Chapter 1 in Griffin’s *Fundamentals of Management*, Fourth Edition discusses traditional and contemporary issues and challenges faced by managers. The 20th century history of management thought represents a large part of that discussion. This Knowledgebank entry presents a somewhat different orientation on history and theory by taking an organizational perspective. That is, our purpose here is to present an overview of the history and theory of organizations, rather than management per se. Moreover, while some of the topics overlap those in the text itself, there is still a difference in the point-of-view taken between the two documents. The two documents together, then, provide a complete treatment of the subject by analyzing it from both managerial and organizational perspectives.

**INTRODUCTION**

Revolutions have marked important times of transition and progress in human history. Some, like the American and the Russian revolutions, were violent political upheavals that changed the distribution of power and authority among individuals, groups, and countries. Others, like the Industrial Revolution, were major shifts in technology that altered economic relationships. Even long after a revolution has occurred, it is often difficult to disentangle the strands of political, economic, and technological change.

The period of time from the mid-1960s through the 1990s will probably be seen as a significant revolutionary era. The first steps in this revolution were taken in Holmdale, New Jersey, and Palo Alto, California, where work by small groups of scientists led, in the late 1950s, to the invention of microelectronic circuits, or “chips.” They were smaller than a tenth of an inch square and today approach microscopic size, but they fundamentally changed virtually every technological facet of our lives. We use them to communicate (with telephones), to cook (in microwave ovens), to transport ourselves (in cars and airplanes), to work (with computers, fax machines, and copy machines), to entertain ourselves (with televisions and video games), to share information (through the Internet), and to wage war (through “smart” weapons).

While this technological revolution was unfolding, change also stirred in another corner of the world. In 1980, in a shipyard in Gdansk, Poland, workers went on strike for higher wages and better working conditions. Their demand for economic self-determination spread, slowly at first, to affect much of Eastern Europe. Subsequent economic and political changes culminated in the collapse of the Berlin Wall in 1989 and rearrangements in global power relationships that are still taking place.

It is difficult to know how these two revolutions—the technological and the political—will evolve over the next several decades, but organizations and the people who manage them cannot afford to ignore their implications. Learning to recognize the opportunities and risks faced by organizations in a time of revolutionary change is one of the central managerial challenges of the twenty-first century.
The technological and political changes of recent years have had unpredictable and often surprising results: cellular telephones, computers that fit in the palm of a hand, McDonald’s franchises in Russia, and Coca-Cola for sale in the People’s Republic of China. In such an unpredictable and rapidly changing environment, the decisions that managers face can be pivotal to the survival of an organization. The strategies followed by the organization, the structure supporting those strategies, and the types of behavior by its members that the organization encourages are crucial decision-making areas. Modern managers can learn from the past by observing how organizations adapted to change in earlier revolutionary eras.

This Knowledgebank entry traces the history of organizations, and it examines theories about what organizations are and what they do. We begin by discussing the development of organizations from ancient times to the present. Then we examine how systematic thinking about organizational strategy, structure, and behavior has developed over the last several hundred years.¹

THE HISTORY OF ORGANIZATIONS

Organizations of various sizes and characteristics have existed from the very beginning of recorded history. The most basic organization, the family unit, has many attributes of modern-day organizations. It consists of people who work together to achieve common goals and objectives, such as economic stability and child rearing. Indeed, in many of the world’s societies today, families still provide the core around which business organizations form. From the corporate offices of Dell Computer to the mom-and-pop grocery stores in almost every American town, close family ties and business relationships are often indistinguishable.

Organizations in Antiquity

Even in ancient times, however, many organizations existed separately from the family unit. As Figure 1 shows, some of the first non-family organizations were founded by the Sumerians, a people who settled along the southern part of the Euphrates River around 3500 B.C. Records indicate that Sumerians made extensive use of organizations in their political, religious, and economic lives. At the head of political organizations were the ruling families and other members of the elite, who established the laws of the land, raised armies, and levied taxes. Religious organizations helped define an individual’s relationship to the divine and reinforced the moral values of the society. Organizations that produced the goods and services bought and sold in ancient Sumer included farms (often family-run farms), small manufacturing operations, and building associations. Trading organizations moved products from one part of the world to another. Sumerian traders traveled by camel throughout the Middle East, buying, selling, bartering, and in other ways facilitating commerce.

¹ For a recent review, see Andrea Gabor, The Capitalist Philosophers. (New York: Times Business, 2000).
Organizations in Antiquity

Family units engage in small-scale trade and production.

First nonfamily organizations emerge in Sumer and expand into Egypt, Babylonia, and Assyria. Plato's *Republic* discusses role of organizations in society. Roman Empire develops new organizations, including banks, insurance organizations, military, etc.

Organizations During the Middle Ages and Renaissance

Small regional organizations such as guilds replace most large organizations. Catholic church remains a large, highly structured, powerful organization. Renaissance sweeps Europe, encourages new organizational forms, including international trading organizations founded in Venice and later in Amsterdam.

Organizations During the Industrial Revolution

Steam and electrical power create strong incentives for the rise of the factory system, which has negative consequences that still plague many organizations.

Modern Organizations

New economic, competitive, global, legal, social, and workplace challenges face modern organizations.

The demands of these organizations led to several crucial inventions. To aid commerce, the Sumerians developed a system of weights and measures, a postal system, and a system of writing called cuneiform. In a similar way, the need for fast and efficient communications in modern organizations has driven the modern electronics revolution.

The organizational forms invented by the Sumerians were copied and extended by other societies in the ancient world. Egyptians elaborated on Sumerian political and production arrangements to manage the construction of the pyramids around 2000 B.C. The Babylonians developed trading organizations that dominated commerce throughout the Mediterranean by around 1200 B.C.²

By the rise of the Greek and Roman empires (around 1000 B.C. for the Greeks, around 300 B.C. for the Romans), political, religious, production, and trading organizations were widespread and quite sophisticated. Greek philosophers developed through analyses of the moral bases of political and economic organizations. Plato’s *Republic* was one of the first books to explain how organizations should be structured and to describe their role in society. The tightly organized Roman Empire eventually assigned separate responsibilities to the church, to the government, and to commerce. The Romans had a highly developed banking system, an efficient insurance industry, courts in which business could sue for breach of contract, a strong military, and a political organization that enabled them to dominate the Western world. Indeed, many of the organizational

forms invented by the Greeks and Romans are still in use today. For example, the
structure of the Roman army, with its clearly delineated hierarchy and lines of authority,
is still used by most modern armies. Also, the delegation of authority from Rome to the
governors of provinces parallels, in many ways, the relationship between federal and
local governments in many modern countries.\(^3\)

**Organizations in the Middle Ages and Renaissance**

With the fall of the Western Roman Empire in A.D. 476, Rome was no longer the center
of world politics and commerce, and the evolution of organizations took a new turn. With
the exception of the Roman Catholic Church, the large, sophisticated organizations that
dominated the Roman world were replaced by numerous smaller organizations. Regional
economies developed throughout Western Europe, each dominated by local political
leaders and local production and trading organizations.

A significant development in the history of organizations during the Middle Ages was the
guild. The *guild* was a group craftsman who joined together to regulate their craft, to
train the next generation of craftsmen, and to restrict the number of craftsmen in any
particular geographic location. Guilds performed many of the functions of modern-day
unions and trade associations. Just as the stone masons guild in A.D. 1100 protected the
interests of stone masons and represented those interests to the king (or other local
political authority), the United Auto Workers today attempt to protect the interests of
automobile workers and the American Electronics Association represents the interests of
electronics companies to the US government.\(^4\)

Guilds tended to be small and regional in scope during the Middle Ages. In contrast, the
Roman Catholic Church remained very large, highly structured, and very powerful. Many
characteristics that enabled the Catholic Church to survive and prosper from around A.D.
300 to the present were adopted by other organizations. Its hierarchical structure, with
clearly defined job descriptions, division of labor, and authority relationships, is
characteristic of most modern large organizations.\(^5\)

Beginning in Italy around 1500, the Renaissance rapidly swept over Western Europe,
bringing radical changes in the arts, government, religion, and commerce. Scholars and
artists alike rediscovered the ideas and values of the Greek and Roman cultures and
sought to revive the best of these in the arts, literature, and commerce. Organizations, too,
changed during this period. Guilds continued to be a major organizing force, but large
international trading organizations headquartered in Venice and Amsterdam began to
dominate world trade. Some of these organizations, including the Hudson Bay Company,

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\(^3\) Allison Burford, *Craftsmen in Greek and Roman Society.* (London: Thames and Hudson, 1972); Henry C.

\(^4\) Steven Epstein, *Wage and Labor Guilds in Medieval Europe.* (Chapel Hill, N.C.: University of North

discussion of the Roman Catholic church as a modern organization. The classic analysis of the Roman
Catholic church in medieval times is Summerfield Baldwin, *The Organization of Medieval Christianity*
formed in 1670 in London, still exist. Not surprisingly, organizations during the Renaissance took on many characteristics of ancient Greek and Roman organizations. Banks, insurance organizations, and courts were patterned after Roman models. In addition, Renaissance organizations developed accounting methods, checking accounts, letters of credit, and other tools of modern business. Scholars such as Niccolò Machiavelli and Leonardo da Vinci again began to analyze the role of political and commercial organizations in society and how best to manage them.  

**Organizations in the Industrial Revolution**

Up to the mid-1700s, the production of goods and services was conducted in small, decentralized units, either within homes or in small village workshops. Technology was relatively unsophisticated and widely available (simple hands tools and animal-powered equipment), so there was no need for workers to gather in a single location to engage in production. This changed with the introduction of the steam engine throughout Western Europe and North America in the early 1800s. With steam power, and later with electricity, it became economically feasible to gather large numbers of workers together at a single site to operate the new machines that were capable of producing goods at a speed hitherto unknown.

One of the benchmarks of the Industrial Revolution was the emergence of the factory system. Between 1800 and 1850 factories sprang up all over Western Europe and the Americas. Some of them employed thousands of people, all of whom needed to be assigned job responsibilities, trained, paid, and supervised. The rise of the factory system forced organizations to create management systems to take full advantage of this burgeoning work force.

The Industrial Revolution also had a dark side, however. Brutal working conditions, air and water pollution, the concentration of workers in disease-ridden slums, and the general exploitation of men, women, and children were some of its social consequences. Charles Dickens gave a fair representation of the quality of life in a factory town in this passage from *Hard Times* (1854):

> It was a town of red brick, or of brick that would have been red if the smoke and ashes had allowed it; but as matters stood, it was a town of unnatural red and black, like the painted face of a savage. It was a town of machinery and tall chimneys, out of which interminable serpents of smoke trailed themselves for ever and ever, and never got uncoiled. It had a black canal in it, and a river than ran purple with ill-smelling dye, and vast piles of buildings full of windows where there was a rattling and a trembling all day long, and where the piston of the steam engine worked monotonously up and down, like the head of an elephant in a state of melancholy madness. It contained several large streets all very like one

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another, and many small streets still more like one another, inhabited by people equally like one another, who all went in and out at the same hours, with the same sounds upon the same pavements, to do the same work, and to whom every day was the same as yesterday and tomorrow, and every year the counterpart of the last and the next.  

Such conditions led to the publication of the *Communist Manifesto* (1847), by Karl Marx and Friedrich Engels, and Marx’s *Das Kapital* (3 vols., 1867, 1885, 1895), as Western intellectuals began searching for alternatives to the horrors of the factory system.

One of the first people to confront some of the negative consequences of the factory system directly was Welsh industrialist Robert Owen. In the 1810s Owen improved working conditions in his cotton mills in Manchester, England, raised the minimum working age for children, provided meals for his employees, and shortened working hours. Two decades later, Andrew Ure, a Scottish chemist and professor, studied successful Scottish organizations and described the results of his research in his classes at Anderson’s College in Glasgow. Many of Ure’s students went on to create and manage large organizations in Europe and the United States. In the United States, businessman Daniel McCallum utilized some of Ure’s ideas to improve organizations in the railroad industry. McCallum was one of the first managers to publish organization charts and to write job descriptions.

Managers like Owen, Ure, and McCallum helped organizations evolve in the early years of the Industrial Revolution. Several decades elapsed before the most negative aspects of the factory system were eliminated. Even today, factory work may subject people to repetitive, boring tasks that are harmful to their health. Modern managers’ efforts to alleviate these conditions through the redesign of jobs, compensation plans, and training are discussed throughout Griffin’s *Fundamentals of Management*, Fourth Edition.  

Modern Organizations

Many of the challenges that faced organizations thousands of years ago are still pertinent issues today. But a new set of challenges has also arisen from the social and historical realities of the modern age. These challenges fall into five broad categories: economic, competitive, global, legal, and social workplace challenges. The problems and opportunities that these challenges present to modern organizations and their managers are discussed in detail in Griffin’s *Fundamentals of Management*, Fourth Edition.

The history summarized in Figure 1 focuses on the evolution of organizations in the Western tradition, from the “cradle of civilization” in the Middle East, through Greece and Rome, to the Industrial Revolution in western Europe, to the present. The evolution of organizations in Asia followed a somewhat different tradition that is beyond the scope of this discussion.

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HISTORICAL PERSPECTIVES ON STRATEGY IN ORGANIZATIONS

Now that you have an understanding of the broad movements in the history of organizations, we can look more closely at how current ideas about strategy, structure, and behavior have developed. An organization’s strategy is what an organization intends to do and how it intends to do it. Throughout the history of thought on organizational strategy, most authors have assumed that organizations have at least two main objectives: to survive over time and to maximize performance. Much of the research about organizational strategy has focused on understanding how organizations successfully accomplish these two objectives.

An organization that survives is performing just well enough to satisfy those who depend on it for goods, services, and a return on investment. An organization that is maximizing its performance is performing at a level greater than what is required for survival. An organization such as Montgomery Ward, which just barely survived over the last few decades of the 20th century, was under constant pressure from suppliers, stockholders, and banks to fulfill its financial obligations. Indeed, the firm was recently forced to declare bankruptcy, sell its inventory, and shut down all its operations. In contrast, organizations such as Toyota and IBM have consistently performed at a much higher level than what is required for survival.10

Figure 2 summarizes the development of theories about how organizations survive and how they maximize performance. In the sections that follow, we examine each of these theories and trace their integration into modern strategic management theory.

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Adam Smith and The Wealth of Nations

One of the first people to describe the workings of organizational strategy was a Scottish economist named Adam Smith. A keen observer of business and commerce, Smith developed a series of simple principles that he believed explained why organizations survive and how they maximize their performance. In 1776 he published his ideas in a book titled The Wealth of Nations.\textsuperscript{11}

Some of the principles identified by Adam Smith are enduring concepts in the study of organizational strategy. For example, Smith observed that organizations become more efficient as they specialize in specific productive tasks. This concept is called the division of labor. As different organizations specialize in different productive tasks, they become more skilled and efficient in accomplishing those tasks, and the cost of production falls below what it would be if the organizations did not specialize. The cost of making footballs at Wilson Sporting Goods is low because Wilson has a factory that specializes in making footballs. If that same factory also made baseballs, Hula-Hoops, dishwashers,

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and helicopters, the costs of manufacturing all these items would be much higher than at specialized factories.

The use of specialization and the division of labor implies the need for a system to coordinate production and trade among different organizations. In other words, if one organization specializes in manufacturing cars and another specializes in manufacturing tires, then somehow these two organizations must coordinate their activities to produce cars that customers can drive. Adam Smith suggested that there are two ways to coordinate these activities. First, one organization can own both the car manufacturer and the tire manufacturer. Second, the two separate organizations can be coordinated indirectly through the demands of the marketplace. One of Adam Smith’s great intellectual contributions was his observation that the “invisible hand” of the marketplace can efficiently coordinate the activities of independent organizations.

Smith’s concept of the “invisible hand” was based on his analysis of changes in the supply of and demand for goods and services. As organizations produce more of a certain good or service, the supply of the good or service in the market increases. If demand for that good or service remains constant, its price will fall because supply has grown to outstrip demand. On the other hand, if demand for a good or service increases and supply remains constant, prices will rise. When an organization adjusts its level of output in response to changes in the price of its goods or services, it is letting the “invisible hand” of the market coordinate production across organizations. When prices are low, supply is greater than demand and output needs to be reduced. When prices are high, demand is greater than supply and output can be increased.

By 1776 Adam Smith had already identified the two central features of a successful organizational strategy. First, to be successful, strategies need to exploit the particular skills and capabilities of the organization through the division of labor. Second, organizations must respond simultaneously to the marketplace and to changes in supply and demand. Only when organizations are successful at managing the division of labor and responding to the “invisible hand” of the market can they expect to survive and maximize their performance.

The Theory of Perfect Competition

Adam Smith’s two insights had an enormous impact on subsequent thinking in economics and organizational strategy. His idea that the “invisible hand” of the marketplace can coordinate the productive activities of thousands of independent organizations received significant early attention. Alfred Marshall, Irving Fisher, and other economists developed a theoretical model of the operation of industries that enables economists to predict the performance of organizations in those industries. This model is called the theory of perfect competition. According to this model, perfectly competitive
industries have the following three attributes: (1) homogenous organizations, (2) small organizations and, (3) unrestricted entry. When organizations in an industry are homogenous, they all make the same products, with the same technology, the same inputs, and the same costs. When organizations in the same industry are small, their total sales and total productive output are small relative to the sales and output of the industry as a whole. This means that the decisions made by any one organization has no impact on the size of total industry sales. Even very large organizations may be small relative to the market. For example, the Swiss food company Nestlé is relatively small when compared to the total global annual expenditures for food and food products. Finally, when entry into an industry is unrestricted, an organization outside the industry that identifies an opportunity can enter the industry to take advantage of the opportunity.

Organizations in a perfectly competitive industry earn what is called normal economic performance. Normal economic performance is a level of economic performance just high enough for an organization to pay all of its expenses (including banks and stockholders). In other words, organizations in perfectly competitive industries perform just well enough to survive.

The reasoning behind the conclusion that organizations in perfectly competitive industries will just survive is straightforward. Because entry is unrestricted, any opportunity that might come along can be exploited either by organizations already in the industry or by organizations entering for the first time. Among organizations already in an industry and those poised to enter, the supply of a good or service normally equals demand and prices. Moreover, since organizations in perfectly competitive industries are small relative to the size of the market, there is little chance that one or two organizations will dominate the market and raise prices.

We should note that the expression “perfect competition” can sometimes cause confusion. “Perfect” in this context does not refer to some moral imperative. It does not suggest that industries with the three attributes listed above are somehow good or right. Rather, it simply refers to a set of industry attributes that can be used to predict the performance of organizations in the industry.

**Industrial Organization Economics**

Over the years, numerous authors have debated whether any perfectly competitive industries actually exist. Some industries, such as agricultural products and iron ore, seem to approximate perfect competition, but most theorists agree that the vast majority of industries do not. Thus, where early theoretical efforts focused on determining the performance implications for organizations under perfect competition—that is, perfect competition leads to survival—more recent work has explored the performance

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implications for organization under imperfect competition. Organizations in imperfectly competitive industries may earn greater than normal economic profits—that is, they may do more than simply survive. **Industrial organization economics** is the group of theories that attempts to understand the performance implications of imperfectly competitive industries.

Scholars have investigated different ways in which industries can be imperfectly competitive. For example, Joan Robinson and Edward Chamberlin examined what happens to organizational performance when goods and services sold by organizations within an industry are not homogeneous (*product heterogeneity*). David Ricardo studied what happens to organizational performance when organizations have different operating costs (*cost heterogeneity*). Various authors have examined what happens to performance when organizations in an industry are not small relative to the size of the market. Edward Mason and Joseph Bain studied what happens to performance when organizations enter an industry when entry into that industry is restricted. Each of these authors found that when some (or all) of the characteristics of perfect competition do not exist in an industry, organizations within that industry may experience higher than normal economic performance. Organizations with higher than normal levels of performance can be thought of as maximizing their performance. Thus the theory of perfect competition generates an explanation of how organizations can survive, and the theory of imperfect competition generates an explanation of how firms can maximize their performance.\(^{13}\)

**The Porter Framework**

In the last several years, scholars have begun to apply industrial organization economics directly to understand organizational strategies. Much of this work has been done by Michael Porter of the Harvard Business School, and the framework that Porter and his colleagues have developed is often called the Porter framework.\(^{14}\) The Porter framework derives from Adam Smith’s concept of the “invisible hand” of the marketplace: it focuses on the impact that an industry has on the performance of organizations within it. Porter’s work explores the conditions under which an organization can expect to just survive and the conditions under which an organization will maximize its performance. One interesting implication of applying the Porter framework is that strategies that improve a particular organization’s performance may not be good for society as a whole. (The Porter framework is discussed more fully in Chapter 3 of Griffin’s *Fundamentals of Management*, Fourth Edition.)

**Ricardian Economics**

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Adam Smith’s other important insight—that the division of labor can create organizational efficiency—was explored by a separate group of economists who were interested in what this idea implied for the performance of organizations. One of the first scholars to study organizational efficiency in this way was English economist David Ricardo. Ricardo observed that organizations may have different assets, skills, and capabilities and that the ability of other organizations to acquire these assets, skills, and capabilities may be limited.

Assume, for example, that an organization purchases a piece of land with the intention of using it to grow corn, but subsequently discovers oil under the land. The price of the land to grow corn is only $10 an acre. The price of the land once oil is discovered under it is hundreds of times more. The organization may be able to earn above-normal economic performance by taking advantage of its new-found opportunities (purchasing what turned out to be, say, $1,000-per-acre land for only $10 per acre), but when the true value of the land is known, no other organizations will be able to achieve this same level of economic performance (because they will have to pay $1,000 per acre). In *The Principles of Political Economy and Taxation* (1817), Ricardo extended his analysis to explain the relationship between economic performance and a wide variety of assets, skills, and capabilities of organizations.15

**Theories of Distinctive Competence**

Ricardo’s insight was that organizations in the same industry may have different skills and capabilities and that these differences may persist over long periods of time. And organization’s distinctive competencies are the skills and capabilities that it possesses but competing firms do not possess. The concept of distinctive competence has three distinct parts. First, it describes all of the capabilities that enable an organization to conceive of or implement valuable strategies. Organizational attributes that prevent an organization from choosing or implementing valuable strategies, or that lean an organization to choose or implement strategies that are not valuable, cannot be sources of distinctive competence. Second, a distinctive competence results from organizational attributes that are possessed by relatively few competing organizations. Third, the organizational attributes that result in a distinctive competence must be difficult for organizations that do not possess them to obtain.

After Ricardo, two groups of scholars examined the performance implications of organizational distinctive competencies. The first person to define the characteristics of such organizations was sociologist Arthur Stinchcombe. A second group, centered at the Harvard Business School, also focused on the concept of distinctive competence. Some of these early researchers included C. Roland Christensen, Kenneth R. Andrews, and William D. Guth.16 All of these people have concluded that organizations that possess distinctive competencies can expect to achieve superior levels of economic performance.

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Modern Strategic Management Theory

As one traces the evolution of thinking about organizational strategy, it seems fitting that Adam Smith’s two fundamental insights—that there are advantages to the division of labor and specialization, and that the “invisible hand” of the market can coordinate economic activity—have once again been joined in modern strategic management theory. Modern strategic management theory is still concerned with understanding how organizations survive and how they can maximize performance and is the subject of Part III in Griffin’s *Management*, Eighth Edition.

HISTORICAL PERSPECTIVES ON THE STRUCTURE AND DESIGN OF ORGANIZATIONS

As described in Griffin’s *Fundamentals of Management*, Fourth Edition, structure and design are concerned with the framework of jobs, relationships among jobs, and operational systems and processes that an organization uses to carry out its strategy. The study of organization structure and design has focused on questions such as these: What is the purpose of organization structure and design? What business activities should an organization engage in? How should different business activities in an organization be related to one another? How should an organization modify its structure and design in response to changes in its environment?

Early Theories About Organization Structure and Design

As Figure 3 shows, modern thinking about the nature and purpose of organization structure and design, and about how structure and design should be managed, begins with two very different authors: Adam Smith and Karl Marx. Adam Smith in *The Wealth of Nations* explained that one way to coordinate the activities of specialized manufacturing organizations is to incorporate previously independent organizations into a single organization. In this way, a single organization design can be used to directly coordinate production. (The other approach to coordination is the “invisible hand” of the market.) According to Adam Smith, organizations provide a valuable social benefit. They enable society to take advantage of the lower costs associated with specialized production, without having to relinquish the advantages of coordinated productive efforts.\(^\text{17}\)

\(^{17}\) Smith, *The Wealth of Nations*. 
Karl Marx took a very different perspective on the purpose of organizations. Marx believed that prevailing organization structures were the primary mechanism through which workers in a society were exploited. He held that the owners of organizations exploited workers by extracting high profits from their labor and not sharing any of those profits with the workers. In marked contrast with Smith, Marx saw organizations as instruments of power that make society worse off. The ideas of these two theorists—that organization structure increases the productive efficiency of society and that organization structure reinforces power relationships—continue to influence thinking about organization structure and design today.

**Efficiency-based Analyses**

Various authors have examined the characteristics of organization structure and design that contribute to efficiency. Collectively, this body of work has come to be known as organizational economics. One of the earliest organizational economists was Ronald

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18 Karl Marx, *Capital*, vol. 1, trans. Ernest Untermann (Chicago: Kerr, 1912)
Coase. Coase was interested in understanding why, given the numerous advantages of coordinating production through the “invisible hand” of the market, organization structures should exist at all. His great insight was that there are costs associated with using the market as a coordination mechanism and that sometimes the cost of using an organization to coordinate production is lower than the cost of using a market. When this is true, the use of organization structure and design is more efficient. These ideas have been developed by a large number of authors, including Oliver Williamson and William Ouchi, as a basis for analyzing organization structure.21

Whereas Coase was interested in understanding why organization designs exist, Alfred Chandler was interested in understanding the best ways to link and integrate different business functions within an organization. By studying the history of several organizations, Chandler was able to describe the basic organizational forms that can be used to coordinate business functions. Later authors such as Oliver Williamson, Richard Rumelt, Paul Lawrence, and Jay Lorsch found that organizations that adopted the organizational forms most appropriate for their strategies outperformed organizations that adopted inappropriate forms.22

**Power-based Analyses**

While organizational economists examined organization structure and design from the point of view of economic efficiency, other researchers looked at how organization structure and design can be used to maintain power relationships among people. Some of the most influential work in this area began in the 1950s with studies by Peter Blau and Melville Dalton on power relationships among managers in organizations. These ideas were later extended by Jeffery Pfeffer, Gerald Salancik, and several other authors who studied the relationship between a person’s position in the organization structure and the ability to influence organizational outcomes.23

Power-based analyses of organization structure and design reached their most developed level in resource-dependence models. These models assumed that organizations seek to protect themselves from other organizations in their environment on which they depend for critical resources. For example, a steel company depends on the suppliers of iron ore to be able to make steel. Resource dependence theorists argue that organizations like the

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steel company will go to great lengths to ensure that key suppliers are not able to unfairly exercise the power they possess because of the important resources they supply.

Organizations may address a resource dependence problem in one of three ways. First, they can attempt to gain direct control of the resource supplier. Thus the steel company might purchase the iron ore supplier, thereby reducing dependence. Second, they can attempt to obtain multiple suppliers of the key resource. In this case, the steel company would purchase iron ore from several suppliers. Third, they can attempt to influence the supplier so that it will not take action against them. The steel company might obtain this influence in a variety of ways: by placing its managers in senior administrative positions with the supplier, by encouraging close interpersonal relationships between its members and those of the supplier, or by becoming a major customer of the supplier. According to resource dependence theorists, organizations that manage their power relationships with suppliers will significantly outperform organizations that do not.24

Other Approaches to Organization Structure and Design

Although efficiency and power-based analyses are important influences in the evolution of thinking about organization structure and design, they are not the only influences. Beginning with the work of Joan Woodward and Charles Perrow, several researchers have studied the effect of an organization’s manufacturing and production technology on its structure and design.25 A number of scholars in the United Kingdom used complex empirical methods to develop taxonomy of the basic structural forms that exist in organizations.26 Several authors have studied how organizations use structure to inform important constituencies that they are behaving in socially acceptable and responsible ways.27 Even more recently, researches have applied ideas from biological science to analyze the evolution of organization structure and design over time.28

Modern Theories of Organization Structure and Design

24 Pfeffer and Salancik, The External Control of Organizations.
26 This group of scholars was known as the Aston Group, named after the city in the United Kingdom where much of this work was conducted. Important research papers in this tradition include David Hickson, D. S. Pugh, and Diana Pheysey, “Operations Technology and Organization Structure: An Empirical Reappraisal,” Administrative Science Quarterly, 1969, pp. 378-397; and C. R. Hinnings, D. S. Pugh, and C. Turner, “An Approach to the Study of Bureaucracy,” Sociology, 1967, pp. 61-72. A criticism of this approach to studying organizations can be found in Howard Aldrich, “Technology and Organizational Structure: A Reexamination of the Findings of the Aston Group,” Administrative Science Quarterly, 1972, pp. 26-43.
The study of organization structure and design today is accomplished with a rich array of conceptual tools. Many of the ideas that have dominated this discussion since the days of Adam Smith and Karl Marx are still influential. Organizational economics, resource dependence theories, theories that link technology and structure, theories that analyze organization by means of a biological analogy, and many other theories all influence the study of organization structure. Many of these ideas are discussed in detail in Parts IV and VI of Griffin’s *Management*, Eighth Edition.

**HISTORICAL PERSPECTIVES ON BEHAVIOR IN ORGANIZATIONS**

Once an organization successfully manages its strategy and structure, the important task remaining is managing behavior within the organization. This task requires a threefold recognition: that all individuals within an organization are unique, that leadership styles can affect the motivation of individuals, and that behavior can affect the group settings within which people in organizations find themselves. Just as our understanding of organizational strategy and structure has evolved, so has our understanding of the causes and consequences of individual and group behavior in organizations.

**Scientific Management**

As Figure 4 summarizes, several scholars and managers in the early 1900s became interested in how the design of jobs in organizations affected the motivation and output of employees. The conceptual and management tools that these individuals developed are called **scientific management**. One of the most important proponents of scientific management was Frederick Taylor.\(^{29}\)

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Taylor was an engineer who became interested in labor efficiency. While working as a foreman at the Midvale Steel Company in Philadelphia, he noticed that laborers reduced the pace at which they were working, thereby reducing their productive output. When Taylor discussed this phenomenon with other managers, he was surprised to learn that they were unaware of it. Moreover, they seemed to know very little about the jobs that their employees were performing. Taylor decided that something needed to be done. He studied each job carefully, motion by motion, and determined the most efficient way to perform it. Then he taught that method to workers and installed a piece-rate compensation system, which paid employees for the number of units they produced. The more units workers produced, the higher was their pay. The effect of these changes was striking: productive output soared; employees earned more money and seemed to be more satisfied; and the organization was more profitable.

Taylor gradually developed his ideas about designing jobs, compensation, and performance. The practice of scientific management consists of four distinct steps. The manager (1) studies each job and determines the best way to do it, (2) selects workers who are capable of doing the job and trains them, (3) monitors the work to make sure employees are performing their jobs in the best way, and (4) assumes all planning and organizing responsibilities while the workers carry out their assigned tasks.
Scientific management was not uniformly accepted by all those it touched. Organized labor fought it because its application often put greater demands on laborers, and Congress investigated it because of its impact on labor. Most importantly, scientific management methods can be successfully applied only in a narrow range of jobs. If a job requires repetitious manual activities (for example, installing fenders on automobiles on a manufacturing line or putting bottles into a bottle-filling machine), then the time- and motion-saving tools of scientific management can be quite helpful. For most other kinds of jobs, there seldom is “one best way” of performing the work. Nor is it likely that managers, by themselves, will be able to enumerate the best ways of performing a job. The involvement of people who actually perform the job is usually required.\textsuperscript{30}

The Administrative Management Movement

A second important model for thinking about behavior in organizations is known as the \textit{administrative management movement}. Whereas scientific management focused on increased productivity through the work of individual employees, administrative management was concerned with how the organization as a whole should be managed to improve performance. The primary contributors to this perspective were Henry Fayol and Max Weber.

Fayol, a French industrialist, drew on more than fifty years of organizational experience to develop a list of fourteen general guidelines, or principles, of “good” management. Table 1 lists and describes these principles. Fayol believed that they were universally valid and that if they were applied they would always enhance organizational performance. Many of Fayol’s principles still apply to modern organizations. For example, Principle 11 (Managers should be kind and fair when dealing with subordinates) and Principle 13 (Subordinates should have the freedom to take initiative) are as widely applicable today as they were in Fayol’s time.\textsuperscript{31}

\begin{table}[h]
\centering
\begin{tabular}{|l|}
\hline
1. \textbf{Division of Work} & The object of division of work is to produce more and better work with the same effort. Managerial and technical work is amenable to specialization. There is, however, a limit to such specialization. \\
2. \textbf{Authority and Responsibility} & Authority is needed to carry out managerial responsibilities. This includes the formal authority to command and also personal authority deriving from intelligence and experience. Responsibility always goes with the authority. \\
3. \textbf{Discipline} & Discipline is absolutely essential for the smooth running of business, but the state of discipline depends essentially on the worthiness of the organization’s leaders. \\
4. \textbf{Unity of Command} & Each subordinate receives orders form one \\
\hline
\end{tabular}
\caption{Fayol's Fourteen General Guidelines of “Good” Management}
\end{table}

\textsuperscript{30} For a recent analysis of Taylor’s work, see Robert Kanigel, \textit{The One Best Way}. (New York: Viking, 1997).

5. **Unity of Direction**  Similar activities in an organization should be grouped together under one manager.

6. **Subordination of Individual Interest to General Interest**  Interests of individuals should not be placed before the goals of the organization.

7. **Remuneration of Personnel**  Compensation should be fair to both employees and the organization.

8. **Centralization**  Power and authority tend to be concentrated at upper levels of the organization. The degree must vary according to the situation; the objective is the optimum utilization of all faculties of personnel.

9. **Scalar Chain**  A chain of authority extends from the top to the bottom of the organization. Horizontal communication is, however, necessary for swift action.

10. **Order**  A place for everything and everything in its place; a place for everyone and everyone in his or her place.

11. **Equity**  Managers should be fair when dealing with subordinates.

12. **Stability of Tenure of Personnel**  High turnover of employees should be avoided.

13. **Initiative**  Subordinates should have the freedom to take initiative.

14. **Esprit de Corps**  Harmony, team spirit, and a sense of unity and togetherness should be fostered and maintained.


**Table 1**
Fayol’s Principles of Management

Some of Fayol’s ideas, however, do not apply as universally as he thought. For example, Principle 12 (High turnover of employees should be avoided) probably does not apply in an organization such as McDonald’s, which has very high turnover, or Kelly Temporary Services, which makes temporary employees available to corporate customers. Likewise, Principle 4 (Each subordinate receives orders from one and only one superior) does not apply to complex organizations with teams of managers working on a single project who simultaneously report to several different superiors. Thus, although Fayol’s administrative principles may give general guidance to managers, they must be adapted to the specific circumstances in which an organization operates.

Max Weber, a German sociologist, was the first person to describe the administrative benefits of bureaucracy. Weber identified six characteristics of the ideal bureaucracy. Some of these six characteristics, listed in Table 2, are similar to Fayol’s principles of management. For example, Fayol’s Principle 4 (unity of command) is very similar to...
Weber’s first characteristic (Labor is divided with clear lines of authority). Like Fayol’s principles, some of Weber’s characteristics still apply to many organizations today.

1. Labor is divided with clear lines of authority.
2. Positions are organized in a hierarchy of authority.
3. Promotion is based on merit, assessed by examination.
4. Decisions are recorded in writing.
5. Management is separate from ownership.
6. Managers are subject to rules that are uniformly applied.


### Table 2
Weber’s Characteristics of an Ideal Bureaucracy

Others seem likely to apply only in certain situations or in special situations. Indeed, Weber himself did not see bureaucracy necessarily as the “perfect” organizational form. Rather, he considered it one of a variety of tools that organizations can use to manage behavior.  

#### The Behavioral School

Of all the early approaches to studying behavior in organizations, none is currently more influential than what is now called the **behavioral school**. This approach to understanding organizational behavior applies ideas and concepts developed by psychologists, psychiatrists, and social psychologists. One of the first psychologists to apply his ideas to understanding behavior in organizations was Hugo Munsterberg. Munsterberg first applied theories from psychology to organizational behavior in 1913, but not until a series of experiments conducted at the Hawthorne plant of the Western Electric Company from 1927 to 1932 did the approach of the behavioral school become widely understood and appreciated.

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Two experiments at the Hawthorne plant were particularly important. In the first, researchers manipulated the workplace lighting for an experimental group of workers and compared their subsequent performance with the performance of a control group for whom lighting had not been changed. As expected, when the lighting in the experimental group was increased, performance in this group also increased. However, what was not expected was that when the lighting was decreased in the experimental group, performance continued to improve. Reducing the lighting in the experimental group did not reverse the increased productivity until the workplace became so dark that workers could hardly see.

In the second experiment, researchers established a piecework pay system for a particular group of workers. Scientific management was based on the assumption that people are motivated solely by money. If this assumption were true, workers under a piece-rate system should have produced as much as possible in order to be paid as much money as possible. As in the earlier study, however, the results were not as expected. The group, on its own, established a level of acceptable output for its members. People who produced below that lever were called “chislers” and were pressured to do more. People who produced too much were labeled “rate-busters” and were pressured to bring their output into line with that of the rest of the group.

The Hawthorne researchers concluded that social and behavioral factors previously unknown to managers were affecting results. For example, the researchers attributed the results in the lighting study to the fact that the workers in the experimental group were receiving special attention for the first time; their increased productivity was a response to the attention itself, not to the lighting change. The researchers concluded from the piecework experiment that social pressure was a powerful force to be reckoned with in organizations—even more so than increased pay.

The Hawthorne studies gave rise to a new way of thinking about workers, one that focuses on the individual in the workplace. Other efforts at understanding behavior in organizations (including scientific management and the administrative management movement) failed to recognize the full role of individuals, but the behavioral school recognized that people have unique needs and motives that they bring into the workplace with them. While at work, individuals encounter a task, a supervisor, and the resources needed to do their jobs. But work is also a social experience, and the workplace has a social context that includes the possible satisfaction of social needs, such as the need to be accepted and to participate in the camaraderie of the work group.

**The Human Relations Movement**

The human relations movement developed from the Hawthorne studies and was a popular approach to management for many years. The proponents of this view proposed that workers respond primarily to the social context of the workplace, which includes their social conditioning and their interpersonal situation at work. An underlying assumption of the human relations movement was that management concern for the worker would lead to increased satisfaction, which would in turn result in improved
performance. Two early writers who helped advance the human relations movement were Abraham Maslow and Douglas McGregor.

In 1943, Maslow advanced a theory suggesting that people are motivated by a sequence of needs, including monetary incentives and social acceptance. Maslow’s hierarchy of needs was a primary factor in the increased attention that managers began to give to the work of academic theorists.\(^{35}\)

Maslow’s theory was one of the first in the emerging area of human relations, but Douglas McGregor’s Theory X and Theory Y perhaps best represent the theoretical basis for the human relations movement (see Table 3). According to McGregor, Theory X and Y represent two opposing sets of assumptions that different managers make about their subordinates. Theory X reflects a relatively pessimistic and negative view of workers. It assumes that subordinates are lazy, must be forced work, and so forth. Theory Y takes a more positive view of workers and represents the assumptions that human relations advocates make. In McGregor’s view, Theory Y was the more appropriate philosophy for managers to adhere to.\(^{36}\) Work by both Maslow and McGregor has significantly influenced the thinking of many practicing managers.


Table 3
McGregor’s Theory X and Theory Y

The Global Imperative

One recent line of thinking about behavior in organizations has developed out of the so-called global imperative. Proponents of this view hold that the world has become a global vision regarding all their activities and how they affect behavior in organizations. What this means is that managerial theories, models, and perspectives about behavior in organizations must be reformulated to account for global similarities and differences. Perhaps the most fully developed of such efforts is the Type Z model.37

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The Type Z model, as argued by William Ouchi in 1981, is an attempt to integrate common business practices in the United States and in Japan into a single middle-ground framework. Ouchi describes the characteristics of traditional American firms (which he calls Type A companies) and traditional Japanese companies (Type J). He states that some American forms have achieved great success by adopting a hybrid form of management, which he calls Type Z.

Figure 5 summarizes the basic characteristics of Type A, Type J, and Type Z organizations. It shows that U.S. and Japanese firms are essentially different in seven important dimensions: (1) length of employment, (2) mode of decision making, (3) location of responsibility, (4) speed of evaluation and promotion, (5) mechanisms of control, (6) specialization of career path, and (7) nature of concern for employee. For example, some Japanese firms feature lifetime employment opportunities and collective decision making, whereas their U.S. counterparts offer short-term employment and rely on individual decision making.

According to Ouchi, a few particularly successful American firms (such as IBM, Hewlett-Packard, and Procter & Gamble) modify the typical US Type A model. The synthesis they evolve borrows one characteristic (individual responsibility) from Type A, incorporates three characteristics (collective decision making, slow evaluations and promotion, and holistic concern) from Type J, and assumes an intermediate stance with respect to the other three dimensions (for instance, they use long-term employment as opposed to short-term employment in Type A and lifetime employment as Type J). On
average, firms that adopt a Type Z management style should outperform Type A organizations.

Modern Theories of Organizational Behavior

While scientific management and administrative management has declined in influence over the last several years, the approach of the behavioral school, the human relations movement, and the theories fueled by the global imperative have flourished. Contemporary theories of organizational behavior apply the most sophisticated ideas from psychology and social psychology to understand how individuals behave within organizations. Part V of Griffin’s Management, Eighth Edition discusses these contemporary theories of organizational behavior in detail.