Complex Organizations and Global Market Realities

Professor Christine Ries Hekman
The Claremont Graduate School
The President's Forum
May 1992

Thank you so much John. Thank you also Jim, and Rosabeth offering me such a challenge - these are hard acts to follow. Finally, special thanks to my colleagues in Economics, Psychology, and Public Policy for recommending that I be given this opportunity to join in discussing one of the most important problems of our day - "How to Change a Complex Organization."

As one of the academics on the panel, I'll exercise the professor's prerogative and begin by asking a question.

What common elements can we find in the following events and situations: riots in South Central Los Angeles; the breakup of the former Soviet Union; the House Bank overdraft affair; the Keating Five Scandal; families who find health insurance benefits denied because of chronic illness or who families in the "Sandwich Generation" caught between responsibilities to children who are approaching college age, parents who require nursing home care, and plans for their own retirement?

Continuing as a representative of academia, and with its prerogatives, I will now proceed to answer my own question.

These events and episodes share one common theme. These are all dramatic and painful demonstrations of failure of established public and private organizations - organizations in which we have placed basic trusts. In some cases we have looked for performance as in the case of social security, pension funds and health insurers; in others we have hoped simply for some stability in situations where we have no solutions.
And because these disappointments are on issues of basic trust we feel them at a very personal level. I suspect that many of you are here today looking for answers or at least for some new perspectives that offer comfort.

Against the background of these obvious and painful failures, we ask the question "How to change a complex organization?" I am not an expert, as are my fellow panelists, in the area of organizational change. As many of you know, or could gather from President Maguire's introduction, my fields of study are global corporate finance and international political economy. From that perspective my plan is to challenge today's discussion by raising issues from outside of the organization. I will argue that recent and fundamental changes in the external environment bear a large share of responsibility for the organizational failures and betrayal of public trust which my examples illustrate.

Further, traditional solutions will not resolve our problems because the roots of these changes are deep, pervasive, and irreversible.

My thesis is that society's basic balance between market-oriented and organizationally-oriented activity has shifted dramatically. Where organizations formerly prevailed, new markets are emerging and dominating political, social and economic activity. Markets and competition are challenging the effectiveness of our traditional organizational forms because, in many cases, markets offer a superior alternative for the organization of transaction activity. That this shift has occurred in the former Soviet Union, East Central Europe, and other socialist economies is clear to everyone. What we still deny, to some extent, is that the same shift has occurred in the Western capitalist democracies as well.

This denial plants the seed of crisis in our organizations, and in our public more than our private organizations. To put it simply, they have not responded with sufficient speed, to this basic environmental challenge. Instead, the strong organizational tendency is to protect the boundaries and integrity of the organization.
The new field of institutional economics offers a useful framework for this proposition. The literature of institutional economics describes two competing characterizations of our political, social and economic environment. One characterization frames the environment as 'market-based.' In the extreme, a market-based society has isolated individuals trading with each other to meet individual objectives. Interactions between individuals is accomplished through trading - through transactions.

The alternative extreme characterization of society is one dominated by organizations. Here the key word is affiliation and the assumption is that individuals act collectively through their relationships to organizations. They pledge fealty to the organization, follow commands, and claim the rewards for which they have contracted. The organizations serve as market intermediaries for individuals.

A realistic description of our environment would clearly put us somewhere between these extremes. Most, if not all of us sometimes act through organizational affiliation and sometimes transact directly as individuals.

The point is, however, that a fundamental premise of organizational design - the basic assumptions upon which we begin to describe the effective organization - must clearly account for this social equilibrium between market-based and organization-based activities. When the equilibrium shifts, as it has toward market-based activity, that shift must unbalance all organizational forms to some degree. And I believe that the recent global swing in favor of markets has been strong indeed.

This increasing importance of market activity has been brought about by two simple but powerful realities. The first is access to information; the second is a congruence of objectives, at least for the moment, amongst the peoples of the globe. Coming together, these factors have freed us from dependence on old constraints, old affiliations, old loyalties.
Consider first the revolution in computing and information technology. To put it simply, the information revolution has made more information about more opportunities available to more people.

With today's information system - fax machines, minicams, and satellite dishes - no organization can withhold from its members information about competing opportunities for affiliation. It is as impossible to control the flow of information as to control the flow of capital. (Note that is precisely these constraints, barriers to the flows of information and capital, which ultimately give repressive, non-democratic forms of government their power.)

This congruence of objectives has been less openly discussed and less clearly understood. But it is increasingly clear that, in terms of basic desires, peoples from apparently different and distinct cultures are more alike than different. We all want the same things: freedom of political and economic choice, prosperity, security, and a clean environment.

Let me digress to share with you the experience which first brought this basic truth home to me. Several summers ago, I coordinated a seminar for executives from the Nagano prefecture in Japan. Nagano is in the center of Japan, and most of the visitors had not been in the United States before. After having met my son and daughter, and having shared something about their own family lives, one gentleman came to me with tears in his eyes. He said, "You know most Americans think that Japanese are heartless and addicted to work. But we are really people just like you. We love freedom and we love our children. I wish I could spend as much time with mine as you do with yours."

We don't have to think much about the dynamics to realize what this implies. Given man's desire for fulfillment, awareness of other opportunities creates an almost irresistible demand for access to those opportunities. For instance, I have
heard it argued that political repercussions of the televised tragedy in Tienamen Square were more powerful in The Soviet Union than in China. Television delivered to the Soviet people visual images of a Chinese populace with cameras and tape recorders and in apparent material comfort and prosperity superior to their own. Quite a blow when they had been lead to suppose their system of government and affiliation yielded greater prosperity than did that of their prime geopolitical rival. What the Soviet government failed to foresee was that a political body aware of other opportunities and superior rewards will seek access to those opportunities.

People who are informed and aware demand freedom; people who are free entertain new possibilities and pursue new opportunities. Traditional affiliations and loyalties are set aside, constraints are overcome, all sorts of barriers to opportunity are challenged and will ultimately fall before these demands. And these barriers and constraints are not only geographical, but also include barriers to political, economic, psychological and social mobility. This is the basis of the force of globalization and multiculturalism - the decline of traditional barriers, the eradication of possibilities for isolation and protectionism.

Where will these changes take us? How will our organizations respond as we more fully appreciate the repercussions of these great social and technological shifts? What kinds of organizations will be effective, will even survive in this new market-oriented environment?

Let me give a very recent, if painful example. And let me also ask that you set aside emotion and moral judgements for purposes of this exercise and just look at what worked, what didn’t work and why.

Apply with me, if you will the analysis of political and economic realities to your own images of the recent riots in South Central Los Angeles and elsewhere.

First, consider the looters and their competitive situation. They were informed primarily by television. Helicopters and minicams hovered over and
of common objectives. Strange bedfellows. Greater efficiency and prosperity. And sometimes strange bedfellows change the landscape.

Let me again offer an illustration, this time from the arena of commercial and political maneuvering.

Last January, Isao Nakauchi, owner of The Daiei, Inc., the eighth largest retailer in the world, joined forces with Carla Hills, the U.S. Trade Representative. Together they pressured Japan's MITI for significant relaxation of that country's very restrictive Large-Scale Retail Store Law. This law constrains the expansion of Daiei's network of 5,000 stores and 217 discount warehouses. As salesman to the Japanese people of American products ranging from beef and beer to athletic shoes, Nakauchi and the U.S. government were natural allies.

What is so fascinating to me about this example is that it shows large organizations - one public, one private, one Japanese, one American - joining forces in the common objective of increasing the sale of American products in Japan. The opposition or competition? A network of 1.6 million small retailers and 435,000 wholesalers in Japan. Strange bedfellows and a new bilateral trading reality. It is one of the clearest demonstrations I know where issues of nationalism took a second place to the imperatives of size and competitive realities. These strange bedfellows alone promise to transform the landscape for U.S.-Japan trading activity.

To summarize, our organizations, public and private alike, are imbedded in a network of emerging, changing, powerful global markets. An informed and free global people, seeking prosperity and security, will also seek new and creative forms of cooperation, collaboration, and affiliation.

In order to restore public confidence and meet the public trust, in fact, on order to survive, organizations must accommodate and exploit the essential global realities.

These are, as I constantly remind my students:
* As effectiveness becomes more important, geography becomes increasingly irrelevant

* Don’t be constrained by prejudice in any form. It is an expense which leads, in a competitive market, to organizational extinction

* Do not oppose, but work together with the forces operating to reduce those barriers to opportunity which are erected by prejudice, bureaucracy, tax structures, regulation, and inadequate education

* Be willing not only to accept, but to seek new organizational forms and new types of affiliations with other organizations

The bottom line is that those new complex organizational forms which manage to survive will be more responsive to markets and especially more responsive to the individual’s drive to self-determination. And they must accomplish this while meeting the expectations of society.