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Changing Organizations

Business Networks in the New Political Economy

David Knoke
University of Minnesota
This one is for Maggie
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<td>ADR</td>
<td>alternative dispute resolution</td>
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<tr>
<td>CAS</td>
<td>complex adaptive systems</td>
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<tr>
<td>CAD/CAM</td>
<td>computer-assisted design and manufacturing</td>
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<td>ESOP</td>
<td>employee stock ownership plans</td>
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<tr>
<td>FEC</td>
<td>Federal Election Commission</td>
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<td>FILM</td>
<td>firm internal labor market</td>
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<td>GIS</td>
<td>global information sector</td>
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<td>HRM</td>
<td>human resources management</td>
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<td>IPO</td>
<td>initial public offering</td>
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<tr>
<td>JIT</td>
<td>just-in-time</td>
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<td>LBO</td>
<td>leveraged buyout</td>
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<td>LTIP</td>
<td>long-term incentive plan</td>
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<tr>
<td>MDF</td>
<td>multidivisional form</td>
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<td>MNC</td>
<td>multinational corporation</td>
</tr>
<tr>
<td>MSF</td>
<td>multisubsidiary form</td>
</tr>
<tr>
<td>NBF</td>
<td>new biotechnology firm</td>
</tr>
<tr>
<td>NLRB</td>
<td>National Labor Relations Board</td>
</tr>
<tr>
<td>PAC</td>
<td>political action committee</td>
</tr>
<tr>
<td>PIG</td>
<td>public interest group</td>
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<tr>
<td>QC</td>
<td>quality circle</td>
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<tr>
<td>SFN</td>
<td>small-firm network</td>
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<tr>
<td>SIC</td>
<td>Standard Industrial Classification</td>
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<tr>
<td>SMO</td>
<td>social movement organization</td>
</tr>
<tr>
<td>SPC</td>
<td>statistical process control</td>
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<tr>
<td>TQM</td>
<td>total quality management</td>
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Preface

Mr. Gittes, you may think you know what you’re dealing with, but believe me, you don’t.
—Robert Towne, Chinatown (1974)

The origins of this book lie in the three decades I spent teaching, reading about, and conducting research on organizations ranging from small neighborhood associations, to national lobbying coalitions, to strategic alliances among international information sector corporations. Two overarching themes integrate the seemingly divergent facets of this volume. First, understanding changing organizational behavior requires observers to view the U.S. political economy as a system within which money and power intimately interconnect across all levels of analysis. Organizations are not just the unitary, utility-maximizing production functions depicted by neoclassical economic models. They also consist of numerous social actors pursuing divergent interests and goals that conflict and realign over time. The collective actions emerging from such malleable systems are best analyzed as joint outcomes of market processes and political power interacting within and between organizations.

Second, network relations are indispensable for explaining the continual transformations of organizational structures and processes. Network analysis encompasses wide-ranging phenomena, from employee careers and work team relations to collective action in organizational populations. This multilevel scope, combined with an emphasis on recurring interactions among social actors, gives network analysts vigorous conceptual and empirical tools for investigating dynamic organizational change. The information exchanges and resource transactions at the heart of network analysis reveal how economic and political influences shape organizational behaviors, from international corporations forming joint ventures, to business and labor coalitions lobbying the government, to employees cooperating within high-performance work teams. The dual themes of political
economy and network analysis, interweaving the diverse trends and developments in organizations throughout the twentieth century, help us to anticipate plausible directions for organizational change in this century.

However, the general orientations offered by the political economy and network perspectives lay an insufficient foundation on which to build a comprehensive account of changing organizations. Additional primary approaches are indispensable to constructing more thorough analytic interpretations. Many key concepts, ideas, principles, theories, and methods useful in explaining organizational actions come from a loose collection of disciplines best described as “organization studies.” Their practitioners span traditional fields, including sociology, business management, economics, law, political science, public administration, social psychology, history, and journalism. Rather than treating these disciplines as competing and irreconcilable perspectives, I tried to determine where those diverse schemas might contribute toward more inclusive explanations of events. Some applications of these alternative perspectives yielded contradictory implications, whereas others simply offered few insights into specific components of organizational change. Still, these incomplete accounts should spur organization studies theorists and researchers to stronger efforts at integrating their distinct approaches into more comprehensive explanations.

For an overview of the book’s specific substantive conclusions, readers should consult the concluding section of each chapter. Here I briefly describe the common elements in their format. Each chapter focuses on specific topics in organizational change, primarily at the macro level of whole organizations, organizational fields, or populations, rather than at the level of individual persons or organizational roles. An introductory anecdote illustrates these topics, followed by explicit definitions of key concepts and principles relevant to analyzing the issues under consideration. Where available, time-series charts graphically display trends in particular organizational behaviors. I gather eclectic evidence about these issues from journalistic accounts, censuses, governmental reports, in-depth case studies, sample surveys, and quantitative data analyses. The bulk of this evidence concentrates on the large U.S. corporations that dominated the American political economy during the twentieth century. My relative neglect of smaller, entrepreneurial, nonprofit, voluntary, governmental, and international organizations reflects not only the more meager research attention paid to these other organizational forms but also the limited space available to treat them in greater depth.

I review relevant research literatures, concentrating on recent publications, from the many disciplines that make up organization studies. I try to contrast alternative theoretical explanations and interpretations of organizational change. I hope that I fairly represent various analysts’ views, despite my particular biases toward network and power explanations. Most
chapters include one or more detailed data analyses that illustrate how applications of research methods lead to substantive conclusions. Because my disposition toward organizational networks motivated several such analyses, the Appendix offers an introduction to basic network analysis concepts and methods. I try to assess the range of empirical findings about the substantive topics and their implications for alternative theoretical explanations of organizational change. I offer suggestions about how conflicting results might be reconciled and where future research efforts could contribute to explicating the causes and consequences of organizational change.

I spend much of my professional life trying to squeeze a few grains of insight into organizational behavior from the stubborn stones of reality. If the conjectures in this book inspire others to take up the study of changing organizations, then I will consider my time well spent.
Acknowledgments

I greatly appreciate the research grants provided by the National Science Foundation to myself and several co-investigators to conduct the National Associations Survey, two National Policy Domain Studies, and two National Organizations Studies. Grants-in-aid from the University of Minnesota’s College of Liberal Arts and Graduate School supported research on the global information sector, and a single-quarter leave and a sabbatical gave me time to begin and to finish writing this book.

During the many years this project gestated, I benefited greatly from the steadfast counsel of talented editorial staff at Westview Press: Jill Rothenberg, Margaret Loftus, Lisa Wigutoff, Adina Popescu, Andrew Day, David McBride, Michelle Trader, and Sharon DeJohn. Sage advice from series editors Scott McNall and Charles Tilly and from manuscript reviewers Dan Chambliss and John Lie significantly enhanced the final product.

I owe an immense intellectual debt to the authors of the countless articles, chapters, reports, and books cited in this volume, which taught me almost everything I know about organization studies. I especially thank my collegial friends who read individual chapters and gave much encouragement and many useful suggestions, which I tried to incorporate, not always successfully: Howard Aldrich, Paul Burststein, Joseph Galaskiewicz, Anne Genereux, Arne Kalleberg, Naomi Kaufman, Patrick Kenis, David Krackhardt, Nicole Raeburn, Verta Taylor, Emanuela Todeva, Andrew Van de Ven, and Song Yang.

Most important, I am grateful to Margaret Frances Knoke for her exceptional editorial work on the manuscript, which vastly improved its quality; for sharing her passionate and brilliant insights about organizational life; and, best of all, for being a wonderful daughter to Joann and me.

Edina, Minnesota
June 19, 2000
Generating Change

Nothing of him that doth fade
But doth suffer a sea-change
Into something rich and strange.
—William Shakespeare, The Tempest (1611)

As they entered the twenty-first century, American business corporations and their employees were increasingly buffeted, battered, and bewildered by dramatic changes. The U.S. economy enjoyed its longest period of uninterrupted expansion, with bullish stock markets making many investors overnight millionaires. Following decades of stagnating family incomes and widening inequality, real earnings finally began growing again. The accelerating march of technological innovations and the rapid succession of new production and distribution processes forced organizations to reinvent themselves continually. The chaotic turmoil in formerly stable product markets and industries left many companies vulnerable to relentless pressures from domestic and foreign competitors, stakeholders, and governments. Interorganizational alliances increasingly bound once and future rivals together in uneasy collaborations. The fates of local communities were susceptible to decisions about investments and relocations made by distant geopolitical actors. The loss of social capital through dwindling organizational reputations combined with wrenching internal reorganizations to flatten corporate hierarchies and erode personal statuses and privileges.

Periodic waves of corporate downsizings, restructurings, mergers, and divestitures tore up the employment contract binding employers and employees. Many workers, especially in white-collar occupations, experienced the swift disappearance of lifetime job security. Increased project length and temporary employment eroded traditional attachments at the same time that new high-performance work designs placed heavier demands for highly skilled, self-directed workers. Blue-collar union ranks shrank to a
tiny fraction of the labor force, while social movements by various identity
groups demanded enhanced legal protections in the workplace. To many
observers, U.S. public policymaking seemed held captive by the business,
labor, and other interest groups making bloated campaign contributions to
gain special access and influence over public officials. The primary aim of
this book is to examine these trends and developments in the U.S. political
economy to understand and explain changing organizations at the end of
the twentieth century. An ultimate, although perhaps unattainable, goal is
to understand better some possible paths of future change as the new cen-
tury begins.

What Happened to Big Blue?
The spectacular upheavals at International Business Machines (IBM) in the
last decades of the twentieth century represented a microcosm of the many
organizational transformations explored in great detail throughout this
book. Big Blue dominated the mainframe computer market from the 1950s
until the 1980s, but it failed to anticipate the enormous expanding personal
computer market of the 1980s. Its several midrange systems were unable to
“talk” to one another, sharing information and application programs.
Small start-up companies gained toeholds in various niche markets and be-
gan to develop diverse products, including networking capabilities, more
responsive to customer demands, which eventually ate IBM’s lunch. As a
result of Big Blue’s lapses, the corporation and its employees struggled
through wrenching changes to adapt to the 1990s environment of relentless
technology innovation and ferocious international competition. Some key
events in this cautionary tale:

- In the “best-known episode in Microsoft’s history” (Stross 1996:8),
  Bill Gates signed a 1980 contract promising to provide IBM with op-
erating system software (MS-DOS) for its new PC Jr. Lacking such a
  system, Gates bought one from a smaller company and licensed it to
  IBM under terms that allowed Microsoft to sell DOS to other com-
  panies and consumers. The PC Jr. flopped, forcing IBM out of the
  market. By the mid-1990s, Microsoft had gained control of more
  than 85 percent of all PC software installations (Zachary 1994).
- Two subsequent IBM and Microsoft joint ventures—to create a suc-
cessor operating system (OS/2) and to build a sound-equipped CD-
ROM machine—ultimately shattered under incompatibilities be-
tween the two firms’ corporate cultures, costly production overruns,
and numerous delays in delivery dates.
- IBM then launched two joint ventures with Apple Computer in
  1991 to compete against the suddenly dominant “Wintel” colossus
Generating Change

(the MS Windows–Intel Corp. alliance). The agreements called for IBM to reimburse Apple for converting its Macintosh PC software to enable it to run on IBM’s renamed Warp OS/2, using IBM’s new PowerPC microprocessor chip developed with Motorola. But Apple’s own troubles—rapidly deteriorating revenues and shrinking market share, forcing it to lay off 20 percent of its workforce (Carlton 1996)—sank both ventures, leaving IBM to foot most of the $40–60 million bill.

• Gushing red ink, IBM slashed its workforce from a peak of 406,000 employees in 1986 to 219,000 workers by 1994. Yet it managed to boost the revenues generated from each remaining employee by 58 percent (Ziegler 1997). IBM achieved this huge productivity gain by a draconian internal restructuring that ended its cherished and highly visible “no-layoffs” policy. Managers pressured younger employees to quit, while sweetening the incentives for voluntary early retirees. Big Blue reorganized its slimmed-down workforce into 13 autonomous business lines, concentrating on personal computers and services to its core market, large corporation customers such as LTV Steel and Budget Rent a Car Corp. (Boyett et al. 1993:187–193).

• After an intense three-year effort, IBM’s Rochester, Minnesota, production plant won the coveted 1990 Malcolm Baldrige National Quality Award from the U.S. Commerce Department for creating a customer-driven approach to its new Application System/400 and hard disk storage devices (Boyett et al. 1993). But many IBM employees and customers continued to complain about prevalent divisional infighting, plodding response times, insensitivity to customer specifications, and loss of extensive free consulting.

IBM shareholders, who formerly counted on continually rising stock prices and dividends, saw the value plummet from a peak $175 per share in 1987 to $40 in 1993. The corporation lost $12 billion in 1992 and 1993. Between 1986 and 1994, IBM fell from first place to 354th place in Fortune magazine’s annual poll of America’s Most Admired Companies (Fombrun 1996:8). On April Fool’s Day 1993, Chairman and Chief Executive Officer John Akers resigned and was replaced by Big Blue’s first outsider CEO, John Gerstner Jr. from RJR Nabisco. Executive headhunters had unsuccessfully dangled the top IBM job before several corporate legends, including General Electric’s Jack Welch and Motorola’s George Fisher. “Nobody—but nobody—wanted to save this company” (Morris 1997:70). Citing “bureaucracy run amok” and considering his primary mission to boost revenues quickly, Gerstner announced a massive 38,500-person layoff. He assembled a new inner circle of five senior vice presidents, all IBM lifers
and all white males (Hays 1995). The highest-ranking woman executive, software head Ellen Hancock, unexpectedly resigned after 29 years with the firm.

By 1997 Big Blue appeared to have stopped hemorrhaging red ink. Profits returned but only to a mere 3.2 percent of the total revenue of $76 billion in 1996. Although still the sixth largest U.S. company by sales income, and with twice the software revenue of Microsoft, IBM was growing much slower than many of its domestic and international rivals. It no longer held a commanding position in any key market segment, and a return to dominance seemed elusive. After sinking nearly $2 billion over 10 years to develop Warp OS/2 for desktop PCs, IBM had built a base of just 6 million customers compared to Microsoft Windows’ 60 million copies. Big Blue also lagged in client-server software that coordinated corporate PC local networks, and Oracle and Sybase were stealing IBM’s mainframe and mini-computer customers. With cash reserves below $11 billion, the company faced a dilemma: whether to continue alone, to ally with competitors, or to acquire a major software company in hopes of challenging the Wintel juggernaut. “They’re still trying to figure out where they’re a player and where they’re not,” said one corporate customer. “They’re not the IBM of the past—but I don’t think they’re the IBM of the future” (Ziegler 1997).

The sad story of Big Blue was just one gloomy dispatch from the trenches of corporate warfare. Journalists, business leaders, politicians, and academic observers all sought to describe and explain the vast sea changes that eroded the insular society of our parents. In its place arose a rich and strange new world whose contours grew darkly visible only toward the end of the twentieth century. I contend that one useful approach to solving the puzzle of where the United States, and the rest of the globe, may be heading lies in viewing our political economy as a complex social system involving intricately intertwined networks of organizational and personal relationships. Multilayered webs of diverse ties connect citizens, communities, corporations, and countries into one dynamic, planet-girdling social structure. The structural perspective I apply asserts that social behavior largely consists of repeated actions that give rise to relatively stable, dependable patterns over time. But these structural patterns are liable to change in collisions between individual and collective human wills responding to altered environmental conditions.

The central task for social structure analysts must be the accumulation of careful observations of numerous organizational activities with the aim of (1) providing accurate, nuanced descriptions of the crucial factual details; (2) distilling from these bewildering surface events and personalities the deeper underlying analytical patterns; and (3) developing and testing theories about the large- and small-scale economic, political, and social forces causing both persistence and change in organizations’ structured relation-
Organizational Structures and Environments

Formal organizations are "goal-directed, boundary-maintaining, activity systems" (Aldrich 1979:4). Boundaries separate the persons and property over which an enterprise exercises some control from the people and goods over which it exerts no legal authority. As the archetypal sociologist of economic activity, Max Weber emphasized understanding social actions by uncovering the subjective meaning of social relationships. Membership rights, such as working conditions and employment benefits, make up the essential criterion for discerning where an organization's boundary ended and its external environment began:

A [social] relationship will be called "closed" against outsiders so far as, according to its subjective meaning and the binding rules of its order, participation of certain persons is excluded, limited or subjected to conditions. A party to a closed relationship will be called a "member." A social relationship which is either closed or limits the admission of outsiders by rules, will be called a "corporate group" (Verband) so far as its order is enforced by the action of specific individuals whose regular function this is, of a chief or "head" (Leiter) and usually also an administrative staff. These functionaries will normally also have representative authority. (Weber 1947:139-146)

Applied to a modern profit-making corporation, Weber's definitions identify its production workers, middle managers, professional employees, top executives, board of directors, and shareholders (owners) as members. The excluded social actors—who thus make up part of the environments lying outside the organizational boundary—include the company's suppliers, industrial customers, individual consumers, governmental agencies, cultural and legal institutions, and local and international communities.

The crucial point is that any organization's relationships can be conceptually divided into internal and external dimensions. Unlike Weber, who concentrated his efforts on explaining participant interactions inside organizational boundaries, most contemporary theorists embrace an implicit "open system" perspective, in which "the systems are embedded in—dependent on continuing exchanges with and constituted by—the environments in which they operate" (Scott 1998:28). Hence, any thorough investigation of organizational change requires us to pay serious attention to external sources. Specific corporations are exposed to unique micro-
environments that vary, for example, in their relative levels of resources, uncertainty, and turbulence (see Aldrich [1979:63–73] for a discussion of six analytical environmental dimensions). The schematic diagram in Figure 1.1, displaying 10 conceptually distinct environmental sectors, barely hints at the enormous diversity and complexity of conditions and relationships within which a particular organization might be embedded. Later chapters overflow with illustrations of specific organizational environments. Given the potentially great consequences of national and international economic and political conditions for organizations, throughout this book I use the term political economy to indicate a complex interwining of these macrolevel environmental dimensions. This label draws
analytical attention to the dual impacts of power and money in shaping organizational structures and actions.

An organization's internal structural anatomy may be just as complex as its external environments. Henry Mintzberg's (1979) classic icon classified these relationships into five fundamental functions, as shown in Figure 1.2. The central stem is a vertical line of authority whose three types of participants directly engage in making and implementing decisions about the corporation's core products and services. The top executives in the strategic apex serve the firm's mission and forge networks of power relations to the important external actors affecting the organization's fate, such as suppliers, customers, and governmental regulatory agencies. The middle-line managers try to coordinate the activities within and across various internal work units. The lowest-level managers directly supervise the operating core of employees who actually produce and distribute the company's physical goods and services. The two side circles represent auxiliary components not directly involved in production activities. The engineers and personnel administrators staffing the technostructure seek to control uncertainty by standardizing hiring, training, and performance standards. Support specialists provide various services—ranging from building security to advertising—that might well be (and often are) purchased through external market relationships. As later chapters reveal, a major component of organizational change is periodic internal restructuring that drops or adds, shrinks or expands internal functions as companies search for optimal structural designs to enhance productivity and profitability.

Forces Driving Changes

Every theorist proffers a favorite list of the fundamental forces driving changes over the past quarter century (roughly from the economic disruptions caused by the 1973 Arab oil boycott to the present). Lester Thurow characterized the Earth's new economic surface by a metaphor of five tectonic plates: the end of communism; a technological shift to an era dominated by man-made brainpower industries; a demographic split between impoverished nations and the affluent elderly of rich countries; a globalizing economy; and an era without a dominant economic, political, or military power (Thurow 1996:8–10). George Ritzer (1989) argued that a "permanently new economy" emerged in the United States, generated by changes in technology and knowledge, demographic shifts, external changes in the world economy, and internal changes in U.S. labor and industrial relations. The Hay Management Consultants' diagnosis identified "six major changes common to almost every organization" (Flannery, Hofrichter and Platten 1996:8–9):
rapidly expanding technologies
• growing global competition
• increased demand for individual and organizational competencies and capabilities
• higher customer expectations
• ever-decreasing [product-development] cycle times
• changing personnel requirements

Expecting any two analysts to assemble a consensual catalog of the important dimensions of organizational change, much less agree about their underlying causes, is clearly mission impossible.

Every conceptual scheme draws our attention to a handful of key processes at the cost of simplifying complex realities. Still, by the first definition of *analysis*—breaking a whole into its component parts—reduction is unavoidable in any investigation. Not to be left behind, I present my own
broad outline, involving nine interlocking forces that drive contemporary organizational changes. These topics appear under two broad headings: macro-environmental trends occurring outside corporations and micro-organizational trends taking place within their boundaries. Note the overlap between several of my conceptual categories with those identified by the analysts cited above. Of necessity, I paint these nine pictures using thick paints and some very broad brushstrokes, leaving to later chapters the task of filling in their many fine details.

**Macro-Environmental Trends**

My purpose in this section is to summarize five key environmental trends over the past quarter century that transformed many organizations, regardless of their specific manifestations. I discuss these major macro-environmental changes under five topical headings: the globalizing economy; accelerating technological innovation; slowing productivity growth; demography may be destiny; and market capitalism trumps political democracy.

*The Globalizing Economy.* A single global, capitalist economy increasingly connects the planet's 6 billion inhabitants, who live in more than 200 sovereign nations. The globalization dynamic snare everything in its web. Americans have long been familiar with the penetration of foreign automotive and electronic brands (Toyota, Volkswagen, Sony, Samsung). But even purportedly pure "domestic" service enterprises such as neighborhood restaurants and beauty salons face competition from foreign firms marketing cheeseburgers and hair care products. Today all basic factors of production—technology, labor, physical and financial resources—and their output of goods and services move across political borders with unprecedented ease. Modern communication and transportation systems enable entrepreneurs to reap enormous profits by finding new opportunities to substitute cheaper labor and materials for higher-priced components. Over the long run, these dynamic gales of creative destruction processes may eventually compress wage differentials and narrow the gap in living standards between the high-income and the Third World of developing societies (Thurow 1996:166-180). But, as in dancing and stand-up comedy, timing is everything in the modern world system. By the end of the twentieth century, the handful of high-income economies still produced and consumed the lion's share of wealth in the globalizing economy.

Two simple graphs capture this situation. Figure 1.3 divides the 1998 world's gross national product (GNP) pie among the six largest national economies, 20 other high-income nations (about half of which were members of the European Union), China (including Taiwan and Hong Kong), and the rest of the world. Although the United States at 27.4 percent oper-
ated the largest economic engine, the biggest change over the preceding quarter-century was Japan’s expanding share, from barely 7 percent to 14 percent of world GNP despite a decade-long stagnant economy. Huge inequalities prevailed. Although only one-sixth of the planet’s people lived in its 26 wealthiest nations, because their citizens enjoy average per capita incomes of more than $25,000, they garnered almost four-fifths of the world’s $28.9 trillion GNP (in 1998 U.S. dollars).

Figure 1.4 splendidly illustrates how the social network perspective captures complex relationships in succinct visual images. The input data to construct this image take the form of a matrix with the aggregate dollar amount of $3.1 trillion in goods and services exchanged in 1997 between eight economic units: the United States, Japan, and six geopolitical blocks defined by the United Nations (1997). A computer program reduces these 56 pair-values to a two-dimensional map of the world’s economic space. Just as a geographic map shows inter-city flying distances, pairs of trading regions appear close to one another whenever they have high volumes of exchange. For example, the United States’ exports to the rest of the Americas (including Canada) account for 4.8 percent of world trade transactions, and imports from that region into the United States account for another 5.5 percent. In contrast, pairs with low trade flows are located great distances apart (e.g., Eastern Europe and the Oceania region, mainly Australia and New Zealand, which exchanged just 0.01 percent of total world
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FIGURE 1.4 Structure of World Trade Flows, 1997

trade). Superimposed on the spatial image are directed lines, where the decimals next to each arrowhead report the trade percentages coming from the block or country where the arrow originates. (To avoid clutter, I show only the 18 highest-volume exchanges, involving at least 1 percent of world trade.) For example, the numbers on the U.S.–Japan arrow indicate that the United States imports 2 percent of world trade from Japan and exports 1 percent in return (and Japan’s export-import flow with the United States is just the reverse).

No single nation or block dominates the 1997 world trade network. However, the United States is involved in three distinct triads: (1) with Western Europe and the Asian block, (2) with Japan and Asia, and (3) with Western Europe and the Americas block. Japan is directly connected to three partners, but is located away from the core group involving Asia, Western Europe and the United States. Japan’s export-driven economic policies resulted in several asymmetric relationships, reflecting its exports of almost 50 percent more than it imported from other countries in 1997. The United States, having become the world’s largest debtor nation during the preceding quarter century, reveals the opposite trade pattern. Western Europe has the
most numerous high-volume exchanges (with six partners), followed by the United States (four partners). Three blocks consisting of mostly developing nations (Eastern Europe, Africa, and Oceania) are only weakly connected to the four core players, whereas the Americas, primarily because of Canada, are somewhat better integrated into the world trade network.

The globalizing economic structure displayed in Figure 1.4 is a vast simplification. Nations and regions don’t directly exchange goods and services with one another. Rather, world trade consists of billions of annual transactions between organizations, both as intermediate business customers and as ultimate consumers of goods and services. Because the diagram uses only aggregated dollars, it conceals the diversity of goods and services sent and received. Further, substantial trading occurs among nations within each regional block; for example, more than $1.4 trillion in goods and services moved among the Western European countries in 1997. Finally, cross-border exchanges ignore such international dynamics as factories shutting down in high-wage nations and re-opening in low-wage countries, as well as multinational corporations engaged in joint production ventures with overseas partners.

Despite these oversimplifications, the snapshot developed in Figure 1.4 depicts a clear core-periphery structure. If similar networks could be projected as a motion picture spanning 50 years, the central image would probably reveal a growing connection of Asia to the U.S.-West European axis. For decades, alarmists made comfortable livings by warning that Japan Inc. would inevitably surpass the United States as the world’s leading economic super power (e.g., Vogel 1978; Kennedy 1987:458–471). Alas, the bursting speculative “bubble” sent Japanese stock prices and Tokyo real estate values plummeting in the early 1990s. A decade of nongrowth exposed Japan as just another high-income player struggling to find a competitive edge. Meanwhile, the four Little Tigers (South Korea, Singapore, Taiwan, and Hong Kong before its reversion to China) roared onto the world economic stage, closely followed by Thailand, Malaysia, and Indonesia. Their bellows became muted groans when their 1997–1998 currency debacles and sharp recessions disclosed their rickety crony-capitalist underpinnings. After China abandoned its centralized economic planning system in 1978 for a free enterprise economy, its accelerating development lured numerous Western corporations lusting after untapped markets despite Beijing’s authoritarian politics and abysmal human rights record (Johnson 1997). At century’s end China was poised to surge past a stagnating Japan as the United States’ second-largest international trading partner (behind Canada). However, although China’s 1.2 billion population was five times larger than the United States’ 0.25 billion inhabitants, its tiny per capita income ($750, compared to Americans’ $29,340 in 1998) implied that full maturation of China’s potentially gargantuan consumer markets
would lie far in the future.

*Acelerating Technological Innovation.* The twentieth century’s successive explosions in technology radically changed work, family, leisure, government, warfare, and all other facets of social life. Early applications of scientific principles to machine manufacturing processes boosted the productivity of steel mills, automobile factories, chemical works, and airplane plants. An information technology (IT) revolution exploded in the 1970s, opening a “technological divide” (Castells 1996:46) that split the last quarter century from its forerunners. It was built on computers, but also embraced telecommunications, biotechnology, and materials sciences. Key innovations include the microprocessor (1971), the microcomputer (1975), and gene cloning (1973). The Internet, launched in 1969 as a Department of Defense project to link research computers, morphed into a worldwide, decentralized network of personal computers whose ultimate intellectual and commercial consequences were yet unfathomable in 2000. The speed of IT computations grew exponentially while costs per byte of information plummeted precipitously (Scott Morton 1991:9). Moore’s Law, fabricated by Intel co-founder Gordon Moore, asserted that the number of transistors engineers could squeeze onto a silicon chip (and hence the speed of microprocessor operations) doubled every 18 months. The rapid succession of PC generations pushed typical desktop machine prices well below $1,000 by 1997, threatening to squeeze the profits of chip manufacturers, ironically including Intel itself (Clark 1997; Takahashi 1997).

By the early 1990s, a global information sector had emerged to break down traditional boundaries among seven industries: film studios, television networks, newspaper and book publishers, telecommunication, computer, cable, and consumer electronics companies. This $350 billion industry replaced jet engines as America’s chief export (Auletta 1997:x). Software, hardware, wetware, content, and marketing and delivery systems—all churned together as deep-pocket corporations and upstart companies floundered toward new combinations that might bring vast riches to a few and oblivion to the many. These high-tech companies and industries furnish many of the exciting illustrations of organizational change scattered throughout this book.

Although the technologies undergirding the information superhighway might begin as pure science, their applications are fundamentally social construction processes. Interorganizational networks clutch at the reins needed to ride risky technological tigers without being eaten alive. As an example, consider why commercialization of the multimedia digital video disc (DVD), to supplant computer CD-ROMs and home VCR taping systems, was delayed for several years in the early 1990s (De Laat 1999). Two rival consumer electronics producer alliances fought to establish their pro-
prototype designs as the industry’s standard. The design pushed by a Japanese research and development group (comprising Toshiba, Hitachi, Pioneer, JVC, and Matsushita) was endorsed by such movie and music firms as Time Warner, MGM, and MCA. A second alliance, between Sony and the Dutch high-tech company Philips, pushed for an alternative design. Most neutral image, sound, and information companies rated the two systems as equally satisfactory on purely technical criteria. But, remembering the 1980s debacle over competing VHS and Betamax videotape systems, they wanted to avoid a “broken” DVD standard entering the consumer market. Using its central position in a cluster of info-tech alliances, IBM brokered a secret agreement in 1995 on patents and licensing fees. This compromise allegedly merged bits and pieces of both camps’ technologies into a hybrid standard for DVD consumer products. Thus, organizational network dynamics ultimately shaped the implementation of a technological innovation.

IT innovations continually forced fundamental changes in the ways companies and their employees worked. Although I explore these impacts at the micro level in greater detail in the next section, two macro trends are worth noting here. First, the global information and communication revolutions drastically shortened manufacturing firms’ development and production cycles while enabling them to operate profitably in customized, rather than mass product, markets. Instead of competing on high volumes and low prices, firms strove to satisfy business customers and consumers who demanded highly specialized goods and services. Careful and constant attention to quality performance became essential for organizations to survive and thrive. Second, because IT communication networks enabled managers to coordinate efforts across many physical locations, employees increasingly found themselves competing for jobs in worldwide labor pools at all occupational levels. American high school graduates vied directly with Koreans, Chinese, and Malays with superior basic schooling. Even highly skilled technical and professional workers were not immune from the World Wide Web’s reach. Overnight, a New York bank could electronically subcontract data entry tasks to clerks in Jakarta and coding assignments to computer programmers in New Delhi, at a fraction of prevailing U.S. wages.

**Slowing Productivity Growth.** Economists puzzled over the ominous slowdown in U.S. productivity growth in the final decades of the twentieth century. Productivity measures the relationship between the inputs (amounts of material, machinery, and human capital skills) used to produce outputs (goods built and services rendered). Over the long run, virtually the only way to raise a nation’s standard of living is by increasing its per capita productivity (Krugman 1994; Thurow 1996). The most commonly used measure, labor productivity, is the value of output that an average worker can produce in one hour. Figure 1.5 plots the annual percentage changes in
the output per hour for all persons in the business sector from 1950 to 1999. Fluctuations in both directions are evident around economic recessions and booms, but the long-term trend across the five decades was clearly downward: 3.5 percent in the 1950s, 3.2 percent in the 1960s, 2.1 percent in the 1970s, 1.6 percent in the 1980s, and 2.0 percent in the 1990s. These differences may seem small but, like a compounding savings account, their consequences are enormous. A 3.5 percent growth doubles living standards within just 21 years, but a 1.6 percent rate takes 44 years to double, almost two human generations or roughly the U.S. pace during the first half of the twentieth century. Small wonder that many Americans looked back with nostalgia at the two post-World War II decades as a prosperous golden age! Every advanced industrial economy experienced a similar productivity slowdown after 1973, suggesting that its causes were not unique to the United States. But even after the fall-off, the German and Japanese rates still remained higher than the growth in American productivity. Although U.S. workers maintained a higher average level of productivity, their lower productivity growth meant that standards of living in many high-income nations were catching up with the United States.

Analysts propose numerous explanations for persistently poor labor productivity performance (Baumol, Blackman and Wolff 1989; Krugman 1994). Whatever the 1973 Arab oil boycott's initial impact on triggering
worldwide energy price rises, the productivity decline persisted much too long for that one event to be the sole culprit. Some conservative economists blamed the U.S. government for excessively taxing and regulating business, but the 1980s supply-side and monetarist economic policies of Presidents Reagan and Bush did not reverse the stagnant productivity trend. A small productivity up-tick in the late 1990s coincided with the longest economic expansion in U.S. history, but the average annual gains remained substantially below the 1950–1969 rates. Other analysts rebuked workers for bringing too few skills to the workplace, perhaps the result of poor public schooling and too much time in front of the boob tube. Included among the other usual suspects were a decline in entrepreneurial vigor; inadequate research and development spending; too little savings and insufficient capital investments; and the drag of such social problems as unwed single mothers, an allegedly wasteful welfare system, and an insidious criminal underclass. Another perpetrator that some economists blamed was inaccurate official government statistical data, especially about service sector productivity (Bollier 1998:12). These varied alleged causes defied measurement and imputation of their precise contributions to the puzzle. Anyway, the political system generally just ignored stagnating productivity as a policy issue requiring drastic solutions (Krugman 1990:17).

One controversial interpretation connected the high-tech changes noted in the preceding subsection to shifts in the U.S. economy’s industrial structure. Only about 20 percent of the U.S. labor force remained in manufacturing industries, where technological innovations could more easily produce dramatic productivity gains, often equaling the national rates of the 1950–1970 period. A large and expanding majority of the labor force worked in services such as banking, retailing, personal and business services, education, and health care, where boosting worker output was often much more difficult to achieve (see summary in Wolff 1985:50). Despite businesses spending $500 billion on information technology in 1996 alone, payoffs in lowered labor costs and better quality service remained hard to detect (Gibbs 1997). Employees often continued to perform numerous routine tasks in old-fashioned ways (think of college professors still using the lecture method going back to Plato’s Academy in ancient Athens).

IT problems went far beyond office workers who fritzed away their work hours at computer Solitaire and Minesweeper. Although a majority of office personnel used local area networked PCs, many organizations still hadn’t learned how best to apply them to increase efficiency in workers’ daily activities. When offices installed or upgraded their LANs, mid-career managers typically scrambled frantically to acquire new skills already familiar to their entry level employees. Resistance to bone-headed supervisory demands was reflected in the bitter humor of Dilbert cartoons plastering the cubicle world. IT could also breed its own pathologies. Hospitals, for example, built higher administrative staff-to-patient ratios than 30 years ear-
lier because they devoted so much effort to processing forms and filing reports with insurance companies and government health bureaucracies (Strassman 1997).

Redesigning social relationships in the workplace might hold the ultimate keys for fully realizing the new technologies’ productivity possibilities. Electronic networks could empower corporate employees to connect in better ways with suppliers and customers. Restructuring internal authority lines might encourage abolishing “business as usual” via paper memos and personal contacts. Making user-centered offices and factories the workplaces of the future promised to reverse the U.S. productivity slowdown, but no one should expect dramatic overnight transformations. Even the new millennium may not provide enough time.

Demography May Be Destiny.  During the last half of the twentieth century, the gender, race, and ethnic composition of the U.S. labor force changed dramatically. White males made up the large majority in 1950. Relatively few women with children under 18 years of age worked outside their homes. Many white, middle class families actually resembled those depicted on such popular TV sit-coms as Father Knows Best and Leave It to Beaver: one employed (male) spouse, a second full-time (female) home-maker, and their two-and-one-half offspring. Starting in the 1960s, the most significant generational change was the mass entry of women into the paid labor force. By 1990, three-quarters of women with school-aged kids worked for pay, as did half the women with children under two years old. Two main factors propelled this transformation: (1) skyrocketing divorce rates and increasing out-of-wedlock childbirths fostered female-headed, single-parent households, many living below the official poverty line; and (2) married couples discovered that the lifestyles to which they wished to become accustomed were increasingly difficult to purchase with a single earner’s paycheck (more follows about stagnant wages).

With their women employees facing conflicting work and family demands, employers responded slowly to these new workplace demographic realities. Although a few progressive corporations of the 1990s such as IBM and AT&T initiated generous family services—maternity leave, child- and elder-care, and “flextime” work scheduling—most companies gave only stingy and begrudging recognition to real burdens and barriers (Lamphere, Zavella and Gonzales 1993; Ingram and Simons 1995). United States government policies explicitly sought to maintain a facade of “gender neutrality” regarding working conditions, which probably worsened the economic vulnerabilities of women workers (Bailyn 1992). By socially constructing women’s work-family concerns as equivalent to those faced by men, businesses could persist in acting neither responsibly nor responsively by accommodating their female employees’ welfare needs. Only if social norms supporting family-friendly employment practices became more
widely diffused would corporations come under greater institutional pressures to adopt them.

A second dramatic demographic change was the U.S. labor force's increasing racial and ethnic diversification. Through immigration (both legal and illegal) and natural increase, the diverse Hispanic American segment was expected to surpass African Americans as the nation's second largest population group by the 2010 Census. The heterogeneous Asian-ancestry segment—Chinese, Vietnamese, Japanese, Filipino, and others—grew more rapidly than both native white and black racial groups. The new ethnic employees often brought into their workplaces vastly divergent cultural understandings regarding appropriate work behaviors, as well as significant problems of language and technical skill deficits. Multicultural diversification wasn't unique to the United States. Several high-income nations were economic magnets for poor people from Eastern Europe, Africa, Asia, and Latin America willing to toil in low-paid menial jobs shunned by native-born citizens. Thus, France and Germany contended with torrents of Islamic immigrants from Algeria and Turkey, respectively, not to mention Polish, Romanian, and Ukrainian “guest workers.” Even insular Japan attracted Korean, Filipino, and increasing numbers of Chinese sojourners.

All high-income nations faced impending demographic challenges in their steadily aging populations. In the early decades of the twenty-first century, the proportion of populations past age 60 might reach 20 percent in the United States and 30 percent in Japan and Germany. A rising tide of retiring U.S. “baby boomers” will put increasing fiscal burdens on a relatively smaller labor force to subsidize heavier social security and Medicare transfer payments. By avoiding such necessary but painful remedies as sharply raising the retirement age and means-testing eligibility, pusillanimous politicians have only worsened the looming fiscal crunch. Many corporations also abetted a similarly precarious predicament, promising generous retiree benefits but greatly underfunding their pension obligations. When elderly workers eventually discover their inability to make ends meet with paltry government and company pension checks, more of them may stay in the labor force past the traditional retirement age. However, if senior employees remain in their jobs, the upcoming generations could experience slower progress up the corporate ladder. Not all implications of an aging workforce are ominous: Companies often believe older employees are more loyal, reliable, and competent than younger replacements. Enough inter-generational tinder is lying around to ignite a social conflagration that could make the 1960s look like a weenie roast.

Market Capitalism Trumps Political Democracy. When the citizens of Berlin tore down their infamous Wall in October 1989, they lowered the Iron Curtain on a 40-year Cold War that had drained vast wealth and po-
litical energies from both sides of the ideological conflict. The Soviet Empire’s death was quickly followed by Russia’s descent into a thuggish kleptocracy from which economic and political recovery could take decades. Exhausted from “imperial overstretch” (Kennedy 1987), American political leaders doubted that the public would stand to see its soldiers die on television while trying to police countless tribal conflicts from Somalia to Rwanda and Haiti to Bosnia. In the absence of meaningful threats from powerful foes spurred by an aggressive ideology, the United States shrank its armed forces and cut its defense budget. Bases closed across the South and West, airplane competitors Boeing and McDonnell-Douglas merged, and military research and development budgets were re-engineered for civilian applications. With North Koreans starving, Cubans on the ropes, and both Chinese and Vietnamese commissars courting U.S. and Japanese corporate investors, capitalism had apparently trumped communism for good. Burying the Red Menace even deeper, developing nations from Mexico to India sold such state-owned enterprises as banks, airlines, steel mills, and telephone companies to the private sector (Solomon 1994). New regional trading blocks struggled to take shape in North America (NAFTA) and Western Europe (EU). Lacking a dominant political authority to settle international disputes, the world fumbled to construct a new trading system without significant tariffs and quotas.

In every high-income nation, organized labor movements played major roles in creating and expanding the twentieth-century social welfare state (Rueschemeyer, Stephens and Stephens 1992). In the political struggles between employers and workers to control labor market conditions, elected officials and bureaucrats were both the targets of influence and key players in shaping collectively binding legislative, regulatory, and judicial decisions. In the United States, the AFL-CIO had allied at mid-century with northern Democrats to formulate such New Deal and Great Society policies as social security, union recognition, collective bargaining, minimum wage, unemployment compensation, and occupational safety and health. However, business groups allied with the Republicans exercised substantial veto power over much social welfare spending. The domination of corporate over labor interests could be traced to America’s political “exceptionalism”: the absence of a strong socialist labor party along European lines, low election turnouts by working and lower class voters, fragmented federal political authority, and weak central government bureaucracies.

During the last third of the twentieth century, control of the U.S. federal government remained largely divided between Republican presidents and Democratic congresses, a sure recipe for political gridlock. The main political thrust was away from government regulation toward market direction of private-sector employment conditions. Reeling under the impacts of the globalizing economy while morphing from a manufacturing into a service-
sector labor force, U.S. union membership declined from a peak of 35 percent of the nonagricultural labor force in 1954 to less than 20 percent by the mid-1980s. Employers fought to prevent further union intrusions on management control of workplace activities; for example, in 1987 blocking risk assessment legislation to monitor and notify workers of disease and toxic workplace hazards (Knoke et al. 1996). Unions suffered a serious setback when President Ronald Reagan fired the striking air traffic controllers early in his administration, signaling his endorsement of employers' union-busting efforts. Following Margaret Thatcher's lead in Great Britain, Reagan led a conservative crusade against the liberal political and cultural agenda. Republicans tried to curb government controls over the market by expanding military expenditures ("Star Wars"), slashing welfare spending, gutting corporate regulations, cutting taxes on the wealthy, and providing entrepreneurial incentives to stimulate rapid growth. Although the Reagan "revolution" was only partially successful in slowing the growth rate of big government, exploding federal budget deficits would ultimately thwart the Democrats' efforts to re-embark on new social programs such as the vast national health care proposed by Bill and Hillary Clinton. Evidence of Reagan's enduring political legacy was President Clinton's eventual embrace of a smaller federal administration ("the era of Big Government is over"), signified by his signing a 1997 balanced-budget deal with the Republican Congress.

As union power declined, business gained greater sophistication in achieving its political goals by taking advantage of the 1970s Watergate-era reforms in election and lobbying regulations (Vogel 1989). With politicians' re-election chances increasingly dependent on financing extremely costly mass media campaigns, lobbyists manipulated loopholes in campaign-funding laws that allowed large "soft-money" donations by political action committees (Clawson, Neustadl and Scott 1992; Mizruchi 1992). The China-connection funding scandals uncovered after the 1996 presidential election underscored the corrupting impact of soft money in national politics. Because campaign contributions were legally considered to be free speech ("one dollar, one vote"), election results appeared biased in favor of large contributors' public policy interests. If political money bought special access to the corridors of power, lobbying coalitions could push their cases before elected and appointed government officials, thus potentially influencing legislative and regulatory outcomes.

Unfettered capitalism's apparent successes threaten democratic political principles, as Lester Thurow (1996:242) recognized:

Democracy and capitalism have very different beliefs about the proper distribution of power. One believes in a completely equal distribution of political
power, "one man, one vote," while the other believes that it is the duty of the economically fit to drive the unfit out of business and into economic extinction.

Markets rewarded self-interested actors who relentlessly pursued maximum personal gains without regard to consequences for the common societal good. A constrained U.S. political system was less able or willing to check the increasing inequality of income and wealth, examined in the next section. Whenever organized interest groups clashed against diffuse communitarian values, the former tended more often to prevail politically against broader public interests: farmers harvested crop subsidies that raised consumers' food costs; corporate polluters discharged toxic wastes into the air and water with impunity; gun manufacturers freely marketed handguns and assault rifles despite public opinion favoring stronger controls. A political culture based on rugged economic individualism benefited Wall Street elites at the expense of Main Street:

For Middle America, the new preoccupation with enterprise and markets to the detriment of public services did have a downside: as public outlays on roads, schools and health came under pressure, the predictable result—worsened commuter gridlock, crowded classrooms and shortchanged hospitals and clinic—confronted ordinary families with either accepting lost services or paying new taxes and fees or higher bills, and ... these losses and pressures became an ingredient of the middle-class squeeze. (Phillips 1993:53)

One public sector enjoying high growth rates was construction of ever more prisons and jails to warehouse a dangerous underclass.

These deep-seated tensions between market capitalism and political democracy were concealed during America's fixation on its long twilight struggle against the Soviet Union. Once that threat had evaporated, these issues surfaced in the shredded safety nets through which large numbers of poor, sick, young, unemployed, and homeless people fell. Growing economic polarization between the haves and have-nots threatened the American Dream of ever-increasing intergenerational prosperity. Its symptoms appeared as sporadic violence by skinheads and militia movements, the chronic drug-induced stupors of inner-city dwellers, and the repudiation of affirmative action policies in California and Texas. The underlying cause was the unhindered triumph of the market principle of "everyone for herself" over the democratic ideals of inclusion and care for the weak and the lost.

Micro-Organizational Trends

The four macro-environmental trends covered in the preceding section had many important impacts on and implications for micro-organizational
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trends. I discuss them in this section under four topical subheadings: perpetual corporate restructuring; reorganized workplaces; the new employment contract; and rising income inequality in the United States.

Perpetual Corporate Restructuring. Many corporate managers recalled the 1980s as a decade of downsizing. Employment in the 500 largest U.S. manufacturing companies was 15.9 million workers in 1980, but only 12.4 million by 1989, a drop of 22 percent (Autry and Colodny 1990). A 1985 Conference Board survey of 512 companies found that a majority had closed production facilities or significantly reduced their workforces in the preceding three years (Berenbeim 1986), and a 1993 company survey found that 72 percent had implemented layoffs in the three previous years (Wyatt Company 1993). A 1992 national survey of nearly 3,000 full-time workers revealed that two-fifths of their companies had experienced workforce reductions, with 28 percent cutting back in management employees (Galin-sky, Bond and Friedman 1993). Although blue-collar factory workers usually experienced layoffs during business cycle downturns, downsizing began to hit white-collar employees particularly hard. By one estimate up to 0.5 million middle managers and professionals lost their jobs in 300 large companies during the mid-1980s (Willis 1987). Two-thirds of the Fortune 1000 companies both downsized and cut out middle-management layers (Lawler, Mohrman and Ledford 1995). Among companies reporting to the federal Equal Employment Opportunity Commission, covering about 40 percent of the labor force, the number of managers per 100 employees fell from 12.5 in 1983 to 11.2 in 1994, a 10 percent decrease (Markels 1995).

Nor did corporate downsizing stop once economic prosperity revived in the mid-1990s. Although the fortunes of many corporations recovered, others dwindled under relentless competition. Wal-Mart and MCI Communications together created 230,000 jobs, but such familiar names as Kodak, Woolworth, and Xerox continued laying off workers. In 1993 alone, General Motors announced elimination of 69,650 employees; Sears cut 50,000 workers; and IBM, AT&T, and Boeing each axed more than 30,000 jobs. For his role in dismissing 11,200 employees at Scott Paper in 1994 and swiftly slashing half of Sunbeam’s 12,000 jobs in 1996 in efforts to revive those companies’ sagging performances, corporate fixer Albert J. Dunlap won notoriety as “Rambo in Pinstripes” and “Chainsaw Al.”

In many cases, two types of corporate restructurings hammered employees: internal organizational redesign and financial reorganization. I discuss workplace redesign issues in the next subsection. In the 1980s and 1990s financial restructurings that decimated corporate workforces were driven by qualitative changes in company ownership and emerging new ideas about corporate control (Useem 1993). Large shareholders—often giant institutional investors such as pension funds and insurance companies—actively
insisted that top managers rebuild their firms to serve stockholder interests through faster growth rates and higher stock prices, even at the expense of company “stakeholders”—its employees, suppliers, customers, and local communities. Contests for control of the largest publicly traded corporations on the stock market took off in the early 1980s. Michael Milken at Drexel Burnham Lambert popularized high-risk “junk bonds” to raise huge amounts of cash for speculative leveraged buyouts (LBOs) by predatory outside raiders or existing top management. A takeover team would proceed to privatize a targeted firm by buying back its publicly held stock at prices irresistible to shareholders. It would then try to operate the company to pay back the high interest on its junk bonds quickly (while just coincidentally turning a nice profit for the new owners). In addition to cutting production costs by slashing production employee and middle-management payrolls, another common restructuring strategy involved selling off business divisions and product lines deemed drags on the company’s “core competencies.”

Of the Fortune 500 largest manufacturing companies in 1980, one-third were targets of hostile takeover bids and another third ceased to exist as independent businesses by the end of the decade (Cappelli et al. 1997:33). The leveraged buyout wave crested in 1988 when more than 450 mergers and acquisitions that year totaled almost $160 billion and another 120 management-led LBOs spent $60 billion (Useem 1993:24–25). In the largest buyout in U.S. history up to that time, an RJR Nabisco management team led by its chief officer Ross Johnson lost a $25 billion bidding war in 1987 against the venture-capital firm Kohlberg, Kravis and Roberts (KKR). The amusing shenanigans behind that mega-deal also produced an entertaining book (Burroughs and Hellyar 1990) and an eponymous comedy film, Barbarians at the Gate, starring James Garner. Not laughing at all were the middle managers and employees who were later squeezed out when KKR sold off various RJR Nabisco units to pay for their gamble.

A major outcome of the 1980s merger, acquisition, and shake-out mania was the rapid decline of the previously popular “conglomerate” corporate structure. This form of organization combined several unrelated business lines, based on a “firm-as-portfolio” concept of growth through diversification (Davis, Diekmann and Tinsley 1994). For example, Harold Geneen constructed International Telephone and Telegraph in the 1950s and 1960s as a multi-industry firm that operated hotels, entertainment, insurance, automotive, defense, electronics, and, yes, even telephone companies. One alleged advantage of the conglomerate strategy lay in its “synergy,” the capacity to reduce financial risks while coping with environmental uncertainties. A conglomerate’s central administrators could quickly reassign talented top managers to whichever businesses needed them most. Frequent new business acquisitions would sustain rapid conglomerate growth. Unpredictable revenue streams were expected to smooth out across business accounting units,
and thus a conglomerate’s overall profits would be maximized. By 1980 three out of four Fortune 500 companies operated in two or more unrelated business sectors.

This trend rapidly unraveled in the 1980s, as publicly traded conglomerates appeared ripe for takeover and divestiture of units outside an acquiring company’s core industry. By the 1990s the frequency of unrelated diversification among the top U.S. companies had fallen by nearly half (Davis, Diekmann and Tinsley 1994). The rapid bust-up (“deinstitutionalization”) of the once prevalent conglomerate form was encouraged by a sea change in business leaders’ mental conceptions about how best to organize. Their public remarks began to discredit the firm-as-portfolio model in favor of new strategies involving network structures:

producing complete products often entails forming temporary alliances with several specialists and results in a network, or “virtual corporation,” composed of formally separate entities rather than a single bounded organization. ... Such “firm-like” arrangements create obvious difficulties for organizational theories that take for granted that the organization is an entity and study analogous processes such as birth, growth, and death, while they create openings for approaches to social structure that take the network as a guiding analogy. (Davis, Diekmann and Tinsley 1994:563 and 567)

The impact of downsizing and financial restructuring reached far beyond the largest corporations. Innumerable medium and small companies supplying parts and services to those giant firms were also forced to shrink their workforces to survive in the lean-and-mean economy (Harrison 1994). Whenever the enthusiasm for unselective downsizing went too far, cutting deeply into corporate muscle as well as fat (“dumbsizing”), employers soon found themselves turning to outside vendors for help. Curiously, middle managers given their pink-slips on Friday sometimes returned on Monday to work for the company as freelance consultants at much higher fees. When big companies shed their permanent in-house support staffs—everyone from lawyers and researchers to grounds keepers and cafeteria cooks—they typically substituted deals with subcontractors and temporary help agencies to provide workers for short-term projects. In 1992, Manpower Inc., with its 560,000 temp employees, replaced the shrinking General Motors as largest private-sector employer in the United States (Swoboda 1993). (In the public sector, the U.S. military remained the nation’s largest employing organization.) With fewer permanent employees remaining to perform value-adding work, many companies grew more cautious and selective when hiring new workers. They engaged head-hunting companies to find raidable executive talent, and struck deals with community colleges and commercial enterprises to retrain their older employees in the
newest technologies. The interorganizational arrangements for managing human resources are a significant aspect of the networking dynamics explored throughout this book.

Reorganized Workplaces. Internal organizational restructuring complemented the downsizing and financial restructurings described in the preceding subsection. The most dramatic changes involved the flattening of corporate bureaucracies. As first described by Max Weber (1947), the bureaucratic form of control involves detailed job descriptions; fixed rules and regulations applied impersonally; office management through written documents ("the files"); close managerial supervision over a small number of subordinates (span of control); hierarchical flows of information, commands, and decisions; and employee motivation primarily by extrinsic rewards for performance, such as pay and perks. Carried to their logical limits, bureaucratic principles permeated Frederick Taylor's "scientific management" agenda for speeding-up assembly lines, so hilariously caricatured in Charlie Chaplin's 1936 film, Modern Times. Tightly integrated sociotechnical systems function best in stable, predictable environments such as manufacturing assembly lines, where workers repeatedly carry out routine actions that don't require them to respond creatively to quickly changing situations. Although bureaucracy's "standard operating procedures" promised to sustain a highly efficient method for coordinating large numbers of workers to achieve collective goals, they could also breed alienation, ritual conformity to orders, and psychological disengagement of employees from their jobs and organizations (Merton 1961). At their pathological worst, bureaucratic workplaces were plagued by employees passively resisting managerial controls or actively sabotaging production schedules. For Weber, the relentless, irreversible spread of bureaucratic capitalism across the twentieth century was just one manifestation of a larger historical trend toward completely rationalizing society that would inexorably imprison all men and women in its "iron cage" (Weber 1952).

Weber's prophecy was wrong. Bureaucratic procedures might be optimal for churning out large volumes of standardized refrigerators and soft drinks for mass consumer markets, but they proved inept at competing in the specialized global product and service markets emerging toward the end of the twentieth century. The trigger for U.S. change was a flood of imported Japanese automobiles and consumer electronics in the 1970s that ate deeply into U.S. producers' domestic market shares. American executives came to believe that the secret of their foreign competitors' successes originated primarily in organizational designs that created a superior "Japanese management system." Ironically, the total quality management (TQM) that Japan embraced to satisfy customer demands was initially formulated by American consultants W. Edwards Deming and Joseph Juran during the
1950s, an era when U.S. employers saw few economic benefits from paying attention to either their employees’ or customers’ needs and concerns. In a few decades, U.S. companies were frantically scrambling to redesign their plants and offices into flexible organizational structures capable of competing against Japanese firms in the emerging global markets.

When downsizing corporations began firing middle managers in the 1980s, they also eliminated vertical layers of bureaucratic authority between the CEO and frontline production workers in factories and offices. Company headquarters were hollowed out as their tasks and personnel were decentralized to branch locations. In that process, employers devolved decision-making authority downward and re-engineered their business practices to improve employees’ psychological commitments to their jobs. All workers were expected to take the initiative in identifying and solving problems without explicit, detailed instructions from above. Rewards went to the people most adept at thinking through the consequences of their actions and capable of combining technical knowledge with superior social skills to get the job done. Firms experimented with job enrichment, quality circles, and pay-for-performance schemes that thrust greater responsibility for self-management onto workers. Rigid job systems were replaced by project assignments where people had to acquire new job “competencies” through cross-training. Progress in their careers increasingly depended on lifelong learning and continual intellectual growth, not time spent in rank. Human resources managers could more selectively recruit, train, and place employees in jobs where their skills were most suitable. Workplaces were physically redesigned to reduce status barriers, putting senior managers at desks in large open areas and abolishing executive washrooms and cafeterias.

Restructuring opened numerous opportunities for network relationships, both inside and outside the organization. Electronic information technologies, allowing data to be transmitted among functional groups, forged lateral communication channels to replace the old vertical bureaucratic paths. Telecommuting to work from home offices mushroomed for millions. “Team work” became a magic mantra by which U.S. companies might achieve the total quality nirvana (Katzenbach and Smith 1993). Self-directed teams must be empowered to control sufficient resources to implement their ideas and their members be held collectively responsible for all results. Corporate outsourcing of many formerly internal functions required specialists who were skilled at negotiating with goods suppliers and service providers. Expensive warehousing operations could be replaced by just-in-time (JIT) delivery systems that require skillful planning and coordination between external vendors and internal production units. Under the new industrial relations regime, unions ideally should become management’s partners rather than their adversaries, collaborating in the conversion of old bureaucratic rigidities into flexible new forms (Ferman et al.
Customers, whether inside or outside the organization’s boundaries, must be continually consulted throughout the design and production stages, directly communicating to the appropriate teams their requirements for constantly improving quality goods and services. Customer feedback of complaints and compliments should be a vital element in employees’ performance evaluations.

Researchers labeled these redesigned workplaces “high involvement practices” (Lawler 1992) or “high performance work organizations” (Osterman 1994a, 1999). According to Edward Lawler III (1996:22), their core logic was embedded in these six principles:

- Organization can be the ultimate competitive advantage.
- Involvement is the most effective source of control.
- All employees must add significant value.
- Lateral processes are the key to organizational effectiveness.
- Organizations should be designed around products and customers.
- Effective leadership is the key to organizational effectiveness.

Just how far such concepts had penetrated into U.S. workplaces was revealed in a 1991 national survey of establishments. About one-third could be characterized as high-performance organizations that combined decentralized decision making, employee job training, performance-based compensation, and firm internal labor markets providing job ladders on which employees can climb steadily upward (Kalleberg et al. 1996:120). Similarly, national surveys of establishments with 50 or more employees found in both 1992 and 1997 that at least half the “core employees” (those most directly involved in producing goods or services) participated in self-managed teams in about 40 percent of the workplaces (Osterman 1999:98–101). Participation by a majority of employees in quality circles, job rotation, or TQM programs increased rapidly, with penetration growing from about one-quarter to more than one-half of the establishments. However, workplaces that combined teamwork with at least two other high-performance practices reached only 25 percent in 1992 and 38 percent in 1997. The survival and diffusion of specific innovative work designs seemed problematic, depending critically on whether the perceived outcomes convinced corporate leaders that the present pain of change would ultimately be repaid by future gains in organizational efficiency, productivity, and profitability:

The best conclusion is that work reorganization alone does not lead to impressive gains. It pays off only when it is part of a reorganization of the entire production system that includes substantial shifts in other aspects of internal labor markets. When these prerequisites are met, there can be considerable gains. (Cappelli et al. 1997:110–111)
In the decades after World War I, many large corporations began to develop an implied employment contract that sought to rationalize the uncertain and arbitrary working conditions prevalent in earlier casual, short-term labor markets. The predominant “drive” system relied heavily on foremen playing favorites and bullying workers into compliance with their orders (Jacoby 1985). An expanding U.S. domestic economy required greater predictability and control than could be delivered using the informal hiring and disciplinary arrangements run by company foremen. One outcome of the New Deal’s pro-labor legislation was successful pressure by labor unions and government regulatory agencies on firms to adopt standardized employment practices for hours, wages, and working conditions (Kochan, Katz and McKersie 1986). This implicit social contract, predominating well into the 1970s, emphasized strong relationships of mutual obligation between employers and their employees (Osterman 1984; Cappelli 1999). To secure long-term supplies of labor at reasonable cost and to retain employees once they had acquired firm-specific job skills, companies offered: complex pay and benefit packages based more on seniority than on performance merit; elaborate internal labor markets involving company training programs and regular promotion opportunities through graded ranks of occupations; and above all, job security (so-called lifetime employment such as IBM boasted), particularly for core managerial and white-collar employees but increasingly for blue-collar workers as well. These arrangements insulated employees from the whims of competitive labor markets and effectively tied them to their companies through the ups and downs of the business cycle. Even when recessions forced layoffs of blue-collar employees, these relationships assured that most would return when assembly lines began rolling again. In exchange for providing steady employment at comfortable wages, companies could expect reasonable work effort and loyalty from their employees. This rationalized system benefited firms by reducing employee turnover costs (for example, in hiring and training fewer replacement workers) and by enabling greater predictability and control over production schedules and distribution operations. The internalized employment contract was also nurtured by pressures on corporations to conform from external institutions such as unions, governments, courts, and industry competitors. Its popularity was boosted in the 1970s by business leaders’ and academic consultants’ beliefs that Japan’s economic successes arose from a similar model of lifetime employment.

By the 1980s, the traditional contract faced severe challenges from the globalizing economy and technological innovations. Downsizing, mergers, and outsourcing eroded corporate capacities to sustain job security for many employees. Even skilled professionals and experienced managers were fired when their services were no longer needed. In 1974 the Supreme Court ruled that purchasing agents who did not supervise others were “ex-
empt” employees, that is, they could not be considered hourly workers protected under the 1938 Fair Labor Standards Act. Thus, by redesigning jobs to give workers more autonomy in carrying out their tasks, employers gained greater flexibility and reduced their costs by adjusting hours, pay, and working conditions (Cappelli 1999:113–157). Likewise, by leasing short-term workers from temporary help agencies, companies could evade burdensome paperwork requirements in hiring and firing personnel and avoid generous fringe benefits such as medical insurance and retirement pensions. People in nonpermanent employment statuses—including those holding temporary, part-time, subcontracted, and independent consultant jobs—are known as “contingent workers” (Kalleberg and Schmidt 1996). Their ranks grew more rapidly than the labor force expansion as a whole in the 1980s. By one estimate as much as 25–30 percent of the U.S. civilian labor force worked under such externalized employment conditions by the late 1980s (Belous 1989; Applebaum 1992). Part-time employment (less than 35 hours per week) expanded from 16.4 percent in 1970 to 18.0 percent in 1990, with a majority of that growth involuntary because of inability to find full-time work (Tilly 1990; Callaghan and Hartmann 1991).

Small organizations, for example restaurants and construction companies, were especially prone to deploy contingent workers to regulate the ebb and flow of business, but even giant corporations increasingly resorted to such arms-length labor relations. Part-time work and subcontracting issues figured prominently in the 1997 Teamsters Union strike against United Parcel Service of America Inc. (UPS), on top of disputes over control of company pension funds. About 60 percent of the 185,000 unionized jobs at UPS were part-time in sorting and loading operations, and these arrangements had increased sharply: Of 46,000 jobs created at UPS since 1993, 83 percent were part-time. The full-timers, mostly delivery truck drivers, made $19.95 per hour, while the part-timers averaged $11 per hour, although they received some benefits if they stayed long enough at UPS. The Teamsters also rejected the company’s initial offer on grounds that subcontracting would reduce promotion chances for some drivers and part-timers. After a two-week strike, the company agreed to increase part-time wages by 35 percent and create 10,000 new full-time jobs over the five-year contract, as well as another 10,000 part-time jobs if UPS could win back its customers. Although the strike showed that the labor movement might sometimes stem the tide toward contingent work, its clout was fairly worthless to the 85 percent of the U.S. private-sector labor force without union representation.

Externalized employment relations also weakened the rationale for companies to collaborate in developing their employees’ human capital skills (Osterman 1995a; Cappelli et al. 1997:122–153). Firms offered less on-the-job training because more workers were unlikely to remain on the payroll long enough to return a company’s investment through increased productivity.
As responsibility to acquire useful job skills shifted from the employer to the employee, a vicious cycle developed, generating downward spirals in human capital formation. Uncertain about the prospective directions of their careers, workers rationally avoided investing their personal resources in expensive education and training programs for which they might find no future need:

The net result is less skills investment at exactly the time that more skills investment is needed. The system evolves toward less commitment and less investment just as it should be evolving in the opposite direction. (Thurow 1996:288)

Significant declines in pension and medical coverage in the 1980s also suggested that employers were reducing their long-term commitments to workers through traditional employment-security arrangements (Bloom and Freeman 1992). In 1980, a federal Bureau of Labor Statistics survey of medium and large private-sector firms found that 80 percent of full-time employees were covered by “defined benefit” pension plans, which committed employers to pay future specific amounts to retirees. By 1993 these programs covered only 56 percent of workers. The 1994 BLS small-firm survey revealed that defined benefit plans covered just 15 percent of those employees. “Defined contribution” plans, which calculated payments according to the worker’s contributions (for example, profit-sharing, 401(k), and medical savings plans), increased as tax policies changed to allow accumulations on a tax-deferred basis. By the mid-1990s, nearly half the employees of medium and large companies were covered by defined contribution plans, as were a third of small-firm workers. Similar declines occurred in employer-funded health insurance coverage along with rising costs for worker-paid premiums and deductibles. The Census Bureau’s employee surveys showed that employer-provided coverage for married men fell from 89 percent in 1979 to 76.6 percent 1992, a 12.5 percent decrease. “Although the decline occurred among all age and education groups, it was most dramatic among the younger, less educated workers” (Olson 1995).

The several trends described above fundamentally combined to rewrite the traditional employment contract. The rigid boundaries between labor markets and firms broke down as both employers and employees looked outside company walls for better deals. Workers struggled to cope with short-term, haphazard career paths requiring them to assume greater accountability for obtaining new job skills (Waterman, Waterman and Collard 1994). Because fewer workers expected to spend their entire working lives at a single organization, they had to prepare to deal with disruptions caused by moving from company to company. Even those employees fortunate to enjoy longer tenure with one firm often found themselves periodically shuttled to new postings. People learned how to survive and even thrive in the new employment climate of reduced career prospects, often by obtaining job skill retraining at
their own expense through night school classes and weekend seminars. “Gaming” the corporation became a common practice: Workers accepted projects that would give them useful experiences, skills, and network contacts that enabled them to compete successfully for their next work assignment. In the words of an Intel human resources vice president, “You own your own employability. You are responsible” (O'Reilly 1994:49).

As firms grew lean-and-mean by demolishing their traditional internal labor markets, they typically created two-tier employment structures fraught with tension. A privileged core of employees still enjoyed high job security and good benefits but was immersed in an expanding peripheral workforce having more fragile ties to the corporation. Contingent workers might have cheaper direct labor costs but be much more expensive in lower productivity and morale. They could require more intensive supervision and training, express less commitment and company loyalty, and produce lower-quality work less efficiently. The restructuring process could also increase stress levels and destroy morale if workers felt themselves burdened by heavy work loads and longer hours that conflicted with their family obligations (Cappelli et al. 1997:195–206). The emergence of the external employment contract raised fundamental questions about organizational citizenship in the brave new workplace: Were employees merely human costs to be controlled or were they assets in which employers should invest? What obligations did firms and workers owe one another beyond exchanging hours of labor for a paycheck and a pension?

Rising Income Inequality in the United States. A major result of turmoil in the U.S. political economy was to bring the steady rise in family incomes after World War II to a grinding halt. Figure 1.6 graphs the trend in median constant family incomes. (A “median” divides a distribution of numbers into two equal groups, half with the family incomes in a year above the median value and half with incomes below that value. A transformation into “constant” dollars adjusts the values to remove the effects of inflation; I recalculated family incomes in Figure 1.6 in constant 1998 dollars.) Over the 23 years from 1950 to 1972, median family incomes almost doubled, from $22,448 to $43,347. However, over the next 23 years the trend line remained almost flat. Median family income fluctuated within a narrow band between a low of $39,581 in 1982, a recession year, and a peak of $44,974 in 1989. Only after the recovery from the most recent recession (in 1991) was well under way did family median incomes surpass the 1989 level, reaching $45,262 and $46,737 in 1997 and 1998, respectively. However, if the same rate of increase experienced by the earlier generation had prevailed over the past quarter century, median family incomes would have grown to $85,429 by 1998! By the end of the twentieth century, even the most optimistic believers in the American Dream had been rudely awakened to the new reality of a stagnant standard of living.
The family income trend conceals another important aspect of the story. Although the typical family’s living standards remained frozen over more than two decades, some Americans enjoyed real improvements while others fell farther behind. This pattern is best illustrated with the different experiences of income “quintiles” (that is, five segments each of which contains exactly 20 percent of all families), ranked from lowest to highest “mean” income. (A mean is calculated by dividing total income by the number of families; it typically yields a somewhat higher value than does the median.) As revealed by Figure 1.7, the increases in mean family incomes from 1967 to 1980 were positive for every quintile, although noticeably lower for the two poorest groups. In other words, all Americans enjoyed real, if modest, increases in their standards of living. However, after 1980 the five quintiles diverged markedly: The 40 percent of families at the bottom of the income ladder actually lost real purchasing power, whereas the top 40 percent saw substantial increases. Indeed, the top 5 percent of the income pyramid experienced unprecedented income growth, from $126,000 to $198,000, a 57 percent jump between 1980 and 1994, resulting in their earning one-fifth of total earnings that year. Thus, during the era when median incomes were stagnating, families at the very top reaped enormous gains that pushed them far ahead of those below. This trend toward divergent incomes is evident in
Commercial
Incomes
1967-1980
1980-1994
Percent Increases in
Mean Family Incomes
30
25
20
15
10
5
0
-5
-10
FIGURE 1.7 Diverging Family Incomes across Quintiles
SOURCE: U.S. Bureau of the Census (1999); Exter (1996:49)

Figure 1.8, which tracks the Gini ratio, a measure of family income inequality. A Gini value of 0 indicates perfect equality (every family has the same income), while a value of 1.00 indicates perfect inequality (one family has all the money, everyone else has nothing). The general tendency from 1950 until about 1970 pointed toward slightly increasing equality, but during the next quarter-century the clear trend was toward sharply greater inequality: the rich growing much richer relative to poor and middle-income families.

Social researchers quarreled about the reasons for expanding U.S. income inequality (Danziger and Gottschalk 1993). Many indicted several social and economic trends noted in preceding subsections. The labor force’s changing gender composition increased the participation of both two-spouse earners and single-parent households, greatly widening the income disparities between these types of families. Similarly, the number of immigrant workers, who usually earn less than the native born, increased dramatically. College graduates skilled at working with computers competed more effectively for the higher salaries offered by service industries, while high school graduates’ wages fell further behind. Changes in federal and state transfer and tax policies, begun under President Reagan in the 1980s and continued under President Clinton into the 1990s, reduced welfare benefits to low-income families, held minimum wages below the pace
of inflation and allowed the wealthiest families to keep more income. The
decline of unionized industries exposed more employees to volatile compet-
itive labor markets. Investor pressures to show quick results forced compa-
nieris to boost their stock prices by trimming labor costs through restruc-
turing and outsourcing jobs to cheaper labor providers. However, the
much-favored villain of foreign competition seemed less important than the
productivity drop-off, as noted by two prominent economists:

The sources of U.S. difficulties are overwhelmingly domestic, and the nation's
plight would be much the same even if world markets had not become more
integrated. The share of manufacturing in GDP is declining because people are
buying relatively fewer goods; manufacturing employment is falling because
companies are replacing workers with machines and making more efficient use
of those they retain. Wages have stagnated because the rate of productivity
growth in the economy as a whole has slowed, and less skilled workers in par-
ticular are suffering because a high-technology economy has less and less de-
mand for their services. Our trade with the rest of the world plays at best a
small role in each case. (Krugman and Lawrence 1994:49)

Another intriguing source of increased income inequality is the spread of
"winner-take-all" markets, where "rewards tend to be concentrated in the
hands of a few top performers, with small differences in talent or effort often giving rise to enormous differences in incomes” (Frank and Cook 1995:24; see also Rosen 1981). Real or conjectured limits on the supply of unique talents, coupled with electronic information technologies’ capacities to reproduce outstanding performances in massive, cheap copies, can generate vast earnings for a handful of superstars and their agents. We’re all familiar with the astronomic salaries commanded by peak movie actors, pop musicians, and athletes. (A 21-year-old basketball player for the Minnesota Timberwolves turned down a six-year, $103 million contract in 1997 because it was “not enough.” He later settled for a mere $121 million.) Less publicly visible were contest markets fostering run-away incomes for top scientists, authors, lawyers, business consultants, and corporate chief executive officers. A “dramatic increase in the extent to which American firms compete with one another for the services of top executive talent” (Frank and Cook 1995:70) drove CEO compensation to astronomical levels over two decades. In the 200 largest U.S. firms in 1974, the average CEO earned about 35 times as much the average American manufacturing worker; by 1990 that ratio had grown to 150 to 1 in both manufacturing and services (Crystal 1992:27). The U.S. disproportions greatly exceeded those in Western Europe and Japan (Parker-Pope 1996).

Plan of the Book

In the chapters that follow, I apply diverse theoretical perspectives to analyze trends in the U.S. political economy, seeking to explain their impacts on organizational changes in the twentieth century, especially in the final three decades. Chapter 2 reviews the basic concepts and principles of the five organizational theories that I use extensively throughout the book: organizational ecology, institutionalism, resource dependence, transaction cost economics, and organizational networks. I bring alternative perspectives such as agency theory, social capital theory, organizational learning, and organizational evolution into play on issues where they are most relevant. Chapter 3 provides a broad overview of U.S. organization populations, including for-profit business, governmental, and nonprofit organizations. It analyzes the basic demographic processes of organizational foundings and disbandings, then examines changing structural forms such as the multidivisional corporation and the conglomerate.

The central themes in the following three chapters emphasize both inter- and intra-organizational relations revolving around production patterns and workplace activities. Chapter 4 describes the proliferation of diverse strategic alliances among companies and the critical role of trust in sustaining such partnerships. It explores the origins, development, and consequences of interorganizational collaborations, ranging from large firm-small supplier networks and small-firm networks to regional alliance
networks and global organizational systems. Chapter 5 considers the contradictory implications of the changing employment contract from lifetime job security toward greater market-like labor relations. Increasing project-length and temporary employment signaled eroding employee attachments to firms, but high-performance workplaces also sought greater engagement by self-directed work teams. Chapter 6 links new forms of networked organizations to the contrasting strategies of mentoring and networking relations for developing employee careers. It examines social capital formation and its consequences at both the individual and organizational levels of analysis.

The next three chapters concentrate on political processes within and between organizations. Chapter 7 reviews two centuries of changing legal ideas about the governance of corporations. It analyzes the struggles for control between boards of directors and chief executive officers, institutional investor revolts, and new legal theories of stakeholder rights that could transform power and privilege at the top of these organizations. Similarly, Chapter 8 considers how social movements by various identity groups of employees challenged management's workplace prerogatives. The rise and decline of the labor union movement and the steady legalization of the workplace are two major twentieth-century trends with implications for the future transformation of employee rights and protections. Chapter 9 turns to the participation of businesses, trade associations, labor unions, and other interest groups in U.S. public policy making. Controversies over trends in organizational campaign contributions, influence tactics, and lobbying coalitions paint an ambiguous portrait of who, if anyone, really rules the roost.

Finally, Chapter 10 explores the impact of technological changes in national innovation systems, organizational learning processes, and the evolution of new organizational forms. Although complex and chaotic processes inherently limit the capacity of organizational studies to forecast developments with great precision, our collective research endeavors enable us better to understand and explain how the futures of changing organizations emerge immanently from preceding events.
Notes

Chapter 1

1. Calculated from data in World Bank (1999:230–231). The other high-income nations, with per-capita GNP of $7,970 or more, were Argentina, Australia, Austria, Belgium, Canada, Denmark, Finland, Greece, Ireland, Israel, The Netherlands, New Zealand, Norway, Portugal, South Korea, Singapore, Slovenia, Spain, Sweden, and Switzerland.

2. The 8-by-8 matrix of trade flows in U.S. dollars was submitted to the UCINET network software for multidimensional scaling. Data were treated as an asymmetrical similarity matrix, using Gower's classic metric ordination procedure. A two-dimensional solution yielded a fit with a moderately high stress of 0.24. See the Appendix for further details about network analysis principles and methods.

3. Golden (1994:11) provided these average growth rates (percent per year):

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<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>United States</td>
<td>2.5</td>
<td>1.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Germany</td>
<td>6.0</td>
<td>3.0</td>
<td>1.9</td>
</tr>
<tr>
<td>Japan</td>
<td>7.7</td>
<td>3.2</td>
<td>3.4</td>
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4. Few employers have formal written contracts with their employees, but rely instead on implicit or “psychological contracts” that are open to ambiguity and misunderstandings about standards set and promises kept (Rousseau 1995).

Chapter 2

1. These theories are Administration; Affect-based; Agency; Bounded Rationality; Bureaucracy; Circuits of Power; Coalitional; Cognitive; Comparative Structure; Conflict; Contingency; Cooperative Systems; Cultural; Cybernetic; Decision-Making; Decision-Process; Economic/Market Failure; Economic History; Efficiency-Effectiveness; Enactment; Ethnomethodology; Evolutionary; Expectancy; Feminist; Garbage Can; Goal-Setting; Human Relations; Individual Economic; Institutional; Institutionalist; Language in Organizations; Market; Marxist/Class; Negotiated Order; Network; Operant Conditioning; Organizational Ecology; Organizational Learning; Organizing; Pluralism; Political; Political Economy; Population Ecology; Post-Modernist; Power; Resource Advantage; Resource Dependence; Retrospective Rationality; Role; Scientific Management; Social Constructionist; Social Context; Social Information Process; Social Learning; Socialization; Socio-Technical; Strategic Contingency; Strategic Management; Strategic Process; Strategy-Structure; Structural Contingency; Structural-Functional; Symbolic-Interpretive; Systemic; and Transaction Cost Economics.
Chapter 3

1. **Businesses** are defined as legal or administrative entities that have been assigned an Employer Identification Number (EIN) by the Internal Revenue Service. Units include divisions, subsidiaries, companies, and other affiliated organizations. The SSEL's information on single establishments is updated continuously with employment and payroll data based on payroll tax records and receipts data based on IRS income tax records. Information about multi-unit companies' establishments is updated annually based on a company organization survey and an annual survey of manufacturers.

2. The ETA firm counts reported by the U.S. Small Business Administration (1994:38) are "based upon state employment security agencies' quarterly reports, 1994." Because total firms in the SSEL series were 89 to 90 percent of the ETA's figures for the six years when both series overlapped (1988-1993), I multiplied the ETA series by .895 to approximate the SSEL counts.

3. The figures do not include all section 501(c)(3) groups "because certain organizations such as churches, integrated auxiliaries, subordinate units and conventions or associations of churches, need not apply for recognition of exemption unless they desire a ruling" (Internal Revenue Service 1996, 1999). The "other" category also includes organizations classified as 501(d)-(f), 521 (farmers' cooperatives), taxable farmers' cooperatives, and nonexempt charitable trusts.

4. To qualify for the Fortune 500 list, companies must publish their financial data and report their figures to a government agency. Subsidiaries of foreign companies incorporated in the United States are excluded. Revenues include discontinued operations if they are published. Profits are calculated after taxes, extraordinary credits or charges, and cumulative effects of accounting changes. The revenues and profits in Table 3.2 refer to the fiscal year ended December 31, 1999. Employee numbers were obtained from Hoovers' online service (<http://www.hoovers.com>).

5. The summary input and output tables, in producer prices aggregated from 498 detailed industries, were estimated from several economic censuses. Because 85 to 100 percent of each commodity is produced within a single industry (the "make" or production relation), only the "use" table (input or consumption) contains sufficient variation to reveal the differentiated industry structure. Each industry's purchases of commodities from the 91 market sectors were first standardized to sum to 100 percent. Then Pearson correlation coefficients (r) were calculated for all pairs of industries, where higher correlations indicated greater equivalence in the proportions of all commodities purchased by a pair. This 91-by-91 matrix of correlations was then entered into UCINET's multidimensional scaling program with instructions to generate a two-dimensional solution. The stress value for the two-dimensional fit (.24) is somewhat higher than desirable and could be improved by fitting a third dimension (stress = .16). But the small gain in accuracy comes at the price of greater visual complexity without substantially changing the industries' relative structural positions.

6. A leveraged buyout (LBO) occurs when a small investment group buys out a company's public shareholders by borrowing against the assets of the acquired firm. They then pay off this debt with cash from the firm or by selling some company assets. "Junk bonds" pay higher interest yields than investment-grade corporate bonds because their interest and principal payments are unsecured. Junk bonds are
safer than shares because the bondholders must be paid off before the stockholders if a firm goes out of business. For discussions of the role of junk bonds in 1980s takeovers, see Taggart (1988) and Yago (1991).

Chapter 4

1. Our primary source was the Information Access Company's keyword-searchable online InfoTrac Searchbank General Business File ASAP. Original sources in that archive were more than 400 business general and specialty magazines, major newspapers, and wire services. To supplement the InfoTrac findings, we searched two other online services: University Microfilms International's Newspaper Abstracts of article summaries from 25 U.S. national and regional newspapers from 1989 to 1998, and the general business and financial sources archive of Reed-Elsevier's Lexis-Nexis Academic Universe Company News file.

2. The distance between two organizations is the length of the shortest path connecting them, whose “strength” is the magnitude of its weakest link (measured as the number of alliances between pairs). Reachability for a pair of organizations is the value of an optimum path, whose value is the strongest path. Dividing path strength by path length yields a measure of path distance between pairs that takes into account the number of alliances among intermediaries.

Chapter 6

1. This two-dimensional specification produced a barely acceptable fit, with a stress coefficient of 0.26. A three-dimensional MDS specification improved the stress somewhat (to .19) but did not change the substantive interpretation of the plot.

Chapter 7

1. Berle and Means used a 20 percent stock concentration to distinguish between minority and management control (1932:93). In contrast, the Securities and Exchange Commission considered just 5 percent sufficient for “block control”; see Zeitlin's (1974) informative discussion about methodological difficulties in empirically identifying who controls a corporation.

2. I randomly sampled 21 percent of the 500 firms listed by Fortune in 1999, then coded information about their board characteristics as reported in their most recent proxy statements filed with the Securities and Exchange Commission. Three of the 104 proxy reports were unavailable from 1998 or 1999 and were excluded from my calculations. Because the 1970 Fortune 500 list did not include nonmanufacturing firms, I also compared the 1998 mean board sizes of the 46 manufacturing firms and the 55 nonmanufacturing companies and reached the same conclusions.

3. Total compensation consisted of salaries, bonuses, gains from exercising stock options, long-term incentive payouts, and the value of restricted stock at the time of grant. The figure also separately shows the sum of salary and bonuses (for all CEOs) and the median cashed stock options (only for the subset of CEOs who exercised their options).
Chapter 8

1. The estimates of union density as a percentage of nonagricultural employees for 1900–1995 come from Freeman (1997:Appendix A, Table 1). His series is primarily based on various Bureau of Labor Statistics published series spliced to estimates of the Bureau of National Affairs using the Current Population Survey. I estimated densities for 1996–1998 by adjusting the CPS rates reported in the *Statistical Abstract of the United States 1998* (U.S. Bureau of the Census 1998:Table 712). Because these densities included agricultural employees, to be consistent with Freeman's series, I reduced them to 0.95 of the reported CPS percentages. This proportion precisely equilibrated the preceding three years where the Freeman and CPS series overlapped.

2. The regression slopes for five 10-year intervals yield these estimated linear percentage changes in union density over a half-century: 1950s, +0.5 percent (not significantly different from zero); 1960s, −4.07 percent; 1970s, −4.09 percent; 1980s, −7.55 percent; 1990s, −2.89 percent.

3. Data for 1975–1987 from Chaison and Dhavale (1990:Table 1); for 1982–1997 from annual issues of the *NLRB Election Report*. Inconsistent counts for the overlapping years stem from differing procedures for calculating gains in new units and losses in represented units.

4. Reskin (1998:22) reported somewhat higher figures for redistributing five gender-race groups into the occupational distribution of men in 1990: 29 percent for black and Hispanic men, 54 percent for white women, 58 percent for Hispanic women, and 60 percent for black women. However, she did not report the number of occupational categories used to compute these values. Reskin (p. 53) also found that gender and racial occupational segregation scores decreased from 1970 to 1990, falling from 67 to 53 percent for all women and from 37 to 27 percent for blacks.

5. Under a 1978 executive order, the EEOC dealt separately with federal employee complaints, which doubled from 17,000 to 34,000 cases between 1991 and 1997. It also contracted with 90 state and local Fair Employment Practices Agencies that annually processed another 48,000 cases using federal guidelines.

Chapter 9

1. The Lobbying Disclosure Act formula does not require reporting of any state, local, or grassroots lobbying expenditures, and the Internal Revenue Code method, which requires these amounts, applies a narrower definition of the covered public officials. Subsidiaries operating in different industries than their parent organizations are not included in the parents' totals. Given prevalent filing errors and the absence of any verification and correction mechanisms, information reported to the House and Senate is not completely accurate and directly comparable across lobbying organizations.
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