes was established in the German asbestos industry⁷ in 1982. Following a heated public debate about the devastating effects of asbestos on human health and an impending law prohibiting the use of asbestos the companies of that industry developed a code in collaboration with the ministry responsible (at that time: the ministry of interior affairs). The code contained a plan for the next eight years; it formulated steps for the reduction of the use of asbestos over the years up to 1990, whereby asbestos should only be used if no adequate substitute is available.

This industry-wide code was successful in two ways: 1. With the arrangement of the code in 1982 the public debate about the asbestos producing companies almost came to a complete end. 2. The goals formulated in the code were achieved - sometimes even earlier than planned and no government intervention had to take place.

⁴ Schemann (1977: p. 18)

⁵ Beauchamp & Bowie (1988: p. 131) give a long list of reasons why managers do not like government regulations

⁶ BDI=Bundesverband der Deutschen Industrie e. V.

⁷ Dyllick (1989: p. 331)

Although there are more "success stories" like that, there are also industry-wide codes which did not work so well. These arrangements are always threatened by the simultaneous existence of competitive and collaborative relationships. The 'normal' relationship between the companies or an industry is a competitive one. In case of an industry-wide code, the competitors restrict competition, not totally, but to some extent. Thus there are two kinds of relationships: competition and cooperation. The dominating competition means a permanent threat to the cooperation in the industry-wide code.

The inherent instability of these codes is one of the main arguments against this new instrument. Many people are afraid that the solution of important environmental problems is simply postponed by industry-wide codes: companies agree on a code, public attention diminishes, but it might happen that at least some of the companies do not stick to the code. As a consequence, environmental pollution continues. This is an issue for the external critics; but this kind of behaviour also causes problems for all other participants of the code.

Causes of Conflict in Industry-Wide Codes

While elaborating the content of the code of conduct, conflicts will emerge because of differing conceptions of the participating companies of how to react to interest groups demands. They have to come to compromises. The standards agreed upon in the code of conduct are binding/obligatory for all participants. Within the code the relationship between the participating companies can be characterized as an exchange relationship. Its fundamental component consists of the mutual obligation to follow the industry-wide code.

Conflicts emerging in the course of formulating the code will not be analyzed here, they can be resolved by negotiations (if negotiations fail, there will be no industry-wide code). However, there is another conflict connected with industry-wide codes which is very problematic because it threatens the stability and the continuation of the agreement. Such a conflict emerges if one (or more) of the participating companies does not stick to the code of conduct any longer (cause of conflict: breach of agreement by the adversary)⁸. Looking at the reasons for this behaviour it is evident that the company has re-evaluated its strategic alternatives (its basis goal): it now prefers a competitive strategy to a cooperative one. In part, this behaviour can be explained by Olson's "Logic of Collective Action"⁹, especially by his reflections on the attractiveness of free-riding. If one considers the behaviour on the level of an individual company only, it seems to be reasonable (rational).

The problem however, is that the basic objectives of the industry-wide code - securing discretion for the companies, preventing governmental action - can only be achieved when all companies adhere to the code of conduct. If the public does notice that at least some companies continue to pollute the environment or cause damage to human health they will force the government to take rigorous measures against the companies. The basic objective of the industry-wide code would not be achieved. To avoid this failure one has to think about possibilities of handling these conflicts which emerge because of free-riding (disloyalty).

The business politics approach offers a systematics of methods of conflict-handling. One has to analyze which of these methods could be useful in the case of free-riding in industry-wide codes and which basic requirements have to be met for its use. The following criteria have to be taken into considerations for the selection of a method of conflict-handling.

- to what extent will the behaviour of the free-riding company be changed
- how long will this change in behaviour last
- what are the costs of the conflict-handling process

⁸ A general classification of causes of conflicts is given by Dlugos, Dorow & Danesy (1988: p. 111)

⁹ Olson (1968)

- complementary effects
- adverse effects (negative side-effects).

If it turns out that there is no or little chance to make the free-riding company fulfill its obligation, the members of the GA would have to choose an alternative strategy to secure their discretion. Figure 1 gives an overview of the alternatives of conflict-handling and the criteria which have to be considered to find out the most effective method.

Criteria \ Alternatives	Extent	Duration	Cost	Complementary effects	Adverse effects	Amalgamation
Persuasion	$k_{1,1}$ $w_{1,1}$	$k_{1,2}$ $w_{1,2}$	$k_{1,3}$ $w_{1,3}$	$k_{1,4}$ $w_{1,4}$	$k_{1,5}$ $w_{1,5}$	W_1
Manipulation	$k_{2,1}$ $w_{2,1}$	$k_{2,2}$ $w_{2,2}$	$k_{2,3}$ $w_{2,3}$	$k_{2,4}$ $w_{2,4}$	$k_{2,5}$ $w_{2,5}$	W_2
Ann. of pos. sanct.	$k_{3,1}$ $w_{3,1}$	$k_{3,2}$ $w_{3,2}$	$k_{3,3}$ $w_{3,3}$	$k_{3,4}$ $w_{3,4}$	$k_{3,5}$ $w_{3,5}$	W_3
Ann. of neg. sanct.	$k_{4,1}$ $w_{4,1}$	$k_{4,2}$ $w_{4,2}$	$k_{4,3}$ $w_{4,3}$	$k_{4,4}$ $w_{4,4}$	$k_{4,5}$ $w_{4,5}$	W_4
Third party persuasion	$k_{5,1}$ $w_{5,1}$	$k_{5,2}$ $w_{5,2}$	$k_{5,3}$ $w_{5,3}$	$k_{5,4}$ $w_{5,4}$	$k_{5,5}$ $w_{5,5}$	W_5
Third party manipulation	$k_{6,1}$ $w_{6,1}$	$k_{6,2}$ $w_{6,2}$	$k_{6,3}$ $w_{6,3}$	$k_{6,4}$ $w_{6,4}$	$k_{6,5}$ $w_{6,5}$	W_6
Ann. of pos. sanct. toward third party	$k_{7,1}$ $w_{7,1}$	$k_{7,2}$ $w_{7,2}$	$k_{7,3}$ $w_{7,3}$	$k_{7,4}$ $w_{7,4}$	$k_{7,5}$ $w_{7,5}$	W_7
Ann. of neg. sanct. toward third party	$k_{8,1}$ $w_{8,1}$	$k_{8,2}$ $w_{8,2}$	$k_{8,3}$ $w_{8,3}$	$k_{8,4}$ $w_{8,4}$	$k_{8,5}$ $w_{8,5}$	W_8
Cooperation withdrawal	$k_{9,1}$ $w_{9,1}$	$k_{9,2}$ $w_{9,2}$	$k_{9,3}$ $w_{9,3}$	$k_{9,4}$ $w_{9,4}$	$k_{9,5}$ $w_{9,5}$	W_9
Exercising contractual rights	$k_{10,1}$ $w_{10,1}$	$k_{10,2}$ $w_{10,2}$	$k_{10,3}$ $w_{10,3}$	$k_{10,4}$ $w_{10,4}$	$k_{10,5}$ $w_{10,5}$	W_{10}
Organizational constraint	$k_{11,1}$ $w_{11,1}$	$k_{11,2}$ $w_{11,2}$	$k_{11,3}$ $w_{11,3}$	$k_{11,4}$ $w_{11,4}$	$k_{11,5}$ $w_{11,5}$	W_{11}
Physical constraint	$k_{12,1}$ $w_{12,1}$	$k_{12,2}$ $w_{12,2}$	$k_{12,3}$ $w_{12,3}$	$k_{12,4}$ $w_{12,4}$	$k_{12,5}$ $w_{12,5}$	W_{12}

Fig. 1: Alternatives of conflict-handling methods and criteria (Source: Danesy 1987)

Alternative Methods of Conflict-Handling

In case of a conflict the actors (companies) have essentially two causes of action available to them: the revision of their policy goals, or the securing of their policy goals through conflict-handling. Revision of policy goals means either an adaptation of one's own demands or pledges to the demands of the conflict partner or the termination of the relationship (exit). In terms of industry-wide codes, exit would mean that none of the participating companies would adhere to the code of conduct any longer. The industry-wide code would thus be rendered useless. The possibility of adapting the demands, for example by reducing the requirements of the code of conduct, depends upon the quality of the justification which can be given to the public or to the representatives of the government agencies. In most cases, neither the public nor the governmental agencies will tolerate a lowering of pollution control or health protection standards.

Goal securing alternatives, which means methods of conflict-handling can be divided into two broad categories: the delimitation of the adversary's goal-setting process (goal delimitation) and that of his environment (environment delimitation).

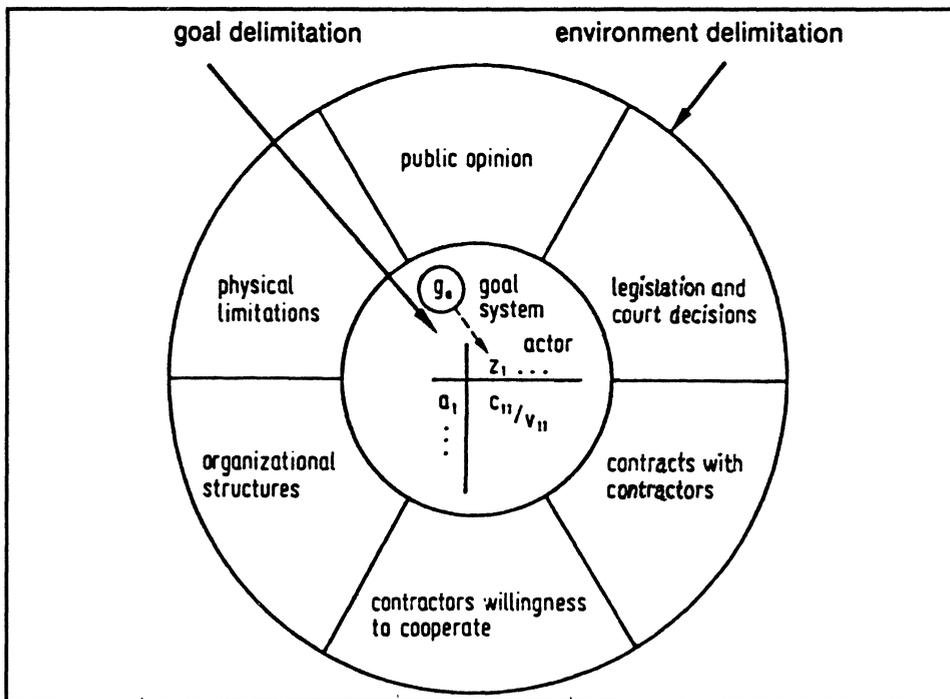


Fig. 2: Basic forms of delimitation (Source: Dlugos/Dorow/Danesy 1988: p. 114)

The possibilities of environmental delimitation for the free-riding company will be discussed first.

Environmental Delimitation

Actions of environmental delimitation can either be direct or indirect. Indirect actions are aimed at the goal setting process of third parties who, in some way, limit the adversary's environment. Third parties shall be influenced in such a way that they impose restrictions on the disloyal company. Possible third parties are: public opinion, legislation and jurisdiction and the contractors of the adversary.

These different alternatives have to be evaluated by the criteria mentioned above.

a) Influencing public opinion

The participants of the industry-wide code try to attract the attention of the media and the public for the misbehaviour of the free-riding company. As a result of negative publicity and the pressure of public opinion the company feels urged to follow the code of conduct again. Choosing this kind of action brings about some problems:

- Influencing public opinion in an effective way and in the desired direction is very difficult.
- The probability of the occurrence of negative unintended side-effects is very high. If the problems of the industry-wide code are discussed in public the negative publicity will possibly affect the whole industry and not just one company.
- Public attention does not last long. If public pressure diminishes the company might start free-riding again.

b) Influencing legislation and jurisdiction

In Germany this is already a very popular method. In some industries the content of the code of conduct has been elaborated in cooperation with a government department, e.g. the ministry of health or the ministry of pollution control. Members of the industry-wide code could report to the ministry, if one of the companies offends against the code. This information would probably re-start the discussion about the promulgation of a law. The impending legal regulations might induce the company to show a conforming behaviour. This method is also very problematic because of the unintended side-effects. Once the staff of the ministry recognizes that the code does not work effectively they will possibly prefer legislation to voluntary agreements.

c) Influencing the contractors of the company

Contractors of the company can be the clients or the suppliers of the company for example. The members of the industry-wide code could try to influence the contractors in such a way that they boycott the disloyal company. In Germany this kind of action is

nearly impossible because of the existence of the Law Against Unfair Competition¹⁰. The same side-effects as in the above mentioned methods might also occur if one attracts any kind of public attention to the problems of the industry it is not sure that the negative publicity will affect only those who "deserve" it.

The alternatives of conflict-handling by indirect environmental delimitation do not seem to be very effective. Basically, it is possible to influence third parties, but the probability is quite high that the negative publicity will be detrimental to all companies of an industry. The costs of these methods of conflict-handling depend upon the following parameters:

- Which managers/how many managers of the participating companies have to deal with the conflict;
- how much time the process of conflict-handling takes;
- which media are used.

In addition, it is necessary to take into account the costs of the side-effects - the costs for the restoration of the image of the industry and its companies.

In the next step of the analysis the methods of direct environmental delimitation have to be examined. Direct actions of environmental delimitation do not progress through others (third parties). They are focussed on the alteration of those environmental components which directly constrain the adversary's scope of action. This kind of delimitation includes exercising legal rights, limiting one's own readiness to cooperate and the alteration of organizational structures and physical factors¹¹.

In the case of a disloyal company in an industry-wide code the possibilities for using direct environmental delimitation are rare; either there are no organizational structures or physical factors which could be changed (GA's are loose-knit arrangements without much bureaucracy) or they cannot be changed in a way that would lead to a change in the free-riding company's behaviour.

A basic requirement for an effective limitation of one's own readiness to cooperate is the existence of such cooperative projects. Furthermore, they have to be of great importance to the adversary. As the disloyal company has already stopped cooperative actions in the industry-wide code, it has to be supposed that such projects do not exist. The last alternative of direct environmental delimitation - exercising of legal rights - is also of little usefulness. German law and jurisdiction hardly offer any support for this method in this case.

Finally, the methods of goal delimitation have to be analyzed.

¹⁰ In German it is: Gesetz gegen unlauteren Wettbewerb (UWG)

¹¹ Dorow (1982: p. 176)

Methods of Goal Delimitation

Using methods of goal delimitation means trying to take direct communicative influence on the goal system of the adversary. There are alternative methods of goal delimitation: persuasion, manipulation and the conditional announcement of positive or negative sanctions¹².

The objective of all goal delimitation processes in an industry-wide code is to induce the disloyal company to follow the code of conduct again. The company has to be convinced of the advantages of a cooperative strategy, (in an industry-wide code) as opposed to the competitive one. The prospects for a successful persuasion process are not very good, as the company has most likely thought long and hard about the advantages and disadvantages of both strategies before it decided to break the rules of the code of conduct. In view of this good knowledge of the various arguments (the pros and cons) it seems hardly possible to manipulate the free-riding company. (Manipulation is also not a good base for future cooperation.)

Another method of delimiting an adversary is the conditional announcement of positive or negative sanctions. If the code of conduct would provide punishments in case of free-riding it might be possible to achieve a higher degree of loyalty. By announcing positive sanctions the adherence to the code of conduct would be made more attractive. The announced negative sanctions as well as the positive sanctions have to bring about distinct disadvantages and advantages respectively to the companies. Otherwise, the announcement of sanctions would have little effect.

¹² Dlugos (1990: p. 304)

Conclusion

The business politics approach offers systematics of possibilities of conflict-handling. Having checked all of them it becomes evident that the prospects for delimiting a free-riding company in an industry-wide code are not very good. Direct environmental delimitation, persuasion, and manipulation are not useful. The methods of indirect environmental delimitation can be used, but they have severe negative side-effects. The most promising alternative is the conditional announcement of negative or positive sanctions, which means that, it is clear for every participant of the industry-wide code that disloyal behaviour will be punished, just as conforming behaviour will be rewarded. If it is impossible to build up an effective system of rewards and punishments (for example because of legal or financial constraints) industry-wide codes do not seem to be an adequate response to society's new demands.

Despite these problems, it is believed that industry-wide codes will remain a popular instrument in resolving environmental problems. To look at the problem from a politician's perspective, it is often much easier to force companies to arrange an industry-wide code than to promulgate a new law which might not be compatible with EC-legislation.

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**The Political Consequences of Organizational Cultures:
Mergers, Acquisitions, and Joint Ventures**

By Dan Farrell and James Petersen

Introduction

Over the past decade, two major intellectual movements have challenged the traditional manner in which organizations have been conceptualized. The first, the renaissance of interest in organizational power and politics¹ was largely initiated and developed by scholars of organizations. The second, the growth of interest in corporate and organizational cultures², has both popular and scholarly roots. With few exceptions³, the organizational politics and organizational culture literatures have been sharply distinct. This independence is somewhat surprising since both approaches share a good deal of common ground in their critiques of the rational model of organizations. This paper attempts to demonstrate the utility of integrating these approaches by exploring the political consequences of organizational cultures in corporate mergers, acquisitions, and joint ventures.

A focus on the political consequences of organizational cultures provides an opportunity to systematically explore the implications of differences in organizational values and ideologies. At the same time, a political perspective focusses attention on the different interests and possible conflicts of subgroups, subunits, and different divisions within an organization. Such organizational elements frequently become the basis of the subcultures which populate most large organizations. In mergers, acquisitions and joint ventures, previously distinct cultures may become competing subcultures within the new organizational entity.

With a few exceptions⁴, organization theorists have not studied mergers, acquisitions, or joint ventures as mechanisms for achieving organizational growth. Such oversight can be explained by factors such as the traditional internal focus of organization theory and the relatively recent growth of mergers, acquisitions and joint ventures as business strategies. Among the existing organizational theories, political theory is the most informed concerning organizational growth by external means. It stresses how organizations respond to resource pressures and uncertainty in the external environment through active control strategies (purchases), linking the fate of several organizations (shared directors), or by spreading the risk between several companies (joint ventures). Given the growing evidence that strategic planning and market share approaches are not correlated with organizational performance, more intense interest in mergers, acquisitions, and joint ventures seems likely.

¹ See for example, Pfeffer & Salancik (1978), Farrell & Petersen (1982), Mintzberg (1985), and Eisenhardt & Bourgeois (1988)

² Examples include Deal & Kennedy (1982), Peters & Waterman (1982), Frost, Moore, Louis, Lundberg & Martin (1985), and Ott (1989)

³ Riley (1983), and Lucas (1987)

⁴ See Hubbart (1982), Levine & White (1961), Osborn (1951), Pfeffer & Salancik (1978), and Stern & Morgenroth (1968)

Despite a slight downturn in the second half of 1989, asset pooling transactions have increased dramatically during the last decade. Excluding leveraged buyouts and divestiture only sales, in the U.S. in 1980 there were 1,565 mergers totaling \$320,958,900.00. The record number of transactions occurred in 1986, recording 4,323 transactions. Records of merger transaction for the first quarter of 1990 indicate 516 completed mergers and acquisitions valued at over 30 billion dollars⁵. While this activity has been especially strong in banking (330 transactions in 1986) twelve other industry groups recorded over 100 transactions in the most active year⁶.

Continued attention to these forms of organizational growth seems warranted given the long list of causes that seem to explain the trend. In addition to generally supportive business climates in several major trading nations, there are specific developments and changes that promote mergers, acquisitions, and joint ventures. Among the long term changes, the positive public response to deregulation, both in the U.S. and Great Britain, in communications and in transportation industries helped promote deregulation in other areas and has altered the public perception that concentration means monopoly. Another undeniable long term trend is the recognition of global competition and that fluctuating currency values make cross national investment more attractive. In the short run the relatively low interest rates, the strong linkage between firm size and executive compensation, and the perception that takeover attempts increase shareholder value, provide continued fuel for business growth through ownership change.

⁵ Mergers & Acquisitions (1990)

⁶ Mergers & Acquisitions (1988)

Politics and Culture

We have previously defined political behavior in organizations as "those activities that are not required as part of one's organizational role but that influence, or attempt to influence, the distribution of advantages or disadvantages within the organization"⁷. This definition stresses the behavioral and discretionary nature of organizational politics. Success in influence attempts is heavily dependent on the ability of an individual to skillfully amass and mobilize resources. Occasionally these resources are available due to the individual's personal characteristics, but more frequently they are linked to position within the organization or to external contacts.

The culture concept, one of the most venerable items in the intellectual toolkit of social scientists, has a rich literature of definitions. A comprehensive review of this literature would require a book-length effort and is unnecessary here. Most students of organizational culture have viewed it as the mutual symbols of participants in an organization. Walter, for example, defines culture as the "shared attitudes, values, beliefs, and customs of members of a social unit or organization"⁸. It is important to recognize that culture is a symbolic phenomenon and that it plays a key role in shaping the perceptions of members of an organization. While anthropologists customarily make a distinction between material and nonmaterial culture, students of organizational culture have been almost exclusively interested in the nonmaterial or symbolic culture.

Nearly all of the popular literature on corporate culture, as well as much of the early scholarly literature seems to assume that culture is a uniform phenomenon within an organization. If comparisons are made, they are contrasts among the cultures of different corporations. Some scholarly literature⁹, of course, has recognized the existence of organizational subcultures, many of them rooted in organizational divisions or subunits, and the adaptive change of cultures.

Attempts to classify forms or varieties of organizational culture are still at a preliminary stage. Many of the early works on organizational culture were either extremely global, as in Ouchi's¹⁰ exploration of "Theory Y" organizations, or rather a theoretical descriptive accounts, as in Peters and Waterman¹¹. In the few cases where typologies of organizational culture have been developed, they have generally been confined to simple, single-variable classification schemes. Jones¹², for example, argued that organizational cultures grow out of the economic conditions of organizational participants. In his view, three types of organizational cultures may emerge: professional, bureaucratic, and

⁷ Farrell & Petersen (1982: p. 405)

⁸ Walter (1985: p. 301)

⁹ Gregory (1983), and Wilkins & Ouchi (1983)

¹⁰ Ouchi (1981)

¹¹ Peters & Waterman (1982)

¹² Jones (1983)

production. Ott¹³, on the other hand, has provided an extremely detailed typology of elements of organizational cultures that cross classifies four levels of culture with 74 cultural elements. Unfortunately, neither the sweeping, global descriptions of culture nor the ultra-detailed 300 cell typology have much practical value for scholars or for managers looking for guidelines on how to operate effectively in a particular organizational culture.

¹³ Ott (1989)

Political Consequences

Considerable variation exists within the categories of mergers, acquisitions, and joint ventures. Conglomerate takeovers may produce only minimal change such as increased financial reporting. Horizontal or concentric mergers typically find more ingroup/outgroup dynamics between the old guard and the acquiring management. Joint ventures produce the greatest ambiguity and uncertainty for managers. Whether the level of cultural differences and pressures for realignment are modest or intense, all such situations typically increase politics and political behavior by providing an alternate influence system to the more rational authority and expert systems.

Among the political consequences of increased use of politics in the organization are altered managerial functions. The new political/rational model of management may be pervasive or it may be limited, touching only some managerial activities. The current analysis suggests that in situations of uncertainty produced by cultural differences, three functions are especially relevant - goal identification, succession, and information processing. Different cultural combinations, varying in form and content, should produce more or less successful conflict handling in these three areas.

Goal identification

Most acquiring firms hold the general belief that the new entity can be operated with greater efficiency than the prior entities had been able to achieve. In addition, however, more specific strategic plans must be formulated such as one firm assisting the other technologically or allowing for industry restructuring. It is reported that "probably the most important subject to reach agreement on is strategy for the acquired business"¹⁴. Successful conflict handling in goal identification may be useful for establishing overall integration of the organizations. Employing understanding and considerate management style¹⁵, expecting and tolerating some conflicts, allows dissociating elements in the relationship to be removed and should provide a safeguard against more pervasive conflict that may emerge if all differences are suppressed.

The extensive use of politics that has been associated with highly imbalanced power relationships¹⁶ may result in political activity superceding other managerial activity. Such situations are time consuming, divisive and costly¹⁷, and allow politics to capture the organization to the point where effective functioning ceases.

¹⁴ Magnet (1984: p. 22)

¹⁵ Siehl, Ledford, Silverman & Fay (1988)

¹⁶ Eisenstadt & Bourgeois (1988)

¹⁷ Mintzberg (1985)

Succession

Effective leadership requires an understanding and some mastery of political influence. When management must be both political and rational, this competitive and uncertain environment may aid in the development of leadership and the identification of effective leaders. Political activity provides "alternative channels of information and promotion, as when the sponsorship game enables a manager to leap over a weak superior. ...Political games not only suggest who those players are, but also remove weak ones from contention"¹⁸.

In less successful circumstances, adverse succession suggest that top administrators' competence is called into question by continued internal conflict and by unresolved organizational problems, regardless of whether or not the manager is the cause of the problem¹⁹. While the relationship may be moderated by other factors such as perceived ability to cope with the problem and resource dependence, subcultural conflict may result in turnover of top management.

¹⁸ Mintzberg (1985: p. 149)

¹⁹ Pfeffer & Salancik (1978)

Information Processing

Political competition between subcultures affects information flow in the organization. When the political activity level is acceptable, competition insures a complete analysis of proposed plans and organizational issues. The differing values of competing subgroups provide bases for different interpretations to supplement rational and expert analysis. In addition the different content bases, the presence of important subcultures insures full examination of all matters²⁰. Each group is forced to provide support for its ideas in terms of the best interests of the organization as a whole. Analysis of many of the more publicized acquisitions has shown that boards of directors often consider competing strategic plans and their consequences for the organization when considering economically equivalent acquisition offers. In the 1989 RJR/Nabisco acquisition, the board favored an outside coalition over an internal leveraged buyout in part because the management group had a history of favoring themselves over stockholders, having developed extremely lucrative severance plans and other high profile management prerequisites.

In situations that evidence strong political activity, political actors can be expected to restrict the flow of information. Recent research on computer manufacturers demonstrated that managers and executives in the most politicized firms restricted information flow by emphasizing one-to-one meetings where selective information was released, use of outlaw staff meetings (i.e. not all relevant parties invited), and premeeting politicking. These firms were also characterized by poor organizational performance.

²⁰ Gray & Ariss (1985)

Cultural Patterns

Given the great of variety of possible organizational cultures and the substantial amount of work remaining to be done in this fruitful and intriguing area, it is premature to propose an exhaustive set of dimensions of organizational cultures. Consistent with the purpose of illuminating merger, acquisition, and joint venture growth processes, two initial dimensions, clearly useful for understanding political consequences on managerial processes are offered for consideration: the life-cycle dimension and the control/involvement dimension. The cross-classification of these two dimensions provides a basis for classifying organization cultures.

The life-cycle dimension of the cultural typology is concerned with the level of organizational development and the size of the firm. Because acquisition strategies are employed to attain rapid organization growth or change organization position relative to the external environment, consideration of the level of development of the focal organizations is critical. Vertical mergers might exemplify the merger between buyer and seller where the two focal organizations may be different size - typically the supplier being smaller. The primary advantage gained by such mergers is in reducing uncertainty.

The life-cycle dimension also informs the observer about the mechanisms for transmitting key cultural values. New organizations typically have few regularized methods for transmitting culture and are more accurately characterized as in the process of developing culture through practice. Growing firms invent and repeat mechanisms that have positive consequences for organizational survival. Initiation rites, ceremonies, and shared language and symbols are the mechanisms of growing organizations. In addition to the previous mechanisms, mature organizations have fully developed rites and ceremonies and have a rich heritage of myths and legends that sustain culture and broaden its scope of influence.

Control mechanisms are a dominant feature of most organizations and this dimension recognizes the difference of how *organizational members* are influenced to pursue organizational goals and how organization members are informed as to the key values of the organization. Internalized control mechanisms are "built in" to the organization members by their education and professional socialization. The member perceives that the good of the organization and his or her self interest are one and the same. Organizations that stress internalized control de-emphasize position-based authority and have little status differentiation. They frequently use participative decision styles to achieve compliance through internalization of organizational goals and values. By having flexible policies and exercising tolerance of deviation, they allow members to find areas of identity between self and group interest.

The control devices of other organizations utilize structural mechanisms. Written job descriptions, close supervision, regular performance appraisals, and other written

directives and reporting mechanisms represent an alternative approach to control. As firms using these means of control increase in size they typically progress from rules and policies, to standards and measures, to an emphasis on extensive written records and elaborate operating procedures.

A Typology of Organization Culture

A cross-tabulation of the two dimensions - life cycle (new growing, and mature) and mechanism (internalized and structural) - produces a two by three matrix which may serve as a typology of organization cultures. Despite the extensive interest in organizational culture, no other system has emerged that has explored or organized the different cultures in a manner useful for predicting potential difficulties in planned mergers, acquisitions or joint ventures. The categories provided in figure 1 are not exhaustive of all cultural types, but they represent a preliminary attempt to provide a framework for comparison and analysis.

Cell A, called customized organizations, are those firms that are in the new stage of the organizational life cycle and have internalized mechanisms for control of members. One could expect to find many partnerships, professional corporations, and cooperative organizations. First, such organizations are generally small and thus members are likely to be in contact with one another. Continued membership almost guarantees a high degree of value agreement. Second, members in these organizations either participate commonly in ownership of the organization, or they share the same professional value system, providing an additional control mechanism.

Moving across the typology, Cell B organizations maintain some of the features of the previous group, but alternative mechanisms are also present. In the individualized organizations, members have the flexibility to negotiate the nature of their participation in the organization *and* have some direct or indirect participation in the profit structure of the firm. Indirect marketing firms such as Amway or Mary Kay Cosmetics provide opportunities for members to negotiate their level of participation, have shared value structure, and some perception of ownership in the organization. Interestingly, franchise systems, typically not belonging in this category, are now allowing more individual franchisee discretion. Hampton Inns is a new subsidiary of Holiday Inns Inc. designed to allow more individualized participation.

The modularized organization, Cell C, is an organizational form ideally suited for mergers and acquisitions, and may resemble a successful merger, on a lesser scale, in their design. Modularized firms have endeavored to maintain multiple internal cultures as they have grown in size. A prototype in this design is Cray Computers. At Cray, units are broken off when they reach large size to insure that personalized relationships are remain to encourage feelings of participation and ownership and to allow multiple cultures to flourish within the organization. Modularization includes decentralized decision making which, in these firms, helps to increase involvement and commitment to the organization. While employees may not be owners in any controlling sense in these firms, stock purchase plans and stock bonus plans, such as those used at Data General²¹ when

²¹ Kidder (1981)

coupled with a distributed authority do increase members sense of partnership with the firm.

Conglomerate merger organizations, which also resemble modularized organizations, are generally reported to be the ideal acquisition form because they are the least intrusive type of reorganization, usually requiring the acquired firms only to meet financial performance goals. In contrast to demands to change all operating and reporting procedures and relationships (typical in the banking industry), the conglomerate form is non intrusive in terms of organizational cultures.

The lower half of figure 1 presents the three stages of development for firms relying on structural mechanisms to influence the level and form of participation of their members. Cell D includes the classic entrepreneurial organizations best characterized by sole proprietorships. In the entrepreneurial firm, ownership is vested in only the founder and all decision making authority is held by that individual. Analysis of the business problems reported by entrepreneurs²² and trade publications indicate that overcoming differences between bosses and employees is key to business success. In addition to their emphasis on centralized authority, entrepreneurial firms often tie compensation to productivity, use employee recognition programs, and generally work to manage employee attitudes and values.

The production firms, Cell E, are those firms that maintain some of the elements of entrepreneurial firms, but have growing levels of production. Many manufacturing firms would fit this category, as do service firms. Production oriented firms differ from entrepreneurial firms in that standardization and formalization replace direct supervision as means of control. The McDonald's Corporation is a good example of the production firms. Basic operating procedures are maintained through extensive operating manuals and required procedures that are developed centrally and are promulgated through standardized training at Hamburger University. Unlike the franchise organization cited in the individualized category, production franchise organizations allow little variation in individual operations. At McDonald's, twenty-five percent of all stores remain under corporate ownership to provide control points in operations and training.

Mature firms use structural control mechanisms for retaining organization culture (Cell F). Here the highest levels of formalization can be found in attempting to maintain cultural homogeneity. Written communications, written job descriptions, extensive and detailed performance appraisal, formalized selection processes, and emphasis on formal job credentials are implemented in increasing frequency as these firms mature. Participant observer reports²³ from General Motors Co. show the elaborate detail to which upward aspiring executives adhere to customs and ceremonies and the sharp sanctions applied to transgressors. Unlike the modularized firms, creativity and innovation are discouraged.

²² Verser (1987)

²³ Wright (1980)

Close adherence to codes of behavior that range from dress to religion to politics are required to be considered a team player.

Implications for Managers

Successful Merger and Acquisition Combinations

Three managerial processes - goal identification, succession, and information processing - have been identified as likely to be altered under conditions of merger, acquisition, or joint venture. Using the typology described above it is possible to predict combinations that with greater and less probability of success.

First, it is more likely that firms socializing members by internal means can successfully acquire firms using external means of control than the reverse. In all three upper cells of the typology the firms are characterized by decentralized authority structure. All other factors being equal, less emphasis on use of position-based authority is clearly associated with better information processing and better opportunity for leader identification. Structurally oriented firms can be expected to experience difficulties in goalsetting and strategic implementation when they acquire internally socializing firms because the members of these firms will lose their sense of ownership and mission as formalization and standardization are increased.

Second we can expect firms that acquire more or less developed firms to be most successful within their control type. Traditionally mergers and acquisitions are attempts to gain business efficiencies, restructure industries, or to gain control over a critical resource. Among culturally similar organizations, especially those with internalized means of culture transmission, such reorganizations should not face insurmountable difficulties. Good general management support and sound strategic ideas should lead to positive outcomes.

Joint Ventures

From a financial perspective, there is some debate about the degree to which joint ventures resemble mergers and acquisitions²⁴. From an organization theory perspective, the two activities are dissimilar. Joint ventures bring less of each organization into contact with one another. In terms of political consequences of cultural differences, joint ventures should be relatively easy to manage. Unlike acquisitions where the acquiring firm often must redirect the acquired firm in order to implement the strategic goal, joint ventures are based on previously negotiated goals. Secondly, succession is less problematic in the joint venture. Rather than fewer opportunities, the joint venture offers increased opportunities for executives. Information processing may remain as a

²⁴ See Bernstein (1965), and Mead (1967)

management problem. Since little information exists as to whether organizational cultural differences are greater within or between industries, it is difficult to speculate, but the correlation between joint ventures and industry concentration suggests that similar firms tend to form joint ventures. From the point of view of participating organizations, joint ventures appear to be generally satisfactory²⁵.

International Mergers and Joint Ventures

As the globalization of commerce continues to increase, it is reasonable to expect increased international merger and acquisition activity. In 1987 cross-national acquisitions accounted for 28.5 percent of U.S. transactions up from 13.4 percent in the record merger and acquisition year 1986. Following changes in international currencies, there have been increases in non-U.S. purchases of U.S. firms. While organizational cultures should be analyzed separately from national cultures, it is interesting to note that for the United States the most frequent merger nation is Great Britain. UK firms acquired five times more U.S. businesses than did Japanese interests. Looking at all cross-border activity in 1989 shows that European Community countries are nearly twice as likely to acquire in other EC companies (814 deals) as in Non-EC companies (519 deals). France, a newly active acquisition country, favors EC transactions approximately three times as often as it acquires in the U.S. or Canada and twice as often as with the rest of the world combined.

Several of the more visible recent United Kingdom acquisitions of U.S. firms (e.g., the Smiths Industries Aerospace purchase of Lear Siegler Instruments) indicate strategic goals other than conglomerization. In non-conglomerate mergers, these managers can expect to encounter cultural differences in goal identification, succession, and especially information processing. Despite increasing trends to acquire within the European Community, acquisitions by UK firms (Mergers and Acquisitions, 1990) still favor the U.S. and Canada (355 deals) over the EC (295 deals).

²⁵ Mead (1967)

Conclusion

With the increasing prominence of mergers, acquisitions, and joint ventures as means of increasing resources and achieving growth, the question of why such actions sometimes fail has taken on substantially more salience. One avenue to achieving a fuller understanding of the factors that promote success in such joint actions is found in a systematic examination of the political consequences of organizational cultures. Although preliminary, the typology of organization cultures set forth in this paper provides a basis for understanding why some organizational mergers result in increased effectiveness while others cause only hostility and increased conflict. Further exploration of the implications flowing from cultural differences promises to be a potent tool in the analysis of mergers, acquisitions, and joint ventures.

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The Business-Political Dimension of the Internationalization of Enterprises

By Wolfgang Dorow

Introduction

Approaches to the theory of multinational enterprises have up to now vastly neglected business political problems of the internationalization process. According to the criterion of a step-by-step market-entry strategy, the process of internationalization can be structured into the stages of export (agency contracts), licence/franchise contracts, joint ventures and foreign direct investments (fully owned subsidiaries). These stages are characterized by an increasing flow of capital and labour (mainly management performance) from the local enterprise to the foreign location. A number of economic theories on the internationalization of enterprises offer differing general explanations of the decision to enter foreign markets. These theoretical approaches, like the product life cycle theory, the trade barrier theory, the international capital market theory or the theory of international market imperfections derive from the underlying assumption that companies pursue profit maximization specific strategic criteria (such as extension of product life cycles, overcoming of trade barriers, avoidance of capital risks, striving for quasi-monopolistic competitive advantages) as explanatory factors of internationalization.¹ By emphasizing only one main explanatory factor these theories are criticized as being mono-causalistic. To this criticism it can be added that the decision to become international is not problematized as a decision on *alternative contractual market entry strategies*. The majority of the literature scrutinizes the decision to internationalize from the perspective of *alternative competitive strategies*. For example, Porter classifies a set of four alternative competitive strategies: global industry-wide cost leadership or differentiation, global segmentation, international competition by regional concentration (national responsiveness) or protected niche strategy.² These "generic" competitive strategies are analyzed without discussing the interrelated decision on the alternatives of market entry by different types of contracts. Of course, a number of publications describe the economic and legal aspects of these contractual alternatives, but the *business-political implications* of choosing between export-contracts, licence-contracts, joint ventures or direct foreign investments are neglected.

In the following, the business-political aspects of contractual alternatives of internationalization will be elaborated. In order to achieve this goal, the analysis will be related to the transaction-cost approach, which attempts to explain failures of contractual exchange processes. After a critical discussion of the contribution of transaction-cost theory, the business-political perspective of international exchange relationships will be presented. The basis for the theoretical analysis will be a brief discussion of an empirical case.³

¹ cp. Johanson, J. & Vahlne, J.-E. (1977), Stopford, J. M. & Wells, L. T. (1972), Casson, M. (1979), Vernon, R. (1966). See the critical review: Macharzina, K. (1980) and comprehensive discussion in Dülfer, E. (1991: pp. 45) and Schoppe, S. G. (1991: pp. 47)

² cp. Porter, M. E. (1986: pp. 46)

³ The case study was written by Christophe Louvard at the E.A.P.-Europäische Wirtschaftshochschule as an European Research Project (unpublished manuscript) in 1988

A Case Example of Internationalization

The object of the empirical analysis was a large German company, producing high precision measuring instruments for various applications. This company had already developed into a multinational organization, exporting to various countries and producing in several European locations. However, until 1970 this company had no considerable presence on the French market where strong competitors were operating.

The first Step: Export

In 1970 the Board of Directors decided to start with exports to the French market via an agency contract with a French distributor. Basic strategic criteria for the selection of export as entry alternative were low capital and human resource investment, flexibility of export strategy, and use of free production capacity of the German factories. From a number of appropriate agents, a certain specialized and experienced distributor was selected. This distributor also represented foreign competitors of the German company. The management defined specific primary targets (a certain turnover in the French market, acquisition of information on the specific characteristics of the French market, development of a positive image of the products through marketing activities of the agent) which it wanted to pursue by means of the agency contract. These targets, which are formulated as contractual demands, were not fulfilled by the agent within the defined time-span of three years. The agent did not sell the expected volume of products and delivered only incomplete information on the specific conditions of the French market. The insufficient control of the foreign distributors pledges was identified by the management of the exporting company as a main cause for the inefficiency of the agency contract. Communication problems and lack of information about the real market conditions made it impossible to enforce the fulfillment of the agent's pledges. As a consequence, the company decided to look for a French company which was interested in enlarging its market share by a licence production.

The second Step: The Licence Contract

A time and cost intensive search for a suitable partner was started. The selection process was followed by a costly negotiation on the mutual demands and pledges of the license contract. The primary strategic criteria (demands and pledges) of the licence contract were similar to the export contract: opening up of a risky market with low capital and management investment, acquisition of information on the specific characteristics of the French market and - as an additional opportunity of the licence contract - the possibility of developing a more intensified technical cooperation in the future. These general demands were of course accompanied by other demands like punctual payment of fees, fulfillment of quality standards, realization of marketing activities, necessary adaptations

to the French technical norms etc., while the German company pledged consistent supply of specific parts, technical assistance and development. Although the partners compromised on mutual demands and pledges the relationship was burdened with conflicts: these related to the fulfillment of quality norms, payment of fees and control of the quantity of products. Furthermore, the licensee sold its products in markets reserved for the licensor at lower prices. After idle attempts at reconciling the conflicting demands and pledges and after rejection of the licensor's demand for permanent supervision of the licensee's production process, the contract was terminated.

The management realized that the failure of the preceding contracts was not only caused by agreeing on rather general and diffuse demands and pledges but also on unclear and insufficient incentives to cooperate. The contractual relationships did not provide mechanisms for controlling potential opportunistic behaviour on both sides and the non-fulfillment of demands and pledges remained without sanction. As a consequence, the relationships deteriorated.

The third Step: Formation of a Joint Venture

As the German company did not want to lose the market and as the management - despite the failures - thought it had acquired at least some valuable experience, the decision was made to look for another partner who was interested in an intensive cooperation with the production and marketing area of the parent company. With a bank's mediation, a state-owned company, located rather close to the French/German border, was contacted. This company proposed to set up a joint venture. After detailed and time consuming negotiations with the management and the union leaders of that company, a joint venture was founded. The French company brought in parts of its buildings, production facilities, staff and distribution organization. A complex contract consisting of different agreements defined the mutual demands and pledges: The partnership agreement stipulated the distribution of functional responsibilities of both partners (production decision by a delegated German manager, marketing and personnel decisions by French managers operating under a parity-board), a shareholder agreement on capital structure, financing and election rights for board members. Licence, service and supply contracts regulated the external relationships between the joint venture company and its founding companies. An arbitration board was installed for conflict-resolution. While the inefficiency of the previous contracts (export and licence contract) had been traced back to the disjunctive, conflicting pursuit of respective goals by the exchange partners, the joint venture was regarded as a pool of pledged resources of the partners in order to achieve common goals, i.e. demands on which the partners compromised during the formation of the joint venture.

However, the analysis of the case showed clearly that the joint venture contract represented only a quasi-resolution of the extremely high conflict potential of the partner's demands and pledges. This empirical finding rejects the conception of joint

ventures (or companies in general) as a *pool of resources* of investors in order to pursue *common goals*.⁴ The analysis of the conflicting goal-setting processes required an exchange-theoretical approach as is outlined by Dlugos in this volume. The basic assumption of this approach is that *exchange-partners*, like joint venture partners, pursue potentially *conflicting* demands (ends) by offering pledges (means). The fulfillment of each party's demands depends on the realization of the exchange-partners' pledges. The case analysis showed that in many functional areas (production, marketing, personnel-management) the realization of the pledges did not fulfill the mutual expectations (demands) of the joint venture partners. A crucial element was the state-control of the French partner. Contributions to necessary investments were lower than expected as the tendency to pull out profits instead of reinvesting them was very high and - in view of the German production manager - there was not sufficient administrative control of work-time and performance. The readiness of the work-force to adopt to new work-procedures was also lower than expected and strong union influence hindered a more efficient organization of the production process. The more these conflicts manifested themselves, the more it became obvious that differing conceptions of business culture generated the conflicts and hindered the process of conflict resolution. After two years the joint venture was characterized by insuperable conflicts which necessitated a solution.

The fourth Step: The Acquisition

A reconciliation of the conflicts and the continuation of the joint venture appeared to be unrealistic. Empirical studies ascertain that a high percentage of joint ventures are dissolved after an average period of five years. In most cases the larger company takes possession of a majority position either in capital or only in decision rights. As the French government reformed its economic policy and began the privatization of companies an opportunity for taking over the joint venture was given. The German company took advantage of the changed external conditions and took full control of the joint venture in 1982. This decision was made, although - in view of the unresolved conflicts - the risk of failure was very high. Full investment and full control seemed to be unavoidable if the main strategic criteria of establishing itself in the French market was not to be abandoned.

The acquisition provided the parent company with undivided property rights, which - in a business-political perspective - led to a change of the power system of the former joint venture. According to the theory of property rights,⁵ these rights extend from decision rights on material goods to decision rights related to the immaterial sphere, e.g. decisions on leadership and control in the employment relationship. However, the consequences of this increase of the formal power base (*decision rights*) were unclear. On the one hand, the complete possession of the property rights enlarged the formal power basis but on the other hand, the management of the parent company had to take the full responsibility for

⁴ cp. the conception of a business corporation as a pool of resources: Coleman, J. S. (1975)

⁵ cp. Furubotn, E. & Pejovich, S. (1974)

handling unresolved conflicts without possessing the necessary personal power basis in terms of expert or reference power. As the company was full of conflicts and as cultural barriers between the headquarter's management and the subsidiary's staff and union leaders were high, a *business-political conception* of overcoming the conflicts and integrating the subsidiary into the already existing multinational production system was urgently needed.

The parent company developed a model for the integration of the subsidiary. The main elements of this model will be discussed later.

The question which arises after this case example of strategic failures and obstacles in the process of internationalization is the need for a general theoretical framework which provides a systematic identification of the problems of securing strategic interests against conflicting interests between the international partners. Such a theoretical framework must be based on an unambiguous distinction between the basic strategic goal-setting process, whose outcome are strategic demands and pledges, and the business-political process of securing these demands and pledges against conflicting interests.

The Distinction between Strategic and Business-Political Decisions of Internationalization

It has already been emphasized that the decision to internationalize is regarded as a strategic decision which takes into account criteria such as extending business activities to foreign markets, using lower-cost locations for production and taking advantage of foreign capital markets or of foreign investment incentives. It can also be a follower-strategy, where the company as a supplier follows its customers to the foreign location.

The strategic objectives of internationalization vary according to specific competitive factors and the specificities of the organizational decision-making procedure. The strategic decision-making process can itself be an object of internal political quarrels, i.e. within the management group or between management, shareholders and employee representatives. In external relationships, strategic objectives can conflict with international exchange partners - as described above - or with third parties like ecological interest groups in the foreign country, with the foreign government or foreign industry groups, who feel that their interests or rights are infringed by the strategic objectives of the internationalizing enterprise.

Although, of course, empirically strategic decisions on internationalization are interwoven with political considerations by taking into account potential or actual political resistance to the strategic goals, strategic and political decision-making have to be distinguished analytically. The *political decision-making process* is a *secondary process* which is induced by prediction or actual experience of interests which conflict with the strategic objectives. The political decision-making process is characterized by alternatives of using power-bases for securing jeopardized strategic goals. In other words, the political decision-making process does not produce strategic goals (of internationalization), but *goals of securing jeopardized strategic goals*. Dlugos designates this political decision-making process as a business-political decision-making process which includes *economic consequences* of using power against resisting actors in the business sphere.⁶

Decision-criteria for the selection of business-political alternatives of securing actions are the *extent* and *duration* of protection of one's own endangered demands and pledges, the *costs* of securing actions and positive/negative *sideeffects* (e.g. psychological and sociological sideeffects on the exchange relationship).⁷

⁶ The strategic decision-making process is defined as a basic or primary goal-setting process which can be secured against conflicting interests by political action.

⁷ For psychological and sociological consequences of conflict-handling see Hellriegel, D. and Slocum, J. W. (1986)

In exchange relationships both actors express strategic goals of internationalization as demands and pledges. If one or both actors perceive a non-fulfillment of the contractual demands and pledges, securing actions will be considered or realized. Normally, contracts stipulate means of securing if the exchange partner does not fulfill his contractual pledges.⁸ As Fox maintains, the stipulation is feasible for explicit contractual elements but problematic for implicit demands and pledges. In complex contractual relationships, like international relationships, neither all specific demands and pledges, nor all possible business-political actions of securing for all potential conflict situations can be written down. Therefore, the complex process of internationalization is a dynamic process, characterized by business-political actions aimed at securing one's own strategic demands and pledges respectively delimiting the opponent's demands and pledges or - in the case of failure - moving into another contractual relationship.

On the basis of this interpretation of the business-political problem the following chapter will first deal with the analysis of contractual problems by transaction-cost theory and will then elaborate the neglected business-political perspective.

⁸ cp. Fox, A. (1974)

The Apolitical Approach of Transaction-Cost Theory

There are only very few approaches in literature which consider the question why there are alternative contractual solutions to internationalization. Hennart states: "The conventional wisdom has ascribed foreign direct investment to the internationalization of the world economy; yet the crucial question seems to be not why the firm was selling in foreign markets, but rather why it was choosing to extend its operations overseas, rather than export or license its products. Why was coordination achieved by hierarchical methods in some cases, by market prices and market contracts in others?"⁹ Hennart and - similarly to a certain extent, Buckley and Casson - apply the framework of the transaction-cost approach to the internationalization-decision.¹⁰ The main elements of this approach and its appropriateness for the explanation of the problems described will be discussed briefly.

The conception of transaction-costs was developed by Coase.¹¹ He raised the question why the coordination of market exchange relations by the price-mechanism is very often replaced by a hierarchical coordination. While the price mechanism is the institutional criterion of markets, hierarchical orders are the institutional criterion of firms. In relation to the case sketched out above, the agency contract represents a pure market relation which was later replaced by the hierarchy of the acquired firm. Williamson outlines in his book "Markets and Hierarchies" an explanatory model for the decision between these two contractual systems.¹² New developments of the transaction-cost approach extend the analysis to "new institutional forms" which consist of various types of cooperation between negotiating partners.¹³ Licence-production, franchise-systems, management contracts and joint ventures are examples of such intermediate forms between pure market contracts and hierarchies. The question here is, how the transaction-cost approach problematizes the *market-cooperation-hierarchy* alternatives.

The core concept of Williamson's approach is the *organizational failures framework* which aims to explain the generation of transaction-costs.¹⁴ According to Williamson's rather general examples transaction-costs can be differentiated in search-costs (screening the market for a potential partner), costs of negotiating the contract, costs of adapting the contract to changing exchange conditions, and costs of enforcing or annulment of the contract. These contract costs are dependent on *human factors* of the exchange partners and *environmental factors* of the exchange relationship. The human factors are "bounded rationality" and "opportunistic behaviour" whereby the latter is regarded as a phylogenetic human attribute. The environmental factors - independent of specific human

⁹ Hennart, J. F. (1982: p. VII)

¹⁰ cp. Hennart, J. F. (1989), (1988), (1982), Buckley, P. J. & Casson, M. (1976)

¹¹ cp. Coase, R. H. (1937)

¹² cp. Williamson, O. E. (1975)

¹³ cp. Hennart, J. F. (1989)

¹⁴ cp. Williamson, O. E. (1975: pp. 20)

actors - are "uncertainty and complexity" and "small numbers"-exchange alternatives. A description of the interplay of these variables would lead too far here. The basic assumption is, that in an ideal economic world of full rationality, absence of opportunistic behaviour, certainty and simple exchange situations as well as a large number of alternative exchange partners, transaction costs would vanish. Under the ideal conditions each exchange partner would be able to realize his own optimal alternative. The case sketched out above shows that economic reality is far away from ideal conditions. It is characterized by variables which can cause the failure of exchange relationships. In the following paragraphs, transaction-cost problems of the different stages of internationalization will be discussed.

Transactional problems of the *export relationship* result from the uncertainty and complexity of the exchange situation. The exporter has only partial knowledge of the (changing) foreign market conditions and of the ability and actions of the agent. This opens up discretion for opportunistic behaviour on the side of the agent. This discretion is also a consequence of ex-ante contracting under bounded rationality. The agent can also take advantage of the information-asymmetry between himself and the exporter which increases monitoring costs for the exporter. Because of ex-ante formulation of the contract, the risk of making inadequate demands and pledges is high. Costs and risks would be limited, if the exporter does not face a "small numbers"-exchange situation on the foreign market. When there are no other alternatives available, the exporter is blocked into the exchange-relationship and has to bear high costs for searching and contracting with a new distributor. This again increases the opportunity for discretionary behaviour on the side of the distributor. If the exporter becomes aware of the partner's conflicting behaviour the exporter will - in view of transaction-cost approach - compare the costs of leaving the given exchange relationship with the costs of adapting his own demands and pledges to the agent's demands and pledges or with the costs and chances of securing the endangered demands and pledges by monitoring the given contract. In the case described above, the company decided to leave the given relationship and look for an alternative contract which would reduce opportunistic behaviour.

While the strategic criteria of a *licence contract* differ from an agent contract with a distributor, the transaction-cost problems are similar: ex-ante formulation of demands and pledges with high risk of false assumptions about the behaviour of the exchange partner; inflexibility of the contract and high adaptation costs; the long-term character of the licence contract with tight binding to one partner opens up the possibility for opportunistic behaviour on both sides; high monitoring costs are caused by information asymmetry. If actors perceive a nonfulfilment of their demands or if too great a strain is put on the pledges, the actors have to decide between adapting their demands and pledges, or enforcing or leaving the contract. The licensor has chosen the latter.

The *joint venture contract* promised a better realization of the original strategic demands and pledges in the foreign market. Joint ownership was expected to attenuate the risks of opportunistic behaviour. But the incentive of participation in common profits does not

eliminate conflicts between the partners within the joint decision-making processes. Empirical studies identify the following as main areas of conflict in joint ventures: capital structure and distribution of property rights (especially nomination rights for management positions), authority structure, marketing decisions, investment-decisions on technology and production processes, and supply relations with founding companies.¹⁵

The central transaction-cost problem of joint decision-making has already been elaborated by Olson (who does not require the transaction-cost terminology).¹⁶ Olson points out that free rider behaviour will result when *selective* incentives are missing. An incentive-system of positive and negative sanctions is required to secure the fulfillment of mutual demands and pledges. But the transaction-cost approach has not yet extended its analytical efforts to these questions of securing demands and pledges against non-fulfillment. The transaction-cost analysis restricts itself to the variables discussed above in order to explain the generation of opportunistic behaviour by the joint venture partners and omits the analysis of the delimitation of opportunistic behaviour. High transaction-costs of joint ventures are mainly regarded as the result of the necessity of permanent adaptation of the contract to changing conditions and they are high because the possibility of putting the partner under the latent threat of leaving the joint venture is restricted. The "small number" exchange situation and high investment in the idiosyncratic partnership do not allow such a threat and further, therefore, opportunistic behaviour. This again increases transaction-costs of monitoring the joint venture. These problems could be seen clearly in the empirical example.

The contractual solution of overcoming the transaction-cost problems of market- or cooperative exchange relations is - in the classical argumentation by Coase and Williamson - the substitution of the authority relation for the price or bargaining-mechanism. It is assumed that the authority relation reduces transaction-costs as opportunistic behaviour can be suppressed by "fiat". Therefore, scholars of economic theories of internationalization conclude that Foreign Direct Investments, i. e. subsidiaries in full or at least majority ownership, are more efficient than the other forms of internationalization because "fiat" implies permanent control and adaptation of the activities in the foreign location.¹⁷ However, empirical studies on the success of foreign acquisitions falsify such a simple statement on the transaction-cost advantages of coordination by "fiat". Resistance against "fiat" in the foreign subsidiary can increase to a level where the acquired foreign company becomes inefficient and forms of international cooperation become preferable to hierarchy.¹⁸

¹⁵ Goldenberg, S. (1988: pp. 11). Geringer, J. M. & Hebert, L. (1989), Lynch, R. P. (1989). For the discussion of instability factors see Gomes-Casseres, B. (1987)

¹⁶ cp. Olson, M. (1965)

¹⁷ This is in particular the position of Hennart, J. F. (1989). See also Gomes-Casseres, B. (1987)

¹⁸ cp. Gray, S. J. & McDermott, M. C. (1987), Haspeslagh, P. C. & Jemison, D. V. (1987), Hunt, J. (1988)

The example and the discussion of the transaction-cost approach show that the change to an alternative contract does not lead to the reconciliation of conflicts. The question remains which decisions and actions are induced when exchange partners do not fulfill the contractual demands of the opponent.

In his impressive work, "Exit, Voice and Loyalty", Hirschman distinguishes between two basic reactions on conflicts in exchange relations: *Exit* as the classical *economic reaction* and *Voice* as the classical *political reaction*.¹⁹ "Exit" means to avoid the costs of securing endangered demands and pledges of the given relationship. Instead of securing the endangered demands and pledges the actor decides to leave the conflictual relationship and to choose an alternative exchange contract. "Voice", however, aims at delimitation of conflicting demands and pledges in the given relationship by mobilizing power bases. "Voice" with its different alternatives is the content of *political decision-making*. *Business-political* decision-making takes into account not only the political, but also the economic consequences of securing endangered demands and pledges by "voice".

The concept of "exit" dominates the transaction-cost approach, while "voice" as political acting of exchange partners in conflict situations is excluded from transaction-cost analysis although the reality of business relations is largely characterized by processes of voice. The only form of "voice" which transaction-cost theory recognizes is the hierarchical form of suppressing conflicting interests by "fiat". This is only a rudimentary seizure of the complex business-political options. In the following paragraph, business-political aspects in relation to the case discussed above will be elaborated.

¹⁹ cp. Hirschman, A. O. (1970)

The Perspective of the Business Politics Concept

The central research object of the Business-Political Concept is the problem-field of generation and handling of inter-actor conflicts in business-relations. Parts of this research concept are in the analysis of conflict potential between exchange partners, the analysis of causes of conflict and the analysis of the conflict-handling decision-making which includes the question of power-relations between the conflict-partners.²⁰ Although there are many research results on conflict-behaviour in organizations, a satisfying classification of the conflict potential of the internal and external functions of the business organization has not yet been developed. Only a few aspects covered by this research concept can be discussed here.

The Analysis of Conflict-Potentials

The first problem area which has to be addressed here is the identification of the conflict-potential of the alternative international exchange relations. This includes the analysis of specific demands and pledges which can conflict if an enterprise engages in export-contracts, licence-contracts, joint ventures or sets up foreign subsidiaries. For the purpose of a short illustration, general categories of demands and pledges will be sufficient.

The conflict potential of demands and pledges of the *export relationship* can be derived from the ends-means conception of the exchange partners. Short- or at least long-term ends or demands of an exporter are the realization of profits, i.e. the exporter demands from his agent the realization of his interest in high revenues. On the other hand, the agent wants to pledge only minimal payments to the exporter in order to maximize his own profits. A second main line of potential conflicts results from inconsistent demands and pledges on quality, number and technical appropriateness, etc. of the products. The pledges of the exporter can conflict with the demands of the distributor. A further conflict-potential consists of mutual demands and pledges on other aspects like punctual payment, permanent delivery of products or kind and intensity of marketing activities, adherence to agreements on sales areas etc.

²⁰ cp. the contributions of Danesy, F., Dlugos, G. and Nikolopoulos, A. in this volume

The conflict-potential between demands and pledges between exporter and distributor can be shown in a conflict-matrix as follows: (Fig. 1)

		Customer function		
		Distributor	Pledge Revenues	Demand Products
Supplier function	Exporter			
	Demand Revenues			
	Pledge Products			
	Pledge/Demand Other contributions to the export contract			

Fig. 1: Conflict-matrix of export-relationship

The condensed conflict-potential of the *licence contract* was - in reference to the case discussion - enlarged by conflicts between licensor and licensee on the quality of management and staff performance of the licensee. The licensor made too many demands on the pledges of the licensee. Therefore, the conflict-potential of the licence contract increased and the demand for capable conflict-handling increased as well and was not - as the company expected - reduced in comparison with the export-contract. The conflicts which occurred are exhibited in the following matrix.

		Customer function			Management/ staff function
		Licensee	Pledge Revenues	Demand Right of Production/ Products	Pledge/Demand Other contributions to the license contract
Supplier function	Licensor				
	Demand Revenues				
	Pledge Right of Production/ Products				
Management/ staff function	Pledge/Demand other contributions to the license contract				
	Pledge/Demand contributions to management and staff-relationship				

Fig. 2: Conflict-matrix of license-contract

A detailed analysis of the demands and pledges which exchange partners knot together by forming *joint ventures*, reveals an extremely complex conflict-system. The complexity of the conflict-system results from the fact that demands and pledges of various stakeholder-functions are confronted in the joint venture. Between local and foreign investors conflict-potential can exist in respect to the following joint-venture functions: diverging demands and pledges for the capital owner function, for the joint venture's management and staff function, for the supplier and customer function of the joint venture, and the functioning of the joint venture as a member of the community. This enormous conflict-potential of joint ventures is depicted in Fi. 3.

**Demands and pledges of joint venture functions
in view of foreign investor**

Foreign investor investor		SHAREHOLDERS		D D P P D D	D D P P D D	D P P D	D P P	D P P	
		Local investor investor		D D P P D D	D D P P D D	D P P D	D P P	D P P	
Demands and pledges of joint venture functions in view of local investor		SHAREHOLDERS		D D P D D	Revenues Capital sec. use of capital participation information				
		MANAGEMENT/ STAFF		D D P D D	Revenues job security performance self actual/ participation social condit.				
		SUPPLIER		D P D	Revenues products other contr.				
		CUSTOMER		D P P	Factors of production other contr. expenditures				
		MEMBER OF COM- MUNITY		D P P	Prerequisites for production taxes welfare contribution				
		Foreign investor investor		SHAREHOLDERS		D D P D D	Revenues Capital sec. use of capital participation information		

This, so to speak, explosive conflict-potential of joint ventures consequently requires a comprehensive system of conflict-handling mechanisms. This conflict-handling system has to reduce the conflict-potential by preventive measures or has to reconcile manifest conflicts in a way that costs of conflict-handling do not exceed the utility of maintaining the joint venture.

The transaction-cost approach proposes the replacement of fully-owned hierarchies with conflicting joint ventures. From the perspective of Business Politics this proposal is problematic- as previously mentioned - as the hierarchical use of power in the sense of "fiat" generates new latent conflict-potential. In addition, the external conflicts of a joint venture cannot be solved by hierarchical means. The exclusion of the employees'"voice" by hierarchical "fiat" will result in a reduction in the level of performance by the employees of the foreign subsidiary as long as there are no anti-hierarchical channels (participation/co-determination) implemented for securing their endangered demands.

The sketched mapping of conflict-potential, as an element of business-political analysis of exchange relationships, can serve as a pragmatic means of identifying possible destabilizing interests of the partners. For that purpose, the rough classification of demands and pledges requires a more detailed determination of latent or manifest conflicts in specific situations. Conflict-theoretical research shows that this is a complicated empirical task as the opponents very often tend to hide their conflicting interests.

The identification of conflicting demands and pledges is not sufficient for an effective conflict-handling by business-political actions of goal-securing. Effective conflict-handling requires one to conceive of the possible *causes of the conflict*, which serve as targets of conflict-handling measures. As Dlugos has elaborated the two main causes of conflict-generation in his contribution to this volume it is not necessary here to discuss this element of the Business Politics Concept at length. With respect to the case example described above, it was obvious that conflicts were caused either because the partner did not fulfill expectations or because the partner behaved as expected but this expected behaviour was not in accordance with value system used to rate it. The communicative distance between international exchange partners and the differences in culture and value systems are intervening variables, which influence the actualization of the conflict causes.²¹ Overcoming conflicts in international relations necessitates the handling of these two basic causes of conflict generation. Main aspects of business-political conflict-handling will be discussed in the following chapter.

²¹ cp. the analysis of the impact of different cultures on international joint ventures by Farrell, D. & Petersen, J. C. in this volume

Business-Political Alternatives of Conflict-Handling

A System of Conflict-Handling Alternatives

Another main research field of Business Politics encompasses systems and processes of conflict-handling. Two basic conflict-handling alternatives can be differentiated: Direct communicative conflict-handling by *goal-delimitation* which requires as a prerequisite deliberate acceptance by the opponent, or conflict-handling by *environment delimitation* which is independent of the opponent's acceptance. It is independent of acceptance, as the environmental constraints of the opponent's behavioural discretion are changed by forceful actions.²²

The *first type* of conflict-handling can only lead to a delimitation or change of the opponent's goals (demands and pledges), if the opponent accepts the communicated data, explanations or value statements and complies with his exchange partner.

The type of conflict-handling referred to as *goal delimitation* consists of the specific alternatives

- *persuasion*,
- *manipulation*,
- *offer of positive sanctions* and
- *threat of negative sanctions*.

If both actors are engaged in conflict-handling by goal delimitation, negotiation or bargaining processes take place. The success of goal delimitation depends on sociotechnical conditions like communication channels and on the estimation of the opponents' expertise, personality and legitimacy. If the exchange partner does not accept the information or if the suggested threatened sanctions do not induce him to give up his goals, the conflict cannot be reconciled by "goal delimitation".

The *second type* of conflict-handling aims at the opponent's behaviour by changing his environmental constraints. On the presumption that the actor, who wants to secure his endangered goals, is in control of sufficient power bases, the opponent's environmental constraints can be changed in a way that the conflicting goals cannot be realized under the same conditions as before. If power bases are sufficient, the actor can impede or, at least complicate the opponents conflicting behaviour.

²² see also the contribution of Dlugos, G. and Danesy, F. in this volume

Specific alternatives of *environment delimitation* are (a) *direct actions*, which consist of actions such as

- *exercising legal and contractual rights*,
- *limiting one's own readiness to cooperate*
- *alteration of organizational structures* and
- *alteration of physical constraints*.

(b) *indirect actions* through third parties. The third parties have to be influenced in a way that they are ready to limit the opponent's conflicting behaviour. They consist of actions such as

- *persuasion of third parties*,
- *manipulation of third parties* and
- *offer of positive or threat of negative sanctions towards third parties*".

Looking back to the discussion of the transaction-cost perspective, it is clearly to see that the transaction-cost theory restricts its analysis to the costs of delimiting opportunistic behaviour by setting up contracts and exercising contractual rights. The other possible actions against conflicting, opportunistic behaviour are neglected. Although literature provides numerous models and practical recommendations on conflict-handling, a systematic comparative analysis of costs and securing effects as well as other positive and negative consequences of delimiting conflicting behaviour by alternative conflict-handling methods is still an open research field. Reliable empirical knowledge on the economic (costs), political (securing effects) and the other consequences like psychological and sociological effects is necessary for developing useful pragmatic decision-models, which can support a rational decision on conflict-handling in exchange relationships. These models have to be based on the assumption that conflict behaviour is not a pathological deviance from rational economic behaviour, but - on the contrary - the consequence of rational pursuit of one's own demands and pledges, which the exchange partners want to optimize. Conflicts are therefore a ubiquitous phenomenon in business relationships.

It remains as a further main business political research task to detect the situational and procedural variables of conflict-handling, which influence the type of achievable conflict resolution. According to Dahrendorf any conflict resolution is a "quasi resolution" of conflict, as the underlying causes of conflict cannot be removed permanently.²³ The aim of business political research in this area is to understand the factors which can help to avoid destructive conflict resolutions and which support the development of constructive conflict resolutions.

²³ cp. Dahrendorf, R. (1962)

Some Findings from the Case Example

The analysis of the conflict-handling processes at the different contractual stages of internationalization cannot be outlined here in detail. The prediction that the costs of delimiting the export-, licence- and joint venture partner's behaviour are too high in relation to the high risk that the business political goal of securing the endangered demands and pledges is not achievable led to the *exit*-decisions. The contractual arrangements were changed, but after the decision to take over the joint venture a post-acquisition *conflict-management* was unavoidable. The analysis of the case showed that all business political alternatives of delimitation had been applied, but the success of securing the parent companies' goals depended to a very large degree on the *clarification* of the conflicting demands and pledges and on the *timing* and *combination* of goal- and environment delimitation processes. Of utmost importance for the business political success was the definition of the *general ethical orientation* for the post-acquisition conflict management. The general ethical orientation directed the conflict handling processes towards the goals of achieving a high degree of *cultural integration* between subsidiary and parent company. Cultural integration could only be achieved by compromises on symbolic, administrative and technical procedures between both organizations. As compromises on all conflict fields were utopian or as some parent company's goals could not be compromised upon, the management of the parent company successfully used environment delimitation at the beginning of the integration-process for these goals. At later phases of the integration-process, environment delimitation became dysfunctional for achieving the general concept of integration and had to be replaced by goal-delimitation. The increasing self-consciousness of the subsidiary's foreign management necessitated the replacement of forceful environment-delimitation with explanatory goal-delimitation. A further obviously highly important factor of successful integration-oriented conflict-management was the *identification of actors*, who were able to control the conflict situations: managers, workers' representatives, opinion leaders among the subsidiary's staff and third parties like unions or representatives of the community, who were involved in finding compromises. Closing these brief remarks on some of the results of this case analysis, it can finally be mentioned that a successful integration process also requires a rational model of consecutive actions of conflict-handling. Many failures of post-acquisition integration efforts are probably either the result of aimless trial and error processes of conflict-management or the application of hierarchical "fiat" which results in destructive conflict-handling.

Developing explanatory models on generation and handling of conflicts with special reference to international conflict-problems and the derivation of pragmatic models for analysis and handling of conflict-situations in business relations remains a challenging research task for the interdisciplinary Business-Politics approach.

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Erratum: Insert Fig. 1 in Farrell/Petersen p. 151

Figure 1
Typology of Organizational Cultures
Life Cycle Stage

		New	Growing	Mature
Control/Involvement	Internalized	A Customized partnership	B Individualized Amway Mary Kay Hampton Inns	C Modularized Cray Computers Hewlett Packard
	Structural	D Entrepreneurial Sole proprietorships	E Production McDonald's	F Bureaucratic General Motors



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