

# **Organizational Analysis**

## **Final Exam**

**How does the increasing external pressure of engaging in CSR influence capitalist organisations in Western Societies?**

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Maximising profits is no longer considered the only goal that capitalist organisations have. Many organisations around the world face increased pressure to become more environmentally and socially responsible. This is evident from the fact that sustainability reporting rose from 20

percent of the companies in the S&P 500 index in 2011 to 85 per cent in 2017 and is expected to continue to grow, according to the Governance & Accountability Institute (Mohn, 2017). The puzzle which this assignment will attempt to address is: How does the increasing external pressure of engaging in CSR influence capitalist organisations in Western Societies? CSR will be viewed as a concept whereby “organisations voluntarily integrate social, ethical and environmental concerns into their business operations.” (Roszkowska-Menkes, 2018) In other words, it represents an implementation of organisational change. In this assignment, the pressure of engaging in CSR will be considered as external change from the environment, recognising it as a trend which affects how organisations operate.

Firstly an account for organisations internal structure and an examination of how organisational models differentiate in managing changes like the rise of CSR pressure from the environment will be made. Secondly, it will explore how theories such as contingency theory, institutional theory, resource dependency theory and network theory offer different explanations of how external pressure influences organisations. Concepts such as embeddedness and isomorphism as well as elite theory will be included. Lastly, a conclusion from the theoretical discussion will be made and suggestions for further research.

To begin with an explanation of what organisational analysis means when referring to the environment and what is included in the concept of external pressure in this assignment is offered. An organisation environment is made up of external forces that impact organisations. This is in contrast to other sources of influence, like an organisation's internal structure or history which creates path-dependencies (Harrington, 2018). The environment influences an organisation as an organisation are open to and dependent on flows of workers and resources from outside their system (Scott, 1998). Furthermore, external pressure in this assignment will include pressure from both organizational stakeholder such as customers, suppliers and competitors and the institutional environment such as public regulations, the health of the economy, NGOs and institutionalized norms concerning corporate behaviour. The reason being

that both parts are needed to provide a sufficient explanation of external forces and context influencing organizations (Vashchenko, 2017).

### **Organizational models**

To begin with, how an organisation takes forms has consequences, both for the organisations themselves as well as for their society in which they operate. This is why in order to understand how organisation are influenced by the pressure of CSR, this assignment will start with outlining two main organisational models, the clan on the one hand, and the rational-legal bureaucracy on the other, and how they adapt to changes in the environment.

Weber argues that bureaucracy as an organisational structure is the most efficient form of organisation. The model emphasises a meritocratic hierarchical structure where all the employees have a fixed set of tasks. The structure promotes a rationalist way of operating which comprises rules and procedures where employees are hired because of their specific skills and knowledge (Weber, 1911). “Bureaucracies are set out to deal with stable routine tasks, that is the basis of organisation efficiency”(Perrow, 1986), This makes, as Perrow argues, less adaptive to changes, like in this case the growing pressure of implementing environmental and social initiatives. When changes come rapidly, the efficiency of bureaucracy cannot take place as the form of an organisation becomes temporary.

To continue, Perrow agrees with Weber in some aspects of bureaucracy in such ways that bureaucracies have a progressive potential. However, Perrow brings in another vital element to the theory, power. Perrow emphasises the abuse of power, where the ones being on top of the bureaucratic structure, can use their power for their self-interest and argues that bureaucratic organisations are not bureaucratic enough (Perrow, 1986). He believes organisations should be more bureaucratic to avoid power centralisation. This concentration of power, is also what Robert Michels suggest with the “iron law of oligarchy”. Those who are dominant in an organisation are often motivated by self-interest and the power will be consolidated (Parker, 2014). Meaning, according to the theory, that how an organisation engage in CSR is a decision in

the power of a few and if they believe that incorporating CSR policies are aligned with their interest they will choose to do so. This brings this assignment to the elite theory which also in many ways is associated with the bureaucratic model of organising. Weber recognises that the authority of on top of the bureaucratic structure creates the formation of ruling groups. This is a power tool in the bureaucratic structure where the decision-making capacity is centralised in the hands of supervisors. Although, Weber does not talk about the abuse of power (Scott, 1996).

In elite theory, elites can be considered to be a group who have disproportionate control of resources (Khan, 2012). Resources can be political power, economic resources and cultural resources. However, it is important to note that theorists use many different definitions to elites, for example, Pareto would describe them as resource holders, where Mosca would describe them as an organised group. Following Mosca and his thoughts on the political elite, which states that those who strive to secure their survival must ensure they represent the masses to avoid pressure from the masses. Although this is in regards to political elites, one can draw a parallel to a capitalist organisation where the elites or supervisors must remain representative of the wider society and its employees to stay influential (Scott, 1996). This suggests that if the masses emphasise CSR policies, elites will listen to this and implement such policies to remain on top of the hierarchy. Furthermore, by centralising power to a smaller group, one can argue that decision-making can be more efficient since it does not consider the interest of many different members of the organisation, making it adaptable to changes, such as the organisational change of incorporating CSR policies (Parker, 2014).

As an alternative to Weber, Ouchi argues for a clan structure as the most efficient organisational form where the main focus is to create goal congruence. Ouchi argues that in order for the bureaucratic model to succeed the supervisors need to have a framework of procedures and rules which is valuable when tasks are standardised. Similar to what Perrow meant that bureaucracy was set up for. However, when tasks are complex, or ambiguous, bureaucracies fail. The clan structure, on the contrary, he argues which is based on common values and goal congruence are able to handle when tasks change direction or are ambiguous (Ouchi, 1980).

Due to this an organisation with a clan structure may easily be able to handle changes from the environment like the rise of pressure to incorporate CSR. This, Ouchi argues, is because they have greater flexibility than bureaucracies. Hence, they can implement for example environmental policies faster. Furthermore, the clan structure reduces opportunistic behaviour, where individuals act in their self-interest. This is because, in a clan structure, the employees share norms and values; hence they do not differ between organisational and individual goals. (Ouchi, 1980) Therefore, if an organisation's goal is to do social good, this will be the goals of the individuals as well, making it easy to adapt to the rise of demands of CSR.

Further, the clan structure is similar to what Parker, a scholar within critical management theory, advocates for to deal with the problem of separating means and ends. As an example, one can consider the production of organic clothes. Although the end, organic clothes, might be regarded as good from an environmental standpoint, if the means of producing the organic clothes are bad, such as poor working conditions or eco-unfriendly transportation, it is not a good organisation in spite of the end being good. Ensuring good means and ends, are easier he argues if an organisation has a collective decision making process. Similar to a clan, rather than a bureaucracy characterised by a hierarchy. Furthermore, Parker argues that an organisation tends to keep doing whatever it is that they do, without a conscious at heart. This, in the case of CSR policies, suggest that capitalist organisations will only implement CSR policies to the extent that it is profitable, not ensuring that both the means and ends are socially good (Parker, 2014).

To summarise, on the one hand, the bureaucratic model seems less adaptable to handle changes, like the rise of demand for CSR policies. The decision, under Perrow and Elite theory, is centralised in the hands of a minority group. Hence, the adaptation to the external pressure on organisations to cope with environmental and social problems may depend on if this minority group agree to implement such policies. On the other hand, the clan structure facilitates the implementation of engaging with CSR due to the flat structure and that individual goal and organisational goals are aligned. Moreover, one should consider that different situation call for

different types of models. When goals and tasks are clear, the bureaucratic structure can be efficient. When tasks are ambiguous clan structure can adjust easier (Ouchi, 1980). Further, this assignment will now attempt to address how an organisation relate to its external environment.

### **Organizational theories**

One of the most recognised modern organisational theories is contingency theory which is categorised in the open-rational system. An open-rational system views organisations in an open system while assuming that they will be structured rationally (Scott, 1998). Contingency theory is based on the notion of competing demands and differs between two types of environments, technical versus institutional. The theory recognises that all organisation are dependent on their situation, but that these environments vary and hence there are not one best way organisations can form. Instead, organisations will thrive if it is well-adapted to the context in which it operates (Scott, 2004). This suggests an explanation of how external pressure influence capitalistic organisation engagement in CSR. As previously mentioned, the environment, including actors such as consumers (technical) and the state (institutional), demands CSR policies to a greater degree today in Western societies. In order for an organisation to thrive, it needs to behave in accordance with what the environment requires. For example, as growing number of consumers demands ecological products, companies develops their product mixes to adapt to these preferences (Vashchenko, 2017). To illustrate, Arla has expanded their product mixes to include ecological dairy products. Hence, according to the contingency theory, organisations engage in CSR because they are adapting to the environment. Furthermore, to a great extent CSR is context specific (Vashchenko, 2017). For example, to which degree the media are able to act as a watchdog or how well the civil society is organized will affect how “pressured” organizations feel to incorporate CSR policies. (Vashchenko, 2017). Hence, how the external pressure influence organizational behavior and how they choose to adapt is context based according to contingency theory.

Moving from open-rational theory, the focus will now be on theories within the open-natural system. Open-natural system, unsurprisingly, agrees with the open-rational system on its emphasis on the importance of the environment and its impact on organisational behaviour.

However, that organisations behave rationally is challenged. These theories acknowledge that, in contrast to the open-rational system, the primary goal of an organisation is to survive, rather than fulfilling its goal (Scott, 1998). The open-natural system believes that organisations are dependent on the environment and its resources in order to survive (Harrington, 2018)

One example of an open-natural theory is institutionalism. Institutionalism is a structural focus on the rules and procedures that shape the organisation and the individuals within the organisation. The theory evaluates how norms, culture and values affect the organisation, meaning that normative pressures push organisations. The reason for this is that the organisation aims to attain legitimacy with their constituencies, which is argued to be essential for the organisation's survival as it provides access points to resources from the environment (Jepperson, 1991) Today, there is proof that demonstrates that CSR is institutionalized within society (Bondy 2012). Hence organisations would implement CSR policies to adapt according to these norms. Capitalist organization can have different degrees of institutionalisation, one can consider it as a variable. Therefore, the impact of the external pressure of CSR on an organization will depend on how institutionalized it is (Harrington, 2018) Additionally, institutionalisation is emphasised by internationally recognised standards for sustainable reporting such as GRI, IIRC (Roszkowska-Menkes, 2018)

Furthermore, this brings us to the concept of isomorphism which indicates the process of copying a successful organisation to appear legitimate and is a part of the institutionalism. Isomorphism can offer another explanation for how an organisation engage in CSR as if one organisation does so successfully, others will follow their lead. Today, many capitalist organisations are striving to take a leading role around CSR initiatives or make sure that they do not fall behind the competition. (Roszkowska-Menkes, 2018) As an example, one can consider Starbucks as a frontrunner in CSR policies as it was one of the first companies in America to offer comprehensive health benefits to their employees. This has arguably inspired other organisations to follow their lead (Mohn, 2017).

Moreover, as mentioned organisations vary in terms of how sensitive they are to normative pressures. In general terms, firms are more likely to comply with normative forces to the extent it has critical factors (Briseño, 2015). One such factor, which can make conformity essential to the survival of the organisation, is the extent of resource dependence. In resource dependency theory, resources can be anything valuable, including legitimacy, human resources, information and raw material (Pfeffer, 1990). This offers another explanation to how external pressure of CSR influence capitalist organisations. Engaging in CSR will make the organisation seem legitimate from an external perspective (Bondy, 2012). Furthermore, engagement in CSR can be a result of actions to ensure long term access to raw materials, as firms realise materials are scarce and they must operate sustainably, not wasting resources. This one can argue has been further emphasised by the increased environmental problems the earth is facing. Additionally, just as with normative pressures, organisations depend on their resources to various degrees which means that to which degree external pressure influence a capitalist organisation engagement in CSR depends on how much it is dependent on its resources.

One can consider some of the similarities and differences between institutionalism and resource dependency theory. As with institutionalism, resource dependency theory assumes that organisations' primary goal is survival and in order to survive, they are dependent on resources from the environment. Other commonalities among the two theories are that they believe that legitimacy is a crucial resource and that organisations are interdependent. However, they differ in one key aspect which is that they disagree on what it takes to survive. While institutionalism theory focuses on behaviour in accordance with socially accepted conventions, resource dependency theory focuses on power and control. (Pfeffer, 1990)

To understand institutionalism and resource dependency further one can consider the empirical example of the rise and entrenchment of personnel departments, the part of an organisation that is concerned with the welfare of the employees, within US firms. During the second world war, there was an increase in bureaucratic structures to make efficient use of the human resources that were not in the war. These created a new group of experts, which were the human relations staff.



This can easily be explained by resource dependency theory, the dependency on resources was a driving factor for the change. However, after five years of World War 2, personnel departments had doubled, even though the war had ended. This can be explained by institutionalism and isomorphism; the HR departments remained as they were a symbol of legitimacy and success. (Barron, 1986).

Moving on from the theories of resource dependency and how organisations are affected by the norms and values of its surroundings, this assignment will now consider network theory.

Network theory, align with the previous theories, consider how external forces affect organisations. Network theory argues that actors, cannot be fully understood without an understanding for the network in which they are embedded. (Granovetter, 1985) To keep in mind is that some scholars of network theory compare to institutionalism and resource dependency focuses mostly on the individual level of analysis rather than an organisational or societal one. However, this assignment will consider the network on an organisational level.

Network theory and its concept of embeddedness, associated with Granovetter, bring another explanation to the discussion of how capitalist organisations engage in CSR. According to the theory, behaviour and institutions are dependent on ongoing social relations (Granovetter, 1985). Granovetter explains that previous sociological research has two opposing views. The under socialised aspect, for which modern economics, on the one hand, sees that people are only pursuing their interest in the economy and do not care about their surroundings. Similar to that of the abuse of power that Perrow takes into account. On the other hand, is the oversocialized view which sees the man as entirely regulated of the norms and values that it acquires from its surrounding. He argues that these two perspectives, ignore social relations and its effects on the modern economy. Social ties are significant in regards to trust, relationships and share of information and they can happen outside firm boundaries depending on the social relations between and within in firms. The theory considers decision making in a social context were actors influence each other. Embeddedness opens us for collaborations such as joint negotiations and mutual adjustments between firms. In the case of the rise of CSR pressure, this suggests that

companies may make bilateral agreements with for example their suppliers to incorporate CSR policies, and organisations will follow these agreements to avoid consequences for future information transactions and relationships (Granovetter, 1985). To connect this with institutionalism, Shiplov argues that what determines the shape of the institutionalisation process, such as incorporating CSR, is the institutional logic for an actor's social network. Once actors share the same reasoning, the adoption of similar actions is more likely (Vashchenko, 2017).

Considering opportunistic behaviour, network theory argues that such practice is limited through the embeddedness in the networks. One would not want to compromise their relationship with their network, by only pursuing their self-interest, as that would be damaging for the organisation in the long run (Granovetter, 1985). This differs from the previous organisational models, where the bureaucratic models argue that opportunism is constrained by standardised rules and procedures. In a bureaucratic structure, workers agree to receive a salary in exchange for giving the right to the organization to direct supervisor who can track an employee's performance and reward good performance, thus minimising the problem of opportunism (Perrow, 1986). Whereas in the clan structure the goal congruence constraints opportunistic behavior. This suggests that even though people within an organisation would not want to incorporate CSR into their organisation, despite the external pressure, but instead pursue actions which are beneficial for their economic gain, the different internal structure has ways of constraining such behaviour.

To conclude, this assignment has outlined two of the primary organisational models and evaluated how they cope with change. It can be concluded that the organization's internal structure affects how the organization will be influenced by increased external pressure and how well they can adapt to this change depending on the context. Furthermore, this assignment has attempted to explain how the external pressure of engaging in CSR has influenced organization by using organizational theories. Contingency theory advocates that the external pressure will influence the organization as it will strive to adapt to its environment, but to which degree will depend on the context. Institutionalism demonstrate that CSR is institutionalized, and these norms and values will influence how the organization operate as it wishes to gain legitimacy.

Furthermore, resource dependency theory argues that the external pressure of engaging in CSR influence capitalist organization in such a way that organization are dependent on resources such as legitimacy and materials and will act accordingly. Lastly network theory argues that organization will have incentive to remain on good terms with their network and hence will be influenced by the external pressure of incorporating CSR policies. In general, the assignment implicates that organization respond to these external pressure as organizations need to interact with the surrounding, the institutional environment as well as stakeholders, to ensure prosperity and survive in the long run.

The paper is limited in presenting a handful of organizational theories to attempt to explain how increasing external pressure influence organization due to the scope of this paper. It is important to take into account that other theories will provide other perspectives to how and to what extent external pressure impact organization.

Lastly, his assignment has only looked at how the macro-institutional pressure influence organizations to engage in CSR. Further research should examine how internal pressure, such as employees values, influence the organisation. Furthermore, it would be interesting to see how these influences vary in different geographical areas such as comparing western organization to those in Asia.

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