CAMBRIDGE

Cambridge University Press
978-0-521-43794-3 - Intercorporate Relations: The Structural Analysis of Business
Edited by Mark S. Mizruchi and Michael Schwartz
Excerpt
More information

Introduction

© Cambridge University Press www.cambridge.org

CAMBRIDGE

Cambridge University Press
978-0-521-43794-3 - Intercorporate Relations: The Structural Analysis of Business
Edited by Mark S. Mizruchi and Michael Schwartz
Excerpt
More information

The structural analysis of business: an emerging field

Mark S. Mizruchi and Michael Schwartz

As recently as the early 1970s, organizational theory was principally focussed on the internal workings of organizations, and on the analysis of internal factors as the sources of organizational behavior. The bulk of the field utilized either human relations theory, which connected internal structure to worker morale and productivity, or neo-Weberian analysis, which sought to understand the impact of internal power relations on organizational behavior. This work tended to assume unchanging organizational structures invulnerable to outside forces. Contingency theory, though it escaped the static assumptions of previous work, maintained the focus on the internal workings of the organization.

This neglect of the environmental context limited the analytic leverage of organizational theory and led to misleading and incorrect descriptions of corporate behavior. The human relations approach, for example, sought to connect managerial strategy with worker productivity, but it ignored the supply of labor in its analysis. As Pfeffer and Salancik (1978) later argued, however, scarce labor usually implies less compliant workers and more accommodating management. Human relations evaluations of the effectiveness of various managerial strategies were therefore flawed, since the outcomes of each strategy would vary depending on the supply of labor, a variable which was not addressed in their research.

There were, of course, exceptions to this general trend. Works which emphasized the context within which organizations operated included Selznick's (1949) classic study of the TVA, Thompson's (1967) seminal work on organization-environment relations, and the unorthodox contingency theory advanced by Lawrence and Lorsch (1967; see also Zald, 1970). These works addressed the environment as something that affected an organization's behavior, but they did not press ahead to a fully structural view, in which an organization is viewed as interacting with its environment – molding it as well as being molded by it – and in which the structure of relations – rather than individual organizations – is the unit of analysis.

By the mid-1970s, the inability of existing perspectives to explain visible changes in the structure of business relations, combined with the impact of

© Cambridge University Press www.cambridge.org

CAMBRIDGE

Cambridge University Press
978-0-521-43794-3 - Intercorporate Relations: The Structural Analysis of Business
Edited by Mark S. Mizruchi and Michael Schwartz
Excerpt
More information

multinational investment, government bribery scandals, and corporate crises, induced theoretical disenchantment and calls for more focussed concern on profit-making corporations and intercorporate structures (Perrow, 1972; Hirsch, 1975a).

In this context, Zeitlin's (1974) article, "Corporate ownership and control," which demolished the empirical and theoretical underpinnings of managerial theory, marked a turning point in the field. Managerialism's central tenet, that large corporations were invulnerable to major environmental constraint, had been an underlying premise of internalist organization theory. With this removed, researchers moved rapidly into interorganizational analysis. Paul Hirsch (1975b), for example, demonstrated the viability of this approach in a seminal study comparing the recording and pharmaceutical industries. Hirsch showed that these industries, although very similar in concentration and firm size, were differentially profitable due to the contrasting ways in which each industry managed its environment. Whereas the pharmaceutical industry's close partnership with the medical profession was a major reason for its success in the period following World War II, the recording industry's inability to control the highly competitive and easily entered radio industry was a major factor in its inconsistent performance. This research, together with a number of other pathbreaking studies (e.g. Pfeffer, 1972, Allen, 1974), clarified both the importance of organizational environments and the influence of organizations over their environments (see Aldrich, 1979 for a literature review; Perrow, 1979, chapter 7 presents an excellent overview of the logic of this work).

While organization theory was migrating as a discipline into a concern with corporate environments, a group of researchers centered around Harrison White and his associates (see, e.g., White, Boorman, and Breiger, 1976), began adapting the theory and methods of network analysis, which had been originally restricted to the study of small groups, to address larger structural issues. As studies of business organizations focussed more on the environment, many authors began to look beyond individual organizations to sets and systems of organizations (Aldrich and Whetten, 1981; Burns and Buckley, 1976). Instead of focussing on individual firms, researchers began treating industries (Burt, 1983) and interorganizational networks (Galaskiewicz, 1979; Laumann, Marsden, and Galaskiewicz, 1977; Laumann and Pappi, 1976; Turk, 1977) as their units of analysis. The environment, instead of being treated as an amorphous mass, became itself the object of analysis, and this readjusted focus found a methodological and theoretical fit with network analysis. Network analytic techniques, and the structural theorems they embodied, became basic tools of organizational analysis, and business structure research became an important area of network analysis.

Two widely-employed approaches that have emerged from this focus on organizational environments, the population ecology and transaction cost models, are compatible with but distinct from structural analysis.

© Cambridge University Press www.cambridge.org

CAMBRIDGE

Cambridge University Press
978-0-521-43794-3 - Intercorporate Relations: The Structural Analysis of Business
Edited by Mark S. Mizruchi and Michael Schwartz
Excerpt
More information

A major tenet of the population ecology model is that organizations which are best suited to particular environments survive while organizations that are ill suited perish (Aldrich, 1979; Hannan and Freeman, 1977). In a profit-making context, this view implies that those companies which fit neatly into environmental niches will ultimately produce comparable commodities at lower cost or superior commodities at comparable cost. Environmental fit therefore produces economic efficiency and corporate prosperity.

Recently, several proponents of the population ecology model have begun to incorporate structural concepts into their analyses (Aldrich, 1982; Carroll, 1984; Hannan and Freeman, 1986; see also McPherson, 1983). However, most studies within the population ecology perspective have tended to deemphasize the power relations which enable certain organizations to dominate others, regardless of the fit between the corporations and their environments. Dominant companies, or groups of companies, however, can systematically alter an inhospitable environment. Chandler (1977),[1] for example, presents General Motors as an example of a corporation that survived and prospered because its multidivisional structure allowed it to pursue such strategies as market segmentation and frequent model changes, which fit neatly into its market environment. Without questioning the undoubted importance of the multidivisional form, other scholars (Yago, 1983; Whitt, 1982; Whitt and Yago, 1986; Du Boff and Herman, 1980) have demonstrated, however, that General Motors did not initially fit well with its environment. Densely populated cities, the absence of decent roads, and a host of less definable problems (including air pollution) all made the automobile an inefficient substitute for street railways, and by the early 1920s, when the company was still young, these problems had produced market saturation, industry-wide recession and corporate crisis. Nor was the solution to these problems found in an alteration of the firm to better fit with its environment. Instead, the considerable resources of the auto industry and its allies (including major lenders and the DuPont corporation, which controlled GM) were invested in altering the environment. On the one hand, the auto industry purchased over 400 street railways, converted them to buses and generally neglected them, thus handicapping the competition that could have exploited the poor fit between autos and cities. On the other hand, successful lobbying produced legislation which led to a multibillion dollar highway system that made America more hospitable to the automobile. Finally, the industry successfully resisted pollution control efforts. In short, despite some notable exceptions, studies within the population ecology framework have failed to examine the power that corporations have *in relation to* their competitors, customers, suppliers, and the society at large. This power can guarantee survival despite a poor fit with the environment.

Williamson's (1975) transaction costs model shares with structural analysis a focus on relations among companies (transactions) as the fundamental units of analysis. According to Williamson, corporations will adopt the

© Cambridge University Press www.cambridge.org

CAMBRIDGE

Cambridge University Press
978-0-521-43794-3 - Intercorporate Relations: The Structural Analysis of Business
Edited by Mark S. Mizruchi and Michael Schwartz
Excerpt
More information

multidivisional form or vertically integrate when the costs of transactions with customers and suppliers exceed the costs of administration and production under the firm's rubric. This approach constitutes an advance over traditional market approaches, since it explicitly defines the conditions under which the use of markets is the most efficient production strategy for particular firms, and consequently predicts when they will decline or disappear as mechanisms of corporate–environment interaction. But Williamson's argument, like Chandler's, is wedded to the concept of "efficiency" – the idea that changes in corporate behavior are impelled by the pursuit of – and almost always result in – the most efficient structure as measured by market performance. [2] Though Williamson's model does not exclude the survival of an inefficient firm, it nevertheless contains the implicit conclusion that, at any given time, a firm's (or economy's) behavior is by and large efficient relative to available alternatives. Structural analysis, as Leifer and White cogently argue in this volume, seeks to understand why firms behave as they do without assuming that this behavior is efficient. The efficiency assumption removes from view the sort of actions which the auto industry undertook in pursuit of (relatively inefficient) survival, because it searches for competitive advantage only in the market. The acquisition of street railways or lobbying for highway legislation are beyond the horizon of transaction cost analysis. A transaction cost analysis of the growth of General Motors (and Ford and Chrysler) must therefore (misleadingly) attribute the automobilization of America to the internal structure of G.M. (See also Burt, 1983, for a demonstration of how concentration of production facilitates industry profitability without necessarily increasing efficiency.)

As with population ecology, transaction cost analysis focusses on environments as major determinants of corporate activities, and it identifies important processes which condition corporate behavior. Its limitations, however, derive from its concern with only one mechanism of corporate-environment interaction: the market. It focusses exclusively on the ways in which firms alter their internal workings as a consequence of their success or failure in marketing their products and purchasing their supplies. While these dynamics are always critical and sometimes paramount to business behavior, they are not the sole determinants of the shape and behavior of the intercorporate network, or its constituent institutions. In fact, as Granovetter (1985) points out in a detailed critique of Williamson's argument, nonmarket relations of trust between customers and suppliers may make interfirm transactions less problematic than intrafirm transactions, even in situations in which Williamson's model would predict the establishment of internal hierarchies. While the structural analysis of business frequently begins with an analysis of markets, it proceeds to a consideration of the full array of relations among companies (and between companies and other actors), including those which proceed from, and subsequently modify and recast,

© Cambridge University Press www.cambridge.org

CAMBRIDGE

Cambridge University Press
978-0-521-43794-3 - Intercorporate Relations: The Structural Analysis of Business
Edited by Mark S. Mizruchi and Michael Schwartz
Excerpt
More information

market relationships. The impact of markets, therefore, cannot be properly understood outside of the ensemble of intercorporate ties in which they are embedded. And the behavior of the business community requires an understanding of these networks in all their complexity.

The third intellectual current which fed the stream of new research was derived from political sociology, which had been dominated after World War II by pluralist analysis of political decision-making and voting behavior (Seybold, 1980). Beginning with C. Wright Mills' *The Power Elite* and continuing through the research of G. William Domhoff (1967, 1983), politically active young academics became increasingly sensitive to the importance of business–government relations in determining the trajectory of American political–economic life. The mass movements of the 1960s guaranteed that these ideas would become an ongoing scholarly concern of activist-academics, former activists who became academics, and of other scholars influenced by them. The publication in 1966 of Paul Baran and Paul Sweezy's massively influential *Monopoly Capital* not only demonstrated the intellectual viability of Marxist political economy, but also redirected the attention of many political sociologists away from a narrow concern with political policy. The new generation of scholars had an abiding interest in structures within the business community which facilitated or prevented unified action (by individuals and/or corporations) *vis-à-vis* the rest of society. These concerns with the actions of the business community as a whole intermingled with those of organizational theorists to assure that issues of class formation and intercorporate power became major topics in the sociology of business.

Thus, three trends, the development of an interorganizational framework in organizational analysis, the application of network analysis to macrosociological topics, and the increasing attention paid to organizations by political sociologists, have combined to produce a new field of inquiry, the structural analysis of business.

The structural analysis of business is by no means a monolithic field. Still in its formative stages, there are many competing views on the direction in which it should move. But there is one fundamental principle which unites all of those working within this perspective: the belief that social processes can best be explained by examinations of the concrete interpersonal and organizational relations in which actors are embedded, rather than by concepts such as norms and values or aggregations of responses to survey items based on individual attributes. Structural analysts believe that by looking at the structure of relations among actors, we can understand the content of those relations (Berkowitz, 1982; Burt, 1982; Marsden and Lin, 1982; White, Boorman, and Breiger, 1976).

In the study of organizations, the structural approach suggests that by understanding the structure of relations among organizations, and among

© Cambridge University Press www.cambridge.org

CAMBRIDGE

Cambridge University Press
978-0-521-43794-3 - Intercorporate Relations: The Structural Analysis of Business
Edited by Mark S. Mizruchi and Michael Schwartz
Excerpt
More information

individuals who span organizational boundaries, we can learn a great deal about the behavior of those organizations, as well as their internal workings. Conversely, the principle states that we cannot fully understand what goes on inside organizations without knowledge of the organization's position within the structure of interorganizational relations. In addition, the structural approach emphasizes the importance of networks among individuals who span organizational boundaries, and whose connections affect the behavior of organizations.

Within these general principles, there have developed a variety of approaches to the structural analysis of business. In some areas, such as the study of markets, structural analysis has offered an alternative to – and critique of – predominant modes of study. These contrasting approaches seek to understand market transactions in the context of other (including stockholding, friendship, and political power) relations among the actors. In other areas, such as the analysis of coordinated action among large corporations, structural analysis has itself developed competing paradigms.

This variety is reflected in the contents of this volume. The two main competing perspectives in the field, the resource dependence and social class approaches, are described by their leading spokespersons. Many of the subsequent chapters are derived from one of the two perspectives, or employ elements of both. Others present a single structural alternative to conventional views, including fresh approaches to the analysis of markets, to the measurement of the money supply, and to the analysis of interurban relations.

Our purpose in assembling this volume is primarily expository. We wish to alert social scientists to the already considerable accomplishments, as well as the vast intellectual potential, of the structural approach to the study of business organizations. Each author has already produced significant research in the area and is still actively committed to viability of the paradigm. The articles are intended to demonstrate to other scholars the usefulness and validity of this approach. Part I attempts to define the theoretical substance of the field. Part II presents empirical analyses of national and international business structures which test and modify major analytic issues in the area. The remainder of this introduction describes the role each essay plays in the description and the shape of the field and signalling its future contributions.

Part I: Theoretical perspectives

Although the structural approach originally developed as a critique of internalist modes of thought within the social sciences, the emergence of this perspective has given rise to new controversies which have themselves illuminated the area. The most central of these debates concerns the fundamental nature of intercorporate relations in advanced capitalist

© Cambridge University Press www.cambridge.org

CAMBRIDGE

Cambridge University Press
978-0-521-43794-3 - Intercorporate Relations: The Structural Analysis of Business
Edited by Mark S. Mizruchi and Michael Schwartz
Excerpt
More information

societies. The lines have been roughly drawn between the resource dependence and social class perspectives. (See Useem, 1980 and Glasberg and Schwartz, 1983 for reviews of these controversies.)

Resource dependence theorists view companies as the primary actors in the business community; corporate leaders act principally as agents of the organizations with which they are affiliated. Social class theorists view corporations as tools of a dominant social class whose interests both embody and transcend those of any particular organization. The empirical predictions made by the two models are often similar, as several authors (Mizruchi, 1982; Ornstein, 1984; Palmer, 1983) have pointed out, since resource dependence theorists acknowledge the existence of leadership discretion and social class theorists acknowledge the autonomous dynamics of corporate processes. (There has even been an attempt to synthesize the two models (Mizruchi, 1987).) As a result, much of the dispute between proponents of the two perspective centers around divergent interpretations of the same data. Nevertheless, the two positions lead to contrasting conclusions about the capacity of the business community to act in a united fashion and about the relations between individuals and organizations within advanced capitalist societies.

In the first chapter, Jeffrey Pfeffer attempts to sort out the claims of the two positions, searching particularly for issues on which the two models diverge. He begins with a pointed and lucid expression of the basic tenets of the resource dependence model: the fundamental importance of organizations in advanced industrial societies; the fact that these organizations are not autonomous, but rather are interdependent with other organizations; and that these organizations attempt to manage (and limit) environmental uncertainty. He argues forcefully that organizational interests are more significant in determining organizational behavior than are family or class interests, and that resource interdependencies are the major source of interaction and conflict within the business community. He concludes that the class-wide interests of corporate leadership, however well understood or articulated, cannot achieve intercorporate unity because of the structural conflict created by resource dependencies.

Michael Soref and Maurice Zeitlin present a major new synthesis of recent developments in the social class perspective. They argue that intercorporate unity is possible, both because of unequal power relations among companies and because the network ties of corporate leaders allow them to overcome – at least episodically – the contradictions of interest among companies. They posit that the system of interlocking directorates is an indicator of a consolidated process of "intraclass integration, coordination, and control." While they agree with Pfeffer that there are significant sources of conflict among firms – particularly between industrial and financial companies – they argue that the development of a new class type, the finance capitalist, who owns and/or leads both banks and nonfinancial corporations, successfully

© Cambridge University Press www.cambridge.org

CAMBRIDGE

Cambridge University Press
978-0-521-43794-3 - Intercorporate Relations: The Structural Analysis of Business
Edited by Mark S. Mizruchi and Michael Schwartz
Excerpt
More information

suppresses these divisions and therefore facilitates significant coordination in the business community as a whole.

These chapters provide a clear expression of the differences between the two positions. But beyond this they allow us to perceive the ways in which the controversy between these perspectives has determined the important topics which researchers have addressed empirically and analytically. Chapter 6, by James Bearden and Beth Mintz, chapter 8, by Enrique Ogliastri and Carlos Dávila, and chapter 10, by Meindert Fennema and Kees van der Pijl, all directly address the dispute over the relative importance of interpersonal (or class) and interorganizational (or resource dependence) networks in determining the shape of corporate behavior. Chapter 5, by Donald Palmer and Roger Friedland, chapter 7, by John Scott, and chapter 9, by Koji Taira and Teiichi Wada, directly address the dialectic of conflict and coordination in national and local economies.

Though the structural perspective has arisen at least in part from discontent with market-centered theories of business behavior, it also attempts to understand the central role played by markets in corporate action. Eric Leifer and Harrison White underscore the distinction between their analysis of markets from the standard "information-oriented" approach, which views all producers as independent of each other and in full command of the information necessary to calculate the demand for their product. These models, according to Leifer and White, cannot account for how markets reproduce themselves over time – that is, how the consequences of individual marketing choices of individual firms result in a similar profile of companies, products and market share after each selling cycle. Information-oriented analyses assume that the most efficient firms survive (and that markets persist when several companies are equally efficient). This characterization nicely fits Chandler's analysis, outlined above. Leifer and White present a structural approach, in which individual producers have unique niches, or roles, within their industry's production system. In this approach, each producer decides how much to produce by examining the performance of its competitors in the prior production period, taking into account difficulties of attempts to invade another's niche. Leifer and White argue that companies know their own particular volume–revenue curve and its relation to those of other producers within the industry (that is, its position in a structure of intraindustry relations), but they do not know the abstract demand for a mythical or modified article they have not yet marketed. For this reason, production decisions are made on the basis of the performance of actually existing competitors instead of "information about the market." They thus introduce intrasectoral relationships as a key factor in the production decisions of individual companies. The authors illustrate their model by showing how a single producer determines his or her unique production volume and market price. At the same time, they demonstrate that markets can be conceptualized

© Cambridge University Press www.cambridge.org

CAMBRIDGE

Cambridge University Press
978-0-521-43794-3 - Intercorporate Relations: The Structural Analysis of Business
Edited by Mark S. Mizruchi and Michael Schwartz
Excerpt
More information

independently of the concept of demand and argue that corporate behavior can be better predicted using this approach than the standard economic model.

With similar disrespect for standard economic wisdom, Wayne Baker develops a structural description of money. Because of rapid advances in transaction technology, a growing number of money substitutes have appeared which make the traditional definition of money (cash plus demand deposits) increasingly problematic, and render federal monetary policies increasingly unworkable. Economists have tackled these conceptual and practical dilemmas by focussing upon the traits of the different financial instruments which contend for acceptance, an approach which once again directs attention exclusively to the market relationships in which these traits can be observed.

Using earlier work (Baker, 1984) which demonstrates the viability of dividing the interconnected network of financial actors into a core, composed of banks and other financial institutions, and a periphery, composed of noncommercial economic actors such as students, clerks, retirees, etc., Baker proposes a new definition based on the structural role played by the institutions which issue the contending instruments. Using financial futures assets as his analytic locale, Baker shows that the core actors tend to hold assets which are "close" to money because they become substitutable for existing money, while peripheral actors tend to hold assets which are further from money in this critical sense. Within the core, the central types of institutions are similarly more able to establish substitutability for their instruments; less central types have less success. This finding suggests that there is a core of actors in the business world which is able to define what constitutes money – and, by implication, how much money exists in the economy at a particular point in time – because of their central role in the complex overlaid networks of interfirm and interpersonal interactions. Once again, the key to understanding economic phenomena lies in simultaneous analysis of market and nonmarket relationships. A striking implication of this argument is that, without revamping its understanding of how various financial instruments become defined as money, the Federal Reserve may be powerless to regulate the money supply.

In chapter 5 Donald Palmer and Roger Friedland focus on the structure of relations among cities. Traditional theories of interurban relations have emphasized the dominance of the largest cities (central places), which serve as centers for financial decision-making and corporate administration, over smaller cities, which engage in more specialized manufacturing processes. They assume that the characteristics of cities determine the type of organizations that locate in them – once again based on the logic of markets. In these models, interurban relations can be understood primarily in terms of the "economic activities that organize the relationships between them" –

© Cambridge University Press www.cambridge.org