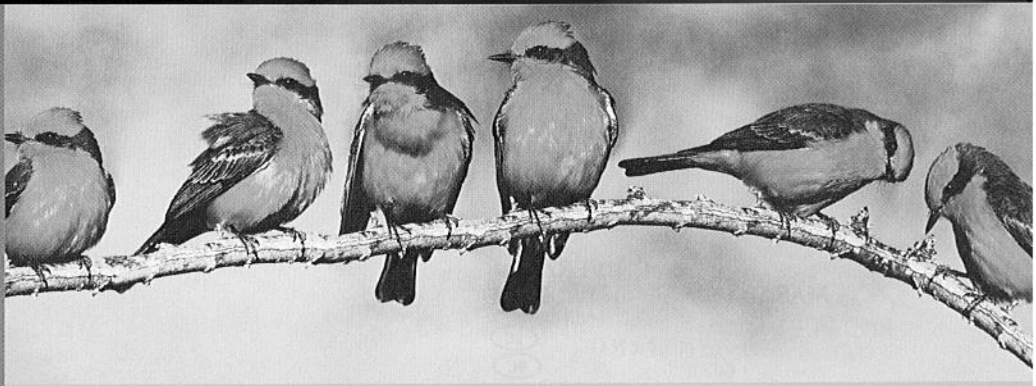


DEREK ROLLINSON

Organisational Behaviour and Analysis

An Integrated Approach

FOURTH EDITION

FT Prentice Hall
FINANCIAL TIMES

An imprint of Pearson Education
Harlow, England • London • New York • Boston • San Francisco • Toronto • Sydney • Singapore • Hong Kong
Tokyo • Seoul • Taipei • New Delhi • Cape Town • Madrid • Mexico City • Amsterdam • Munich • Paris • Milan

INTRODUCTION

At the press of a button a financial institution in Hong Kong could move billions o dollars around the world, the consequences of which could impact on the fortunes o hundreds of different organisations worldwide. Although this is a rather dramatic exam ple of the way that events outside an organisation could have an impact on its inter ior, these days these effects are all too common. However, it can sometimes be difficul to trace these connections, if only because some of the external factors at work can b rather unspecific in terms of their effects. Some, for example, can act in combinatio with others, and some of them can have indirect effects that are hard to quantify.

Unfortunately, there has been a regrettable tendency for OB and to some exten OA to ignore the impact of environment, but as Capelli and Sherer (1991) point out in the same way that individuals and groups are affected by their surrounding con texts, the external environment has an impact on the behaviour of a whole organisa tion. This, it will be recalled, is one of the fundamental principles of the open systems approach, which was briefly described in the previous chapter. Therefore, since this book deals with all levels of an organisation, it is fitting that it should include some mention of the effects that their environments have on them.

To explain these matters the chapter commences by presenting an explanatory model that identifies a number of broad contextual factors that can influence the nature of organisations. These can be likened to a set of forces or pressures to which a firm must respond in an appropriate way if it is to survive and prosper. The model is then applied to Great Britain to explain how changes in contextual circumstances have shaped the nature of organisations in the last three decades. In the final section of the chapter three prominent challenges that are likely to affect organisations for the foreseeable future are discussed, and the chapter closes with an overview section that integrates its main points.

THE CONTEXTS OF ORGANISATIONS: AN EXPLANATORY MODEL

Environment: issues, events and pressures that arise externally to an organisation, and which present opportunities for it to survive and prosper, but also put constraints on its behaviour and the behaviour of people in a firm

In total, the environment of an organisation consists of a host of issues, events and pressures that can affect the interior of a firm, and one way of examining these broad influences is to use the PEST framework shown in Figure 2.1. Before doing so, how-ever, it is important to sound a cautionary note. The model given is only a very sim-plified representation of a far more complex reality, and the reader is urged to remember this and bear in mind that while models of this type can aid understanding they are, of necessity, incomplete, and can never fully capture the richness and complexity of the real world situation.

Clearly, although *environment* is something external to a firm, it is more than sim-ply 'everything out there'. Some parts of it are of greater significance than others and, to structure the discussion, Figure 2.1 shows four environmental contexts, all of which can have effects on an organisation: the *political-legal context*, the *economic context*, the *socio-ideological context* and the *technological context*.

Political-legal context: the extent to which the state intervenes in organisations, either directly and/or indirectly

The Political-legal Context

The *political-legal context* refers to the extent to which the state intervenes in organ-isations and the ways in which they conduct their activities. This can occur in one of

Figure 2.1 Contextual influences on organisations

Economic context: the overall state of the economy in which an organisation operates, for example whether it is buoyant or recessionary

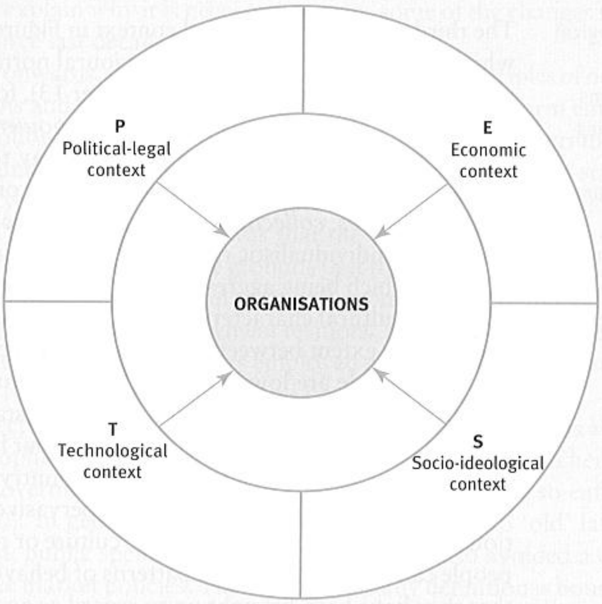


Figure 2.1 Contextual influences on organisations

two ways. Where *direct intervention* takes place, the government or one of its agencies plays an active and ongoing role in determining certain aspects of their conduct as commercial organisations. For example, there is legislation in the various Companies Acts that sets out the duties and obligations of directors of companies, and this is largely designed to protect shareholders and other investors from fraud and malpractice. In addition, legislation was introduced in the 1980s and 1990s to privatise a number of organisations in the public sector, with the aim of introducing the use of free market principles. Direct legal intervention also includes employment laws that require the parties (employers, employees and trade unions) to modify their relationship to conform with certain standards, such as health and safety obligations and laws covering the national minimum wage and statutory trade union recognition.

Indirect intervention is rather different. It occurs when the state seeks to promote a particular public policy objective. Examples include the government's work–life balance objective, which encourages companies to adopt more family-friendly policies for employees. In addition there have been attempts to promote more cooperative employment relations policies, through union-management partnerships and there is now a designated partnership fund administered by the Department of Trade and Employment (DTI) to help promote public policy in this direction.

The Economic Context

Economic context: the overall state of the economy in which an organisation operates, for example whether it is buoyant or recessionary

The *economic context* is used to denote the key characteristics of a country's economy, such as whether it is buoyant or recessionary. Key economic indicators include global economic pressures, international currency fluctuations, labour market conditions such as employment and unemployment, wage costs, and changes to consumer tastes and demands.

The Socio-ideological Context

The socio-ideological context: the behavioural norms and cultural values prevalent in a society, which can, for example, influence the nature of the relationship between a firm and its employees

The third wider environmental context in Figure 2.1 is the *socio-ideological context*, which describes the dominant behavioural norms and cultural values in a society. As will be seen later in the book (see Chapter 13), four important characteristics of social cultures that affect organisations are: (i) *power-distance*, the extent to which deference to authority is considered a normal way to behave; (ii) *uncertainty-avoidance*, the extent to which aversion to risk-taking is considered a normal way to behave; (iii) *individualism vs. collectivist*, the extent to which people derive their sense of identity from being individualistic rather than part of a group; (iv) *masculine vs. feminine*, the extent to which being aggressive and 'macho' is part of peoples' psychological make-up. These cultural characteristics can vary significantly from one country to another, and to some extent between one firm and the next. For instance, in Great Britain and the USA, people are low in their deference to authority, but in other countries, such as Japan, they are more tolerant of power-distance. The need to accommodate ourselves to different social values by changing our behaviour can sometimes become very obvious if we travel outside our native country. It is also important to note that the effects of wider social cultures can be pervasive. That is, the culture of an organisation needs to be compatible with the culture or region in which it is located, otherwise people can find that expected patterns of behaviour in the enterprise clash with those that they have been brought up to regard as acceptable and normal.

The Technological Context

Technological context: the choices made by firms about the technology that they use in their activities, which affects employee job tasks, skills and competences

The *technological context* reflects the state of technical development in the environment within which the firm is located, and it is from this context that the firm makes its choices about which technologies it uses in its activities. This can have very far-reaching effects, because technology influences not only *what* tasks employees perform, but also *how* they perform them (Child 1972). For instance, on one hand technological innovation can make some jobs redundant, and provide management with new and more sophisticated forms of employee control and surveillance. On the other hand, however, it can create new jobs that require additional employee skills and competences. For these reasons, the technological context has significant implications for the social relations that shape an organisation's relationship with its employees.

TIME OUT

Using the PEST contextual factors described above (political-legal, economic, socio-ideological and technological) list what you feel could be the main influences on the university or college at which you study.

THE CHANGING CONTEXTS OF ORGANISATIONS IN GREAT BRITAIN

The Third Way: a political ideology in which government charts a path between state regulation and free market forces; its core values include support for: competitive markets, innovation, skills, fairness and equity

European Social Policy: a set of regulations that provide rights for workers which are comparable across EU Member States, and which incorporates rights on working hours, employee voice, redundancy, health and safety, maternity and paternity leave

The Political-legal Context

The government is the only institution that has the capability to make new laws or abolish old ones and, in so doing, it effectively establishes the rules of the game for many organisations. As such, this context has had a significant affect on firms in Great Britain and to explain why it is necessary to trace some of the changes that have taken place across three last decades.

From 1979 onwards, the government abandoned prior principles of non-intervention in organisations and radically changed employment law to reform employment relations. In the following two decades successive Conservative governments adopted a strongly anti-union stance and, on average, introduced an item of statutory legislation every two years, much of which was aimed at curbing trade union activities (Ackers *et al.* 1996). The net effect of this was that the balance of power was firmly shifted into the hands of employers, on the grounds that these steps were necessary to weaken trade unions in order to free the market and promote a more individualistic (rather than collective) dimension in employment relations. Indeed, the government even banned trade union membership for workers employed at the Government Communications Headquarters (GCHQ) (McLoughlin and Gourlay 1994).

With the election of a 'new Labour' government in 1997 there was a radical change in state philosophies. Faced with the unpalatable extreme of Thatcherism, the newly elected Blair government offered a new approach based on the so-called *Third Way* (Giddens 2000). In general, while this eschewed a return to 'old' labour values of nationalisation, public spending and high taxation, it also avoided a continuance of Thatcherite free market policies. Therefore, while any definition is bound to be imprecise, the *Third Way* project broadly embraced five core pillars: competitive markets, innovation, skills, fairness and equity (Blyton and Turnbull 2004). Having said this, there is considerable debate about the efficacy of the Third Way. For some commentators it is little more than a continuation of Thatcherite neo-liberal free market principles (Callinicos 2001). For example, 'new labour' has continued the sell-off of elements of the public sector and nationalised industries, the labour market remains fundamentally unequal for many women, part-time workers and for millions who are subject to precarious forms of employment. In addition, while there is a raft of associated legal rights that protect individual workers – for example, family-friendly workplace policies and minimum wage protection – the restrictions on trade union behaviour remain on the statute book.

The Third Way: a political ideology in which government charts a path between state regulation and free market forces; its core values include support for: competitive markets, innovation, skills, fairness and equity

In addition, many of the changes in the political and legal context since 1997 have arisen from developments at the European Union (EU) level (Green 2001). In this respect *European Social Policy* has established regulations on a host of matters such as working hours, equal pay, redundancy, employee protection during company takeovers and transfers, maternity and paternity leave, and consultation rights. These matters are enshrined in the Social Chapter of the Maastricht treaty, from which the Conservative government obtained an opt-out in 1991. However, in 1997 the newly elected Labour government adopted an obligation to conform to the Social Chapter, and since then it has become an increasingly significant way in which the political-legal context has affected organisations. Indeed, the government argues that many of the individual worker laws, such as the national minimum wage and rights for part-time workers, serve to rectify the injustices of a previous political era. However, European legislation also has its critics. For example, many British employers argue that these European-led laws are restrictive and burdensome, and that they impose severe constraints on management's 'right to manage'.

European Social Policy: a set of regulations that provide rights for workers which are comparable across EU Member States, and which incorporates rights on working hours, employee voice, redundancy, health and safety, maternity and paternity leave

REPLAY

- The political-legal context has changed considerably in the last three decades.
- After 1980, Conservative governments were extremely hostile to trade unionism and as result the balance of power in employment relationship was shifted firmly into the hands of employers, and away from workers and unions.
- Since 1997 the Labour government has continued with many free market principles such as privatisation, but at the same time has introduced several important worker rights and protections. As a result, there are now many important legal interventions that affect organisations such as minimum wage protection and trade union recognition rights.
- European Social Policy has been at the vanguard of new rights and worker protections. The objective being to create a more even playing field across EU member states.

The Economic Context

The economic context has undergone far reaching changes, all of which can influence the nature of organisations. Following World War II, while full employment resulted in rising affluence and aspirations in the working population, there were certain fundamental weaknesses in the British economy: notably, declining competitiveness that fuelled a growing skills deficit compared with other market economies. By the 1980s, decline had firmly set in, and manufacturing industry was particularly hard hit with many regions in the UK plagued with high unemployment. While these recessionary effects have had a lasting impact in Great Britain, economic growth since 1997 has largely exceeded most forecasts. For example, inflation has remained relatively low and, with the growth of a new service sector, unemployment has declined. Two particularly important contextual changes that have an effect on organisations are *globalisation* and the changing *composition of the workforce*. The first of these will be covered later in the chapter as one of the significant challenges facing most British firms and so discussion will largely be confined to the second.

With respect to the *changing composition of the workforce*, one of the more visible economic changes is evident in changes that have occurred in its structure and composition. Across the last century the proportion of women who are part of the workforce has increased substantially from 29 per cent to 46 per cent (Lindsay 2003). In addition, average weekly hours worked has fallen from 53 hours per week to 42 hours and many of these changes have occurred because of wider economic pressures. For instance, there has been a sharp increase in service sector jobs, with a significant reduction in manufacturing employment. However, when viewed in more detail, the labour market remains highly segmented. For example, compared to most male occupations, many of the jobs taken by women tend to be part-time and of a temporary nature. In addition, women in full-time employment only earn about 80 per cent of the salary of men in equivalent full-time occupations (Office for National Statistics 2004). About half of all women work in service sector jobs, such as catering, cleaning and personal contract services, and these are often lower paid and lower skilled occupations. For example, according to the Low Pay Commission (2005), the main beneficiaries of any increase in the National Minimum Wage are women, part-time workers, some minority ethnic groups and younger workers. Thus, reference to the female participation rate on its own can hide other important labour market changes, many of which reflect a disproportionate distribution of the quality and security of work for millions of women (Grimshaw and Rubery 2003).

TIME OUT

Consider the changes in the composition of the workforce in Great Britain. To what extent do you feel that these are likely to have had an impact on the college or university at which you study?

In part, explanations for the increased participation of women in employment can be accounted for by wider changes in the economy (Millward *et al.* 2000). For example, the proportion of jobs in manufacturing industry has fallen substantially. Indeed, over the course of the twentieth century, employment in manufacturing industry has decreased from 28 to 14 per cent of all employees (Lindsay 2003). In the 1950s, only about 9 million people worked in service sector occupations and the current figure is now over 20 million (Labour Market trends 2004). Moreover, there are one-third fewer workers employed in the public services than there were in the early 1980s. This reduction illustrates the connections between economic changes and political developments, because it can mostly be explained by the privatisation of whole industries, such as gas and telecommunications, together with the outsourcing of other public sector functions to private enterprises (Millward *et al.* 2000).

REPLAY

- The economic context has undergone significant change and, in particular, two developments have been influential: *globalisation* and *labour market composition*.
- Service sector employment has increased significantly, while the number of manufacturing jobs has declined.
- The composition of the labour market in Britain has become segmented, with many women employed in lower paid and lower skilled jobs.

The Socio-Ideological Context

In broad terms, while Great Britain is a capitalist democracy, in the aftermath of World War II there was a strong belief that stronger members of a society should protect the weak. For this reason the government of the day constructed the welfare state, which included the National Health Service (NHS), and it also nationalised key industries so that they operated as enterprises that produced public goods, rather than existing for private profit. In response to widespread public demand, the government also widened access to education and social welfare provision. In addition, post-war full employment and the growth of trade union membership largely saw the demise of the deferential society, which resulted in aspirations of security, affluence and basic living standards.

However, throughout the 1980s and 1990s, the economic and political changes described above negated many of the social developments of earlier decades, and increased the gap between the 'have's and have-not's'. Thus, the 18 years of neo-liberal economic policies under Conservative rule resulted in an ethos in which the ideological values of private profit and entrepreneurship are more prevalent in Britain than they were two decades ago. Moreover, many organisations are now small businesses, in which employers adopt either a hostile or neutral response to the idea of unionisation. Changes to broad social values also tend to be reflected in government policy, and 'new Labour' continues to promote greater market choice and flexibility, albeit with important individual worker protections built-in to the social and economic fabric of society. As such, in the twenty-first century, Britain is (theoretically at least) a *meritocracy* that is guided by those who perceive that the basic principles of a free market society are superior to its alternatives.

Meritocracy: a social and economic system in which advancement is based on ability or achievement

REPLAY

- Social and ideological values are strongly connected to changes in the economic and political-legal contexts.
- Broader social values and norms are also reflected in individual attitudes; for example, whether workers embrace values such as entrepreneurship.
- Social norms can also reflect employer ideologies and hostility towards employee collective representation.

The Technological Context

There is a strong connection between technology and some of the economic changes described above, and it is no coincidence that the decline in manufacturing industry has occurred during periods of rapid technological innovation (Towers 2003). Indeed, technology in general, and in particular the use of Information and Communication Technologies (ICT), have transformed almost every aspect of employment.

As explained earlier, the word technology can be used to embrace not only *what* tasks employees perform, but also *how* these tasks are undertaken. In addition, the use of various technologies denotes the choices that employers make about how people are managed. Significantly, therefore, technology in the workplace is seldom a matter of new hardware or software alone, but tends to be part and parcel of new ways of managing people, such as Total Quality Management, or more flexible organisational structures. In many situations, technological change has streamlined workers' tasks, increased productivity and in some cases empowered employees in their jobs. It has also altered the way employees are managed, with increasingly more invasive forms of surveillance and control over almost every part of a worker's job.

Thus it is fair to say that technological change of one sort or another has affected practically all sectors of economic activity, from manufacturing, finance and banking to the way that McDonald's makes its burgers. Indeed, most people are touched by technology in some way in their everyday lives, both as customers and workers, and some of these technological developments have had an impact on health and safety at work. For example, the amount of time workers spend in front of computer screens or using various computer-aided technologies can have adverse health effects. Indeed, it was the adverse health effects of increased computer usage that prompted trade unions to campaign for improved safety conditions, which eventually led to the introduction of the 1992 European Display Screen Regulations.

REPLAY

- The technological context not only affects the tasks workers perform but also how they perform them.
- This provides employers with a greater degree of control over what and how employee tasks are performed.
- Technology has also affected workplace health, safety and well-being, particularly in terms of the increased use of computer-related work activities.

THE IMPACT OF CONTEXTS ON ORGANISATIONS

The changing nature of organisations has been vastly influenced by changes in the contexts of the wider environment. However, it is seldom the case that internal changes can be directly attributed to something that has occurred in one of the contexts alone. Rather, an organisation usually feels an imperative to respond to environment because of interconnected changes that occur in several contexts together. In what follows, some indication will be given of the particular contexts that have been most influential in prompting changes.

Market-prompted Changes

Because an organisation is strongly influenced by the demand for its products or services, many of the changes in this area have been in response to pressures from the *economic context*. Three general trends with respect to markets and competitive pressures can be detected and, since these are conceptually different, they will be described separately.

First, there has been a fairly high level of retrenchment in British firms, which started as long ago as the early 1980s. While new names such as ***downsizing, rightsizing, delayering***, or even simply cutbacks have been invented to gloss over what occurred, the results were remarkably similar. Plant closures, redundancies, wage cuts, capacity reductions and the replacement of people with machines were all commonplace, and, while some firms survived and even regained a competitive position, this resulted in a great deal of unemployment. When an initiative of this type is in progress, people are understandably apprehensive and so commitment and loyalty are inevitably lowered (Savery *et al.* 1998). In addition, for those who are not made redundant, working life is frequently more stressful, insecure and more physically demanding, due to longer hours. As such conditions have been described by one author as 'working with pain' (Berggren 1993), and the survivors were sometimes so demotivated and dispirited that they lack a sense of security, and their loyalty to an employer is severely reduced because they feel that they work for an organisation that treats people as a commodity, rather than as humans who deserve consideration (Cooper 1998). One of the most strongly affected groups of survivors consisted of managers who, because they had to make people redundant, developed subliminal fears that what they did to others could be done to themselves (Kets de Vries and Balazs 1997). The need to address these psychological effects on those who remain has only recently been recognised (Doherty and Horsted 1995) and research in some of these slimmed-down organisations has revealed that organisational commitment can be much lower and the intention to leave much higher (Allen *et al.* 2001) than before.

Second, there has been considerable change prompted by what is now often called the 'quality revolution'. These days, quality tends to be viewed as a whole bundle of attributes that ensures that the needs of customers are satisfied, and, in the last two decades, the greater degree of competition for business is often said to have led to consumers becoming much more demanding (Grey and Mitev 1995). However, price has not been totally eclipsed by quality as the basis of competition and, where there are two substitute products of equal quality, customers will usually buy the cheaper one. Thus it is usually important to achieve high quality while keeping the price low and *productivity* – which can be defined as the quantity of outputs obtained from a given level of inputs – is a very important consideration. For this reason, the aim these days is to build-in quality during the production process.

A number of approaches to this issue have been put forward, one of which is *Total Quality Management* (TQM), which theoretically consists of an organisation-wide strategy that focuses on achieving or exceeding customer expectations. Most texts on TQM argue that realising its promised advantages is crucially dependent on using human resources in an appropriate way (Hodson and Roscigro 2004). Here there is very strong evidence that the firms who get the best from TQM are those that also have a compatible set of human resource practices, such as empowering the workforce and eliciting its cooperation and commitment (Datta *et al.* 2005; Wright *et al.* 2005). However, there is also evidence that the use of TQM often sets up a number of workplace tensions. For instance, work is sometimes deliberately organised to put pressure on employees to produce for every second, and worker autonomy is actually reduced because people are forced to achieve tight work targets. In addition, people are usually organised in teams, in which they have to cover for an absent colleague, which results in peer pressure being used as an instrument of management control to minimise absence (Parker *et al.* 1993) and, needless to say, employees are not blind to these effects (McCabe 1996).

Private equity funds: funds put together and raised on the stock exchange by (nominally) private investors, usually to engineer the acquisition or takeover of a large, publicly quoted organisation

Finally, one effect of a globalised marketplace is that products and services can rapidly become obsolete, and this means that the markets for many products become more volatile, more competitive and product life-cycles tend to be shorter. A response to this phenomenon in the search for competitive advantage is the use by management of a ruthless pursuit of new methods of cutting the costs of labour. To some extent this is associated with the fallacy fostered in the media that countries such as Taiwan, Malaysia, China and some of the new EU accession states have a cheap and abundant supply of labour. Thus, labour costs in these countries become the benchmark for what managers try to achieve in Great Britain. In reality, however, Great Britain is also a low wage economy relative to other advanced economic nations. For example, of all the original G7 nations (Great Britain, Germany, Japan, America, France, Canada, Italy), Britain is ranked sixth in terms of its relative wage levels – Italy is seventh (Blyton and Turnbull 2004).

TIME OUT

Consider the market-prompted changes that have taken place in organisations. How are these likely to have an impact on you and your fellow students in terms of the future careers that you pursue when you leave university?

Organisational Inputs

Turning now to the inputs to organisations, two phenomena in particular are worthy of discussion: *suppliers of capital* and *employees*, both of which have been affected by changes in the *economic context* of the wider environment. With respect to *suppliers of capital* in spite of government attempts to use the privatisation of state enterprises to bring about much wider share ownership, the share capital of large organisations is increasingly in the hands of large financial institutions (Blackhurst 1996) that regard themselves as having only one duty: to produce the highest possible return. As such, they have no loyalty to the firms whose shares they hold and this puts heavy pressure on these firms to produce high short-term returns, which sometimes means that they have to forego long-term opportunities (Hutton 1995).

This trend alone can make life difficult enough for firms, but a more recent and somewhat insidious turn of events has now arisen: the activities of *private equity funds* (see OB In Action Box following). These companies are rapidly acquiring an unenviable reputation for their ruthless and exploitative approach to business. Typically, after having acquired control of a large company, they install their own management team, who ruthlessly prune-down the firm by asset stripping, and increasing its financial leverage to give a rapid increase in profits. This, of course, tends to elevate share prices and so the time soon becomes ripe for the equity fund to return the shares to the open market, where they can be sold at a vast profit. By now employee morale and sense of security could be rock bottom, which means that the longer-term future of the company is at best perceived as doubtful.

Private equity funds: funds put together and raised on the stock exchange by (nominally) private investors, usually to engineer the acquisition or takeover of a large, publicly quoted organisation

The number of large firms subject to this treatment is growing daily. For example, a consortium bought the car rental firm Hertz, which in 2005 was re-structured into a number of blocks that could be sold-on. The retail group Debenhams was bought and its property portfolio of owned stores was sold-off and leased back, and, eventually, the company was re-sold on the stock market. The latest candidate, at time of writing, is the supermarket group Sainsbury's, which is reputedly being stalked by a consortium of four private equity firms (Hutton 2007).

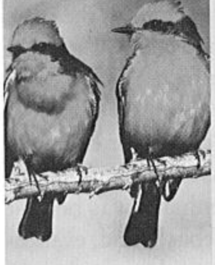
OB IN ACTION: Private Equity Companies

Six months ago, very few outside the City had come across the idea of private equity, but today, as Sainsbury's is stalked by a club of four private equity firms and the GMB (General, Municipal and Boilermakers) has ignited a campaign against job losses incurred in private equity restructurings, it is even becoming an issue in the contest for the deputy leadership of the Labour party.

Private equity is now the dominant element in the stock market. According to the Financial Services Authority, in the first six months of 2006 private equity firms raised £11.2bn in capital on the London Stock Exchange, whereas ordinary firms raised £10.4bn. So many public companies are being taken over by private equity companies, or retiring their own shares to head off the risk, that the London stock market, despite rising average share prices, shrank by nearly £50bn in the same period.

However, the story that private equity companies tell of themselves is that by taking public companies out of the public arena of accountability, regular reporting and scrutiny, they can instead enjoy the benefits of engaged, committed ownership. Too many companies, they allege, are just not trying hard enough to maximise their profits, and that they need the managerial alchemy of private equity investors who, by aiming to make 'life transforming' money for themselves, will give them the necessary managerial and strategic shock treatment. Nevertheless, one truth about private equity shines out: the extravagant management fees and annual 'carry' (the share in profits) certainly means life-changing fortunes. Researchers at Manchester University's ESRC Centre for Socio-cultural Change recently got hold of the internal management accounts of one fund with up to £8bn of funds under management. After five years, 30 full partners expected to make between £25m and £50m each. Moreover, the rest of the industry's claims about creating jobs, investment and exports do not bear close scrutiny. Much of the alleged managerial alchemy is no more than old-fashioned engineering – leveraging up returns by incurring lots of debt. Indeed, one study by Citigroup showed that if pension funds and insurance firms had borrowed money themselves and invested in a basket of companies in which private equity groups invested, they would have made higher returns than even the best-performing private equity firms.

Mortgaging the future to capture gains for personal gain in the present is easy and, as one chief executive of a well-known public company reported recently, the task of the good manager is to resist it. Managers have to balance the interests of today's shareholders with tomorrow's shareholders and private equity drives a coach and horses through the proposition. As Paul Myners, the former chairman of Marks & Spencer and chairman of Guardian Media Group, has remarked: 'The one party that is not rewarded is the employees, who generally speaking suffer an erosion of job security and a loss of benefits.'



Currently, other public companies, including ICI, Amec and EMI, are being stalked, and having to adjust their strategies accordingly. The shadow of private equity falls everywhere, making the gamut of British business hyper-short-termist.

The foundation of a durable business, as James Collin and Jerry Porras argued in their famous book, *Built to Last*, requires vision, values, leadership and purpose

around an organisation's 'reason to be'. So, if we want companies like this, shareholders have to give managers room for manoeuvre and back long-term business strategies. The problem is that British shareholders are not required by law to take their ownership responsibilities seriously. Nor are British companies required to give them the range and quality of information that might help them to do so. As a result, British shareholders are extraordinarily neglectful of their ownership responsibilities. Pension funds and insurance companies are myopic and short-term enough, but, because takeover is so easy in Britain, private equity has been able to carry short-termism to new extremes. While this is said to raise productivity and performance, the opposite could be argued. The chief reason British business remains at the bottom of the international league tables for innovation, research and development, and productivity growth is because there is too much takeover, and too much private equity.

The answer is obvious. Private equity cannot be outlawed; in any case it can do a good job. Rather, the perverse incentives in Britain that favour takeover need to be removed. We need to defend the public company and create conditions in which it can prosper. But who is going to do that? Not the Conservative party, which is in thrall to private equity, and not, judging by its legislative record, the government. Our politicians are confused and there is much more to wealth creation than constructing a plutocracy of private equity partners.

Source:

Adapted from Hutton, W (2007) Private equity is casting a plutocratic shadow over British business, *Guardian*, 23 February, p 39

Since this book deals with the behaviour of people in organisations, it is important to trace the effects of some of the changes mentioned above on the human element (employees) of organisations. From the 1980s onwards, Great Britain endured severe recessionary conditions, and redundancies, restructuring, re-equipping and re-design of jobs were all commonplace. Since then, life in organisations has become much harder and more stressful for almost everyone, and there are a number of legacies of this. To start with there is a psychological legacy in the minds of many employees who have lived through prior recessionary periods. According to a survey conducted by the Economic and Social Research Council (ESRC 2002) there is more than a hint that the working population of Great Britain is extremely dispirited and pessimistic about the future. This seems to apply to people who are back in employment after prior periods of recession, as well as those who have so far managed to avoid becoming unemployed. These feelings appear to affect almost anybody touched by the recession (Donnelly and Scholarios 1998), and this pessimism also has its effects on managers of organisations, many of whom are reluctant to expand capacities in order to take advantage of any economic upturn.

Second, since many of the 'new' jobs in organisations make use of part-time and/or contract workers, people seem to have little faith that things will get better. To many people the notion of a career is very important. It implies that hard work, diligence and loyalty can lead to rewards later, and gives people hope for the future. Research shows that in many organisations this hope is fast disappearing and is being replaced by strong feelings of demoralisation and frustration (Holbeche 1995).

Third, many jobs now exist in organisations where jobs have been re-designed to contain elements of teamworking and empowerment. For some years, empowerment has been a buzz word in management circles and, as Claydon and Doyle (1996) point out, much of its appeal to organisational managers lies in two features:

- it seems to offer a way of obtaining a higher level of performance from employees without the use of strict supervision and control
- its rhetoric is humanistic, which allows managers to feel that they are doing the right thing by giving employees autonomy and opportunities for self-development and personal growth.

Theoretically, empowerment gives people the authority to make decisions in their own area of operations, without getting the approval of someone above and, although this sounds much the same as delegation, it is much more. Since empowerment is results-orientated, people are not just allowed to make decisions, they are encouraged to use their initiative and given the necessary resources to implement their decisions. This, however, is empowerment in theory and saying that employees have been empowered is one thing, empowering them in practice is another.

Almost inevitably, empowerment occurs in a delayered or downsized organisation and, although there is often initial enthusiasm among employees (because they see work as becoming more interesting and responsible), it can quickly turn to disillusionment when they start to ask where all this is leading. For example, because managers tend to assume that more interesting work is sufficient reward in itself, employees find themselves working much harder for the same remuneration (Cunningham *et al.* 1996). Moreover, many of the things that employees hoped for in the future, such as promotion and security, become far less accessible.

CURRENT AND FUTURE ORGANISATIONAL CHALLENGES

From what has been described earlier, across the last three decades organisations have had to adapt to increasingly turbulent environments and, for the future, it is inconceivable that this need for adaptation will do other than continue. To bring matters to a close, this final section of the chapter examines three prominent organisational challenges that are likely to require ongoing adaptation by organisations. However, predicting what the future may bring is a somewhat hazardous occupation and, with this in mind, the challenges identified are all those where the phenomenon is already with us. There are already signs that future adaptation might be required: these are the challenge of globalisation; the challenge of ethics and social responsibility; and the challenge of catering for an increasingly more diverse workforce.

THE CHALLENGE OF GLOBALISATION

Whether or not a firm operates internationally by competing in a ***globalised (one-world) economy***, the effects of globalisation are so significant that henceforth the phenomenon will affect almost everyone. Large business organisations increasingly see their markets as international rather than purely domestic and this represents a way of thinking in which the world is perceived as a smaller place, and new business strategies are required (Bartlett and Ghoshal 1991). This did not come about overnight and, as things now stand, there are three very large trading regions: the so-called golden triangle of North America, which embraces the USA, Canada and Mexico; the Pacific Rim countries of Japan, which include South Korea, Taiwan, Singapore, Hong Kong and Australasia; and the European Union, which at present embraces 25 west European nations. Moreover, the position is fluid and other countries are likely to emerge as part of one of these regions in the near future. For example, countries such as China, Malaysia, Indonesia and Thailand are industrialising rapidly, and are likely to become part of the Pacific Rim group. Some of the Latin American countries are also making great strides in industrialisation and, in addition, the former Soviet command economies have all more or less embraced a free market system and are lining up to join an enlarged EU.

THE GROWTH OF INTERNATIONAL BUSINESS

Factors Facilitating the Growth of International Business

Except for a few rare cases, there were no really large cross-national organisations prior to World War II; they only started to appear in the 1970s and, although this was helped along by the gradual appearance of the three major trading regions identified above, Bedeian and Zammuto (1991) argue that there have been four main developments that prompted the increase in international trade, and these made the emergence of globalised markets virtually inevitable.

Industrialisation

With the exception of Japan, prior to World War II the major industrialised countries were all located in the northern hemisphere and, after the war, most of them quickly sought to re-establish their export trades. Although an exporting country largely keeps its expertise at home and merely sells its goods abroad, its prosperity and power are visible to the rest of the world, and this provides an incentive for every non-industrialised country to industrialise. Thus, other countries, many of which had previously been colonial outposts of a European nation, pursued conscious policies of industrialisation with the aim of becoming just as prosperous and powerful.

Rising Living Standards

In the two decades following the end of the World War II, living standards rose tremendously in Western countries, but more rapidly in the industrialising nations of the Far East. In the West, national markets were fairly mature and Western firms tended to see countries in the East as extremely attractive export markets because they had higher rates of economic growth. Since these countries were rapidly developing an industrial base, they also had an incentive to export, sometimes to the less developed countries of South East Asia but increasingly to the northern hemisphere.

Rapid Technological Change

Rising living standards bring changes in consumer tastes and these days tastes change quite rapidly. This shortens product life-cycles and increases the proportion of profits that needs to be ploughed back into development. It also means that the length of time in which development costs can be recouped is shorter and, for this reason, firms everywhere seek to sell their outputs in the widest possible range of markets.

Improvements in Global Transport and Communication

Since the 1960s, the declining cost of foreign travel has enabled people to experience other countries first hand. In addition, mass communication brings increased familiarity with lifestyles and customs in other parts of the world, and, to some extent, this also prompts a convergence in consumer tastes, which, although not identical everywhere, are often similar enough to enable a basic product to be adapted in minor ways so that it caters for local tastes. Rapid developments in communications technology have removed many of the barriers to operating internationally; satellite telephone gives easy access to remote locations and fax machines and e-mail enable complicated documents to be transmitted in seconds.

PRESSURES TO ENGAGE IN CROSS-NATIONAL ACTIVITY

The facilitating factors given above greatly ease the problems of international trade. However, there are more specific motives that apply to individual organisations and prompt them to look abroad.

Access to Resources

For reasons of cost and security of supply, many organisations, particularly those in the manufacturing industry, tend to feel a need to be close to their sources of supply of vital raw materials (Mendenhall *et al.* 1995). While this usually results in small subsidiaries that deal only with the supply of resources, if organisations also see market opportunities close to these sources, they may also engage in manufacturing abroad.

Figure 2.2 Facilitators of, and pressures to engage in, cross-national business activity

Economic and Political Changes

In the three very large trading regions mentioned earlier, countries are often bound together by political treaties that influence cross-border trade. For instance, while the European Union (EU) permits free movement of goods and labour between its member states, it has tariff barriers to the rest of the world and, to some extent, the same is true with most major trading blocs. To do business in these areas can sometimes mean becoming more deeply integrated with the area in question. A case in point is the EU, which has a requirement that goods are only free of import duties if a minimum percentage of the product is manufactured within the EU. Japanese and American manufacturers cannot afford to ignore the potential for sales in the EU, which prompted them to set-up manufacturing facilities in Europe (notably in Great Britain) to ensure access to European markets.

Product Markets

The most important single factor prompting an organisation to internationalise is the quest for new markets. An outstanding example of this is Nestlé, the Swiss confectionery manufacturer. Switzerland has far too small a population to sustain the growth that Nestlé has been able to achieve through international trading.

Lower Costs of Production and Distribution

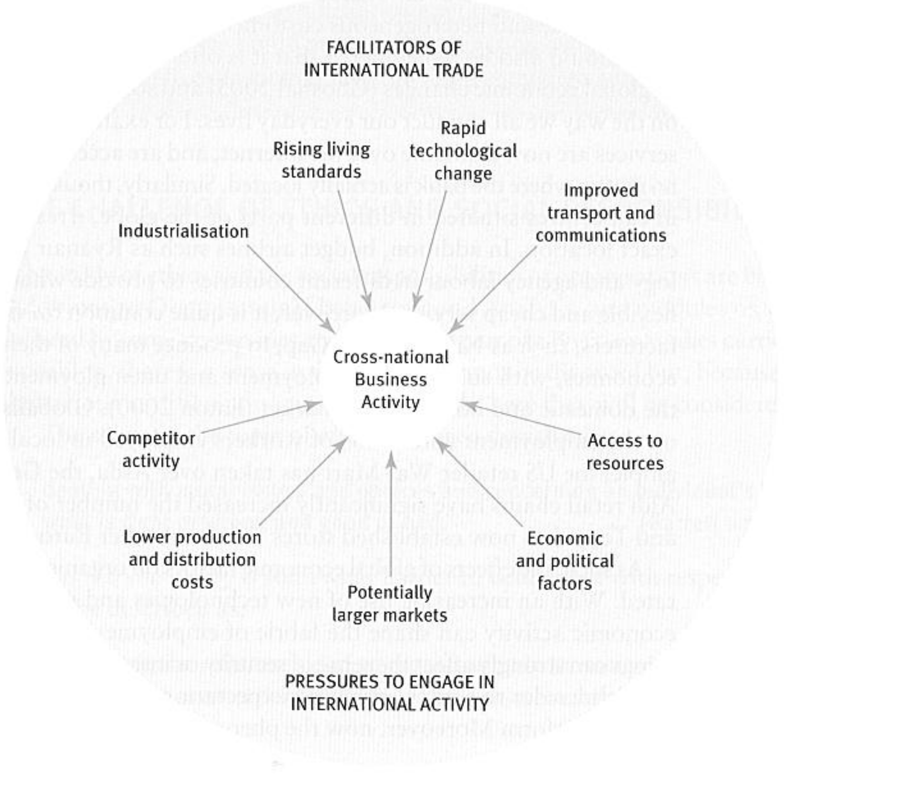
Capital tends to migrate to the cheapest centre of production, and since the EU consists of some nations where wage rates are high and others where they are very low, there was a fear that there would be a tendency for this to happen within its member states. For this reason it constructed the Social Chapter, which seeks to harmonise employment legislation in all its members, so that the difference between countries would eventually disappear (Marginson *et al.* 1995). Nevertheless, large organisations always seem to be on the lookout for cheaper centres of production and this is a strong motivation for engaging in overseas activities.

Competitor Activity

As more and more organisations enter the international marketplace, it becomes increasingly difficult for other companies to insulate themselves from foreign competition. Indeed, a company can wake up one morning to find that what it thought was a competitor in an overseas country, is now a competitor on its own doorstep. A study by Martin *et al.* (1998) shows just how sensitive firms are to the activities of their competitors. For example, if a firm is a major supplier to another firm in its home country and this customer sets up an overseas facility, there is a strong impetus to do likewise for fear that an overseas competitor will acquire the business.

These facilitators and pressures for cross-national business activity are summarised in Figure 2.2.

Figure 2.2 Facilitators of, and pressures to engage in, cross-national business activity



The Effects of Globalisation

Globalisation has had a dramatic effect on organisations, and this can be illustrated by considering the USA, a country relatively unaffected by foreign competition until the 1970s. By 1980, 70 per cent of the goods and services produced by American firms faced competition from imported products (Astley and Braham 1989). In terms of relative size, American firms also ceased to dominate the world. In 1960, 70 of the world's 100 largest firms were American, but by 1985 the number had dropped to 45 and by 1990 it was down to 33.

Large firms sometimes often have no choice but to adopt a global perspective. To target only the home market is to compete against larger firms that can draw on global finances and that often have better design, competencies and technologies, from which come production advantages. The moral is stark and simple: compete on the same basis or lose the ability to compete at all. Indeed, it has been powerfully argued that it was the lack of competitive pressure within the USA that made it an easy target for Japanese firms (Porter 1990).

In Great Britain, globalisation has had a huge effect on the nation's manufacturing base. Rather than manufacture something themselves, many smaller firms simply sell foreign products. Moreover, an increasingly large proportion of British industry is foreign owned, often by Japanese or American companies. In addition, some large British companies are now seeking to become global organisations. For instance, until the late 1980s British Gas was a nationalised industry almost exclusively concerned with providing fuel and services in Great Britain, but it now derives an increasingly large proportion of its revenues from foreign operations. Changes like this immeasurably alter the face of an organisation, if only because it has to learn to deal with a more diverse and heterogeneous customer base.

It should also be remembered that it is often employees who feel the most impact of global economic changes (Ghoshal 2005) and some changes have significant effects on the way we all conduct our everyday lives. For example, many banking and finance services are now available over the internet, and are accessible from almost anywhere, no matter where the bank is actually located. Similarly, thousands of people are employed in call centres situated in different parts of the globe, irrespective of the customers' exact location. In addition, budget airlines such as Ryanair purposely utilise technology and agency labour in different countries to provide what they regard as a rapid, flexible and cheap service. Moreover, it is quite common for designer clothing manufacturers, such as Nike and The Gap, to produce many of their products in low wage economies, with subsequent employment and unemployment consequences in both the domestic and host country market (Eaton 2000). Globalisation can even impact on the employment conditions of workers employed in local supermarkets. For example, the US retailer Wal-Mart has taken over Asda, the German-owned Lidel and Aldi retail chains have significantly increased the number of outlets in Great Britain, and Tesco has now established stores in several other European countries.

As such, the effects of global economic factors on organisations should not be underrated. With an increasing use of new technologies and new ways of working, global economic activity can shape the fabric of employment for millions of people. These things can strongly affect the sense of security or insecurity of a workforce, which makes it much harder to satisfy employee expectations and provide them with meaningful roles to perform Moreover, now the phenomenon of globalisation is with us, it is not likely to go away, which makes it one of the most significant challenges faced by contemporary organisations.

TIME OUT

Bearing in mind what you have read about the globalised economy and, in particular, the nature of the globalised company:

1. Identify the likely effects on the working population of an industrialised country.
2. What do you feel would be the effect on a small or medium-sized company that is not large enough to contemplate becoming a globalised organisation?
3. What do you feel would be the major differences in working for a globalised organisation compared with one that is not globalised?

REPLAY

- In the last three decades markets have become far more globalised and three very large trading regions have emerged: North America; the Pacific Rim countries; and the European Union (EU) and these will almost certainly grow in the future.
- Globalised organisations tend to have significant competitive advantages and so large organisations have little alternative but to move in this direction, which poses a strong challenge for all organisations, irrespective of whether they are large enough to contemplate this step.

THE CHALLENGE OF ETHICS AND SOCIAL RESPONSIBILITY

The study of ethics and the social responsibilities of organisations are both fairly recent additions to Organisational Behaviour and Analysis, and modules on ethics are now offered by some universities and colleges as part of a Business Studies curriculum. Strictly speaking, there is a sense in which they cannot be divorced but, because they concern behaviour at different organisational levels, here they will be considered separately.

The scope of the topic of ***ethics*** has been described as:

> dealing with moral issues and choices and concerning an individual's beliefs about what is right or wrong and good or bad. (Garrett and Klonoski 1992)

Social responsibility: an organisation's obligation to contribute to, or protect, the environment of which it is a part

Social responsibility is somewhat harder to define, but with respect to organisations it can be described as:

> concerning the relationship of an organisation to its social environment and the obligation to protect or contribute to that environment of which it is a part. (Donaldson and Preston 1995, p 67)