

Contributions to Management Science

Marco Valeri

Organizational Studies

Implications for the Strategic
Management



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Implications for the Strategic Management



Springer

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ISSN 1431-1941 ISSN 2197-716X (electronic)
Contributions to Management Science
ISBN 978-3-030-87147-5 ISBN 978-3-030-87148-2 (eBook)
<https://doi.org/10.1007/978-3-030-87148-2>

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The registered company address is: Gewerbestrasse 11, 6330 Cham, Switzerland

Foreword

2021 and the immediate years that follow see an almost unique set of circumstances for the study of organizational behavior, its management, and the impact of organizational behavior on communities, countries, and indeed our World.

Amidst growing calls for change in organizational behavior and in the immediate aftermath of COVID-19. This book starts from the premise that the study of organizational behavior originates in the Industrial Revolution, which instigated the beginning of mass production and a new form of economy that required a new paradigm for the management of “work” and thus business administration.

Profound changes in the economic, social, and technological context have followed, of course, but these have contributed to a partial abandonment of the hierarchical and pyramidal *classic* structures, in favor of organizational structures that develop on a horizontal basis and are divided into specialized areas provided with wide autonomy.

The time is ripe, therefore, to revisit organizational behavior, to draw on the best of classic theory, and to reconsider what this means for the next stage of organizational (and indeed human) development.

This new book *Organizational Studies. Implications for the Strategic Management* is welcome, therefore, and a useful contribution to the debate. Dr. Valeri is to be commended on this extension to the debate.

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Introduction

The book *Organizational Studies. Implications for the Strategic Management* aims to analyze the evolution of organizational studies by adopting a historical and theoretical approach. This analysis is related to the more and more frequent and important changes in the social, economic, and technological environment where organizations operate.

Attention to the business organization problems grew with the industrial revolution, with the advent of mass production that brought about the need for a real organization of work. From that moment on technological progress has been unstoppable and continuous, overwhelming all aspects of individuals and companies' life and it has made the environmental, social, and technological context more and more complex and unstable. The deep changes, happened to the environmental, social, and technological context, have deeply influenced the methods of organizing and conceiving companies, recognizing growing importance to individuals and groups, both formal and informal, which are part of them.

Over time, there has been a gradual abandonment of the classic pyramidal hierarchical structures considered too rigid to adapt to the speed of changes, in favor of more flexible organizational ones organized in specialized areas that enjoy wide autonomy. The increased autonomy of organizational structures, the correlated need for coordination within it, and the fluidity in the creation and dissemination of the knowledge resource, make the organization ready to operate in a more and more uncertain competitive environment.

The book offers tools and food for thought to those who wish to approach organizational studies and specialize in disciplines that require a basic knowledge of the business organization rules. It is structured into three parts.

The first part focuses on the various ways of understanding and interpreting the topic of business organization according to the different schools of organizational thought. Concepts are specially provided in order to understand the organizations nature and to better interpret the planning choices and the change processes.

The second part focuses on the issues concerning the businesses organization and the relations among them. It refers to the influences of strategic management on the choice of the organizational structure models.

The third part analyses the issues concerning the human resources management that belong to the organizational structure. Nevertheless in so doing leadership theories have been taken into account, since it is an emerging issue concerning the strategic management.

Contents

1	Organizational Phenomenon	1
1.1	Public and Private Organization	1
1.2	Organization: Concept	3
	Stakeholder Theory	5
1.3	Rational Aspect of a Complex Organization	7
1.4	Cooperative Approach	9
1.5	Open Systems Perspective	11
	References	14
2	Origins and Development of Management	19
2.1	Managerial Practices	19
2.2	Organizational Theories: Genesis	21
2.3	Taylorism and the <i>One Best Way</i> Concept	23
	One Best Way Approach	25
2.4	Weber and the Bureaucratic Model	27
2.5	Fayol and Barnard: Theories and Implications	30
2.6	Participation, Coordination, and Leadership	33
2.7	The Institutional Theory	35
	References	37
3	Contingency and Choice in Organization Theory	39
3.1	Organization and External Environment	39
3.2	Contingency Theories of Organizations	41
	Contingency Theory According to Burns and Stalker	42
	Contingency Theory According to Lawrence and Lorsch	44
3.3	Resource Dependence Theory	46
3.4	Transaction Costs Theory	48
3.5	Network Models	50
	Business Networks	50
	Industrial Districts	52
	Franchising and Risk Management	54
	References	57

4	Modernism and Neo-Modernism	61
4.1	Modernism: Genesis	61
4.2	Organizations as <i>Ordered World</i>	63
4.3	Modernist Influences on Organizational Design	66
4.4	Neo-Modernism: Genesis	69
4.5	Human Relations School	72
4.6	Human Resource and Personnel Management	74
	Theories of Motivation	78
	References	81
5	Post-Modernism and Organizational Design	85
5.1	Post-Modernist Influences on Organizational Design	85
5.2	Post-Industrialism and Post-Fordism: Genesis and Characteristics	88
5.3	Post-Fordism Implications on Management and Leadership	91
	Flexible Forms of Production	93
	References	96
6	Organizational Design and Decision-Making Processes	99
6.1	Strategic Decision-Making	99
6.2	Decision-Making Problems According to Simon	102
6.3	Organizational Structures	106
6.4	Knowledge Management Systems	110
	Learning Organization	114
	References	116

Chapter 1

Organizational Phenomenon



1.1 Public and Private Organization

The organizational phenomenon is one of the main elements typical of the modern, developed, and industrialized society. For this reason the organizational aspect has been the constant object of scientific analysis, accompanied by increasing attention to the dynamic aspects of the business administration examined through empirical observation. These analyses enable to understand how each business administration, either public or private, not only is characterized by its formal, pre-established structure, which allows its functioning but also by a normal desire to adapt to local changes with the perspective of self-preservation, in order to guarantee the business administration to reach its goals (Andrews et al., 2011; Rainey et al., 1976).

In any organization dynamic and static side coexist and they interact continuously ensuring fluidity of procedures but modifying the same definition of organization. When defining it, in fact it is necessary to take both sides into account. They must be considered as two aspects of the same reality since the link between the two structures (dynamic and static) is permanent in order to have a chance of future contamination (Miles, 1975).

The structure only exists as far as it creates processes and objectives that in order to be achieved require a formalized and pre-established structure. Not only, any organization as a social entity guided by objectives and organized with projects and activities interacts with external environment, which therefore becomes a further influential variable on the organization and its functioning. As you can see in the following chapters the changes in the external, environmental context will stimulate the most relevant development of the way of thinking and the application of organizational theories (Bourgeois, 1980; McAuley et al., 2017).

The organizational structure, in the last decades, has been the subject of a modernization process guided by a trend of reorganization in a corporate and managerial perspective, which has become necessary because of the growing complexity of social environment, its continuous change as well as the arrival of new

economic approaches inspired by neoliberal principles (Boulding, 1953; Brown & Eisenhardt, 1997; Stinchcombe, 1965).

Thanks to the progressive evolution of organization idea, as well as the progressive modernization of public administration it can be stated that nowadays that public administrations, namely public organizations, are not entities completely in contrast with private organizations, but they must be rather considered an example of the genus *complex organization* (Etzioni, 1961).

The complex organization represents the evolution of the simple organization, which to expand and develop its dimensions and its potential, is endowed with elements of *complexity*, thanks to a process that allows to organize the roles in formal structures committed to such a purpose, modifying at the same time its objectives (Parsons, 1960). We therefore can see a transformation of organizational structures characterized by executive and managerial roles as well as the increase of organizational units, each of which is responsible for the fulfillment of one of the various objectives, as a whole, the organization aims at (Anderson, 1999; Barile et al., 2016; Morelli, 2017).

The complexity typical of the structure is an additional advantage for the organization because, thanks to its complexity it can better put up with uncertainty and disorganization rather considering them elements that encourage a feedback of adaptability and innovation (Bonazzi, 1984; Butera, 1977, 1984; Costa et al., 2016; Martinez, 2004; Robbins, 1990). Exactly from this point of view, as above mentioned, it comes out the interaction between formalization of organizational relationships (static side) and the need for structural managerial flexibility, which allows adaptation to change (dynamic side) (Duncan, 1972; Larsen et al., 2013; Perrow, 1986; Siggelkow & Rivkin, 2005; Sorenson et al., 2004).

Besides from this consideration one can perceive the contiguity between public and private organization. The complexity of an organization *grows* simultaneously with the increase of its levels that intertwine and overlap according to vertical and horizontal development and specialization lines (Aguari & Di Nauta, 2012; Aulich, 2011; Casalino, 2008; Rebora, 2017).

As you can see in the following chapters the evolution of organizational theories has a progressive detachment from the classic pyramidal and organizational structure that is rigidly hierarchical and vertically developed (with the shift of power from top to bottom) in favor of organizational structures developed horizontally with its corresponding *flattening*, through the elimination of intermediate and subordinate decision and control levels and the employment of functional units who are given greater autonomy (Pellicelli, 1978). The complex organization either public or private can therefore be characterized by the presence of these elements: size of the organization; presence of an administrative component; limited and defined extension of control; specialization and standardization of procedures and tasks; centralization of the decision-making authority; structural differentiation; formalization. Especially the last aspect appears *symptomatic* of the complexity of an organization. The greater the complexity is, the more the use of formal procedures and rules to govern their dynamics is necessary (Daft et al., 2020). This need of formalization, which corresponds to the static side of the organization, in any case,

must be suitable to interact with the need of flexibility that instead represents the dynamic side, necessary to let the structure to adapt itself easily to more and more frequent changes. In any case, as far as the concept of *complex organization* can be considered suitable to describe also public organization, one has to keep in mind how this one in its form and in its acting is very different from private organization (Butera & Dente, 2009; Cafferata, 1984, 1986; Mercurio & Martinez, 2009).

The public administration is especially responsible for a plurality of needs, having to take into account in planning its actions of the existence of various interests, of the technical-organizational complexity as far as some public sectors are concerned, together with the fundamental equity principle, which should distinguish the decision-making process of any public organization (Bogason, 1998). Another fundamental difference is the so-called supremacy of public administration that does not work *equally* with citizens, who although users of its services are subject to it; in fact public administration acts thanks to the power ensued from a set of various regulatory rules, which impose the citizens equivalent commitment (Anderson, 2014; Walker & Bozeman, 2011).

Although changes and dynamism of the environmental, technological, social, and economic context have affected the structure of public administration it must be recognized however that it is essentially based on bureaucracy just as theorized by Max Weber. Its structure is built by abstract and impersonal procedures and rules and by pre-arranged roles, which cannot be modified by the person who temporarily holds that position. The structural rigidity of public administration and its *loyalty* to the bureaucratic model made difficult, despite the attempts done in that sense in recent years, the application of a really managerial culture in public administration as far as planning and control sectors, above all (Aldrich, 1979).

From a planning perspective, for example, the lack of planned and well-defined objectives *ex ante* has made the management of the public structure inefficient and useless with negative effects even about the various intermediate control level, not clearly pre-established and identifiable. Further difference between public and private administration comes out, in fact, as regards means and resources they must find and use for their own survival.

The impossibility to control the process during the different steps of its development, favoring only a check of the final result, leads to the inconvenience of not being able to easily identify the *internal problems*, which makes the process more expensive (ineffective) or slower (inefficient).

1.2 Organization: Concept

The characteristics of organization are therefore various and complementary, which makes its definition difficult to be unambiguous (Miles, 1975).

First of all, the identification of organizational elements is by now shared. They are specifically identified with: *social structure* considered as a set of relationships among its members, *social milieu* considered as a technological and cultural context

with which the company interacts; participants are those subjects who contribute to the organization in exchange for benefits and rewards, goals considered as predetermined objectives that the members care for and work together to achieve, *technology* considered as a set of technical knowledge, tools and in general the skills to transform resources into output (Stinchcombe, 1965).

It is important to take into account as no element, ultimately, has to be considered dominant in relation to the others, since the organization must be conceived as a system of elements that continuously interact among themselves (Bonazzi, 1984; Grandori, 1995, 2001; von Bertalanffy, 1969).

Taking into account the various definitions different authors have suggested over the years, it is to be noted that constant and essential elements are, on the one hand, division of labor and on the other coordination among the various units the organization is composed of. These two elements and their close interconnection create and characterize the functioning of the organizational phenomenon (Burton, 2020; Rebora, 1998).

On the one hand, therefore, differentiation meant as division of labor and as specialization: each member of the organization has his/her own task different than the one assigned by others, which becomes the object of his/her specialization. On the other hand, an intrinsic and consequent need upon the division of labor, integration meant as *tracing back to unity* of differentiation in order to ensure that the division of labor always complies with the criteria of efficiency and effectiveness, making the organization *a set of roles* that proceed intersecting each other in a continuous, dynamic, and harmonious movement (Leavitt, 1964; Thompson, 1967).

Integration, especially, involves the need to distinguish, within the organization, management from executive process: the former complies, mainly, with the coordination and integration plan, while the executive process is the main object of differentiation. This need for separation has started the change from a simple organization to a complex one, which at first was built following a *vertical* scheme in which managerial roles are higher than executive ones and therefore roles, positions, decision-making, powers, and responsibilities are organized and divided according to a pyramidal shaped development plan, in which decisions are taken by top managers and the lowest structures have only to carry them out (Cafferata, 1984, 2018; Whittington et al., 1999).

The differentiation of executive roles, instead, develops according to horizontal plan: a complex process is divided in several parts and therefore in different *tasks* which are all placed at the same level since they are all necessary and essential to achieve the result.

As already mentioned in the previous paragraph the organizational phenomenon and its related theories have been broadly influenced by the environmental, social, economic, and cultural context, which have characterized and will characterize their future evolutions even more.

As a *product of society* and the individuals it is made up of, the organization did not get stuck on a preset degree and type of differentiation, keeping all the internal authority and direction relationships unchanged but, on the contrary, external requests, continuous contamination with environment, and adaptive needs related

to these phenomena have led the organization to carry on a continuous and constant process of *transformation*.

The elements and variables that make up the organization must therefore be able to combine in order to guarantee a continuous and steady change which allows the organization to transform itself. The elements and the variables that make up the organization must therefore be able to combine in such a way to guarantee a continuous and constant change when its relations with the market or more generally with the environment and operating sector vary (Carollo et al., 2019).

Each organization has its primary and immanent objective to ensure maximum efficiency in allocating its own resources and maximum effectiveness in management and work schedule, thus obtaining the maximum prosperity of the organization. These actions have to be integrated and coordinated in order to allow the fulfillment of two fundamental conditions: the capacity of the organization to respond quickly and appropriately to the context changes, maintaining and strengthening its position in the sector; the organization capacity, through Knowledge and its circulation to create new choices for the company development and to choose the right time to carry them out (Solari, 2017).

The fulfillment of these conditions makes up the basis for the company to create its own value, and this added value complies with the *stakeholders'* requests and expectations.

Stakeholder Theory

By *stakeholders* we mean a set of Institutional and social subjects who are investors of different nature, that act with different roles towards the company influencing its trend. The *Stakeholder*, therefore, is the person who not only has expectations and interests as far as the productivity of the company, its production methods, and its output but he is also recognized the power to influence the organization choices. The word, therefore, not only refers to *internal* subjects such as shareholders, management, or workers, but also to *external subjects* such as suppliers and consumers, to the extent their different attitude enables them to influence and modify the company strategies and choices (Jones & Wicks, 1999).

Within the general category of *Stakeholders* it is possible to distinguish not only internal and external but also primary and secondary *stakeholders*. The primary ones can be identified with those who have rights, interests, or expectations in the business company, since without their existence and their contribution, the organization would no longer be able to work (Wicks et al., 1994).

Secondary *Stakeholders* are those subjects that, although non-essential for the survival of the company are however, able to influence results, products, and, ultimately, the impact on the market.

As far as the so-called *Stakeholders*, this term refers to the holders of a *Stake* in the decision-making and organizational process of the company. The use of this terminology has increased together with the success of the so-called *Stakeholder*

Theory, a business theory that aimed at overcoming the traditional paradigm according to which the one and only social responsibility of the company was to use its resources in activities aimed at increasing its own profits and consequently the shareholder's one. According to the traditional paradigm, therefore, managerial structure and strategy should coincide only with the *shareholders'* interest, who can see their profits increased and consider this the only and essential purpose of the company.

The *Stakeholder theory* (Freeman, 1984, 1994), as anticipated above, aims at overcoming this concept using the *stakeholder* idea outlined above to expand the number of subjects who are not only more or less direct recipients of the company activities but for this reason they are also simultaneously able, to a different extent, to affect its functioning, its results, and finally the achievement or not of larger profits.

This theory based on this *stakeholder* model tries to combine economic criteria with ethical values that combined together should orientate the company purposive profile.

According to this approach the management should guide the company towards activities aimed at creating value not only for *shareholders*, through the simple maximization of profits, but also for employees, suppliers, and customers (giving them, for example, rewards or economic benefits) and finally for the social and economic context in which it operates.

The managerial strategy suggested by this theory should, first of all, face the need to identify, coordinate, and *govern* the complex network of relationships, naturally built up within a company among the different *interest groups* and their different aims (Mercurio, 2016; Miles & Snow, 1978, 1986; Tursunbayeva et al., 2018).

According to this approach, management should address its own strategy towards the coordination of the different interests, in order to create value and distribute it efficiently, effectively, and mainly, productively. In order to achieve this goal it is essential to develop and keep dialog alive regularly, to confront with and to involve the main social interlocutors of the organization, so that they have the chance to contribute to the development of the company strategies and policies. Furthermore companies have to prepare a *mapping* of their *stakeholders*, identifying their power and their area of interest: once identified the various types of *Stakeholders* they will be differently managed, since the company will be able to prepare different types of management strategies in order to increase the *Stakeholders'* consensus and support and to minimize their negative impacts (Donaldson & Preston, 1995).

As you can see in the following chapters the *Stakeholder theory* fits with the tradition of business theories, that have developed in order to underline the fact that the organizational structure is not an isolated and *impermeable* system to the context which it works for but, on the contrary, it is a set of elements and processes that interact with each other in order to acquire inputs from outside and give back later a completely changed output. In the study of business organization the distinction between closed systems and open systems exactly characterizes the most important developments (Parmar et al., 2010).

To the idea of the organization as a *closed system* and therefore isolated and detached from the external context and easily manageable (being a stable and

predictable environment), is opposed the idea of the organization as an *open system* that, exactly as such, is obliged to interact with the environment it works for, in order to guarantee its own survival, with a continuous, constant, and fluid work of mutual adaptability (Scott & Davis, 2006).

The need for the organization to interact with the environment and the context it works in, as well as determining the related need for structures able *to bear* and support adaptability, demands it to interpret the surrounding environmental changes, orienting its activities as a consequence. This change of perspective, as we will see later, will lead to a gradual overcoming of classical and rationalist theories of business organization in order to be able to conceive it as a *learning organization* in which the fulcrum/core and the driving force of its prosperity are identified with Knowledge, learning, and training (Puranam & Maciejovsky, 2017).

1.3 Rational Aspect of a Complex Organization

As previously mentioned, complex organizations differ from the simple ones because they are characterized by the rational building and planning of their structure, their boundaries, and their purposes. The first ideas of the organizational phenomenon tried therefore to bring *order into chaos* enhancing the *rational* aspect of a complex organization.

The *classic* line of thought conceives organization as a rational system and Taylor (1911), Weber (1922), and Fayol's (1916) theories are traditionally linked to it. The lowest common denominator of these theories is the idea of the organization conceived as a group of subjects oriented towards the achievement of predetermined purposes included in a rationally formalized structure. Very briefly the structure therefore, influences the behavior and the productivity of the persons that are part of it. As a consequence a well-organized and rational structure is sufficient to guarantee the increased productivity of its members. Rationality is considered in a functional or technical sense, since it concerns the procedures used to achieve the objectives and not the choice of them. Once carried out the choice of the aims the organization intends to pursue, these will define and specify the role of the subjects who will be included in a highly defined, rigid, and formalized structure. Thanks to a structure rationally built, in which roles and activities are well defined it would be possible to obtain the maximum level of the company's productivity.

According to the classical idea organization must comply with the principle of rationality which, in turn, complies with the efficiency criterion, consisting in the objectives fulfillment by reducing costs; also the subjects that are part of the organization are conceived as *rational beings*, who consequently have a predictable behavior.

The success of the classical school finds its main motivation because of its development at the same time of the industrial Revolution and the coming of Capitalism. The huge capitalist concentrations brought about large productive entities whose functioning however was still linked to artisanal methods: thus it came

out the need to rationalize the operating methods of the new factories in order to exploit the available resources more efficiently and effectively.

In that historical era of great change business organization started to develop together with the classical school that introduced, by the arrangement of prescriptive methods to identify the rules of a rational organization. These theories are based on the concept of the individuals considered as subjects of absolute rationality, whose goal is to obtain the maximum benefit or profit from its own actions.

As you can learn later, Taylor first, followed by Weber and Fayol introduced a scientific approach to business organization (the so-called *scientific management*), based on the concept of work division, hierarchy, mandate, and ultimately on the implementation of the scientific method to the analysis of productive processes.

The core of these theories, which is at the same time their weak point, is the organizational rigidity of the structure and its construction around the concept of hierarchy. The hierarchical structure produces a coordination system that places some subjects on a superordinate position compared to others, recognizing them a different degree of decision-making, of discretion and of responsibility and influence. Every decision is taken by the top managers of the organization and *gradually* transmitted to the base following the various levels of the vertical structure division; in the same way any *signal* coming from the base cannot reach the top levels directly but they have to overcome all the vertical relations division levels. Relationship between upper levels and subordinate ones is based on hierarchy, which goes together with command unit and direction, that of decision-making centralization of choices, towards the top hierarchical levels.

To ensure that these principles are respected, according to the classical concept, it is necessary to subordinate specific interests to the general interest of the company, to make the division of labor according to the criterion of functions specialization, to which is accompanied staff stability together with a fair and satisfactory remuneration and promotion of its internal cohesion.

So once defined the organization characteristics, the classical school, and the Scientific management approach, the aim is, therefore, to identify the structural variables according to which the top management should make their strategic and organizational choices. In short these variables are identified with the *quantity* definition of the hierarchical levels and the extent of each level control; tasks and roles are defined in the criteria according to which labor division is done and also with the degree of formalizing and structuring the tasks.

As we can see the scientific and rational approach to the organization, typical of the classical school will lead to the so-called bureaucracy theory by Max Weber (1922) who, in some way takes to the extreme the application of rationality in structuring an organization. Management becomes completely rationalized through hierarchy and labor division, powers and duties are defined on the basis of the activities to fulfill and regardless of the individuals' characteristics, the work is regulated by rigidly predetermined rules and procedures, selection, promotion, and interpersonal relationships must be based on technical competence and impersonality.

The classic approach is inspired by rational disciplines such as economics, law, and engineering introducing therefore a prescriptive approach, identifying the rules to be followed in order to build an efficient and productive organization. In case that the structure is no longer suitable for achieving its goals, it will be sufficient to intervene on the variables described above, according to extremely rational canons to bring back the prosperity of the company to the best level.

1.4 Cooperative Approach

Next to the classic school, the so-called School of Human Relations which conceives the organization as a natural system instead of a rational one, made up of subjects who are not particularly influenced by the structure and its purposes but still they share a common interest in the survival of the system and work hard to guarantee it.

This approach emphasizes aspects neglected by the classical school, such as the social, human, and behavioral component of the subjects that belong to the organization. The subject matter of business organization, therefore, begins to enrich itself thanks to the contributions of more *descriptive* sciences such as sociology and psychology, with growing attention to the behavioral component of the organization members (Ashby, 1952).

The organization thus becomes an entity that not only has to guarantee the maximum level of productivity of all its members, but also it has to work in order to guarantee the fulfillment and therefore the survival of its system, taking into account not only the needs of the market and the shareholders but also those of its employees.

The development of these theories can be placed in the so-called post-Fordism period in the transition from the twentieth to the twenty-first century, when the company, evolving together with society and market, began to meet a development of its operation sector inspired to the principle of the productive and commercial cooperation by the development of entrepreneurial network systems (Bonomi et al., 2019). The central position of the cooperative role not only is recognized towards external relations but also within internal or infra-organizational relations.

The need for a *revision* of the rationalist and bureaucratic idea of organization comes out together with the technological development and the quick change it has brought about: Taylorism showed its best potentiality in the nineteenth century industrial factory, in which technological innovation was slow and the size of the big company allowed to *replace* small artisan companies no longer suitable for the increasing mass economy (Taylor, 1911).

The progressive differentiation of products, the increasing in size of the market and the resources scarcity, together with the rapid and constant technological development showed how difficult it was to adapt rigid and hierarchical structures and therefore it was necessary to support the objectives of effectiveness and efficiency also with that of flexibility.

Especially it starts to come out an idea of organization which does not consider itself as an isolated organism, unique, and detached from the surrounding context but as part of a whole based on cooperative action, in which the actions of all its subjects converge to achieve a balance point and common goals.

The cooperative action enables to uphold that when this state of equilibrium is altered, *forces* that aim at establishing it are created in order to reach a new point of balance, by a constant work of adaptation and renewal. According to Barnard's theories the organization is therefore conceived as a system of forces and a set of consciously coordinated activities: central points of the formal organization therefore are coordination and cooperation among the various components of the *organization system*.

In order to realize coordination and cooperation effectively it is necessary that organizational communication, real connective fabric of the structure, will be effective: it is necessary for the recipient not only understanding its content, but also perceiving its coherence with the purposes of the organization and his/her personal interest as well as being able to conform his/her behavior to it.

We are witnessing a progressive change of the organization point of view and analysis with increasing attention to its *human factor*, which is considered to be composed of subjects inclined to collaboration and therefore their behavior can be suitable for organizational purposes. The company so starts to be conceived as a cooperative system, in which attention is focused, on the one hand, on the devolution of decisions, with a progressive *flattening* of the structure, on the other on self-governance and greater accountability of the single units in which the organization is divided.

The construction of the company and its structure, therefore, starts with an organization conceived as system governed by cooperation. The main exponents of this line of thought can be considered Barnard (1938) and Selznick (1949, 1964), who are supported by the important researches of the so-called School of Human Relations and by Roethlisberger and Dickson (1939).

Very briefly, all these theories consider as a starting point the fact that the organization based on the division of labor and on its subsequent *reorganization into units* can make the best of its productivity only if the *parts* and processes it is composed of, move and work in harmony. The lowest common denominator of these theories is to identify the tools necessary to guarantee this harmony in order to enhance the human factor as well as to strengthen the leadership and management functions with a perspective of constant and continuous cooperation with the other levels of the structure (Fjeldstad et al., 2012).

It is, therefore, underlined how important are the interactions that unite the organization structural fabric, which is, ultimately its own essence. These relations not only refer to formal organization and therefore to the corporate organizational chart but above all to the interactions among the components of the company and between it and the external environment. All these interactions should be governed so that they can be always based on the principle of cooperation and collaboration in order to guarantee the continuity and consistency of the company system.

The cooperative system so conceived increases the importance and the centrality of executive and management functions exponentially. They are not so much identified with the centralization of the *power* but rather with the decision-making center that allows the organization as a whole to work in harmony since its single parts work at the same time in complete autonomy but also in an interdependent way (Bales, 1950). The corporate management functions, considered essential such as, for example, statement of organizational purposes, personnel selection and training, creation and support of an efficient communication system, are supported by a more personal dimension of the managerial functions that implies the level of the leadership capacity assigned to the managerial group (De Gennaro, 2019; Di Lauro et al., 2020).

Leadership begins to be defined as a personal capacity consisting in being successful to bring together the all parts and forces of the organization towards a common goal, creating a sort of individual sharing of this objective. The leadership quality becomes therefore, a further element necessary to guarantee the productivity and stability of the company, measured not only according to the criterion of economic equilibrium but also and above all, taking into account the new environmental context they refer to, together with the capacity of the organization to cooperate with the aim of preservation and the need for adaptation inevitably required (Zaleznik et al., 1958).

As we will investigate later, the concept of cooperation and of cooperative system will go beyond the limits of the organization considered on its own in order to expand and to regain also relationships between the organization and the environmental, economic, productive, and social context where it works (Arrow, 1974; Pittino et al., 2018).

Nowadays the more and more rapid technological progress, the success of scale economies, of multinational corporations, of the global markets have asked for a reconsideration of the company structure that especially in recent years must look even more outside and try to identify who, among its competitors may be considered a potential entity to cooperate with.

Cooperation therefore goes beyond the internal perspective of the organization to become a guideline for the organization behavior towards the external context, by the creation, furthermore, of enterprises networks and industrial districts (Resciniti & De Vanna, 2019).

1.5 Open Systems Perspective

The so-called *open systems perspective* is one of the most modern ways of thinking within the corporate organization the aim of which is to overcome the traditional concept of organization, which would fail exactly on the assumption that the organization is considered as a closed system, somehow detached from the surrounding environment and incomprehensible (Scott, 1994). It is especially rejected the assumption that there is a single potentially universal model of organization,

since it is continuously subjected to context and situational changes that require the organization to conform to some organizational constraints, which are influenced inevitably by environmental factors.

The environment, in which the organization works, begins to be considered not as a predictable and unpredictable *unicum*, but as a set of different areas characterized by different degrees of predictability and consequently requiring a different *degree* of response at organizational and structural level.

Attention is focused on the organization proved lack of self-sufficiency and its related need to interact with other organizations in order to find its own resources; therefore, a bond of dependence is created among organizations, the *intensity* of which depends on the scarcity of resources and the intensity of demand. In order to reduce the margin of uncertainty, linked to this dependence, it is necessary that the organization, after having identified the scope and the area of operation should be structured in such a way to guarantee the highest possible level of the resources control.

Thus the organization economic success is not evaluated as a closed system measured through economic result and efficiency and effectiveness criteria, but as an open system, the value of which increases not because measured in terms of higher profits but as related to the position held by the organization within the sector it works for. It will be then a natural consequence not necessarily immediate the percentage increase of profits related to the control positions of that organization, compared to others.

The so-called *Contingency Theory of Organizations* in its versions by Burns and Stalker (1961) and Lawrence and Lorsch (1967); the so-called *Transaction Costs Theory* (Williamson, 1975, 1981) and the so-called *Resource Dependence Theory* (RDT) (Pfeffer & Salancik, 1978) are traditionally placed within this trend of thought.

In this case the lowest common denominator among these theories is the organization conceived as an open system in a state of permanent interchange with the surrounding environment, which gives life to a continuous cycle divided into the phases of either resources or inputs finding, their internal transformation into products or services (output), and the ability to find feedback from the recipients of these output.

Conceiving the organization as an open system involves the progressive giving up of rigidly deterministic approaches, based on the cause and effect relation which are suitable for explaining the function of a closed system, but less adaptable to the perspective on the open system. In an organization defined as a closed system, in fact, the *parts* (sections) it is composed of are predetermined and predefined and the formal structure does not do anything else but combine these elements in a different way in order to achieve the best productivity, since the environmental context is considered basically *predictable* and therefore easily explainable according to the cause and effect relation.

The open systems perspective, instead, identifies the environment and the social, economic and cultural context as a real element that *shapes* and influences the organization, which must have the capacity to guarantee its own preservation by

looking for external resources and *energies* and the related removal of negative feedback in order to enhance itself continuously. According to this point of view the isolation of a system from the diversity of the environment where it works, involves a progressive paralysis of the same system since it affects its complexity. On the contrary the more varied the environmental context is, the more varied the regulatory mechanisms internal to the system should be (Scott & Davis, 2006).

Furthermore in perspective of open systems the environmental context undertakes an even more relevant role, becoming a connotative element of the capacity of the system to evolve. According to this perspective, in fact, the ability of an organization to evolve is closely linked to its ability to adopt even more complex forms of differentiation and integration, building so a system that allows it to face the challenges and grab the opportunities the environmental context offers. The more a system is able to interact with the surrounding environment, optimizing the recovery of input and opportunities the higher is the capacity of that system to evolve. The organization is no longer a systemic identical and constant model even in different contexts but it is a system of elements and its degree of interaction is determined by a relevant sequence of variables that, every time, have to be taken into account in order to achieve a predetermined result.

While a closed system tends to weaken and to deteriorate, the open system, thanks to its constant interaction with the external context, is able to produce a circle of *energies* that can store *input* and transform them into *output*, while ensuring through *feedback* a deeper knowledge of the environment and its responses to the *output* created.

As we will see in the following chapters, with the success of the open systems perspective we are simultaneously witnessing a considerable growth of the importance recognized to the knowledge function within the organization. Knowledge begins to be conceived as a true engine of the organization: after having witnessed a progressive enhancement of the human and behavioral factor of the organization members (among others, School of Human Relations, see below) we are observing now a progressive appreciation of the *knowledge* of the company's human capital. Only by ensuring the linear and uninterrupted Knowledge circularity, it will be possible to ensure the correct functioning of the organization (Della Torre et al., 2018).

From these assumptions the most modern theories of the so-called *knowledge management*, *learning organization*, and of the model based on the concept of *Total Quality Management*, come to life (Adinolfi, 2003). All of them are based on the common assumption of the centrality of the feedback activity and therefore of *communication* with the external environment. The organization will be able to approach the external environment correctly if it has the ability to know its characteristics, its *reactions*, and above all its own negative responses to the *output* provided.

The success of these innovative ideas concerning the organizational phenomenon, combined with the progressive importance acquired by the issue of cooperation among companies and within them, has led, as we will see later, to the creation of new organizational models, which are even more concentrated on the role of the

market and ultimately of the customer, since the organization is not a closed and self-referential system but an open one, continuously in contact with the environment it works for.

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Chapter 2

Origins and Development of Management



2.1 Managerial Practices

The way of conceiving the enterprise radically changed with the Industrial Revolution. In fact, we have witnessed the transition from the traditional cottage industry based on artisanal production methods, to the factory, in which the contribution of machines has become fundamental and in which the need and demand for a rational and analytic organization of work were born. The first approach adopted to tackle this new organizational problem was that of the classical school, which based its theories on scientific method and rationality, giving life to the so-called Tayloristic system, fully implemented in Henry Ford's factories and in the assembly line system.

The evolution of the economic and, above all, technological context has generated new and relevant challenges for organizations, first of all ensuring a *flexible* reaction to the change, which could be considered as an opportunity and not as an obstacle. This new characteristic required from the organization reveals, even more, the inadequacy of the system built on a scientific and rational basis, which proved to be too rigid, especially due to the hierarchical structure that distinguished it (Tushman & O'Reilly, 1996; Tushman & Romanelli, 1985; Tushman et al., 2012).

In particular, the idea of maximizing the company's prosperity cannot be achieved with an intervention restricted to structural variables, leaving out both the human component and the interaction of the organization with the context and the external environment (Likert, 1967). These two additional variables become very important with post-modernism and they change the same concept of business, which is no longer considered a closed system and detached from the surrounding environment, but an open system that continuously interacts and is in contact with it.

The organization thus becomes a complex system, in relation to which a scientific and rational approach proves to be unsuitable, since this system is naturally subjected to external influences of instability and uncertainty. The more the surrounding environment proves to be unstable, the more the organization will have to

adopt a flexible, decentralized structure with a high level of propensity for change and innovation (Rossignoli et al., 2016; Tomo et al., 2019).

In this changed context, it is well realized how the interest in the *new* variables of organizational intervention has pursued the parallel need to equip the organization with subjects and roles specifically competent in ensuring the system cohesion and coherence. Conceiving the company as an open system, subject to external change, creates the need to ensure a high level of unity and integration, so that the company acts as a single system against uncertainties. The rediscovered interest in the human factor, at the basis of the school of Human Relations, makes it clear how the organization unity cannot be guaranteed but for interventions that are really motivational and encouraging stimuli for the subjects that are part of it.

It is from these premises and from this changed theoretical and cultural context that the relevance and importance of the management role begin to emerge creating a *harmonious environment* in which the members of the organization feel motivated to provide the maximum of their contribution to the achievement of common objectives. The managerial unit of the company acquires fundamental importance, since it is responsible for ensuring coordination and fruitful interaction among the various units that make up the system. Management is therefore competent for everything concerning the coordination and administration of the company's resources, including human resources and financial and material ones. This coordination must take place in order to achieve common and predetermined objectives.

Management, in short, can be defined as the set of interventions that the management of a company must implement both to ensure that the organization can pursue the objectives predetermined by the business planning, and to implement choices concerning the interventions among the fundamental sub-units.

A real doctrine of management starts, therefore, to be outlined, its origins, as we will see later, can be mainly traced back to Fayol's work.

Management thus begins to distinguish itself from the governance of the company, which is the responsibility of the proprietary bodies, taking its own characteristics and different peculiarities.

What must be typical of management is, in fact, first and foremost, a high level of authority and associated responsibility, which gives the ability to quickly intervene on the organization members. Management must also be able to ensure order and discipline among the members, encouraging, at the same time, the creation of a sort of *team spirit* that involves the individual and makes him feel part of something bigger.

In order that the organization could operate effectively and efficiently, it is necessary for the management to structure analytically the different tasks deriving from the labor division and at the same time to ensure unity of command and direction.

As far as the latter aspect, it becomes essential for management to proceed with a planning activity properly structured and conceived. Planning means dividing an activity into several formalized procedures that will lead to a predetermined result, by structuring the process as an integrated system of decisions. If the planning

activity is carried out effectively, this guarantees an organization the ability to better control its activities.

The management of a company is therefore competent for the coordination, organization, and planning of the activities, which are the structural and predetermined foundation able to ensure the company an effective and efficient functioning.

These sectors of management competence, considered their centrality, reveal how the effectiveness of a correct planning activity can be achieved only through a management unit that is equipped with human and personal skills suitable for motivating and inspiring the members of the organization who will thus be urged to create innovation, to encourage change and, in general, to provide their maximum contribution to the company's functioning (Della Torre et al., 2019).

It is so outlined the distinction between the characteristics of management and the fundamental concept of leadership which, as will see later, will be one of the most relevant aspects in the development of the discipline of the company organization.

2.2 Organizational Theories: Genesis

As mentioned in the previous chapter, the ambiguity and distinction of the concept of organization must refer to the variety of systemic and intra-systemic phenomena that involve people, groups, processes, and structures that make up an organization. Different levels of social complexity correspond to different levels of organizational analysis. For this reason, the economics and business organizational studies with the contribution provided to the analysis by disciplines such as psychology and sociology have become more important. In any case, it has been observed that every theory of business organization is based in its various forms, on the basic principles of the labor division and their related need for unit *reintegration* according to a principle of cooperation and coordination. The organizational theories' open question is to identify the organizational intervention variables on which it is necessary and useful to act in order to modify the organization and improve its performance levels.

The passage by Adam Smith (1776), father of the political economy, dedicated to the so-called case of the pin manufacturing highlights the undeniable advantages of the manufacturing specialization, at the dawn of the first Industrial Revolution. Adam Smith has the great merit of being able to understand how systematically and rationally organized work was able to make production more efficient since the division of work tasks among the various individuals proved effective in ensuring a greater level of production efficiency. These reflections, combined with the empirical observations of those years showed how, from an economic point of view, the organization was born as an effect of the labor division a mechanism through which it is possible to create specialized activities, which prove to be more productive than generic and unsorted activities.

The science of business organization, therefore, was born and developed to satisfy a real and socially perceptible need and not as a simple elaboration of a

doctrinal collection of ideas. As described above, in fact, the Industrial Revolution and the success of the factory system, unknown before, which replaced the traditional craft and family businesses, brought about the need for a real organization of the operational disorder that those changes created (Arcese et al., 2020; Elmo et al., 2020; Gnan et al., 2015; Mussolino et al., 2019; Seaman & McQuaid, 2021).

In the second half of the Eighteenth century, therefore, the principles of the labor division and specialization began to be used more and more extensively, until they almost completely replaced the artisan forms, which used to prevail up to that moment. The developments of capitalism and business, especially from the dimensional point of view, have given life, so to speak, to a second Industrial Revolution, with the beginning of the so-called mass economy. Even in this case, from the production point of view, the impact was very important and it is precisely in that period that the theories proposed by Taylor and applied by Henry Ford found their maximum success. The science of business organization was particularly successful in that period since the idea of putting in order a very *disorderly* business context was perfectly combined with the basic idea of developing capitalism, that is to streamline the productive forces in order to maximize productivity and, consequently, profits.

The theories which are traditionally defined as a *classical school*, are rooted on the belief that the scientific method can be applied to every natural and human phenomenon, including organizations that, therefore, like any other phenomenon, can be studied, analyzed, and governed by applying the principles of disciplines such as economics, engineering, and mathematics.

The organization, therefore, begins to be considered as a *rational* entity that, in fact, can and must be structured applying objective and scientific methods and principles. As already mentioned in the first chapter, this concept considers the company as a closed system, detached from the external context and not easily influenced. The key to maximizing productivity is therefore identified in the structure itself: if the structure is organized according to the principles of efficiency and effectiveness, the results can only be the best.

The belief of the theorists of the classical school is therefore that the organization is a tool that can be shaped at will by the organizational and decision-making top management, who act according to a principle of rationality based on the efficiency criterion, that is, the minimum effort with the maximum result, neglecting any other social, cultural, and psychological aspects. These factors are in fact considered possible elements of interference with the ultimate goal of maximizing the result. In particular, it is assumed that there is a high degree of interchangeability between the subjects and a maximum level of their adaptability to the conditions defined by the organizational and technological choices, taken for granted as objective and not modifiable data. Consistently with this orientation, the corporate and organizational strategies are structured in order to minimize the impact of the individual specificity of the various subjects, contributing to a progressive increase of the level, of impersonality tasks and of the organization itself. The intent is to limit the discretion of the individual as much as possible, setting the organization and decision-making process on parameters that can be controlled and, above all, quantifiable a priori.

The rationality underlying the classical school approach, therefore, underlies the aspiration, on the one hand, to reduce discretion and therefore to the progressive behavior standardization and, on the other, to the almost obsessive conviction to be able to make everything controllable and quantifiable. Thus, in the description of the organization, the metaphor of the *machine* and of the gears is often used.

This first phase of the study of corporate organization is therefore characterized by constant use of science and scientific disciplines, the application of which leads the various classical theories to look for the best solutions that have a *universal* nature and, therefore to be easily replicable. In the rational organization conceived by classical theorists, consequently to what has been described so far, an absolute priority of the formal aspects is achieved, with the creation of a strong rigid and formalized structure that is expressed mostly in the pyramidal form, based on the concepts of hierarchy and authority.

As you will see, the organizational forms that have characterized the scientific method of work organization are still the object of frequent criticism and can be considered, in some way outdated. Nevertheless, these types of organizational structures undoubtedly formed the basis of the social and economic progress that has characterized the Twentieth century.

2.3 Taylorism and the *One Best Way* Concept

As already stated several times, the classical school adopts a rational and scientific approach to the problem of business organization. Absolutely central, within the various rationalist perspectives, is the theory proposed by Taylor: the so-called *Scientific Management* (Taylor, 1911).

Three main assumptions can be identified on the basis of Taylor's theory. First of all, the application of the scientific method to the analysis and observation of work processes, supported by the two fundamental concepts of labor division and hierarchy, implemented through the separation between management and operational tasks. Taylor's goal, as well as one of classical school theorists, is to identify *rules* that underlain the functioning of organizations and, consequently, able to provide management with concrete indications about the methods of organizational intervention.

In *The Principles of Scientific Management* (1911), Taylor highlights how the organizational inefficiency was one of the primary causes of relevant economic losses and how the remedy for this inefficiency had necessarily to be sought managing the organization according to scientific and rational principles. The author, therefore, highlights the existence of a real *science of organization*, of which it is possible to trace operating rules that can be applied and replicated in every organizational structure. The basis of the system outlined by Taylor is, as already mentioned, the division of labor through the assignment of pre-established and predefined duties and tasks, which ultimately allows the organization of work on a scientific basis. The author, in short, underlines the need for a shift from an empirical

organization, typical of the cottage industry, to a scientific organization, the only one really suitable for the new production methods *which appeared* with Industrial Revolution. The new system suggested by Taylor proposes to adopt the scientific method in order to collect, classify, and organize knowledge in such a way that it can be reduced to rules, formulas, and prescriptions (Braverman, 1974).

The result aimed at by Taylor's proposed approach is that subjects carry out the work according to predetermined scientific laws, minimizing discretion and individuality in order to find predefined and predetermined solutions. In the Taylorist model, therefore, the concepts of standardization and uniformity become fundamental since, according to his vision, they can be mainly guaranteed only through the arrangement of a rigidly hierarchical and formalized structure, with many and additional levels of control and decision, which cannot be arbitrarily eliminated.

Standardization, specialization, and simplification, therefore, become the key concepts of the Taylorist model, which aims at the so-called *absolute standardization*, in such a way as to make the various *parts* of the organization maximally fungible and interchangeable, in which the workforce is also obviously included. This is the *extreme* result of applying the principle of the labor division, according to which, in the Taylorist view, every activity should be divided into many tasks suitable for being performed by any individual who is entrusted with them within the organization (Bonazzi, 1984).

These beliefs are the basis of the so-called task management, which is the result of Taylor's elaboration, based on the idea that the organization basically needs to assign a clearly defined task to each subject within the structure; the definition and assignment of this task are considered as privileges of the management, and the operative subject has no possibility of intervening or participating. They, therefore, try to create standards that identify the best way to accomplish that specific task.

According to the Tayloristic model it is necessary to guarantee a division of the work carried out according to a specific spheres of competence. This division creates a set of *subsystems* that are brought back to unity exploiting the concept of hierarchy, which becomes the privileged instrument to control the relations between management and subordinates. The application of the hierarchy concept implies the need for the unity of command and management to be guaranteed, so that there is a single leader and a single program to follow in order to achieve a single and common goal. Consequently, in an enterprise organized according to the scientific method, decision-making and strategic choices are centralized and entrusted to the highest hierarchical levels, with a general tendency to subordinate the particular interests of individuals to the interest of the company as a whole. In order to ensure that the company, so organized, can guarantee its own survival, it is considered fundamental, in Taylor's thinking, to assure employees of a fair and satisfactory remuneration that, in turn, can ensure the human resources and the workforce stability. As we have already mentioned and as we will thoroughly examine, this is one of the greatest limitations of Taylorism and, in general, of the classical school, which will reveal its inadequacy despite a renewed attention to the so-called human capital of the company.

The scientific organization of work outlined by Taylor, therefore, focuses essentially on the structure of the firm, identifying as variables of organizational intervention, first of all, the labor division criteria and the methods to define the number of hierarchical levels and the extent of the control they are entrusted to. These variables are also accompanied by the methods to define roles, duties, and tasks and their degree of formalization and structuring. In order to ensure maximum efficiency for the organization, it is considered appropriate to *translate* the structural choices by means of documentary descriptions, such as the organizational charts, the modification of which can only be made by the adoption of formal documents.

The Scientific Management proposed by Taylor (1911) considers this theory as a real *revolution*, which acts by intervening above all on the labor division, pushed to particularly accentuated levels as it is based on an analytical and empirical study of methods and working times. The scientific organization of work is therefore presented as a theoretical construction based on the absolute primacy of the company organization, which is ensured only with the maximum enhancement of each of its social components.

The objective is to precisely identify the so-called *one best way*, referring to the best possible way to perform a task, in terms of both efficiency in the use of time and cost-effectiveness. This concept is credible thanks to the application of the scientific method and on the assumption that, by applying this method, the best single solution can be identified for each problem, through the application of science and its *formulas*.

According to the concept of *one best way* proposed by Taylor, therefore, there is a single method of managing personnel and organizing work, able to maximize common prosperity. Consequently, the work organization and the management of the company establishment must be subjected to scientific observation and discipline, since it is the fundamental aspect of organizational management to be rationalized in order to maximize profits.

From the statement of the principles of the so-called *task management* the concept of worker specialization begins to develop, which requires the scientific method to be also applied in the selection phase and in the workers training, in order to guarantee, in short, the inclusion of the most suitable workers to perform the identified duties. The implication of this concept lies in the fact that, once the assigned task has been identified, the employee becomes a real tool of work and organization, losing, in some way, its own peculiarities and becoming a real *cog* of a more general and complex system.

One Best Way Approach

According to Taylor's view, the concept of *one best way* implies that the scientific method has to be applied in the workers' selection and, also, in the planning of the individual-specific functions, with minimization of discretion and autonomy. In particular, the various tasks require to be planned in addition to the production

operations, through the definition of precise rules and imposing the use of pre-identified tools and work materials. The division of tasks must in any case be carried out in order to guarantee their fair distribution, with a view on greater responsibility for achieving the set objectives.

In order to ensure harmony within the organization, the management must try to deal with the employees in a mood of *friendly* collaboration, in order to enhance their *commitment*. Applying the concept of *one best way* to *homo oeconomicus* as conceived by the classical school, Taylor believes that, once the best method to carry out a task has been identified on a scientific basis, the subject will spontaneously adopt this method, inspiring his own actions to the same principle of minimizing efforts with maximizing results.

According to the perspective proposed by Taylor, therefore, the need for a real staff planning office is beginning to be outlined, dedicated to the workers' selection, training, and development always based on scientific methods. The division of labor and the concept of *one best way*, moreover, imply that the worker who performs his job in the best way, has to be recognized reward incentives, which are made concrete by pay rise. The idea of factory that emerges from Taylor's vision is, therefore, a highly formalized and bureaucratic enterprise, where everything converges on the system and on the structure, with a parallel and progressive marginalization of the man and the individual. The company's functioning, assessed with a scientific method, therefore, is not related to the results obtained by this on the market, but it is essentially based on the ways in which it is structured. The concept of the organization as a closed system implies that the *solutions* proposed by Taylor and, in general, by the classical school are all chiefly and overall built on the structural factor, internal to the company and considered adaptable according to the needs encountered.

The enterprise conceived by Taylor is, therefore, ultimately, a scientifically structured organization, through the subdivision of its effectiveness into functions, which are identified and defined on the basis of economic calculations and scientific management principles, which ensure its intrinsic rationality and consequent prosperity.

The word *rationalism* generally refers to the success and application of rationality to one or more areas of life and experience. We, therefore, refer to rationality no longer perceived as mere *reason*, but as a real *rationality of action*. An action can therefore be defined as rational on the basis of characteristics such as repeatability, control, regularity, and governability. Especially, an action can be said to be supported by rationality if it is able to show its conformity to the purpose, on the basis of subjective criteria including, for example, the aspect of calculable efficiency.

So conceived, the concept of rationality is therefore restricted to the best relationship existing among specific aims, the available tools and means and, finally, the predictable consequences of the action. In order to evaluate the rationality of an action, it will therefore be necessary to evaluate all these aspects, classifying the aims in relation to the means available and the degree of the result desirability in relation to the possible negative consequences.

The rationality referred to is mainly the so-called economic rationality, that is, the rearrangement of the organizational and productive processes in view of the increasing efficiency objective in relation to the means used and the increased performance requirements. What underlies the so-called economic rationality is the principle of maximizing the output, that is, the product, in relation to the means of production, the use of which should be inspired by the criteria of minimization and elimination of waste.

The direct consequence of the so-called economic rationalism is the concept of the individual as *homo oeconomicus*, as a subject who acts in order to maximize the results against minimizing his own efforts and sacrifices. Economic rationalism, based on this assumption, ultimately is the conception, experimentation, and application of rationality and science to organization, in such a way to increase profitability by the best planning of every form of individual work.

Historically, it can be said that the theory and practices linked to the concept of economic rationalism have succeeded with the progressive expansion of the Taylorist system and the scientific method of work organization, which assume, in fact, purely rational arrangements of the productive human resources. As already mentioned, the basic idea of these concepts is that scientifically and experimentally founded and structured organizational principles must be adopted within the company, to be applied both to complex frameworks and to individual work processes. All these mechanisms, being scientific and based on rationality, will respond to the common principle of maximizing profits with minimizing costs.

2.4 Weber and the Bureaucratic Model

Bureaucracy, considered as a typical form of the organization of the state, is thoroughly studied by Max Weber (1922) who analyses its characteristics in relation to the administrative apparatus of an institution. The elaboration of the concept of bureaucracy arises, in particular, from the need to identify an organizational solution able to give rationality to particularly complex systems such as large companies and public administrations.

Weber understands how the already established capitalist economy led to development of wealth and resources no longer adequately manageable by means of the pre-existing traditional organizational forms and no longer governable through traditional forms of power, which were discretionary and strongly linked to the person who exercised them. The enterprise and, in general, the industrial and capitalist society need to set up an impersonal and rule-based administration, which ensures the best governance of the many productive forces that may no longer be ensured through forms of power based on tradition or personal charisma. In short, it is necessary to create a system of a legal and rational authority, characterized by neutrality and by a very careful planning, the only system able to guarantee an efficient and effective management of resources and at the same time the orderly implementation of management power.

In the vision proposed by Weber (1922), therefore, bureaucracy appears as the best possible organizational structure for organizations built on the principle of rationality, since it is precisely bureaucratization that leads to the transformation of a simple community action into a rationally organized social action.

The bureaucratic organization is built on the key concepts of trusting the rules and at the same time recognizing the power of predetermined subjects to issue such rules, the same that determine the functioning of any complex system. In order to guarantee these principles, it is necessary that the bureaucratic organization should be based on a vertical structure of power, and therefore, ultimately, on the concept of hierarchy. In this type of organization, the hierarchical relationship is based on the recognition of an authority based on the rules that acknowledge it. The hierarchical relationship takes place in fact between the two poles of power and obedience and, in a bureaucratic structure, the obedience of subordinates is not due to superiors as such, but to the rules that establish the hierarchical levels and, therefore, the authority. In short, to wield power within a bureaucratic organization is legitimate to the extent that there are rules and norms that establish it and regulate its exercise.

The bureaucratic organization is characterized, first of all, by the continuous acting of office functions, analytically regulated, and strictly bound to pre-established rules. These office functions are divided according to specific spheres of competence.

The bureaucratic organization is based on a rigid application of the concept of hierarchy, from which consequently derives a wide range of supervisory powers assigned to hierarchically higher levels. The administrative apparatus of the bureaucratic organization is separate from the operating sector and the distribution of the different offices takes place only with reference to the needs of the organization, without being allowed any external interference. This structural rigidity explains, from a programmatic point of view, how the need for rules, structures, and behavior are put down in writing and they can be modified only through defined procedures, which are also rigidly based on the concept of hierarchy and authority.

The main feature of a bureaucratic organization and its founding element is the constant and widespread existence of norms and rules, concerning the whole functioning of every part of the organization and its internal relations. The functioning through these widespread rules not only is made possible by the authority, but also and above all by the fact that the division of labor is carried out according to competence criteria and this is the reason why each unit has precise tasks and, at the same time, predetermined powers and means to carry out the assigned functions.

As already pointed out several times, the internal dynamics of the bureaucratic organization are arranged according to a rigid implementation of the hierarchy concept, which divides the structure between operational units and managerial and administrative units that are responsible for the performance of the former. Furthermore, each activity, as mentioned, is divided on the basis of competence spheres, which imply a specialized preparation that allows the training and development of the structure staff unit, both made up of the leaders and their subordinates. Each activity is then rigidly structured on predefined and standardized procedures, characterized by a high level of impersonality and its primary aim is to guarantee, both to

the worker and to the user, the expectation of receiving a product or service with specific characteristics (Du Gay, 2000; Locke, 1996; Merton, 1940; Sennett, 2006).

Another important feature of the bureaucratic organization is that the ownership of the means and resources used is clearly distinct from its users and this corresponds to the clear division between management bodies and owners and the operational level of the structure.

Ultimately, according to the vision proposed by Max Weber, the form of bureaucratic organization proves its own technical superiority, especially due to the dynamism of its functioning, its cohesion and continuity peculiarities and its capacity to reduce and limit conflicts due, above all, to the high level of formalization and predetermination of the applicable procedures. This technical superiority recognized to the bureaucratic organization is based, moreover, on the thought proposed by Weber concerning the uniqueness of the tasks required, the prediction with which its functioning and operational boundaries are outlined internally and externally, as well as on the clearness of its structure and of the actions arising from it, in an overall perspective of certainty, effectiveness, and efficiency.

This concise presentation of the fundamental aspects of the bureaucratic organization proposed by Weber underlines some similarity with the basic concepts proposed by Taylorism, such as, for example, fidelity to one's own functions, the submission of every behavior and task to predetermined rules and, the concept of hierarchical subordination.

The vision of organization proposed by Weber, therefore, in some way implies the presence within it of individuals with a Fordist attitude, very sensitive to authority, restricted and inclined to self-control and, at the same time, little inclined to the initiative and, therefore not very suitable for facing unpredictable and unplanned situations.

The approach adopted by Weber to sociological and organizational problems can be defined as *historicistic*, since this author links the new organizational forms to the changes produced by the technical progress, to which it is closely related. Bureaucratic organization is thus conceived as a form of defeat of traditional administrative forms, closely connected to the gradual success of capitalism and the related centralization of ownership and expansion of wage labor.

As in Taylorism, also in the theory proposed by Weber (1922) the concept of rationality is essential, it is considered as an efficient employment of the means to achieve the predetermined economic action aims. The fundamental feature of the bureaucratic apparatus theorized by Weber, conceived as a tool in order to achieve a specific objective, can be found in the type of power that forms the organization and which, consequently, determines its internal structure. As for the concept of *power*, Weber identifies three types: *traditional power*, *legal power*, and *charismatic power*, which are distinguished on the basis of the social assumptions that justify their exercise.

The model of bureaucratic organization described by Weber, as already mentioned, has important similarities with the model proposed by Taylor. The individual who is part of the bureaucratic organization is in fact very similar to the worker/*homo oeconomicus* which is the basis of Taylorist model, also responding to the

characteristics of predictability, standardization and regularity, verification, and quantification of behavior. It can therefore be stated that the theories proposed by Taylor and Weber, besides being contemporary, since both developed at the turn of the Nineteenth and Twentieth centuries, show an important and relevant connection with the issues dealt with, as there is a strong link between Weber's thought about the *bureaucratization* of organizations and Taylor's thought about the urgent need to adopt a scientific organization of work within the company.

2.5 Fayol and Barnard: Theories and Implications

The reference context, in the age of the classical school and of Taylor's works, is that of a professional, social, and productive system already experienced in its rational and bureaucratic evolution. There is, to all intents and purposes, a new economic entity, established by the company system.

Henry Fayol, French industrial manager, tried to identify some general principles that modern management should conform to ensure the development of the entrepreneurial activity considered as a whole. Therefore, Fayol too adopts a prescriptive approach, trying to dictate real rules and guidelines.

Fayol (1916) concentrates his analysis upon the industrial enterprise considered as a whole and its general complexity, expanding the analysis beyond the traditional basic concepts of production efficiency and effectiveness. The model proposed by this author is characterized by being conceived as a *tailor-made* method that can be applied in relation to variable and different circumstances, since these principles are considered standard levels to be respected and taken into account in order to prevent disorganization and, therefore, corporate chaos.

Furthermore, with Fayol's works, the weak point of corporate systems organized with a strictly scientific or Tayloristic method begins to come out very clearly. The author, in fact, underlines how this type of systems lead to *dehumanization*, with a progressive and considerable alienation from the fundamental human component of the company. What Fayol points out, and which will form the basis of the school of Human Relations, is that the only rational and scientific organizational model fails to be a sufficiently motivating factor to maximize the prosperity of the company.

It is from these reflections that Fayol is able to understand the importance and centrality of the methods concerning the management and exercise of managerial skills that must support and assist the entrepreneurial activity. In the concept proposed by Fayol, in fact, managerial capacity is considered the most important function among the different functions entrusted to the business management and it becomes more and more important as the company's size enlarges.

Starting from these premises, Fayol's works and thought mark the birth of the so-called *general management* doctrine, which will be really important for the further development concerning the discipline of company organization, since it originates a line of study dedicated to the general principles of business administration and management.

With Fayol, in fact, the manager begins to be conceived as a subject, constantly present within the company, who, thanks to his skills and decisions, must be able to bring back again into unities, the system broken down by labor division. In fact, as argued by Taylor, Fayol considers as the key concepts of business organization labor division based on specialization; the value of discipline and authority; the structuring of internal relations based on the principle of hierarchy; the subordination of the individual interests of the organization members to the general interests of the same.

As anticipated, the first difference in the way of thinking of these two authors lies in the fact that Fayol conceives these concepts not as *one best way*, indiscriminately applicable and repeatable, but rather as a set of different and variable guidelines open to a tailor-made application in relation to the company real functioning.

The fundamental idea of Fayol's thought and of the line of studies he introduced consider specialization and labor division the causes of the birth of scientific management, which in turn is achieved through the coordination of groups of work and of the single company functions identified after the division of labor procedure. The author thus tries to transfer the concept of functional adjustment, coordination, and division to directive and managerial activity, identifying some fundamental aspects of these activities, which are essential for the success of the company (Champy, 1995; Kranz & Gilmore, 1990).

The areas of management activity considered essential at all levels of the company are identified, first of all, with the activity of forecasting and planning, which implies the drafting of a strategic plan. Another fundamental activity is the organization that, generally, includes all the activities necessary for the functioning of each unit and sub-unit (Urwick, 1955).

Last but not least, the command, control, and coordination activities which are the real core of the managerial activity since they are all aimed at maintaining the same organization and ultimately at ensuring its real and efficient functioning. For this reason, the idea to put together with the main management structure some support bodies in a position of staff, was born with Fayol.

The investigation plan outlined by Fayol's thought is further enriched thanks to the contributions of Barnard's works. With the work of this author, as well as the research carried out by Mayo (1945) and Roethlisberger (1948) a *non-Tayloristic* vision of the company begins to develop and to recognize the central position of the concept of cooperation.

The idea of the company proposed by these authors and, in general, by the neoclassical school, considers it as a system governed by cooperation, structured through the decentralization of decisions and the self-government and autonomy of the various sub-units the organization is divided into. The change in the concept of the firm, more and more distant from the rigid, scientific and rational model proposed by the classical school, involves a parallel change in the concept of the functions entrusted to management and in the leadership characteristics (Brown, 2008).

Barnard (1938) too, from this point of view as Fayol, adopts a prescriptive approach, which identifies useful rules to support the activity of the subjects responsible for ensuring the *harmony* of the system, providing them with the tools to intervene in conflict situations for integration purposes.

The author does not focus his analysis on the individual activities and single functions, so far considered the essence of the organization, but rather on the variety of the interactions that take place between them and therefore connect them. The field on which the manager can and must intervene is therefore identified with this network of relations that, ultimately, is the backbone of the organization. These interactions, according to Barnard's vision and likewise what the authors of the classical school stated, can be deliberately and consciously organized and coordinated, thus making the formal structure suitable for it predetermined aims and objectives.

In the vision proposed by this author, the analysis is focused on the importance of managerial functions that respond to the need for continuity and consistency expressed by the business system. In fact only in a coherent system able to ensure its continuity and maintenance it is possible to speak of strategic and managerial choices and, in general, of organization.

Drawing inspiration from the school of Human Relations and, in general, from studies dedicated to the human factor of the company, Barnard understands how, together with the formal organization, as conceived above, a range of informal interactions are developed but they are not often oriented toward the common corporate objectives and, indeed, in some cases, they are an obstacle. Alongside the conscious integration mechanisms, which form the formal structure and which can be deliberately, and rationally, organized, it is therefore necessary to keep in mind and also to govern the informal mechanisms, in order to ensure the general equilibrium of the system (Canonico et al., 2017; Miles, 1965).

The centrality and fundamental importance of this activity imply that these functions should be entrusted to the management level since they are its most real essence. The managerial activities, in the vision proposed by Barnard, are in fact the *nervous system* of the organization, necessary to keep it functioning. In addition to this, as already mentioned, Barnard adopts a business concept inspired by the principle of cooperation and only with an efficient and correctly operating managerial level it is possible to ensure a suitable level of cooperation and collaboration among the various components of the system.

The functions that Barnard identifies as the management prerogative are, above all, functions with an impersonal content, such as the formulation of corporate objectives, the recruitment and selection of personnel or the maintenance of an efficient internal communication system. The managerial functions obviously are not limited to these aspects and in relation to their more or less impersonal content, the differentiation between the concept of management and that of leadership begins to emerge with Barnard.

Leadership, according to the vision proposed by this author, in fact, involves all the real personal components of the management activity, which require the manifestation of a series of skills typical of a true leader. Above all, leadership can be identified with that specific skill to attract all forces and direct them toward a common goal, in relation to which one is able to create ambition in all components of the organization. This characteristic is not so much linked to the managerial function as such, but rather to the personality of the individual.

Barnard's work underlines the absolute centrality of the leadership capacity of the company management level, since the cohesion, stability, and balance of the system as a whole are necessary, but not sufficient conditions to ensure the survival and maintenance of an organization over time. In fact, these must be accompanied by a high quality leadership, which is able to bring about a desire to adhere to the organization purposes and, consequently, to encourage the subjects that are part of it.

The theorizing of the criticality and the importance of the leadership function within the organizational system is attributed, therefore, to this author.

2.6 Participation, Coordination, and Leadership

The new idea of organization as an open system and as a formal system of relations helps to focus the analysis on the conditions of its equilibrium, which can be ensured through the coordination and harmonization of the various sub-units that make it up. This equilibrium is not an intrinsic condition of the organization, but it is a characteristic that needs to be maintained and harmonized, through the integrating function typical of the company management level.

This function of integrating the various components of the system ensures that they have a mutual relationship consistent with the general objectives of the system, preventing the development of imbalances potentially able to compromise the correct functioning of the organization.

As we will see, Barnard outlines this function of integration as a real function of the firm's management team, which includes a personal component, leadership, and an impersonal component. While the impersonal functions are mostly aimed at the formal structuring of the company and the guarantee of its smooth functioning, leadership is aimed at the more human component of the company, being the motivating and encouraging factor able to make a difference in its success.

Leadership, therefore, appears as a capacity for aggregation of the various forces within the system, which are encouraged in view of a general and common goal. For this reason, especially in the contemporary world, leadership and its characteristics are one of the most relevant objects of study in the discipline of business organization, since they are considered essential to determine the company's success or failure.

Generally speaking, leadership is therefore a fundamental component to ensure the solidity and coherence of the system and this is becoming more and more important if we take into account the changed theoretical paradigm that considers the organization as an open system based on the principle of cooperation.

Leadership skills can develop according to some main directives, which identify as many approaches to the subject. While some theories focus on the primacy recognized to the personal factor and therefore to the personal characteristics that a leader should have, others adopt an approach that focuses on environmental factors and situational variables. The results of implementing these approaches have led to

the development of theories that in some way combine the influence of environmental factors with the leader's personal characteristics (Kotter, 1988; Moore, 1996).

At first, attention is focused on the leader's person, conceived as an individual with skills and abilities above the average, able to exercise authority, control, and respect over his subordinates. This vision shows its limits since it does not take into adequate consideration the effects of the context and of the surrounding environment on the leader's real behavior. Attention thus begins to shift first to the behavior (distinguishing, for example, between an authoritarian and coercive style of leadership and a democratic and participatory style) and then to the contextual environmental factors. The need to broaden the analysis beyond the characteristics of the personality emerges, in some way, from the same need that leads to move from a conception of the company as a closed system to one that, instead, considers it as an open system.

Even in this case, in fact, we can grasp the importance of the influence exerted, in various ways and in different forms, by environmental factors within the functioning of the organization which is no longer something isolated and out of context, but a system that is in continuous relationship with the environment in which it operates, influencing it and being influenced at the same time.

By adopting this situational approach, it comes out that leadership develops with certain features depending on the conditions in which the organization is and on the values and behavior of its members. Its effectiveness is linked to its ability to favor the enhancement of those elements that make the company successful, such as an efficient finding of resources or the achievement of common objectives. Within each organization, these elements emerge in a different way and consequently it is necessary to diversify the leadership styles in relation to the different contexts in which it has to be performed. In short, the effectiveness of different leadership styles varies according to the varying situations and context.

Typical of the situational approach is the concentration of the leadership relation on the figure of the *follower*. Therefore, it becomes fundamental to state that the leader is considered as such since he is acknowledged as a leader by the members of the organization. Once the leadership capacity is recognized, the subjects will be naturally motivated and encouraged to seek his approval and therefore, to improve their performance.

Another feature of the situational approach is that different management styles are outlined according to the organizational challenges the company has to face.

An example is provided by the Transformational Leadership Theory (Bass, 1985; Burns, 1978; Downton, 1973; House et al., 1991), which mainly deals with the capabilities of leadership units in implementing the change. When structural change or renewal of production methods are required, it is in fact necessary that the management functions not only take into account the mere organizational adaptation, but also, and above all, the involvement of the subjects in the change, in order to obtain a high level of sharing intentions and objectives. In addition, during transition, a leader must also prove to be capable of maintaining the employees' confidence, clearly explaining what the consequences of the change are and, above all, what the related benefits will be for the members of the organization. Only through a

transformational leadership style it will be possible to lead a company into the complex contemporary world, characterized by daily challenges and, above all, by an urgent need to adapt to the rapid and relentless technological development.

As stated above, it is possible to follow a sort of evolutionary line in leadership theories.

Starting from a restricted approach, based only on the leader's personal characteristics, considered as an individual with superior skills, the focus shifts toward a more careful vision of the relationship between the leader and the members of the group, by recognizing the increasing importance of all those environmental and external factors that are able to influence the skills and characteristics of the leadership exercise. As we have seen, the progressive evolution of the concept of leadership follows the evolution of the concept of organization, with a growing centrality of the concept of cooperation and integration.

We are therefore witnessing the transition from a vision of leadership based on the concept of hierarchy and authority, suitable for the rational and scientific conception of business proposed by the classical school, to forms of leadership that aim at favoring participatory and integrated methods in a perspective of a progressive business integration.

With the situational theories which, in short, advise the leader and the manager to adapt to the different and varied environmental situations, the leader's importance as a single person almost disappears in favor of situational factors consideration. This inconsistency originates the development of theories that tend to combine the personal approach with the situational one, trying to compensate for the extremes their unoriginal application could have led.

The main goal of this evolutionary line can be considered the Transformational Leadership Theory that considers the environmental situation relevant, but, at the same time, states that it can be influenced and even changed by the leader. So, the relationship among leader, group, and surrounding context becomes *two-way*, in a perspective of mutual interaction, influence, and evolution. In the contemporary world, the acquisition of this type of leadership is more and more necessary, since it is a continuously and constantly changing world.

2.7 The Institutional Theory

The institutional theory develops on the basic belief that it is the organization that shapes the behavior of individuals and, consequently, the reference social environment, from a different point of view than those who considered the organization as a *product* of the individuals that compose it (Scott, 2007; Wilmott, 2011). According to the institutional theory, therefore, the members of the organization are considered as unaware actors who act within a system that, in some way, preexists them.

This theory is based on the concept of *institutionalization*, which generally indicates the process by which actions are repeated and, thanks to this repetition, they are recognized as having a particular value and meaning not only by the

individual but by the whole group. The belief that there are different types of pressures that push toward institutionalization derives from this concept.

When tension toward compliance derives from norms and laws, the pressure toward institutionalization can be said coercive, while if this tension derives from cultural expectations and conceptions, it can be referred to as institutional regulatory pressure. Finally, the *desire* for institutionalization may also derive from the attempt to imitate other organizations, defining this institutional pressure mimetic (Andriopoulos & Lewis, 2009).

The most important contribution provided by the so-called institutional theory is to have expanded the list of resources an organization needs, without limiting them to capital, raw materials, resources, and workforce, but adding the need to ensure a specific level of acceptance in the society and in the environment in which the organization works.

According to this theory, institutions become the fulcrum of the analysis since it supports the belief that the judgment criteria and the strategies of an organization are influenced very much by the pressure to compliance that characterizes the institutional reference context. Furthermore, this context also exerts material limits on the organization members' behavior and, consequently, on its functioning. Therefore only by respecting the rational parameters outlined by the institutional context, the organization can be considered efficient, increasing, at the same time, its legitimacy, its capacity of retention and also its ability to find resources.

The approach adopted by the institutional theory, in some way, overcomes the boundaries of the relationship members-organization, recognizing to the institutional context the ability to condition and influence behavior and, through it, the organization itself.

The institutional theory aims at broadening the vision in contrast with the rationalist theories proposed by the classical school, which conceive the individual as a subject acting only in order to maximize his own utilities. This expansion leads to focus attention on how institutions and, in general, the social and cultural environment affect and influence the organizational system (Meyer & Rowan, 1977).

As mentioned above, institutional pressure can take place in various ways, pushing organizations to compliance. In the case of coercive pressures, the organization is subjected to rules and regulations that create a real obligation of adaptation. On the other hand, if the pressures are normative, cultural, or *mimetic*, the push for adaptation is created spontaneously by the organization and it depends, in the first case, on the awareness of the reference model superiority and, in the second, on the desire to imitate other models in order to cope with new situations of uncertainty already tested.

These pressures, beyond their type, create the need to be handled and, to do so, the supporters of the institutional theory recommend the creation and development of two parallel structures within the organization. The formal structure, which has as its objective adaptation and consistency in contrast with the institutional context and the pressures exerted by it, must be accompanied by a so-called informal structure,

which must respond to the pressures exerted by the achievement of internal efficiency objectives and maximum productivity (Mckinley et al., 1995).

Therefore also the Institutional theory emphasizes the interactions existing between the organization and the task and general environment. The assumption of this theory is therefore conceiving the organization as an open system, which is modeled and structured thanks to and because of the changes of the reference context, by which it is influenced, but at the same time it is able to influence. The perspective of change and innovation thus becomes central in the theories of organization and, as we have seen, the driving force can only be identified in management and, especially in its leadership skills (Zuboff, 1982, 1988).

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Chapter 3

Contingency and Choice in Organization Theory



3.1 Organization and External Environment

The organization can be considered as a system to be built to provide responses in relation to all internal and external factors by which it is influenced. The continual speed of technological change as well as a progressive change of society, environment, and market require today that the managerial structures provide a constant learning in order to guide them to face so many factors and to give them adequate *output*. The environmental factors capable of influencing an organization can be divided into internal and external ones.

Internal environmental factors include the elements that, traditionally, form an organization: members, purposes, tools, and structure. These factors are different from the external ones because they are, above all, unlike the external environment, generally controlled directly by the company. For example, by a particular outline of organizational culture, a leadership style and a corporate *mission* (internal factors) it could be possible to model several types of organizational systems: it will be therefore the internal environment to influence organizational activities, decision-making strategies and, ultimately, the behavior of the organization and of its members.

External environmental factors, instead, include all those situations external to the organization that, nevertheless, are able to influence its functioning. These factors, in fact, although taking place outside the company, can have a considerable influence on the organization's development, on its functioning as well as on the system *sustainability* in the long-term perspective. These factors are especially identified with the economic context, with technology and its developments, with political and social context, with the market power and with competition (Borgonovi et al., 2018).

Every organization inevitably comes to terms with such pressures and in order to ensure its survival, it must be able to understand them and to provide adequate and immediate responses. In case such external factors should be ignored or not

adequately taken into account, this would have negative consequences on the organization. The key to ensuring the system development, evolution, and survival is identified with the adoption of a *proactive* attitude that encourages changes and decisions aimed at preventing problems, preferring this type of approach to a reactive one, which in fact reacts to problems only once they have arisen (Selznick, 1964).

The external factors that a company has to take always into account are:

- *Economic context*: A floundering economy has consequently, for example, a fall of some categories of consumable goods (recreational and leisure activities, luxury goods, gifts, and real estate); the company would not be able to control the economy but it should face it trying to identify risks and to seize opportunities.
- *Technology and its development*: In recent decades we have seen a constant and continuous technological progress, as far as the company is concerned, even if it cannot control the development levels and speed, has to develop its ability to be always updated about the best technologies available, using them in the best way.
- *Political and social context*: Every change, above all the political ones, may greatly impact the organization or a particular sector of activity; even in relation to this factor, the company must be able not only to predict changes but also to organize itself in order to react to them (often unpredictable) with flexibility.
- *Customers and suppliers*: They are the most important elements within the organization as far as external activities; the suppliers' category causes a great impact on costs and its decision-making weight depends both on the scarcity of the resources requested and on the intensity of the demand and, consequently, on the possibility of the existing negotiation; customers, instead, are the category that can determine the success of the company since they are free to choose between a particular organization and its competitors.
- *Competition*: It can be considered one of the most relevant forces of the market because it has followed the company since its origin; while *young* organizations have to be structured in such a way to be able to compete with more experienced and successful companies in the sector, the latter, Instead, have to be structured in order to prevent these *new* organizations from replacing them in a specific sector of the market.

By structuring the organization and its functioning, therefore, the management could operate influencing those internal factors directly connected to management: quantity and quality of resources, motivation, and productivity of the staff, the best or different decision of the goals (Adinolfi, 2003).

As far as external factors are concerned, the management can not intervene directly: this implies that the managers need to be, first of all, fully aware of the characteristics of the factors and consequently they have to create valid and feasible alternatives in order to face possible, external and dangerous events.

3.2 Contingency Theories of Organizations

In this changed way of thinking concerning also the environmental, social, and economic context, a trend of thought defined as *Contingency Theories* is successful, these theories try to find a response to the provide *inadequacy* of the typical classical schools' research to identify universal logics applied without distinction to all types of organization, developing so a kind of ideal and unique model, always valid and effective.

Contingency theories of organizations, developed mainly between 1950 and the end of the 1960s, try to prove the inadequacy of these *universalist* visions, focusing, at the same time, their attention on the constant analysis and research activities that the organization must carry out in order to guarantee its survival and prosperity.

Contingency theories dominated scholarly studies of organizational behavior, design, performance, planning, and management strategy (Donaldson, 1996).

Unlike the concept adopted by the classical school, the theory of organizational contingencies claims that strategic and structural choices should not be carried out following universal and general approaches (*one best way* concept proposed by Taylor), but choosing on the contrary, appropriate solutions to contingent problems. The form and the organizational procedures have, therefore, to be connected to the type of competitive pressure to face in order to boost the differentiation of management styles (Burton et al., 2013; Donaldson, 2001; Volberda et al., 2012).

The focus thus shifts from the attempt to develop a unique and universal model, typical of traditional schools, to a more *relativistic* and contingent approach, based on research and activities that allow the organization to outline a defined and definable framework of the context it works for (Drazin & Van de Ven, 1985; Gresov, 1989; Klaas et al., 2006; Leavitt et al., 1999).

By contingency theories, we therefore try to identify, on the one hand, the analysis sectors and the unavoidable research areas, and on the other hand the principles and methods that should govern such activities in order to be considered carried out effectively and efficiently. This need especially arises because of the empirical observation of successful companies that, as it has very often happened, had proved how their practical functioning often neglected the rigid organizational principles required, for example, by the Tayloristic model.

As it has been told before, the increasing importance recognized to the external environmental context has had the effect to conceive the organizational system no longer as a close and rigid one, but as a natural system or as an open system that reacts to stimuli (*input*) coming from the external environment, which in turn modify the organizational structure. This *reaction* to the changes in the external context is what causes, according to this idea, the evolution of the system giving life to contingent and nonuniversal results, therefore not univocally applicable or reproducible.

If the organizational system acts within a complex environment, but predictable and controlled it will tend to develop even more the specialization of functions in order to obtain the environment control. In case the environment, in which the

organization acts, is unpredictable and constantly changing, the system *absorbs* some of this unpredictability, adopting a configuration that is not identified a priori but is shaped on the basis of pressures and stimuli received each time from the environment. The concept *one best way* proposed by Taylor is so replaced by a relativistic and, indeed, contingent idea.

The only organizational model proposed by the classic school of thought is being gradually replaced by the so-called organizational pluralism.

The general rule according to contingency theories is that the organization should develop its own level of specialization so that single parts interact with specific sectors of the environmental context, in order to guarantee the compliance with the principle concerning the rate of change of an organizational structure, which corresponds to the rate of change of the environment it works for.

Organizational planning, therefore, begins not to be built anymore to define a single and optimal organizational method, but in order to outline and identify different organizational alternatives, aimed at facing multiple circumstances and contingencies.

Contingency Theory According to Burns and Stalker

The line of thought generically defined as contingency theories traditionally includes the so-called organizational contingencies theory which in turn, contains different configurations.

Burns and Stalker (1961), especially, use the organizational contingencies theory to identify a connection between organizational configurations and environment in order to obtain models of organizational configuration that can be adapted to specific types of environment. From the Tavistock Institute of London, Burns and Stalker's theories began to develop as a result of a careful work of observation and research concerning numerous English and Scottish Companies operating in different sectors.

The results of this observation led to note how, against unstable and unpredictable environments, the reaction of the companies was to adopt more flexible organizational structures. This renewed demand for flexibility, therefore, leads the organizational structure to be in *tension* between the two models: the *mechanical* model, typical of classical rationalist theories, and the *natural* model typical of cooperative concept and the theories that developed it. As we have seen, the idea of organization as a cooperative system or as an open system involves a radical change, because first of all, the business objectives change, they are no longer efficiency and *standard product* but innovation and quick and ready response to the market demands (Wesley et al., 2006).

According to Burns and Stalker's point of view, the idea of the organization considered an *organic* system that reacts to environmental stimuli, brings along a radical change in the organizational structure because the same corporate objectives are transformed. Burns and Stalker's observation shows how the organization as a mechanical and rational system can function within an environment characterized by

stability, in which only business objectives can be identified with efficiency, standardization of products and finally, resources optimization with the ultimate aim to maximize profits.

In an environment characterized by instability as the contemporary one, where the change of the market trends and the technological development are fast and persistent, the objective of the organization turns into innovation and its connected capacity to give a fast and ready response to the market demand.

This causes inevitably a change in the organizational set-up: we pass from a working environment organized according to a traditional highly specialized and standardized model, with well-defined tasks and direct supervision, to a working environment barely formalized, polyvalent, characterized by *teamwork* and a strong emphasis on competences, where hierarchical relations are more based on the concept of prestige than on the one of authority.

The rigid and traditional hierarchical structure, pre-established and characterized by a vertical development, from top to bottom is gradually replaced by structures in which relations develop on horizontal levels and according to more informal methods and the degree of a subject's prestige is not so much linked to his/her role but to the importance of his/her skills and competences.

The human factor, as already mentioned, begins to be very important within the organizational system becoming its own real resource.

The organizational system that has to face an unstable environment should be made up of subjects who share the same commitment to achieving the goal and who have the individual and collective ability to manage uncertainty. Even from this point of view, the differences with the classical rationalist idea come out, the participants of this organization must *limit themselves* to carry out their tasks and to be loyal and obedient to their role and to superior levels, without being somehow involved, enhanced, and empowered as far as the overall functioning of the company.

The organizational model suggested by Burns and Stalker is therefore an organizational system that should be constructed in order to guarantee the flexibility and fast reaction to the surrounding environmental changes, since only interacting successfully with the environment, an organization can develop and therefore guarantee its own survival. In contrast with the classical rationalist idea, they introduce an organizational model characterized by little formalization in which relations develop on a horizontal plane, developing so the need to organize the work by means of *teamwork*. Differentiation within the organization is carried out not only as far as tasks are concerned and therefore consisting in a simple division of them, but real work units are created, which are specifically dedicated, specialized, and responsible for a specific sector of activities and, consequently, of the market.

These units, generally independent, should interact with each other by means of an effective method of communication and *feedback* in order to create an overall mechanism made up of independent and interdependent parts, which is able to respond effectively to external requests without undergoing an *upheaval*.

The observation carried out by Burns and Stalker shows in fact, although the fast and radical changes, such as those caused by technological development, are rigidly

hierarchical, in which employees are responsible only for their own specific task that they perform on their own, isolated from the others and in which communication is reduced because of the existence of unavoidable hierarchical levels, how the reaction to the external environment change can only be slow and uneven since it has to affect the whole structure and get used continuously to every new level.

The theory of organizational contingencies in the version introduced by Burns and Stalker, assimilates the organization to an organic system that interacts continuously with the environment; once verified the context instability, the organizational structure must be modelled in order to guarantee both flexibility, and therefore the ability to react to external requests without *traumatizing* the company inside, and the ability to innovate and therefore to manage uncertainty in order to transform stimuli into opportunities.

Contingency Theory According to Lawrence and Lorsch

Burns and Stalker's studies were further resumed and developed and the authors Lawrence and Lorsch (1967) are the first to speak explicitly about the *contingent* approach. Again, the development of the theories starts from the empirical observation of a given number of companies operating in previously identified sectors. This observation phase will allow the two authors to grasp the growing importance within an organization of the diversifying organizational feature.

The results obtained by Lawrence and Lorsch, in fact, showed how a structure in its operating reality was divided into several subsystems which, in turn, had different organizational configurations concerning the different characteristics of the environment reference sectors.

The individual subsystems, therefore, function in a different way, depending on the segment of activities they deal with.

The individual organizational units differ each other not only from the objectives point of view but also from the timeline structures planning and the types of interpersonal orientation.

Lawrence and Lorch observe, for example, how the unit dedicated to the production, which operates under conditions of reduced *uncertainty*, is modeled on objectives of task orientation, efficiency, and high formalization of the structure with a relatively short timeline. On the contrary, the research and development sector is characterized by long-term planning objectives, the purposes of which are innovation and quality that can be cultivated only in a little formalized structure.

The organizational differentiation so outlined presents the problem connected with the methods of integration among the different lower units which, in turn, change in relation to both the level of differentiation and the general characteristics of the environmental context and especially of its level of uncertainty.

Like Burns and Stalker (1961), Lawrence and Lorsch (1967) as well conclude that the organizational mechanism used by traditional schools, as programs, procedures, and rigid hierarchical structures can be adequate only in environments characterized

by a high degree of stability and predictability. If the organization operates in a highly unstable and unpredictable context, its structure should be organized according to the main criterion of flexibility by the set-up of cross-functional groups with preferential paths in order to manage and resolve conflicts.

It follows that the correct organizational and management set-up depends on the circumstance and the contingent environment in which the organization operates. According to Lawrence and Lorsch's perspective in order to be able to identify the best organizational structure it is necessary to outline the so-called contingent variables or structural dimensions, which influence the organizational structure of the company. Once outlined these variables, it will be necessary to take into account in strategic decision-making both the possible effects of a given choice on these variables and, at the same time, the possible changes of these dimensions with a consequent necessary reaction from the company (Bourgeois & Eisenhardt, 1988).

Lawrence and Lorsch have analyzed the impact that contingent variables have on the organizational structure, observing how it is clearly influenced in its functioning by the level of environmental uncertainty and instability it has to face.

Contingent variables that have to be taken into account are: *environment*, which involves all the external elements of the organizational structure (customers, suppliers, stakeholders in general), *technology* which consists of all techniques, tools, and methods useful to transform the different *input* into *output*, *business strategy* and finally the *dimension*, i.e., the size of the organization (Canonico & Soderlund, 2010; Chandler, 1962).

Among these contingent variables the research carried out by Jay Lorsch enable to consider predominant the development of technology and the organizational consequences connected to it, which are especially due to the need of the company to have an experienced management that pays attention to change. This need is caused by the fact that the increasing differentiation of the units coincides with the increased need of integration and its complexity.

These conclusions are also the result of an empirical observation of real business systems: Lorsch proves, through this activity, how various companies have adopted models of integration and of division of labor structured in order to be adequate to the competitive functioning context.

These observations represent the foundation of the so-called *situational perspective* developed by Lorsch (1977) who, intervening in the more general trend of the so-called contingent theories maintains an approach, according to which the corporate structure and strategy should not conform to universal and standardized approaches, but they should look for adequate solutions to contingent problems, that is, to those difficulties caused by the natural evolution of the equilibrium among business, economic context, and the functioning competitive context. In short, therefore, the organizational structure and the processes that make it up, must be modelled in an adequate way related to the pressures of the competitive boost.

In the perspective suggested by Lawrence and Lorsch, the productivity of a company operating in a certain and unstable environment is linked to the greater degree of flexibility that can be guaranteed only by a decentralized organizational

structure highly diversified but, at the same time, highly integrated and, after all, little formalized.

The organizational planning should, therefore, follow a *situational perspective* so that the suitable behavioral model depends on the characteristics of the environment where the organization operates and on its member's personality.

Ultimately, according to Lawrence and Lorsch's view the suitable structural solution model, depends on the environmental context in which the company works and on the personality and characteristics of the subjects that are part of it.

Lawrence and Lorsch understand the importance of managing the uncertainty and the complexity of the environment by the arrangement of organizational structures that are the hallmark of flexibility. Taking into account the product innovation, these authors have observed how the success of a company on a structured market depends either on the arrangement of sufficiently differentiated structures, capable of responding to the different needs of the market or, and above all, on the management ability to connect and integrate these specialized structures in an efficient and effective way, guaranteeing a rapid response to the market demand signals (Galbraith, 1973, 2014).

As it will be studied in depth later, the contingent approach developed, among the others, by Lawrence and Lorsch will be fundamental for the development of the studies concerning the business organization and organizational planning and specially the efforts the companies are, currently, making to reduce time-to-market as much as possible. In a world that continually and constantly changes, the fast innovation of the products and the constant responsiveness to the market are characteristics now essential for the organization's survival.

3.3 Resource Dependence Theory

The so-called *Resources Dependence Theory* (Pfeffer & Salancik, 1978) is based on the objective assumption that every organization is not self-sufficient and, consequently, it needs to interact with other organizations in order to obtain resources. This interaction creates an interdependent relationship among organizations, the intensity of which is connected either to the scarcity of resources or to the intensity of the request of the same resources.

This relationship of interdependence and, in general, the organization no self-sufficiency, as a consequence create uncertainty since the functioning of a company could be conditioned by the functioning of another company, which is completely external to it and structurally autonomous.

To reduce this margin of uncertainty, which is inextricably related to the relationship of interdependence, described above, the organization can operate on two levels: on the one hand, choosing its own operability environment, minimizing its dependence; on the other looking for acquiring the control of the greatest level of resources, in order to maximize the level of other firms dependence from their own.

The theory of resources dependence considers at the base of the approach to the organizational problem, the prerequisite according to which the different systems interact with each other, creating relationships. The organization, not being, by nature, self-sufficient, must try to reduce the margin of uncertainty connected to its relationship of dependence with other companies that in a free market can be lessened but never eliminated completely.

To better manage this unavoidable uncertainty, it is necessary that the company operates in order to maximize the dependence of the other organizations from its own and to do that it can only try to obtain the greatest level of resources control.

As previously mentioned, however, the level of resources availability depends on the dynamism, complexity, and wealth of the reference environment. For this reason, at the same time, the organization has to reduce its dependence on other organizations in the area of resources acquisition, creating business strategies to guarantee and strengthen its ability to manage efficiently these relationships of interdependence, not only in the specific environment but also in the market, in general.

The relation of interdependence created among organizations can manifest themselves in interdependences of symbiotic nature if the resources of an organization are the *output* of another one: this concerns the relation existing, for example, between the company and suppliers or distributors.

The interdependence relation can therefore be of competitive nature if different companies compete with the same resources and with the same market segment.

The reduction of dependence level on critical resources can be obtained by trying either to control external resources or limiting the suppliers' influence on these resources.

The management of these mechanisms apart from their nature, needs controls and coordinating costs: in general, it can be said that an organization is inclined to choose the organizational structure that, in case of the slightest loss of control, offers the best reduction of uncertainty and instability.

Furthermore, the degree of dependence of an organization on the others, is undeniably a feature of vulnerability for the company, which therefore tends to oppose it: the more the resource is important, the more the company will be vulnerable. In fact, dependence occurs both from the resource importance and the criticality for the organization, and from the degree of discretionary power the supplier is able to use within the allocation and disbursement of these resources.

In short by means of the dependence created by the need for resources, the environment is able to condition the organization, encouraging it, for example, to offer quality goods and services at a competitive price and to adopt efficient processes and structures (Adinolfi, 2003).

In order to manage the resources very well, according to this theory, it is, first of all, necessary that the organization makes a distinction between the resources it needs on the basis of their criticality, that is, how important they are for the company and their scarcity, that is, to what extent they are available. Once made this classification the organizational efforts have to focus mainly on the resources that are more *lacking and crucial*.

Among the methods of managing dependence on resources really adopted by companies some common strategic lines can be identified.

In the relations between company and suppliers, for example, a widespread technique is not to rely on a single supplier, diversifying so dependences. Another technique used to minimize dependence on suppliers is the adoption of vertical integration strategies between company and suppliers by means of mergers and acquisitions or of horizontal integration, organizing relations among business competitors.

The theory of dependence on resources is therefore part of the line of thought that has understood the importance of business cooperation not only in their internal organization but also and above all, in their relations management with the external environment.

According to the point of view of this theory, the natural, no self-sufficiency of a company implies necessarily that it interacts with the surrounding environment to find the resources it needs and this interaction inevitably involves coordination and costs control.

The creation of an external network inspired by the principle of cooperation can allow the company to minimize these costs, using, for example, joint monitoring of the environmental trends and conditions, in order to be able to coordinate their own influence and their own strength (Capaldo, 2007, 2014; Mercurio, 2016; Parida & Örtqvist, 2015). From this point of view, therefore, the organization should operate trying to better develop its relations with the companies to which it is linked, establishing formal relations and sharing a common and a coordinated management plan. As we can see later, also this theory will help to attach more importance to relations and cooperation among companies, considering the organization no longer as an isolated entity detached from the context it works for, but as an element inserted in a more general, environmental, and competitive context to which it necessarily has to adapt. From this point of view only by a strategic union of the forces, it will be possible to overcome the wave of change, exploiting it, instead, as a good opportunity (Burton & Obel, 1995; Gold & Campbell, 2002a, 2002b).

3.4 Transaction Costs Theory

Transaction costs theory developed also by Williamson (1975, 1981) in the 1980s, focus on the organization analysis considering as a starting point the so-called production costs, traditionally taken into account by classical theories, together with the so-called transaction costs.

The transaction costs, according to this view would justify the incurred costs *ex ante* and *ex post* for the management of the methods to determine a transaction.

As previously mentioned describing the theory of resource dependence, an organization cannot be considered self-sufficient since it has necessarily to interact with other organizations in order to find the necessary resources for its functioning.

This type of interaction develops by a more and more increasing number of transactions, a word that here has to be understood in a broad sense.

Transactions can be analyzed from different points of view: either focusing on the subjects and the stakeholders involved or on the methods that rule them.

In those environments where instability is reduced the market is more advisable to allocate resources, since transactions will be linked to its fluctuations. It is generally stable and fluctuations will be easily predictable and manageable without high risks.

On the contrary in environments where instability is very high the allocation of resources, and consequently the transactions connected with them, will not be entrusted only to the market, but they will need coordination and rules. In this case, therefore, the creation of relations based on hierarchy could be helpful to reduce transaction costs, since the company hierarchically organized, will try to minimize the incidence of costs on its functioning.

Transactions are characterized by some common elements such as frequency, peculiarity, and uncertainty. Furthermore, each transaction implies the so-called *make or buy* choice, as the company has to choose whether to bear the costs in order to acquire resources on the market or to internalize specific activities. Last but not least, the costs of transaction are also affected by public and institutional measures which, for example, determine the tax burden concerning a specific type of transaction. The transaction costs will be fulfilled in time and in the money invested in defining the agreement as far as the searching for contractors, the writing of the contract and the preliminary documents, and the search for information about possible counterparts and market conditions.

In a very much unstable environment, where the market is not the *best allocator* companies must therefore try to minimize transactions costs and according to this theory a useful way to achieve this result is identified with hierarchy, which is so considered an institutionalized form of bureaucratic control, adopted by the company as a whole so that all types of transactions are submitted to a definition as such as possible predetermined.

Transactions have to be structured in such a way that the objective pursued is always the general interest of the company and not the advantage pursued by a single operator who actually follows and carries out the transaction. The development of such a theory, as already said, comes from the concrete experience of the companies and from the fact that the management methods adopted until then brought more costs than earnings.

As a result of the rapidly increasing of transactions and consequently of its costs, big companies have started to adopt highly hierarchical planning structures supporting them with several tools that allowed a deeper control of the management. Smaller companies instead started to carry out forms of coordination starting from cooperation up to grouping together or fusion since they were aware that only so they could obtain mutual benefits minimizing transactions costs and also contractual relevance that can be exercised with the counterparts no longer accessible from the perspective of a single competition (Rao et al., 2000).

Especially according to Williamson's view every business organization develops trying to minimize the so-called transactions costs that are not only basically

characterized by limited rationality, but also by opportunistic logic. Furthermore, transactions costs are characterized by deficiency since, generally speaking, the contractors may not be fully aware of all future and potential contingencies not only connected to negotiation time and methods but also to the fulfillment of the contract.

3.5 Network Models

From the analysis carried out in the previous paragraphs, it is possible to understand how *Contingency Theories*, *Resources Dependence Theory*, and *Transaction Costs Theory* use a common assumption that the organizational environment is characterized by a high level of uncertainty and instability created by the increasing pace of changes and functioning complexity. This instability has a remarkable influence on organizational choices producing additional needs of resources and, above all, of information.

Resources Dependence Theory and *Transaction Costs Theory*, especially, identify systemic strategies and interorganizational methods that a company should adopt in order to limit the instability due to the scarcity of available resources. These theories together with a progressive change of the idea about a company, no longer considered as an isolated and self-sufficient system but more and more like a system that continually interacts with its environment and its context, have helped to develop internationally a trend to build an organizational network (Ferretti et al., 2020).

The individualistic logic of classical theories is therefore demolished in favor of a view that identifies cooperative relations and alliances as factors of possible risk reduction rather than reasons of its growth.

The company is increasingly opening its lines on the outside producing allied activities, which include a range of other companies that make up a system to work together in order to achieve common goals.

New subjects of economic analysis so arise, the so-called macro-companies, the so-called business networks, industrial districts and franchising networks; all of them are characterized by specialized, functional features, the size of which ultimately depends on the choice between *make or buy*.

Business Networks

The business network is a model of industrial organization recently established and set up in order to guarantee openness and flexibility to the companies that are part of it. The progressive success of this organizational model depends especially on the fact that the modern economic environment gradually increases its own degree of

complexity with a parallel increase of the level of the knowledge necessary for the development of new products (Ricciardi et al., 2018; Short & Venkatraman, 1992).

The network is a form of cooperation among several companies, independent and autonomous from the owner's point of view. They are linked together by a high level of interdependence thanks to the relations governed by multiple coordination tools (Holm et al., 1999).

The network structure develops as a coordination model based on the idea of *core business*: the single companies, middle or small size, which develop the network, act focusing on their specific skills, outsourcing all complementary activities. Alongside the specialization of the single elements, collaboration and communication are essential factors to ensure the functioning of the network (Granovetter, 1983).

The progressive success of organizational structures, so-called network leads them to be marked by decentralization, complementary functioning and organizational change (Gallo & Burton, 2012).

Single companies, therefore, adopt specialization strategies that can allow them to implement their specific skills, which are supported by strategies that ensure collaboration, communication, and synergies creation with the other companies that are part of the network. As far as localization the network company is characterized by a strong decentralization appearing almost as a system of local companies that, anyway, continue to be coordinated in order to achieve common goals.

The building of a business network involves a more or less intense level of organizational change since it is necessary to make a structure in which the single parts should be able to act autonomously but always with the perspective to reach common goals. It can, therefore, be observed the more and more frequent trend to reduce the hierarchical levels, in order to promote the horizontal integration rather than the vertical one from top to bottom, typical of classical theories (Makkonen et al., 2012).

The organizational structure becomes more and more flattened and disconnected: the central group, made up of a reduced number of hierarchical levels is accompanied by an increasing number of outsourced functions that is committed to external companies.

The great ongoing technology revolution has certainly helped to diffuse organizational trends similar or comparable to business network since the increasing competitive level has led to identify as successful strategies those that propose an organization coordinated among multiple systems, in order to ensure the management of resources that may meet the principles of efficiency, flexibility, and high-quality standards.

In a business network, ultimately, the various processes in which the organization is structured are no longer managed by a single entity inside the company but by a set of organizational units that act according to the principles of autonomy and specialization, both of which are necessary to optimally manage the so-called Value chain of every productive line.

The business network is therefore structured as an organizational unit (module) that arises from the need to respond to the phenomenon of increasing complexity of the market and, generally, of the companies operating environment, which requires

high levels of flexibility and a structure able to stimulate innovation more and more and continuously. Such a need of response is further motivated by economic factors because, as explained above, this increasing level of complexity involves a connected increase in its management costs.

The business network and, in general, the cooperation among enterprises starts, therefore, to establish itself as an organizational model that helps to reduce substantially the costs connected to the management change and to innovation, since there are many more subjects appointed to study the characteristics of this complexity and its optimal management methods in order to contribute to a broader and more efficient knowledge circulation (Holm et al., 1996).

Industrial Districts

The *industrial district* represents a special configuration of the business network. The so-called industrial district, especially, identifies an economic local system, composed of a local network of specialized small and medium-sized companies; of their allied activities; of the level of confidence that is typical of the relations among the companies that are part of it; of the near institutional environment (Marshall, 1920).

The industrial districts are further characterized by the informal circulating channels of knowledge due to the type of strong trustworthy relations existing among the various economic actors (Belussi & Caldari, 2009; Usai et al., 2018).

The industrial district, especially in the version established in Italy, is the model on which the business network is structured, differentiating from it because of its strong level of territorial centralization typical only of the industrial district. The latter is in fact characterized by its delimited territorial location, in a geographically restricted and given area. Each company belonging to the district is specialized in one of the steps the production process is organized and the various companies making up the district are strongly integrated through a complex network of social and economic relations with a strong reliable trait (Becattini, 1989; Becattini et al., 1991).

The type of organizational model of the industrial district has been particularly successful in Italy, mainly because of our economic characteristics, traditionally and mostly based on small and medium-sized enterprises, the dimensions of which are more easily manageable and, above all, suitable for running the activities typical of the Italian industry, based on a basic idea of craftsmanship.

The industrial sectors where the industrial district model has been most successful are those characterized by production processes the core of which is made up of work and human capital, with a low level of automation. Connected to this it is a limited need for fixed capital spent in equipment, investments, and depreciation and, in parallel, an innovation process based on the principle *learning by doing*.

As already mentioned in the previous paragraphs, the industrial district model is also part of the tendency typical of the company organization to expand the

boundaries of the company toward the outside, recognizing cooperation as a role of growing importance. From the cooperation perspective, therefore, the industrial district, structuring itself in a lot of small or medium-sized enterprises, is able to effectively combine a high level of specialization with a high level of flexibility and adaptability, both guaranteed, indeed by disarticulation and simultaneous integration of a lot of small companies.

Compared to the other forms of cooperation described above, the industrial district is further enriched by an intense territorial concentration, which gives an undeniable advantage both in terms of actual circulation of knowledge and therefore of innovation and, more generally, the sharing of a cultural, social, and economic common substratum given by sharing the same district.

In industrial districts, the economic relations among companies are characterized both by the application of cooperative principles and mutual confidence and by the presence of an ineliminable level of competitiveness. This is identified as a strong point of the industrial district model, which guarantees its effective functioning by minimizing transaction costs strengthening at the same time the stimulus to minimize production costs through a process of continuous improvement and renewal. The strong territorial concentration typical of the industrial district allows the reduction of costs to gather information, the creation of forms of alliance from which the whole system can benefit and, also, the possibility of an easy relocation of the highly skilled workforce, without its dispersion towards competitors. Furthermore, as already pointed out several times, this network and territorially concentrated structure allows the entire system to be able to modify the organizational structure with a high degree of flexibility.

The industrial district is shaped as a production system made up of a lot of small and medium-sized enterprises generally based on vertical and horizontal integration and on productive specialization. Another characteristic of the industrial district, which makes it different from the business network, is the concentration in a specific territory and the presence of links created by a common social, cultural, and economic experience.

The strong specialized connotation taken on by the companies that form the district requires that these, despite having limited dimensions, would be able to maintain a medium—high innovative and technological capacity, so that each subject has the possibility of concentrating only on one part of the production phases, adopting more advanced production systems in order to obtain a reduction in transaction costs compared to coordination costs. Furthermore, as mentioned before, this form of coordination is continually counterbalanced by competitive forces and it is exactly the balance between these two opposite poles of tension that creates in the district the stimulus for continuous renewal and the continuous search for new opportunities. According to the idea of the industrial district proposed by Marshall (1920) the success of this organizational model is caused, to a large extent, by the so-called *externality*, that is, the totality of the external economies that produce a lot of advantages that do not remain internal to the single company and therefore in its exclusive availability, but are a resource of the industrial district considered as a whole, which is indiscriminately available for all the companies that

are part of it. According to Marshall, the advantages are: *hereditary skill, the growth of subsidiary trades, the use of highly specialized machinery, local market for special skill, industrial leadership, and introduction of novelties* into the production process.

As already mentioned, the organizational formula of the industrial district has been especially successful within the national companies, characterized by a strong and deep-rooted presence of small and medium-sized companies, which have gradually proved in time to be more suitable to adapt to local economy and its structure.

Franchising and Risk Management

The franchising business organization is a particular type of business network, composed of a central unit, the *franchisor*, supported by other units, the *franchisee*. The relationship between the central unit and the peripheral units develops through a range of systematic, stable, and long-term relations, which are governed by the franchising agreement. Franchising is an important and controversial form of vertical integration (Martin, 1988).

In its essential features, the franchising relationship is characterized by the transfer, from the *franchisor* to the *franchisee*, of a set of industrial and intellectual rights property (patents, trademarks, designs, copyright, and *know how*), against the commitment taken on by the *franchisee*, to pay a fee in order to go into the franchise network and royalties paid periodically after the start of the business.

The adoption of the organizational model of the franchising network follows traditionally the implementation of a growth strategy but this is not the only requirement that the franchising is able to meet. This organizational structure, in fact, can also be adopted owing to the decision to outsource production or sales units already active, integrating them into a larger organization. In the latter case, especially, the adoption of the franchising network involves a real change in the structural scheme of the franchisor's economic activity, which is not necessarily accompanied by an expansion of its dimensions (Castrogiovanni et al., 2006).

The franchising model has taken on a significant economic impact: its first manifestations are located in the United States by the end of the nineteenth century, while its period of greatest development is identified in the second half of the twentieth century, coinciding with the decline of classical organizational concepts and the corresponding success of the principles of cooperation and flexibility. Franchising has currently reached a remarkable level of development, since the sectors in which it is used are varied and numerous and the number of companies involved is very high. Furthermore, this increasing and constant development of the franchising network means that the economic interests at stake are increasingly relevant, with a massive use of mass media.

The theoretical study of the franchising network has basically brought back the success of this model to the scarcity of available resources or to the so-called agency theory (Doherty & Quinn, 1999).

According to the first approach, the *focus* is based on the instability data of the market and on the increasing scarcity of available resources. These factors lead new and small companies to adopt the franchising network model in order to try balancing this scarcity and cope with it more efficiently, since franchising is a source of low-cost capital, allowing the franchisor to use the capital of other entrepreneurs, by paying the fee for entering the network and the periodic payment of royalties to continue to be part of it. According to this approach, franchising can also compensate for the scarcity of resources because it can activate mechanisms of innovation and circulation of knowledge that succeeded in increasing the value of resources, even if they are lacking. While at the beginning, the owner and distributor of knowledge is the franchisor, the progressive creation of franchising units allows them to appropriate the methods used, thus contributing not only to increase their level of autonomy but also the cognitive variety and the capacity for innovation, through a real creation of value (Barthélemy, 2011; Westerman et al., 2012).

Following the approach adopted by the agency theory, the *focus*, in short, is on the organizational strategy adopted by the company, which chooses to pursue its own expansion by means of franchising, therefore, through a relation regulated by a specific contract, or through the creation of ownership units, managed by employed managers. The choice adopted by the parent company is made by comparing organizational costs, managerial integration costs, and monitoring costs of the two alternatives mentioned above. What is important to note is how the franchising network, being made up of franchisee and therefore of autonomous but interdependent bodies, creates a greater stimulus for innovation and greater motivation in the various persons involved in the network, who feel a higher level of responsibility and accountability. In an organization structured according to the agency scheme, however, it is more risky that managers of the single units (owned by the parent company) behave as simple employees of the central unit, following uncritically the policies, the decisions and the objectives of the latter, to the detriment of a more efficient management of their unit (Mitsubishi et al., 2008).

As far as the agency relationship, therefore, franchising can better combine the utility of the parent company (the franchisor) and the one of the single units (the franchisee), since the remuneration of both is linked, ultimately, to the creation of profit by the franchisee. In fact, in a franchising organization, the remuneration of the franchisor mostly depends on the royalties paid to him by the single franchisee which, obviously, are linked to their level of productivity and profits. According to these reflections, the expansive development of a company can be better achieved with the franchising network, rather than through the adoption of a growth system with property units, through agency relations.

Furthermore, the adoption of the franchising model brings with it undeniable advantages even for small and relatively young companies on the market that have to face not only the aforementioned scarcity of resources, but also a perpetual and incessant competitive pressure linked, in addition, to the very rapid technological

development that requires huge means and investments in order to be adequately exploited. Through the use of the franchising network, in fact, many fixed costs for the franchisee, such as those related to the purchase of machinery and tools, are transformed into variable costs (royalties) which are strictly linked to the economic and financial trend of the company. In this way the interest of the franchisor and the franchisee becomes common, since it aims at the creation of profit for both by the franchisee.

The single peripheral unit, joining the franchising network, undoubtedly renounces part of its corporate autonomy, but it receives in return to be part of a network which, due to its size and development branches, provides it with the competence to manage and set up a strategic path that ensures, at the same time, an increase in its profitability and a decrease in the level of risk and associated costs. The franchisee can thus enjoy advantages such as the exploitation of an already established and well-known brand, as well as continuous assistance, in its management, by the franchisor.

The ways in which the relations between franchisor and franchisee are materially regulated are contained and described in the franchising contract, which besides regulating the relations between the parts, is characterized by being, in fact, a planning and controlling tool of the great extent of relations that are established among the contractors and that are planned with a long-term vision and constant contact and cooperation.

The relations control between franchisor and franchise not only is achieved by pursuing a common goal of the network maximum prosperity, but also on relations based on collaboration, thanks to the additional tools of authority, confidence, and suasion. In particular, in franchising suasion really plays an important role, since this type of network is characterized by an authority that does not develop according to the traditional pyramidal hierarchical form and therefore it is able to control every aspect of the organization. In the franchising network it is therefore more necessary than ever to create a real *sense of belonging* in the single units, using methods of communication and contact other than those proposed by classical theories, so as to create in the participants the confidence that it is, indeed, through the network that the best results can be obtained. The use of strategies based on suasion, as well as on authority, makes it possible to better pursue the development of communications even from bottom to top and, consequently, to increase considerably the level of participation.

As mentioned before, the relations that form the franchising network, planning a certain autonomy of the single units, must be based on factors able to build confidence between partners such as, for example, the expected duration of the relationship, the quantity and consistency of exchanges and, last but not least, the perception of the franchisee equity in distribution and participation. Obviously, confidence can be considered a necessary element, but not the only one sufficient to support and coordinate the relations between franchisor and the single units of the network: it must be supported by solid organizational systems, that control cooperation constantly authoritative, if necessary, on behalf of the central unit, since

confidence alone cannot be considered a stable factor in contexts that evolve rapidly such as the one of franchising networks.

Finally, another fundamental element to ensure that the franchising network operates efficiently is identified in the so-called *network uniformity approach*, on the basis of which the franchisee is obliged to comply with the quality standards identified by the franchisor and is subject to constant monitoring by the latter in order to verify that these standards are actually respected (Streed & Cliquet, 2008; Perrigot et al., 2013). This reflection allows us to state that the network uniformity is one of the fundamental elements to be considered in evaluating the success of a franchising network and its development.

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Chapter 4

Modernism and Neo-Modernism



4.1 Modernism: Genesis

In the following chapters, the most relevant theories of organization will be outlined in their essential features, which can be divided into three main phases: the modernist phase, with the classical school; the neoclassical school of the post-Ford period; and finally the more modern and interdisciplinary approach which is composed of the theories of knowledge management and *learning organization*. The various approaches proposed can be considered as attempts to respond to a basic and common problem that has always concerned every organization and which is embodied in the choice of organizational variables on which to intervene in order to do a structural change and improve the levels of performance.

The classical school was born and developed in the early years of the Twentieth century, in parallel with the accomplishment of the Industrial Revolution which was, indeed, a real revolution in an economy based, up to that moment, only on craftsmanship.

The Industrial Revolution, in fact, changed the production methods radically, inserting the machine alongside, and, often, instead of human capital. This change brought a real revolution in the production methods, allowing companies and newborn factories to be able to sustain higher levels of production and therefore to address themselves to a wider audience and market.

In particular, the birth of the factory led to the accumulation of large concentrations of capital that gave rise to very large productive entities, which started to perceive the need for a real rationalization of work (Berman, 1983; Reed, 1993; Lemert, 1997).

Therefore it can be said that with the Industrial Revolution was born also business organization perceived as a subject of study and reflection. The peculiarity of this subject is due to the fact that it does not develop on pre-established theoretical bases that are then applied to the company, but, on the contrary, on a deductive reasoning, which starts from the factual data (the concrete functioning of the company) to try to

identify the possible solutions to be implemented in an organizational plan in order to maximize the affluence of the company itself.

What the theories of the classical school have in common is the fact that they develop prescriptive theses which aim at identifying really rational and therefore universally applicable rules, which allow every organization to structure itself according to rationality and, therefore, in the best way to maximize efficiency, effectiveness, and profits (Hatch & Cunliffe, 2006).

As it will be seen in the previous chapters, the foundations of the classical school rest on the concept of *Scientific Management*, particularly developed by Taylor and Fayol and on the attempt to study organization by applying economic, legal, and engineering studies (therefore highly scientific and rational).

The scientific and rational method proposed by the classical school, as we will see later, starts from the assumption that the member of the organization has the characteristics of the so-called *homo oeconomicus*, that is, a subject endowed with absolute rationality whose only objective is to optimize his efforts in order to minimize them and to obtain, at the same time, the maximum profit (Inns & Jones, 1996; Parker, 1992).

In particular, by the end of the Nineteenth century and parallel to the progressive expansion of industrial production, a series of organizational theories, structured mainly on the concept of hierarchy and labor division began to follow one another (Garicano, 2000). These theories have tried to identify rules, with a prescriptive content, which not only would allow the understanding of how organizations operate, but they would also provide management with clear indications on how to intervene on organizational variables.

As it will be seen, the classical school and, especially, the theories of Scientific Management proposed by Taylor found their highest and most complete level of achievement in the factories owned by Henry Ford. The organizational methods used by the latter would have a remarkable expansion, so that together with Taylorism, Fordism is traditionally remembered and defined by a lot of people as its translation into concrete business reality.

The rapid and relentless development of industry, which began at the end of the Nineteenth century, allowed the theories of scientific management to undergo a notable development, up to the diffusion, in the early Twentieth century, of the so-called structural variables of organizational intervention, which intend to guide the management to identify the intervention levers on which to act in order to obtain certain results. These include, for example, the division of labor criteria, the definition and extent of the various hierarchical levels, the degree of tasks formalization.

These variables will be supported, as it will be examined in detail, by the so-called operational mechanisms, which will be a further class of organizational intervention variables. In particular, the operational mechanisms can be defined as a set of management tools that are able to make the structure operational. These operational mechanisms are identified according to the approach proposed by Max Weber the so-called *bureaucratic model*. The bureaucratic model developed by this author is in fact a direct consequence of the theses based on the principles of the classical school.

The organization was born, from an economic point of view, as a result of labor division which produces specialized activities: this specialization has shown a greater overall productivity of the organization compared to more generic forms of activity.

With the first Industrial Revolution (second half of the Eighteenth century) the principles of specialization and division of labor began to be applied, to a fairly great extent, to manufacturing companies, effectively replacing traditional craft methods. In this sense, Adam Smith's analysis is illuminating, in particular as far as the case of the manufacture of pins.

Between the end of the Nineteenth century and the beginning of the Twentieth century, the scientific organization of work definitively succeeds, the so-called Scientific Management, together with the final creation of mass production, which then culminated in Taylor's theories and the practical application of such theories implemented by Henry Ford.

The classical school is a milestone in the development of industrial capitalism, proving itself as an attempt to rationally fulfill the original intuition, typical of Adam Smith, of the division of labor. The rational and scientific organization thus becomes, since the end of the Nineteenth century till, at least, the first half of the Twentieth century, a reference model for companies, which indicates a particular configuration of the company taken on in a period when the planning of production and the size of the large factory are the environmental and economic factors of reference.

4.2 Organizations as *Ordered World*

The classical school therefore finds as a fundamental premise a conception of organization based on the rationality concept: the structural transformations carried out on the basis of Taylor's theories and of Ford's experience can in fact be described as symptoms of a more general phenomenon of rationalization, which involves both the production methods, the formation of the productive labor and the finding of the necessary resources.

The extension and progressive development of industrialization has helped to activate the diffusion of a new culture inspired by total rationality canons and based on scientific methods and studies.

As already mentioned in the previous chapter, the Industrial Revolution is a real watershed from the point of view of economic history, since it has brought a radical and revolutionary change in all aspects of society. In fact, the social dimension changes from the small artisan and often familiar business into the large factory, partly automated and based on sectorial and repetitive methods of work. This change entailed the concrete and real need to organize the large number of productive forces involved, abandoning a narrow and short-term vision, based on empirical and unordered data, in favor of the adoption of a scientific and rational approach to the facts explanation and planning.

According to the modernist perspective, in fact, knowledge and reality are conceived as elements perceptible only through empirical experience, possibly with the help of technologies and tools that can amplify the results. The modernist perspective is based on the assumption that the procedures, once detected, are susceptible to infinite possibilities of replication as well as of comparison and confirmation of other and different organizations (Cooper, 1989; Clegg & Kornberger, 2003).

According to this perspective, organizations are conceived as objective, rational, real, and independent entities. Like a real *ordered world*. The intrinsic rationality of an organization implies that it can be managed and designed by means of efficiency and effectiveness criteria, which have the role of strategic and decision-making principles (Burton et al., 2020; Corkindale, 2011).

Modernist theories, therefore, using as assumption the concepts of rationality and organization as an “ordered world,” have the ambitious goal of identifying universal laws that can be considered valid for every organization. The basic belief is the following: since the organization is a rational entity, as it is made up of rational individuals, it is possible to standardize procedures, practices, and rules, creating universal guidelines built on the scientific criteria of efficiency and effectiveness.

The idea of organization as an *ordered world* has led supporters of the modernist perspective to study it through objective perceptions, descriptive measures, and the prescription of standardized measures.

This trend is justified, especially, observing the historical context it is based on. Indeed, modernist theories developed together with the birth of industry and the technological growth, which determined the widespread diffusion of an economic model based on capital and capitalism. The success of industry and the machine showed everyone how science and the scientific method were the only tools really capable of governing and explaining reality, and this belief became the basis of Positivism, which precisely in those years found its most successful period of development.

The modernist perspective of business organization not only has its roots in Positivism but also in the Enlightenment, the philosophical trend that helped to revolutionize Europe between the seventeenth and eighteenth century centuries. The foundation of all these concepts is the central role recognized to science and rationality, as through scientific knowledge man would have been able to control and govern his environment.

The modernist theorists of the organization therefore aim at developing standardized diagnostic tools to face organizational problems, which should be able to ensure a management based on maximum effectiveness and efficiency, so as to guarantee maximum profit and maximum competitive advantage (Porter, 1985).

The concept of *ordered world* thus helps to explain the view put forward by the modernists, according to which every system is built on the basis of rational and scientific criteria which, as such, can be generalized and replicated always achieving the expected results, just like a mathematical formula. Within the corporate organization, the structure must therefore be planned according to the canons of efficiency

and effectiveness which, if guaranteed and maximized, will have the natural effect of increasing the level of profits and prosperity of the company.

This conception of the environment as a rational and scientifically analyzable entity finds its first theorization in the so-called general theory of systems, which will be briefly mentioned. This theory tries to give a unique explanation of all scientific phenomena, highlighting how these were interrelated. The correlation between all these phenomena forms a system; every system, as such, is formed by related parts, the so-called subsystems and the action of each part generates an impact on the associated ones. According to this perspective, this thesis can be applied to any scientific phenomenon being studied.

The systems so conceived are characterized by a high level of internal differentiation, since each subsystem is responsible for carrying out a specific function. The differentiation of the system produces a benefit to it, helping to exploit the advantages of specialization. At the same time, the differentiation creates the correlated need to plan in advance integration and coordination mechanisms that allow the system to operate as a single entity.

According to the modernist perspective, labor division, management coordination and integration among the various subjects of the organization must be structured according to scientific methods, which respond to the principles of rationality, efficiency, and effectiveness. The classical school conveys this concept of *ordered world* also to the subjects participating in the organization, adopting a mechanistic vision of the human being, whose behavior and aspirations can be regulated the same as a *machine*. The set objective is to obtain the maximum productivity of each employee through a process of production total rationalization.

The scientific organization of work, which is a direct consequence of those assumptions, identifies some basic regulatory principles that can guarantee the company maximum productivity. In particular, each task must be assigned to those who possess the most suitable characteristics to perform it; each employee must be *trained* on his or her job, by teaching the actions to be performed and identifying the best ways to perform them. In order to keep the organizational structure solid, monetary incentives can be provided, since they are necessary stimuli to guarantee the maximum performance of the workforce (Lungeanu et al., 2016).

As already mentioned, in fact, the classical school starts from the conception of the human being as *homo oeconomicus*, a totally and perfectly rational economic subject, who acts on the market for the only purpose of maximizing his profit. At the basis of this concept there is in fact the certainty, more and more growing in those years, that the desire of every rational man was to accumulate greater quantities of money and, therefore, this was at the same time the best and the most powerful motivational incentive for every worker. This belief is rooted in the *consumerism society* which in those years was beginning to take shape, with the birth of the first mass productions and the first economies of scale (Bartol & Locke, 2000).

4.3 Modernist Influences on Organizational Design

The classical school, in its various forms, aims at developing a series of tools for the diagnosis of organizational problems that allow the implementation of management based on maximum efficiency and effectiveness and, ultimately, on maximizing profits. The belief that every problem can be tackled through rationality and the scientific method has led modernist theorists to believe that they can identify a series of prescriptive, standardized, generalized, and repeatable rules and indications for any organization. These indications, being based on the scientific method, on rationality and on the principles of efficiency and effectiveness, could have led to a solution model which would have always led to the same results.

The modernist theories develop, especially, on the basis of the model of Scientific Management, studied above all, by authors such as Taylor and Fayol, which refers to an economic, legal, and engineering study. As anticipated, according to this idea, the person who is part of the organization is considered as *homo oeconomicus*, that is, as a subject endowed with a very great rationality, whose behavior is aimed at achieving the maximum enhancement of his own actions, by minimizing efforts and maximizing his own profits.

The classical theories of scientific management therefore have as their main assumption the application of the scientific method to the analysis and planning of the working processes. Together with this principle, the concepts of labor division and hierarchy develop. Hierarchy *materializes* when proxy and separation between managerial and operational tasks are established (Denison, 1990; Denison & Mishra, 1995).

The modernist perspective proposes a conception of business in which hierarchy plays a very fundamental role. Hierarchy therefore identifies the coordination system that creates subordinate relations within the company, according to the criteria of responsibility, discretion, and of influence power (Hancock & Tyler, 2001).

Since the end of the Nineteenth century, we can observe a progressive expansion of production on an industrial scale which contributes to the development of organizational theories based exactly on the concept of hierarchy, trying to identify explanatory and prescriptive rules to safeguard the organization and also to provide the management with useful information regarding the organizational intervention variables.

According to the Taylorism, which found full implementation in Henry Ford's factories, the fundamental elements for the success of an organization are to be identified, first of all, in regulating the relations among subjects based on the concept of hierarchy, in which the unity of control and direction is guaranteed. The formation of a higher decision-making level involves the centralization of choices towards the higher hierarchical levels and this implies that the structure adopted by the company should be necessarily pyramidal and, consequently, rigid and inflexible.

The foundation of every organization, as stressed several times, is the division of the system into several subsystems, which implies the need for labor division (*see above*). In the enterprise as conceived by the classical school, the division of work

must take place according to the criteria of functions specialization in order to guarantee that each subject can obtain the highest level of specialization in the activity really carried out. This type of structure is also characterized by the subordination of particular interests to the general interest of the company: as it will be seen later, the development of business organization theories is more and more directed towards the enhancement of human capital, that is no longer considered only a tool but a real resource (Miller, 2009).

The modernist perspective, taking as a reference *homo oeconomicus*, believes that a satisfactory and fair remuneration of employees and the assurance of job stability are sufficient conditions to promote cohesion and spirit of unity that allow the organization to function and survive as such. The radical changes brought about by the continuous and incessant technological progress as well as the continuous expansion of the market size, which today are to be considered global, have led to a progressive withdrawal from such perspectives, since the importance of the human capital is understood not only as an *economic entity* that acts for mere profit purposes, but as a *person* who, in order to make the best use of abilities, also needs motivation and a strong corporate culture.

As we have seen, the classical school and scientific management, on the other hand, are focused mainly on the planning of the structure, from which the concrete functioning characteristics of the company arise. The pressing need for organization that underlies the birth and development of the modernist perspective requires the creation of a particularly rigid structure built, mainly, by means of the principle of hierarchy.

With the development of the principles of scientific management in the companies operating in the early decades of the Twentieth century, the analysis of the so-called structural variables of organizational involvement began to spread. They would identify the organizational aspects on which management should intervene in order to ensure the company maximum prosperity and leadership.

In particular, the variables of organizational intervention can be identified, first of all, with the criteria for the labor division and with the criteria for the subsequent grouping of tasks into units. The labor division must be achieved by means of an analytical and clear definition of tasks and roles, with a high degree of tasks formalization. The rigidity that characterizes this type of structure emerges, also, from the request for a description of the structure by means of graphic documents, such as organizational charts, as well as from the request to consider the possibility of modifying the structural arrangements only by formal acts.

The gradual development of the industry and of the theories related to it has led to the identification of further intervention variables, the so-called operational mechanisms. With this term we refer to all those aspects of the company that do not only pertain to its structure, but actually to the set of management tools that make the company really operational.

The reference is especially to the choices connected with the objectives that the company decides to pursue and, consequently, to the procedures and policies identified as the best for achieving them. The choices relating to strategic policy and production procedures must then be translated into operating standards and

regulations, supported by a system of rewards and penalties, which at the same time is a stimulus and a deterrent for each of the subjects belonging to the organization (Jaffee, 2001).

According to the modernist perspective, therefore, the organization must be set rationally not only from the structural planning point of view but also from the strategy one, with the identification of realistic and pragmatically achievable objectives, by means of procedures based on the principles of effectiveness and efficiency (Pritchard & Willmott, 1997).

Since the early years of the Twentieth century, in particular, the division of labor has undergone a strong accentuation and a considerable structural improvement, until it has received a status of scientific theory. This result is to be considered undisputed merit of scholars such as FW Taylor, whose theories have found full implementation in the factories owned by Henry Ford.

The scientific organization of work, the lowest common denominator of all of the classical school theories, aims at creating a rational and rationalized system of labor division based on a sort of re-education of the worker, who receives precise and detailed instructions about the tasks to do and how to do them. This new organizational paradigm is focused, especially, on the search for the highest level of production efficiency by means of a careful analysis of the various tasks and processes, the subsequent identification of the model worker, suitable for those tasks, and finally by means of the selection of suitable trained workers, and their inclusion in the company (Gatti & Dadood, 2020). The perspective proposed by the classical school therefore identifies a method of labor division based on simply technical criteria, which aim not only to minimize the discretion of the various subjects involved, but also to pre-establish this model worker, where the more strictly personal aspects of employees are not taken into account. They are considered as elements in which the new production paradigm has no competence.

As we shall see, these theoretical foundations will be completely fulfilled in Henry Ford's enterprises, the structure of which was based on three pillars: adoption of the scientific method of work organization; tension towards automation and mechanization; discipline and direct control over employees. The production methods used by Henry Ford, based on the use of the machine, lead to the creation of an organization no longer based on the individual factor, but creative of a collective producing a force, in which the use of the machine supports the traditional work force (Hayes & Wynyard, 2006).

The process of *technicalization* and *rationalization* of organization and work, which began with the first Industrial Revolution in the second half of the Eighteenth century, finds its fulfillment in Taylor's thought and in the use that the businessman Henry Ford made of these theories. The driving force of this perspective is, in any case, the pressing need to organize work, only to the advantage of productive efficiency.

In Taylorism, for example, it is proved that much of a company's inefficiency is linked to the slowness or lack of skill of its employees. The first step to solve these inefficiencies is to remove waste through a process, as mentioned, of real *re-education* of the worker's acts. From the supporters of the classical school point of view, it

is not necessary for the individual worker to understand his role within the more general business system and, on the contrary, this lack of understanding is considered an unavoidable consequence of the productive cycle complexity. This lack of understanding is also the prerequisite for ensuring that the management of the whole production process is entrusted exclusively to the management.

The worker therefore has a simply *operational role*. This belief, although functional to the needs created by the industrial scale production, will contribute to a progressive alienation of the individual worker, with the consequent disintegration of the organization, which is no longer able to act as a glue among its participants. This phenomenon had very strong repercussions, in general, on the whole society of those years, going so far as to talk of the *alienation* of the subjects that are part of the assembly line, since they were forced to carry out monotonous and repetitive actions for exhausting periods. In fact, according to the modernist perspective, the level of the worker's autonomy is considered inversely proportional to the performance and, therefore, to increase the latter it is necessary to reduce the level of autonomy.

In conclusion, modernism and the classical school consider rationality and the scientific method as the fundamental assumption on which the organization must be built which, in turn, must be based on the concept of the scientific labor division in relation to the various specializations, and at the same time on the concept of hierarchy, considered as a coordination system that governs internal relations within the company according to mechanisms of subordination.

The organizational translation of these theories consists of a company with a structure that can be represented according to a pyramid scheme, based on a clear distinction between executive and managerial skills, entrusted exclusively to higher hierarchical levels and operational skills. This structure, since it is organized according to increasing levels of authority, involves a considerable formal and structural rigidity which, as we will see later, will lead it to be considered unfit to face the challenges established by the new economic, social, cultural, and technological structure, which, on the contrary, require an ever-increasing level of coordination and flexibility.

4.4 Neo-Modernism: Genesis

Neo-modernist, also called neoclassical school, developed in the 1930s, initially supporting the theses carried out by the classical school.

Compared to the classical school, the neo-modernist vision has changed its point of view, no longer proposing a prescriptive approach, through the exposition of the rules that should govern an organization, but a descriptive approach, analyzing the real functioning of companies, regardless of scientific and theoretical paradigms. The radical change of perspective depends on the fact that, while the classical school based its theses on rational and prescriptive disciplines such as economics and law, the neoclassical school has adopted as a theoretical starting point more suitable descriptive disciplines such as psychology and sociology. This change is based on

the reaction to the adoption, up to that moment, of an excessively economic perspective, which ended up outlining a reductive and too much mechanistic vision of the individual.

With the neoclassical school the idea of the subject taking part in the organization changes, since he is no longer considered just like the *homo oeconomicus*, but as a *social* subject, interacting with other members and with the organization itself. Attention begins to shift to the people who make up the company and the importance of motivational mechanisms based no longer on rewards and sanctions but on psychological factors, such as, for example, satisfaction, social acceptance, and self-realization. As we will see later, this approach will be the engine of development of the so-called school of Human Relations, of which Mayo is to be considered one of the greatest and most relevant exponents.

The organizational theories proposed by the neo-modernist school do not completely reject the principles of scientific management, on the contrary they propose to implement its integration.

What is important to notice is how, at the basis of the neoclassical approach, there is a profound change in the same concept of organization, in fact the rational and scientific aspect gives way to social and international ones, that are starting to be considered equally crucial to ensure the highest level of performance of an organization. While classical theorists conceived and studied organization as a mechanical set of systems, the neoclassical focus their study on the men who form such systems, using elements from different disciplines, such as psychology, sociology, and biology.

The general context of these changes is the one in which the factory is becoming a reality with a higher level of complexity and dimensions and therefore it is more difficult to reconcile the expectations and interests of the various subjects involved. In such a context, an approach capable of allowing a broader and more complete understanding of workers' behavior is beginning to emerge, paying particular attention to subjective factors, such as motivation and gratification, in the belief that also these factors should play a fundamental role in increasing the company's performance levels.

With the Industrial Revolution and the mechanizing of production, workers start to have feelings of dislike, non-involvement, and alienation, since work is perceived only as a duty, without understanding the aim of their own activity. Especially with the model of the assembly line proposed by Henry Ford, the tasks entrusted to the individual worker are more and more repetitive considered a small fragment within a more general and rigid mechanism that cannot be understood and shared. The coming of the machine in the factory, in addition, makes this condition worse, as the worker is replaced or any way confined to a simple watchman and a tool at the service of the machine, with a total overturning of the traditional perspective where it is the machine to serve man. Do not forget that, if these were the conditions inside the factories, the social situation outside was even worse. The increasing and unbalanced urbanization, the creation of huge numbers of poor people, discontent and unemployment together with a hostile environment and an almost absent welfare state reduced their conditions of life to unacceptable levels (Pinna et al., 2020).

Carrying out an empirical and descriptive analysis of the business phenomenon helps to highlight these aspects, showing how some fundamental aspects were neglected, in order to thoroughly understand the human behavior of the organization.

The concept of *homo oeconomicus* unanimously adopted by the classical school thus begins to get into crisis, since this idea of the individual considered a perfectly rational subject, who acts only with the aim of maximizing his profit and of satisfying his growing material needs, is no longer considered suitable for describing the real complexity of the human being, even if identified as part of an organization. This reductive view of the individual has therefore been progressively abandoned, since it is the result of a competitive and fragmented idea of society, in favor of the adoption of models more inspired by principles of social collaboration and enhancement of personal and subjective characteristics.

The first consequence of this new point of view is the *refusal* of coercive discipline, closely linked to the concept of hierarchy used within the companies to repress any *spontaneous* behavior of their employees.

The individual is no longer an *atom* detached from the context in which he operates, who can be educated according to the needs of the company, but he becomes the heart of a complex network of internal and external relations to the organization and, consequently, a real resource for the prosperity of the company.

The worker's performance begins to be considered no longer as a measurable and therefore scientifically adjustable factor, but as the result of a combination of moral and material stimuli, which lead the individual to adopt a positive and therefore productive attitude towards the organization he belongs to. As we will see exhaustively in the next paragraph, it became clear that the belief in a bureaucratized and authoritarian management, typical of the classical school and especially of the theory proposed by Max Weber, failed to allow a real optimization of the business efficiency, with loss of productivity for the organization.

Neo-modernism, in particular, intends to be a solution to the contradictions that emerged within the Taylorist and Fordist organization. The last type of organization, identified by its self-referential feature of the managerial methods concerning the production process, with its total control of each step and an uncontrolled extension of mechanization, created in fact a deep fracture not only inside the company between operational members and management levels, but also in the external social context. This fracture was so deep that it brought into question the real cohesion and internal coherence of the system, revealing itself inadequate to cope with the market changing needs.

An approach based on flexibility therefore began to be preferred to the scientific and rational design typical of the classical school and of Taylorism, to abandon the logic of *calculability* in favor of a greater ability to quickly adapt to market instability.

4.5 Human Relations School

The *Human Relations School*, which developed from the 1930s onwards, is characterized by the attention committed to identify the mechanisms suitable for stimulating the workers' performance, combining the economic factors identified by the classical school with other psychological and social factors, in which the focus of the analysis becomes the individual worker's behavior. The point of view proposed by the School of Human Relations is part of a more general trend towards the enhancement of human capital, where the different management areas and the employees management are subjected to a collective direction, strategically oriented by the top management.

The leading exponent of the *Human Relations School* is Elton Mayo (1945), who has contributed in a decisive way to question the theoretical structure of the classical school and of scientific management. The approach adopted by this author was in fact based on the belief that a bureaucratic and authoritarian management, such as the one proposed by modernists, was not able to guarantee the optimization of corporate efficiency results.

The studies carried out by Mayo have helped to demonstrate how, at the root of the satisfaction level obtained from work, there were not simple economic factors, but a combination of psychological and motivational elements, free from the only monetary incentive and impacting on the productivity level. Between the 1920s and the 1930s, Mayo carried out a series of experiments, in the form of interviews, the results of which show that there is a strong link between the employees' performance and the presence of factors that influence their *emotional* sphere. Therefore, the reappraisal of the human factor considered as a central element of organizational study and analysis becomes more and more essential.

This type of approach, focused on the human factor of the organization, changes also the concept of productivity, which is no longer considered simply a technical and scientifically measurable datum, but as a sort of function of motivation and of the attitude adopted by the individual towards work. As a consequence the difference in productivity levels is not linked only to the working objective conditions, but above all to the really psychological and subjective aspects connected to the perceived satisfaction for the performance carried out and to the consideration received within the business and social context for his own role.

The Human Relations School therefore considers the worker's satisfaction level a fundamental factor of variation of productive levels and, therefore, a factor to be exploited in order to maximize productivity. The satisfaction perceived by the worker is closely linked to other elements such as, for example, the level of collaboration and participation, reliability, concern for the job, and the task performed. All these elements, being connected to the individual's satisfaction, therefore become variables to be taken into account, at a strategic and organizational level, in order to implement and reappraise them.

In the firm organized according to the model proposed by Taylor, the individual is strongly depersonalized, by the commitment of repetitive and impersonal tasks,

which contribute to increase a sense of *alienation* that makes the subject feel anonymous and, ultimately, interchangeable. The individual worker does not perceive the value of his contribution within the company, feeling like a cog that can be replaced at any time, since none of his personal and specific characteristics are enhanced. Against the Taylorism, characterized by an accentuated depersonalization of relationships, by the separation of tasks, roles, and power, the adoption of a system based on human and supportive relationships begins to come out and it considers a new starting point the perception the worker has about the content of the tasks assigned.

The attention to the individual is not, obviously, motivated by moral impulses, but by economic considerations: if a worker is not satisfied, not only is he not happy, but also he will not perform to the best of his potential. If, on the contrary, a worker is encouraged and gratified by the tasks performed, understanding his central position within the production process, he will be able to make the most of his skills, adding the *stimulus* given by motivation. In this way, the foundations of all those business organization theories that consider human capital as the most important resource of the company, the one on which it should make the greatest and best investments, begin to be laid.

The school of Human Relations has contributed very much also to bring out a further object of analysis within the organization. Individuals, in fact, must not be considered only as such, but also and above all, as groups: those belonging to the same department, for example, cannot be considered only as individual employees, but they must also be structured as a group that interacts as such with the rest of the organization. Belonging to a group, however, is considered by Mayo and by the followers of his theories, as a real necessity of the human being and, inside the factory, as a kind of reaction to the rigidity of Taylorism (Bruce & Nyland, 2011).

Besides, the enhancement of individuals and groups is also closely linked to the progressive increase of the companies size, which create the need to plan a system of relations based on collaboration and cooperation (Kolbjornsrud, 2018).

The level of personal satisfaction and the feeling of cohesion become primary factors to influence the efficiency of the production process and, consequently, the level of profits. By adopting a method in which direct investigation plays a fundamental role, the theorists of the neoclassical school start from the principle that the best organization must be planned on the basis of a concrete analysis of the work, of the techniques and resources available, abandoning the concept of *one best way* stated by Taylor.

These concepts, placing the individual at the center of the analysis as the real engine of the company's productivity, imply that the work organization must be carried out taking into account the workers' level of satisfaction/dissatisfaction together with the motivational stimuli perceived. From this point of view, management is therefore considered as the fulcrum and engine of these motivational impulses, as well as the collector of the employees' satisfaction level.

The authors of the Human Relations school trend focus their attention on the subject, on the individual and on his relationship with other individuals and with technology. The organization is no longer considered as a *machine*, of which the

worker is a cog, but it is conceived as a *living organism*. Therefore, the need to assess the skills, potentials, and needs of the various individuals comes out and it helps to the development of tools and solutions that allow a management of the work relations based on flexibility and informality, rather than on hierarchy and authority (Ghoshal & Barlett, 1998).

The management styles that ensue from the application of these perspectives should therefore be oriented towards the creation of a vast level of consensus, rather than the exercise of the authoritarian power according to the canons of Taylorism and bureaucratic organization. The creation of consensus and, in general, of the sense of belonging to the individual's system, implies a careful and planned management of leadership styles, motivational impulses, willingness to produce and, last but not least, the will to feel an active part in the improvement of the organization (Champy & Nohria, 1996; Grint & Case, 2000).

4.6 Human Resource and Personnel Management

The Human Relations School and, in general, the growing attention to the human factor within the company contribute to change the methods of the companies internal organization, with a progressive removal of paternalistic and authoritarian forms of leadership typical of the modernist perspective.

Until now, in fact, no theory of business organization or management has ever highlighted how the active involvement of workers in the elaboration of procedures, programs, and methods could play a central role, with positive effects in terms of maximizing efficiency and productivity. The human factor thus becomes an essential element of the organizational and structural dynamics that must be cultivated through the creation of a network of informal social relations, able to make the organization, still rigid, more elastic with regard to the changes and expectations of both its members and the market.

The Human Relations School and especially Mayo's theory (1945), abandoning the principle of personal profit adopted by the classical school, in favor of the acknowledgment of centrality, solidarity, and spontaneous collaboration, has convinced the managers to promote the groups training and to adopt more careful attitudes to the worker's needs, expectations, and wishes.

Neo-modernism succeeds especially in a period characterized by the disintegration of the large business units and by the contemporary diffusion of network business systems, in which both large, small and medium-size enterprises take an interest in participating, linked to each other by productive and/or commercial cooperation relations. Opposite the Taylorism, characterized by a marked depersonalization of relationships, separation of tasks, roles, and power, the adoption of a system based on human relations and support starts to be successful, since it considers as a new starting point the perception that the worker has about the contents of the task assigned. Unlike the view adopted by the classical school, the postmodernist view starts from the assumption that strategic and structural choices

should not be made following universal and general approaches (concept of *one best way* proposed by Taylor), but by choosing, on the contrary, appropriate solutions to contingent problems. The characteristics of the organizational form and processes must therefore be related to the nature of the competitive pressures to be faced, with a strong push to differentiate management styles.

Through the work of authors such as Mayo (1945), Homans (1951), and McGregor (1960), in the Sixties, there has been a growing appreciation of the correct management of human resources, considered the essential basis to increase productivity. All these concepts, considering the worker, who is the main subject of the analysis, as the real engine of the company productivity, require the organization of work to be carried out not only on the basis of *scientific* criteria of effectiveness and efficiency, but above all taking into account the level of worker's satisfaction/dissatisfaction and the motivational impulses perceived by them. As you will see, a new view of management and control begins to assert itself, where these are identified as the fulcrum of these motivational drives, as well as collectors of their employees' satisfaction level.

The worker's position becomes very important from an organizational point of view making him gradually responsible and autonomous. As you will see, this is one of the various symptoms of the more and more widespread tendency towards a general *flattening of the structure*, compared to the traditional pyramid and hierarchical scheme. The focus is more on the tools of work organization and on human resources management strategies. In order to achieve an effective human resources management it is necessary an integrated view in which the various activities and tools are enhanced and coordinated within the context of the company's general strategic choices, requiring flexibility in decision-making and planning skills (Hinings & Greenwood, 1988).

The growing attention to the importance of human capital has helped to an overall re-evaluation of corporate strategic choices within the personnel management sector. The management of relations with personnel and among employees has in fact taken on a gradually more critical role within the disciplinary areas of the business economy.

The perspective adopted is therefore the one that considers personnel management as a key for the development of human resources, in order to optimize their effectiveness and their value. They are called upon to provide an immediate and direct contribution to the company's growth, its knowledge, its distinctive features, and its competitiveness on the market. Therefore, human capital is essential for the creation of value and this consequently brings about an expansion of the organizational intervention variables, including all the situations regarding the human resources management: motivation, evaluation, incentive, selection, and recruitment. This is how personnel management systems, based on the workers training and skills begin to be established together with the parallel creation of new roles dedicated to the management and circulation of knowledge within the company, with the primary aim to generate in all participants, a common sharing of intentions and objectives.

In order to create a system based on the participants' consensus, it is necessary to adopt a careful management of motivational drives, by means of leadership styles suitable for the renewed needs, with increasing attention also to the image of the company in its social and economic operating context.

The worker must not be considered only as a simple production tool to obtain his mere availability to work: he has in fact to perceive himself as an active element of the organization, necessary for its improvement. The organizational and managerial strategies therefore begin to be inspired by a vision of the worker no longer as a counterpart to the working relationship, but as a real partner of the company: the management of human resources thus focuses on the enhancement of human resources centrality, within the relationships with other subjects internal and external to the company, and of the interactions with the other organizational variables (Favretto, 2010).

The general organizational intervention variables, such as those related to economy, institutions, politics, and technological development, begin to be interpreted through the *lens* of enhancing human capital, with a view to progressive harmonization and of mutual interaction (Ployhart & Moliterno, 2011).

Technological development, for example, is a very important variable in the evolutionary dynamics of business relationship since it has a great influence on its characteristics. Technology can be an aid for the worker only if it is adequately managed and transmitted, to the extent it allows the latter a greater ability to manage the process and a greater level of responsibility regarding the product quality, with a gradual but radical transformation of the professional characteristics required by the companies.

As mentioned, the classic organizational variables are supported by some specific variables that outline the environment of human resource management. In fact management must take into account both the characteristics of the labor market, which outline the level of ability, availability, helpfulness and cost of human capital, and the cultural and training system, which determines the level of qualification and workers' specialization. To these are added both the set of the so-called industrial relations, i.e., the rules and regulations concerning the management of the employment relationship (for example, laws or national collective agreements), and the activities of some specialized institutions dedicated to the supervision of the labor market regulation.

These variables, like the more general ones, influence and can at the same time be influenced by the specific activities and strategies adopted by the organization. The labor market, for example, establishes a certain level of availability of human resources; the company can condition this variable by adopting specific policies of personnel management, such as the enhancement of relations with the school and training system and with the institutions responsible for managing the world of work.

The strategies concerning the management of these variables and, consequently, of the relations with the various subjects connected in different ways to the company have made it possible to identify some organizational strategies, considered capable of managing the processes concerning human resources and of coordinating their

different competences. The strength and weight related to the various categories of subjects belonging to the organization may differ according to the strategic guidelines of the company and its characteristics. Currently, for example, the business organization tends more and more towards forms in which the structure is flattened, with a relevant decrease of intermediate managers and internal support bodies.

In particular, the need to manage various opposing forces, which mutually influence each other, has highlighted the importance of the adoption, within the organizational structure, of a specialized function specifically dedicated to the management of human resources, who should be able to promote a satisfactory level of coordination, cohesion, and mediation in the relations between the human capital and the company. The main aim of the structure dedicated to the management of human resources is to optimize the use of this resource, with all its peculiarities, and to ensure the best level in terms of individual satisfaction, achievement, and motivation (Cafferata, 2007).

The success of theories such as the one of the *Human Relations School* has contributed to the rapid evolution that has characterized this sector of the company, the importance of which has progressively developed and strengthened. The personnel management obviously has different characteristics in relation to both the size of the company and the peculiarities of its operational evolution. The variables that allow to define the characteristics of the personnel function could be so summarized.

First of all, the choice concerning the name adopted by the personnel management can be a useful tool to understand the extent and nature of this function. Specifically, this function can cover both the administrative and managerial sectors or provide for these sectors to remain distinct, with the consequent creation of a function dedicated to the administrative aspects concerning the employee relationship and of another function specifically dedicated to the personnel management.

Furthermore, once this characterization has been ascertained, the company sector dedicated to human resources can be characterized in a different way in relation to its position within the organizational structure.

Finally, the function of personnel management may be according to different degrees of decentralization and this mainly depends on the size of the company they are located in: a lot of multinational and large companies have in fact developed decentralized management structures of human resources and this trend has been more and more strengthened in recent years. Moreover with reference to the size of the company, the function of human resources management can have various divisions, concerning the wide extension of the tasks it holds.

The management of human resources must, in any case, be structured following the phases of the life cycle of the human capital within the company that is divided, in short, into the phases of selection, employment, training, and, finally, the actual employment relationship. In order to achieve the best management, it is necessary for the organization to have multiple skills and tools and, in general, to guarantee a structured ability for planning human resources, able to integrate in an organic structure the various activities and different tools useful in the human capital management. This scheduling, which starts from the analysis of the current situation through a sort of census, develops through future oriented programs, updating by

means of corrective actions due to the knowledge and control data collected (Martinez et al., 2017).

Therefore it is necessary, to adopt adequate evaluation, control, and budgeting mechanisms so that the management system of human resources be effective, and it is also necessary to create a structured, internal, and effective communication system concerning them. The corporate strategy adopted in terms of personnel management must therefore invest in the variables just described, being these the main management components and drivers able to guarantee the effectiveness, efficiency, and productivity of the organization.

Theories of Motivation

The path started with the so-called *Human Relations School* has led to a progressive enhancement of all the dedicated organizational aspects to the management of human capital. As mentioned above, all the tools used in the sector of Human resources Management have, ultimately, a motivational nature, inspired by the concept of *incentive*.

It is exactly with reference to this nature that motivation has been a fundamental object of investigation concerning the company organization study, with increasing relevance, compared to the equally growing awareness of the importance that, at a strategic level, covers the human capital within an organization. This derives, especially, from a progressive change in the concept of the human being as a member of an organization: he is no longer conceived as a simple *homo oeconomicus*, who acts only with a view to minimizing efforts and maximizing profit. The worker is no longer a subject endowed with only economic rationality, but a complex whole of needs, feelings, and objectives that, only if adequately satisfied, can increase productivity in carrying out his tasks (Gubitta, 2012).

Motivational impulses therefore become one of the levers on which management must intervene, at a strategic level, in order to guarantee workers the highest possible level of satisfaction and thus obtain the highest level of productivity.

Therefore it can be said that the interest in the workers' motivation and behavioral trends arises from a renewed awareness because the simple supervision of work has proved to be insufficient and this is the reason why the need to no longer act only on workers' control, but on their behavior and on the real nature of their duties has come out so that the relationship between the growth of workers and the organizational development of the company can be exploited favorably (Adams, 1963; Alderfer, 1969; Argyris, 1957; Herzberg et al., 1959, 1966; Maslow, 1943, 1954; McClelland, 1978, 1985; McGregor, 1960; Porter & Lawler, 1968; Vroom, 1964).

It is necessary to state first how motivation includes the whole of the individual's psychological aspects, such as skills, attitudes, values, and expectations, which, if adequately stimulated, can influence their behavior, since motivation is one of behavioral influencing factors.

The interest in studying the motivation of individuals in the working environment therefore arises thanks to the success of the so-called Human Relations School that has helped to highlight the weaknesses of the rationalist approach proposed by the authors of the classical school. The starting point of this change of perspective is indeed, as already mentioned, the change concerning the idea of the worker, no longer considered as a cog within the business system, similar to all the others, but as a valuable and fundamental resource, able to generate and transmit knowledge and, therefore, the real engine of the company's productivity.

In the general context of Motivation theories, the various authors adopt different approaches to study this aspect, emphasizing, from time to time, specific aspects of the motivational system that become other variables on which to intervene in order to optimize the maximum level of satisfaction and therefore of the individual's productivity.

The motivating factors are therefore identified both with the physiological, social and self-realization needs that each individual has and intends to achieve, and with the level of satisfaction that each worker perceives from the fulfillment of his tasks. From this point of view, the factors that contribute to produce satisfaction are related to the job and tasks content, while the factors that create dissatisfaction are mainly linked to the level of remuneration and of the work environment characteristics. Other aspects of motivation are identified with those factors that encourage the individual to long for success, such as the need for power, the need for fulfillment, and the need for membership, which coexist within each subject, with different degrees of intensity due to one's own personal characteristics.

The creation of a pleasant work environment, in which employees are given spaces to express their creativity and in which the content of duties and tasks is challenging, usually produces a greater willingness of individuals to take on new responsibilities, a greater level of autonomy, increasing the level of satisfaction, motivation, and, consequently, productivity.

By adopting this type of approach, it is clear how the implementation of tools that guarantee the highest level of motivation is one of the new challenges facing the dedicated sectors to the management of human resources and, in general, to managerial structures and management. The creation of an efficient motivational system implies a series of *costs*, requiring dedicated and constant attention to all the various factors, which we have briefly tried to describe above and that affect motivation, with different levels of intensity.

The fact that the motivation is made up of a complex whole of various psychological elements and, consequently, difficult to classify and govern, means that the motivation is a variable aspect over time, in relation to both the concrete working circumstances and, above all, in relation to the stage of the life cycle in which the individual is. Consequently it is impossible to identify, among the various theories of motivation, a thesis that can be considered absolutely valid, on the contrary it is more favorable to adopt a sort of combination between all these theories, trying to take into account all the aspects and factors highlighted by them, especially in relation to the organizational changes that characterize the growth path of an enterprise (Hannan & Freeman, 1984; Pezzillo Iacono et al., 2017; Sastry, 1997).

The new challenge facing companies is therefore to realize their organizational development in a coherent way with the specific need typical of each individual, to perceive and understand the meaning of their work, so as to be able to perform it in the best way, ensuring a harmonious, consistent, and fair working environment. Motivation theories, in their various forms, have as their minimum common denominator to focus the analysis on the worker considered as the real engine of the company's productivity and hence the planning of a work organization, structured taking into account the employees' level of satisfaction and dissatisfaction and, above all, the motivational impulses they perceive. Management is identified as the core and engine of these motivational impulses and also as a collector of employees' satisfaction levels.

Theories of Motivation According to Roethlisberger

Roethlisberger's work is a real cornerstone for the new organizational culture that developed from the school of Human Relations. The paper *Management and the Worker* contains an analytical description of the relations intensity level within a company, proving however how the development of these relations often turned out to be unconventional compared to the one planned to maximize productivity (Roethlisberger & Dickson, 1939). In fact, the observation of the concrete ways of working highlights how discussions, conflicts, breaks, and, in general, behavior, that are completely different from work tasks, occur and, above all, how workers naturally come together within informal groups, linked by feelings of solidarity and friendship, but not necessarily aimed to the achievement of business objectives.

Roethlisberger's studies highlight, from one hand, how these informal groups have great productive potential because they are effective multipliers of their members' energies and, on the other hand, they can be useful tools to have control and influence. With the work of this author the characteristics of the management and, in general of the company leadership, become more and more important as a central function preventing inefficiencies, as well as integrating groups and raising the level of commitment and participation. Like Taylor and the theorists of the classical school, Roethlisberger too considers the problem of maximizing productivity and corporate prosperity as a starting point. Unlike the classical school, however, this problem is not faced and solved through the structural and procedural organization and its rules, but rather by recognizing a fundamental role to the management function, which must reveal both its ability to stimulate individual creativity and its ability to reconcile individual interests according to the general interests of the company. Starting from the Human Relations School, in fact, we understand how the company functioning is, in general, governed by the logic of efficiency and effectiveness that, in relation to the company's human capital, are however tempered by more purely psychological logics, strictly linked to the role and perceptions of the single worker. These logics can create potentially destabilizing effects for the organizational balance and therefore, create the connected need to adopt mechanisms and instruments for the governance and control of these logics.

Roethlisberger's belief concerns therefore the integration of the heterogeneous components that are part of the company, which cannot be reduced to a slavish application of a scientific model of work organization. The organization, in order to be able to obtain and maintain its balance in a long-term perspective, must adopt targeted and dedicated managerial interventions, developing coordination, control, and, in general, management styles that are suitable for this aim. Roethlisberger's research, together with the Human Relations School and the motivation theories, is considered as the theoretical foundation of a growing interest in human capital and its characteristics within the company, with a broader attention to the internal personal relations. The common objective of these researches is to understand how individuals *self-organize* within a system, starting from the empirical observation of these manifestations in the companies really functioning. The description and the observation of such phenomena are the assumption to start their understanding and, consequently, the possibility of their advantageous *exploitation* oriented towards specific objectives and results. Starting from the description of real phenomena, we therefore try to outline a series of possible variables and intervention tools that can help to develop cooperation both within single groups and within the company as a whole.

According to the vision proposed by Roethlisberger in his work (1948), the sense of belonging to the organization must be developed, guaranteeing, at the same time, an effective control of the workers' behavior. In order to obtain these results, Roethlisberger proposes the adoption of *unconventional* methods of personnel management which aim both to arouse a growing interest of workers for the content of their tasks and to develop the best flow of information, and thus of knowledge and participation, from bottom to top, based on an upward model. Finally, according to Roethlisberger and Dickson (1939), Human resources management must be carried out and organized in order to persuade workers that they are and represent a part of a single organization, which, is able to provide them with the results they aim at. The great merit of this author, as in general of the school of Human Relations, is to have outlined and described the existence of a network of informal relations that naturally develop within an organization, thanks to the interaction among subjects, and which brings along both great potential for development and possible points of *ambiguity* with the formal structure of the organization.

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Chapter 5

Post-Modernism and Organizational Design



5.1 Post-Modernist Influences on Organizational Design

The development of the discipline of business organization dealt with in the previous chapters has proved how studying an organizational system is a fascinating and demanding task. Organizations, as we have seen, are complex phenomena, which cannot be traced back to a single interpretative paradigm. Starting from the rational and scientific vision proposed by the classical school, based on the contribution of disciplines such as engineering, law, and economics, the organizational phenomenon and its theoretical foundation develop, enriching themselves with the contribution of more human sciences such as psychology and sociology, and less of scientific ones (Baldwin, 2012; Burton, 2013).

In this changed environmental, cultural, and social context, the school of Human Relations develops together with a line of study that devotes its attention to the analysis of the various dimensions in which organizational complexity is structured, in order to more effectively prepare acceptable responses to the problems created by the organization's functioning, both in its external dynamics and in its interactions with the external environment.

It can be stated that an organizational system is a structure characterized by complexity and problematic nature, and therefore only a scientifically oriented knowledge research, based on an interdisciplinary theoretical approach, can lead to an adequate understanding of this phenomenon.

Another goal consequent to the gradual giving up of the classical perspective is the belief that the existence and functioning of an organization are essentially determined by its members. The organization, in short, is nothing but a set of subjects who interact with each other and with the external context, united by the sharing of common goals and purposes.

The overcoming of the classical perspective is at the same time cause and effect of the new concept of the individual within the company, who becomes a strategic

variable and an active resource, after all, more relevant than financial capital and technological contributions.

The evolution of the organizational theories examined in the previous chapters highlights how there are constant features recurring in every strand of thought (Clegg, 1990; Handy, 1989; Hecksher, 1994; Hecksher & Donnellon, 1994; Kanter, 1989; Nohria & Berkley, 1994; Weick & Berlinger, 1989).

The elements characterizing an organization are in fact unanimously identified, in a set of, human, financial, and technological resources, which interact with each other consistently with their common purposes, structuring themselves through the division into roles and tasks aimed at achieving predefined objectives. Starting from these common characteristics, the different theories will give more or less value to the various components of the organization system, creating as many structural models and identifying as many intervention variables.

The classical school, as seen above, has proposed an approach to organizational reality characterized by a scientific and rational vision of the phenomenon. The basic conviction of the classical school theorists is that the organization is made up of a structure, on which its functioning only depends. Since the structure is an element that can be *consciously* and rationally planned, it is necessary and sufficient to act on the structure in order to adapt the company's functioning to the new market demand.

According to the classical school, the purpose of the organization is to identify the organizational structure more consistent with the operational implementation of the corporate strategy, thus building a model (so-called *one best way*) universally applicable and replicable, since it is founded on a scientific and rational basis.

The great merit of the organizational discipline evolution lies in the fact that it has begun to conceive the organization as a complex system, which requires a *global* rethinking of the strategy that takes into account not only the individual elements considered separately, but above all the interactions and the reciprocal influences that are created among them and which, ultimately, are the essence and backbone of the organizational system.

As mentioned several times, the classical school and, especially, Taylorism have been mainly implemented in the factories owned by the businessman Henry Ford. The term Fordism, therefore, points out the practical implementation of Tayloristic theories in large industries, exactly the car industry.

With Fordism, Taylor's principles of scientific management are carried to the extremes, since for the first time, an organization of industrial work based on *assembly line*, was taking shape.

The production method of the assembly line had the advantage of reducing production times considerably, with the consequent minimization of the costs. Each element was structured and established beforehand in a scientific way, in order to guarantee the worker the elimination of any unnecessary movement. In short, the worker had to be able to do *one thing with one movement*. Maximal emphasis is placed on the values of precision, respect, obedience, and total availability, which correspond to a relevant fragmentation, rationalization, and measurement of the working activity and performance. Each activity is divided and standardized, according to simple and well-defined times and methods, into

elementary tasks that each individual is able to perform, in compliance with the typical Tayloristic *one best way* paradigm.

Taylor's theoretical contribution and Ford's practical one gave birth to an organizational model that characterized the whole development of the second Industrial Revolution but which soon revealed the disadvantages it brought about.

Criticisms of the classical model, in particular, focus on the high level of alienation of individuals that derives from an organizational model based on the scientific labor division. The individual, in the Taylorism, is considered as the cog of a machine, without taking into account the peculiarities of the human factor.

Taylorism, therefore, begins to be considered as a form of exploitation, in which human capital is not valued for all its potential, with a consequent loss of productivity for the company. Individuals can no longer be considered as cogs, since the organization develops from their aspirations and their actions and only thanks to these it is able to survive and operate. The worker cannot, therefore, be reduced to the *homo oeconomicus* proposed by the classical school, whose only motivation is to maximize profits. The individual is a set of emotions, feelings, beliefs, and values that cannot be treated as all the other material resources of the company are managed.

The classic model gets into crisis, leaving room for organizational theories that favor a vision of the firm as an open system, inspired, in general, by the principle of cooperation. The analysis *focus* thus begins to concentrate, at various levels, on the relational and interactive mechanisms that form the organizational structure, grasping the importance of their efficient and integrated management in order to ensure the prosperity of the company.

The variables of organizational intervention begin to expand, no longer including only the formal structure, but also affecting the more real human aspects of the company, both from the point of view of internal dynamics and from the point of view of interactions with the outside world. The company must therefore appear as a system in continuous relationship with the environment where it is located and therefore it must adopt organizational strategies that allow a constant and continuous contact with all its components.

As we have seen, the hierarchical structure proposed by the classical school begins to show its limits when the reference environment is no longer predictable, but, on the contrary, it is characterized by strong instability and unpredictability. This new level of uncertainty creates in the organization a further need for efficiency and effectiveness, hitherto considered basic. This new reference value is flexibility: only a flexible structure can react to context changes without suffering shock and exploiting such situations as opportunities for innovation and development.

It is therefore in this context that the concept of cooperation becomes more and more important, which will lead to the most modern organizational theories that consider knowledge and its circulation as the real engine of the productivity and survival of a company. Only by building relations based on the collaboration and on the achievement of common objectives the company can face the challenges of the new millennium, since only hierarchy and authority are not able to ensure the

cohesion essential for the vitality and prosperity of the company (Livijn, 2019; Sarti & Torre, 2018).

The strictly hierarchical and pyramidal structure reveals its inadequacy in relation to the changed environmental, social, and economic context, as any operation, any information, and any contact must necessarily overcome the whole hierarchy in order to be able to make the leaders able to communicate with the base. This inevitably leads to a slowdown in the circulation of information and knowledge, thus undermining the productivity of the whole organization. Furthermore, the considerable gap existing among the various levels, in which subordination is closely related to the concepts of authority and control, combined with very highly formal relations, brings about the dangerous consequence that individuals do not understand their role within the production process of which they only know their specific and defined task.

The success of the cooperation concept and the progressive enhancement of human capital, together with the development of social and technological context, lead to a renewal of the organizational models adopted by the companies which, more and more, tend to flatten the structure, favoring the creation of staff positions that support the line positions, without being subordinate but collaborative. Informal relations become more important and, by them, it is possible to guide the individuals' operation stimulating them to achieve common objectives.

Business network, franchising network, and industrial districts have been described in the previous chapters among the most complete achievements of organizational systems inspired by the principle of cooperation. These organizational realities clearly show how the characteristics of the contemporary economy and of environment no longer allow the company to consider itself as a system isolated from the context, of which it can eliminate the influences. The external environment influences are unavoidable for the company and therefore, they need management and governance like any other relevant element for its functioning. Contemporary world, globalized and free from national borders, and the rapid and relentless technological development, have proved how to join forces can be considered, in most cases, the only solution to ensure survival.

5.2 Post-Industrialism and Post-Fordism: Genesis and Characteristics

The terms post-industrialism and post-Fordism generally refer to the organizational trends that have developed since the crisis of the Fordist industrial model, which took place in the 1970s. These terms indicate that set of cultural, social, and economic aspects which, from the point of view of the organization, arise continuously and with or without a break with the past. The transition from Fordism to post-Fordism does not lead to a clear and traumatic break but is rather guided by a perspective of development and evolution from the past to the future.

Essentially, we witness a general revision and modernization of those aspects of the organization which had proved unsuitable to face the challenges posed by the changed social context and the changing needs of the markets (Heydebrand, 1989; Ouchi, 1981).

The terms post-industrialism and post-Fordism indicate, therefore, different aspects of the general phenomenon of organizational development, which can be traced starting from the model proposed by the classical school, up to the theories that consider it as an open system based on cooperation and that generally fit in the post-modern trend of the business organization discipline.

Exactly, post-Fordism identifies the end of the great industry structured on the Fordist model, analyzed from an economic and productive point of view. With the gradual disappearance of the factory, typical of the classical conception of the Industrial Revolution, a new type of economy begins to be created in which the majority of the subjects are no longer involved only in the production of material goods. Alongside this production, the services market is expanding which, naturally cannot be organized according to the rigid conception of the assembly line introduced by Ford.

Post-industrialism indicates a change in the level of centralization and *legitimacy* of power, which is no longer confined to the ownership or administrative structure, but it gradually moves toward the center of Knowledge possessing. This is where the foundations will be traced to define the so-called *learning organization*, a modern organizational structure that more and more characterizes the contemporary company organization.

The phenomena of post-industrialism and post-Fordism are therefore considered the specific aspects of the more general post-modernist cultural trend, characterized by the exaltation of the contingent aspects of reality and by a strong boost toward change and innovation.

The development of the post-modernist culture is at the same time cause and effect of overcoming the rigid organization of the Fordist influence, in favor of the adoption of flexible production systems, based on cooperation, on adaptability to change, and on division of the hierarchical levels (Clegg, 1990; Crook et al., 1992; Hancock & Tyler, 2001; Meek, 2004).

Post-industrialism and post-Fordism are therefore the social and economic consequences, respectively, of the post-modernist culture expansion that has characterized the organizational context from the second half of the twentieth century.

In this phase of industrial development, it is widespread the awareness that the organizational structure built on the Fordist model is unable to respond adequately to the global challenges posed by the size of the market that consequently requires an adaptation and a change of the organizational paradigm.

In a perspective of continuity with traditional thinking, an attempt is made to re-adapt production choices to the changed context, gradually abandoning the organizational model based on the principles of scientific management and on the rigid production line.

The industrial development phase identified as post-Fordism is characterized by the adoption of organizational criteria and technologies inspired by the principles of

the worker's qualification, specialization, and flexibility. This is the result of the gradual moving away from the Fordist perspective, characterized by mass industrial production based on repetitive work tasks, which had gradually reduced the level of qualification and specialization of individual workers (Diefenbach & Sillince, 2011; Hecksher & Donnellon, 1994; Johnson et al., 2009).

The company thus begins to acquire greater organizational and production flexibility, breaking away from traditional mass production in order to be able to adapt to an increasingly diversified market demand subjected to rapid changes. In a constantly changing context, the competitiveness of the organization depends on the ability to respond quickly to customer needs.

Taylorism, therefore, progressively loses effectiveness in relation to the growing phenomena of geographic relocation of big companies, of the decentralization of the big factories into several organizational units, endowed with increasing autonomy.

Post-Fordism and post-industrialism, therefore, reveal that phenomenon of production innovation which we have witnessed in the transition toward the twenty-first century, characterized by the high level of automation of industry and functions and by the flexibility of structures and organizational strategies. Furthermore, attention to the specific needs of consumers and employees is gradually increasing, obtaining the centrality of the role of information, of knowledge, and of their circulation (Canonico et al., 2020; Gabel & Tokarski, 2014; Marabelli et al., 2013).

Large business units *disintegrate* and decentralize into many sub-units, more and more autonomous, and at the same time network organizational systems spread, the permanence in them guarantees convenience to small, medium, and large companies.

As already pointed out several times, the organization as a system based on cooperation becomes central both in interorganizational relations, in which direct and *informal* relations must be preferred, and in intraorganizational relations, in which the individual does not feel only a subordinate subjected to a strict discipline, but as an active participant in the system, to which he can give valuable and innovative contributions that go beyond his specific task.

Anyway, it is necessary to underline how the development of the post-modern conception of business has not replaced the Tayloristic school that, on the contrary, continues to be applied, although with different practical variations. This is the case, for example, of developing countries where organizational evolution is still in its infancy.

Post-Fordism and post-industrialism lay the foundations of their own development, as well on historical and social roots, above all on the quick development of information technologies typical of the twentieth century and which can be considered the true and the most relevant driving force of the changes and innovations in social and productive organization. The success and development of new technologies have in fact provoked a real revolution, which has completely upset the entire environmental, social, and economic context. The gradual and pervasive expansion of the Internet and its more varied applications can be considered an emblematic example.

The progressive expansion of the boundaries of the economy and of its relevant variables has posed new challenges and difficulties to the post-Fordist organization, such as the increasing level of unemployment, due to the reduction of labor demand, determined, indeed, by the introduction of new technologies.

The flexibility of the company, a feature more and more necessary for its success, brings about a related flexibility of production, which changes into a gradual precariousness of work. As the *dehumanization* of the Taylorism, even the post-Fordist company faces challenges regarding the effects of corporate decisions on its members and, in general, on society (Child, 2005; Foss, 2003). Organizational and management techniques begin to become popular aiming at reducing the *time to market*, that is, the time that exists between the acquisition of the market demand needs and the moment of availability of the product or service. A production method that perfectly embodies the concept of flexibility is the inventory management system according to the scheme of the so-called *just in time*.

5.3 Post-Fordism Implications on Management and Leadership

Post-Fordism and post-industrialism develop as effects of the growing centrality recognized to the individual within the company, who is no longer considered as a cog in a machine, but as a real strategic resource, which requires a high level of attention and investment. This *individualist* perspective helps to undermine the traditional reference authorities and, among these, also the ones within the companies, represented by the structure according to hierarchical levels and to the principle of authority.

A growing autonomy, which corresponds to greater accountability, is recognized by the individual worker. Corporate structures begin to adopt organizational structures that prefer a horizontal development, through staff bodies, to the vertical and hierarchical development that was their typical feature up to that moment (Clegg, 1990).

Furthermore, the human factor becomes more and more important, identifying the real engine of the company's productivity. The worker's satisfaction and motivation are no longer considered merely *monetizable* in wage increases, but they understand how the individual needs continuous, effective, and constant stimuli and motivational support. This encourages the worker to feel part of the organization, asking him to actively contribute to its prosperity in order to achieve the common objectives.

The management and, in general, the governance of the company not only must be aimed at ensuring the best levels of efficiency and effectiveness, but also they must direct their actions toward a progressive enhancement of human capital, investing in its training and in its stabilization, in order to ensure that all individuals move together aware that the behavior of one can influence that of the other and, in

general, the whole organization (Hancock & Tyler, 2001; Rickards & Clark, 2012; Vidal, 2007).

From a managerial perspective, the concepts of coordination and cooperation become therefore more and more important. Management has no longer to worry only, as in the Tayloristic model, to adopt a scientific tasks fragmentation, exercising authority and control in view of respecting predetermined quantitative and timing canons. In this new perspective, management must be able to catalyze all the forces and resources of the organization towards the achievement of the common goals, stimulating the worker's motivation and satisfaction.

It is precisely in this new perspective that the notion of leadership, considered as a purely personal feature suitable for transforming a manager into a leader, begins to develop partially in contrast with the concept of management.

The leader has in fact the task of coordinating the various members of the organization and the need for this coordination expands as the complexity of the assigned tasks increases. Leadership must therefore be able to ensure the management, the evaluation, and the motivation of its own employees, in order to gradually improve the company climate (Bonti & Cori, 2012).

Leadership thus begins to be characterized as the ability to identify the most appropriate tasks to achieve the objectives, and at the same time to consider their impact on employees. Furthermore, the leader, in order to operate efficiently, must represent and convey the so-called *vision* of the company, which allows workers to identify and perceive their role and contribution in the company, with a natural virtuous boost to improve their skills and to take on greater and more relevant quantity of responsibility and autonomy.

Besides transmitting the so-called *vision* of the company, the leader must prove to be also capable of transmitting the so-called *mission*, that is, the very reason of being of the organization, its most typical aims. By conveying the idea of *mission* that underlies the organization, the leader is thus able to convey to the collaborators a sense of belonging and enthusiasm which, although emotional components, are equally influential in ensuring the prosperity and maintenance of a company (Elfenbein, 1998; Hakonsson et al., 2016; Sy & Coté, 2004).

The fundamental tasks of the leadership unit become *organization*, *planning*, *coordination*, and *control*. With the development of post-Fordist and post-industrial models, therefore, leadership takes on new features to ensure efficient and effective management of the organization, using the contribution of disciplines such as psychology and sociology and acquiring specific skills in the field of communication strategies in order to favor and ensure full integration between the individual and the organizational system.

Discipline is no longer exercised through authoritarian and rigid models, in which passivity and subordination prevail, but through a continuous and latent influence that pervades all relations and all operations with the aim to create a business climate favorable to innovation and change (Denison, 1996; Tagiuri & Litwin, 1968).

With the development of the post-modern perspective, the core value of the company becomes its level of flexibility and from this radical change of perspective the connected change of management and leadership concept derives, no longer

appointed, as in the Taylorism perspective, only to ensure discipline and respect for working times and methods.

In fact, it is becoming very important for management to deal with the development of a cohesive and coherent organizational and productive environment, inspired by the cooperation and coordination of the various sub-units, to which must be ensured an autonomous but, at the same time, synergic and interrelated functioning.

Flexible Forms of Production

The certainties of the Taylorism and the precision of Max Weber's bureaucratic organization begin to face some problems in parallel with the increasing level of risk and uncertainty linked to the gradual market expansion. These models, in particular, are shaken by the rapid and relentless technological development that requires constant updating of the work tasks and their contents (Bagguley, 1989; Crook et al., 1992).

The consequence of this progress is expressed in the need for continuous restructuring of the organizational and work processes, in relation to which the breakdown of the complex system into several simple units proposed by the Tayloristic and bureaucratic model has revealed its inadequacy.

In the post-Fordist period, the rapid evolution of technology brings about, on the one hand, the configuration of its primacy which has become a necessary and an essential component, and on the other, the possibility of adopting more flexible and therefore more efficient production systems. Moreover, the approach to the market also radically changes, since it no longer takes place through the standardization of products and of the consumer's needs, but through a differentiated production of goods, in reduced quantities but of higher quality. This is followed by the creation of sectorial marketing, which aims for a specific market and consumer sector, which requires in-depth knowledge of the reference sector and, therefore, an optimal activity of information and feedback finding (Dobrajska et al., 2015; Klahr & Kotovsky, 2013; Kotler, 2000; Van Zandt, 1999).

The exhaustive knowledge of the reference market has the further advantage of being able to supply resources and store products limited to specific needs, minimizing warehouse and structural costs in general. It is in this changed context that network organizational structures develop, based on the principle of cooperation, productive diversification, and decentralization of decisions.

With the failure of the Fordist model, therefore, relevant changes in the production processes are made in the enterprises, caused, especially, by the development of new *flexible* forms of production.

In the model proposed by Taylor, production is achieved through work organization with a high level of fragmentation and a low-skilled workforce; the work is divided into simple and repetitive tasks, in which the worker's autonomy is really limited. Within the company, the distinction between managerial and operational

sphere is implemented in a rigid and clear manner, determining its functioning in the same way as the principles of bureaucracy and on the basis of hierarchical control. Equally clear is the distinction between the role of management, entrusted to specialized managers, who have the task of integrating, controlling, and coordinating the complex of the various production activities.

This organizational model has shown its greatest potential when applied to the large company dedicated to mass production, however, it reveals its inadequacy in the changed economic context in which the size of the company was decreasing, the relentless technological progress required huge costs for constant adjustment and, finally, the services market was expanding more and more, no longer linked to the creation of finished products.

From the 1970s, as a consequence of the above-mentioned phenomena, a process of pluralization and diversification of production models has developed. So it is possible to speak of flexible specialization production models, as opposed to the rigid production model of Fordist imprint (Kumar, 1995; Piore & Sabel, 1994; Thompson & McHugh, 2009; Wood, 1989).

Flexible specialization is characterized by the production of reduced series of non-standardized goods, by means of machines and tools that can be used for different models. The fulfilment of flexible specialization requires, in fact, a highly skilled labor. Features of flexible specialization are therefore the presence of multipurpose machinery and the presence of skilled, but, versatile workers at the same time.

The success of this production model derives, mostly, from the advent of new electronic technologies, able to reduce the cost of implementing diversified and flexible production. Applying this model, the use of multipurpose machines and *versatile* workers leads to a reduction in costs in the production of non-standardized and differentiated goods, intended for specific market sectors and consequently facilitating new investments in flexible technological tools, able to ensure a further reduction in costs and to create new allocation spaces on the market (Pironti et al., 2015).

In flexible specialization, the fundamental problem becomes to support and motivate the continuous combination of resources in an innovative key, by balancing the level of competition and the level of cooperation among the various production units. It is in this changed context that organizational models such as, for example, industrial districts develop based on the concept of decentralization (Atkinson, 1984; Frenkel, 2003; Frenkel et al., 1998; Kalleberg, 2003).

This organizational model responds to the more and more urgent need to ensure the company a structure characterized by flexibility, which allows it to adapt to changes in the external context and, above all, in the increasingly changing market demand. The decentralized network or common structures expansion responds exactly to this need, having found in cooperation with competitors a source of cost reduction and, therefore, an increase in the productivity of the company.

Also from this point of view, it is possible to note how these developments are linked to the change in the concept of the organization, now considered as an open

system that interacts with the external context, in a perspective of continuous and reciprocal influence and interrelation.

Flexible specialization, therefore, develops both as a different theoretical approach to the analysis of industrial change, and as a specific model of productive organization that takes on different forms depending on the institutional and productive functioning context. This means that the approach proposed by this model, starting from a dynamic interaction between consumption and production, does not consider the market structures as rigid parameters that impose a single adequate strategy (*one best way*). In the flexible specialization perspective on the contrary, the market is considered as a contingent element, conditioned by the operational and competitive strategies implemented by its own actors. In short, the adoption of flexible forms of production, in the sense analyzed so far, is accompanied by the tendency to a *fragmentation* of the mass market, in order to create a differentiated demand that can be satisfied through the constant introduction of innovative and high-quality products (Gorz, 1999; Pollert, 1988, 1991; Skorstad, 2009a, 2009b; Thompson & McHugh, 2009).

In a constantly changing context, where market demand changes rapidly, investing in highly specialized machinery becomes very risky, since the risk of the product obsolescence is high. The reorganization of the production sector is thus inspired by a spirit of experimentation that leads to the offer of innovative products and the ability to quickly modify them according to fluctuations in market demand.

There is therefore a need to reduce the degree of separation and, consequently, the timing between planning and execution which, was very clear and rigid in the Fordist model and made the production of new goods elaborate, rigid, and slow. New forms of decentralization of authority start to be experimented creating many support units and a *streamlined* central structure responsible for strategic decisions only. Organizational structures based on staff positions develop, which support the line positions, and, in general, on decentralized forms less and less consistent with the classic pyramidal and hierarchical model.

These structural and organizational changes obviously involve a change in the work internal organization. Production is no longer on a mass scale, with standardized products and procedures that can be broken down into repetitive and elementary tasks and duties. On the contrary, production is now based on highly differentiated goods, produced in small series, with the constant need for adjustments according to changes in market demand. In this new production context, the primary need is to eliminate surplus resources, which leads to an increase in costs of various kinds without a good performance for the company.

In order to ensure this boost for innovation, it is necessary to reduce rejects, stocks, and waste, *lato sensu* (broadly considered, and to do so it is necessary to ensure a high level of involvement and collaboration of the workforce).

The worker is no longer the poorly qualified and educated worker necessary for the functioning of the Fordist enterprise: with flexible specialization, the worker becomes a subject requiring a high degree of specialization and qualifications, as well as a strong spirit of cooperation and propensity for the *versatility* of his own duties. The worker, in short, must be able to perform different tasks, showing a spirit

of adaptability to the internal dynamics of the organization, such as, for example, the composition and breakdown of work groups according to the production needs.

Rules and procedures are introduced in order to encourage workers to adopt a behavior inspired by cooperation that not only helps to create a serene and productive company climate, but also stimulates individual learning skills.

With the development of flexible specialization, companies become real learning systems, formed by a network of formal and informal relations that enhance the innovation capacity of the overall structure. The need for rapid adjustment in relation to sudden changes in market demand in fact requires an organizational change which consequently needs specialized and qualified human resources capable of creating and spreading knowledge.

The gradual focus on the knowledge theme is the premise on which the modern theory of *knowledge management* and *learning organization* is based, both based on the common belief that the creation of knowledge and its fluid circulation are the real determining factors for the success of a company in the contemporary globalized context.

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Chapter 6

Organizational Design and Decision-Making Processes



6.1 Strategic Decision-Making

The management of an organization is made up of the set of subjects who hold managerial responsibilities within the company and who are entrusted with the task of coordinating the internal dynamics of the organization and the variables of the environmental context.

The manager, as already mentioned, in order to carry out his role in the best way must possess not only technical and professional characteristics, but also personal qualities, such as the ability to reflect, interact, and understand, which allow him to better interact with the human capital of the company, ensuring the integration of the different potential of its collaborators and employees (Jones, 2013).

In addition to these characteristics, what is decisive is the manager's possession of a strong strategic ability that concerns the competence to identify the opportunities that arise in the company and to be able to know how to exploit them clearly and with flexibility. This activity is made concrete by the choice of the managerial strategy, that is, a long-term objectives choice, consistent with the company *mission*, which derives from a deep knowledge of the competitive environment and, above all, from a careful evaluation of the available resources (Hedelin & Allwood, 2002).

The manager must therefore possess planning and leadership skills and be clearly aware of the company *mission*, with a strong propensity to manage and use teamwork. In addition he needs to have a strong creative potential that allows him to quickly understand the context and to identify suitable solutions to the contingent problems it creates (Citroen, 2011).

The management, therefore, outlines the business objectives and guarantees their pursuit, ensuring effective coordination and constant monitoring of both the company resources and the economic and social reference environment (Shepherd & Rudd, 2014).

In the company reality, this basic scheme is supported by a number of activities that have the ultimate aim to ensure the balance between available resources and

expected results, which guarantees consistency with the company's activities. Management will therefore have to deal with further processes, equally fundamental, such as the formulation of business strategy, budget setting, management of the activity report, and decisions in the allocation of resources. Within each of these processes, the manager must also ensure both an efficient management of human resources and an effective communication system with *stakeholders*, through a constant and continuous process of construction of the organizational infrastructure (Mintzberg et al., 1976).

According to the vision proposed by Fayol, the core activities of management skills can be identified with *planning, organization, command, coordination, and control*.

Planning, in particular, is the core of the manager's activity, consisting in determining the objectives and contents of the company's operations carried out taking into account the possible and probable evolutions of the external environment and defining the consequent plans of action. The characteristics that guarantee the success of these action plans are precision, consistency with the general objectives, continuity over time, and flexibility capacity. In particular, consistency among the predetermined results, the lines of conduct to be followed and the means to be used compared to those actually available (Brozovic, 2018; Zhou & Wu, 2010).

In any case, every management's activity is carried out through decision-making processes, which imply the identification and definition of the problems and the needs that the company must face and satisfy (Eisenhardt & Zbaracki, 1992; Elbanna, 2006).

The decision-making process that guides the management's activity must therefore be structured according to precise techniques that allow to choose the most rational and, consequently, the best solution (Cohen et al., 1972).

It is therefore necessary to identify suitable techniques in order to research and solve business problems. Each decision-making process is divided in three phases.

The first phase, the so-called *problem finding*, is the ability to discover and identify the problem. In this first phase it is necessary to identify the various problems present and recognize which, among them must be faced first. The problem finding phase is therefore divided into further sub-phases: the identification of all situations that do not contribute to the improvement process; the analytical collection of information about these situations, and, finally, the choice of the problem with the highest priority for intervention.

The second phase, that of the so-called *problem setting*, instead consists in the real definition of the problem. Having identified the situation to be faced through the problem finding, in this second phase the scenario is analyzed as well as the so-called trends, that is the underlying tendencies of a certain behavior. Through this analysis it is possible to identify the critical areas and consequently to organize a constant collection of data that allows to precisely define the *boundaries* of the problematic situation to face (Baligh & Burton, 1982; Holmstrom & Roberts, 1998; Robinson, 2008).

After identifying the problem (first phase) and having defined it exactly (second phase), you deal with the most delicate and connotative moment of the decision-making process, that is, the problem solving phase.

The *problem solving*, especially, is an analysis methodology that is used to identify, to plan and implement the actions necessary to achieve the problem solution. The tools necessary for a correct problem solving activity are dual: together with the tools for measurement, that is, for analyzing and collecting information about the problem, there are tools for intervention, for identification, and for the choice of possible solutions (Liedtka et al., 2013).

The starting point is the analysis of the situation in order to identify and define the deviations from the best model, so as to be able to identify the possible causes; in order to carry out this analysis, a careful collection of information is necessary, which can be an effective filter in the subsequent verification phase.

Once the available information has been collected, it is necessary to carry out a diagnosis process to identify the possible causes of the problem, detecting the most probable ones. When the probable causes of the problem have been identified, it is necessary to look for the possible solutions and above all those on which any intervention can give the maximum result with the minimum waste of resources.

At this point, having identified the problem, gathered the information, identified the probable causes and possible solutions, it is necessary to face the central moment of this phase, that is, the choice of the most appropriate solution to be adopted. In this phase, a lot of techniques are used and among them we remember, for example, brainstorming, the use of diagrams or group work. In any case, the fundamental purpose of all these different schemes is to stimulate the recognition of multiple solutions, with an increasing level of creativity that allows to unhinge the problem and look for effective ways to deal with it, even by breaking away from the *rigid* schemes of the more classic and traditional solutions. All these methods use group work, based on the belief that everyone has a limited vision of the problem and that only by combining them it is possible to reach a broad and complete vision, which does not neglect any aspect.

To guarantee that these methods are effective, it is necessary that the group work, otherwise organized in the various models, is managed and coordinated in order to ensure that it is directed only towards the production of positive and proactive results, without creating conflicts or extremisms that are not reconcilable and not concretely feasible. This is one of the other aspects on which the manager's activity is concentrated, both in relation to the direct management and training of the working groups, and in relation to the choice of the collaborators and of the support roles that deal with the single resolution processes.

This activity of analysis and identification of possible solutions leads to a gradual selection of the same, with processes of progressive elimination of the solutions that are not considered the best. Through this selection phase, the best of the proposed solutions will therefore be identified.

Once the best solution has been identified, it has to be subjected to a planning and development process in its real functioning, identifying the concrete corrective actions to be implemented and according to what times and methods. In a modern

organization, subjected to variable and constant external requests, this phase can be carried out efficiently, as already pointed out, only if it has a structure and composition strongly based on cooperation and flexibility.

After having planned and transferred the chosen solution into the operational reality, it is necessary to check the results, in order to evaluate and verify the validity of the above-mentioned solution in relation to them. This phase of verification and control of the results is absolutely fundamental and to be effectively implemented it is necessary that the collection of information, together with the one already carried out in the previous phase, is complete, careful, and objective (Grandori, 1999).

If the verification phase provides positive results in relation to the achievement of the expected ones, it will be necessary to continue to maintain that line of intervention, standardizing it and possibly identifying it as a model to be applied also to other fields. The standardization of any decisive actions must, in any case, be accompanied by constant monitoring, in order to verify both their correct application and their constant compliance with the expected results.

Herbert Simon (1947), in the elaboration of his theories on the company based on the concept of the same as a system for processing information, aims at building a scientific theory of problem solving and, in general, of the decision-making process, based on the belief that the human capacity for knowledge is constitutionally and naturally limited. For this reason, Simon proposes the simplification of complex problems and the specialization of company structures, as the best activities.

6.2 Decision-Making Problems According to Simon

Herbert Simon's theories (1955, 1957, 1960, 1967) are based on the belief that the rationality of decision-making processes is constitutionally limited. In his analysis the author pays particular attention to the real and concrete behavior of individuals within organizations, regardless of the roles attributed to them. Through this analysis, the author studied the decisions of individuals, identifying the relevant factors in decision-making (March & Simon, 1958).

The great merit of this author is overcoming the belief, typical of the classical scientific school and of Taylorism, that human rationality in making choices is to be considered absolute and, consequently, scientifically directed. The belief of the classical theorists of organization is that, by applying the scientific method and breaking down a single complex problem into several simple operations, the best solution is obtained, since it is possible to predict the consequences precisely.

Simon's theory and his analysis are based instead on the belief that the rationality of decision-making processes is constitutionally limited and that the fundamental object of knowledge management is the decision-making process and its determining factors. The studies carried out by this author have allowed us to demonstrate how decisions are taken without using the (rational) criterion of efficiency, but rather using the criterion of sufficiency and satisfaction, which is naturally given by the intrinsically limited human rationality. The fact that human rationality is limited and

relative implies that the knowledge acquired by individuals is limited. A consequence of these reflections is the development of the increasing value of cooperation among the organization members, together with the increasing importance of the incentives and contributions received and provided by individuals. According to this new logic, in fact, the decision-makers, who operate in dynamic and complex contexts, are no longer able to evaluate and examine all the existing alternatives and above all to foresee their possible consequences. Furthermore, as we have already seen, the concept of the individual considered *homo oeconomicus* is being abandoned, that is, a subject that considers the maximization of its profits the only reason of his efforts (Hedlund, 1994; Paniccia, 2006; Paniccia & Leoni, 2019).

Simon, especially, bases his theories on a different organization concept, in which the analysis is focused on the decision-making process and its influences on the structure. In the vision proposed by this author, therefore, the organizational planning concerns the mechanisms and tools through which it is possible to influence and organize the decision-making activity of individuals, in order to improve the overall rationality level of the organization.

As already mentioned, people's behavior and therefore their decisions are intentional, because they are aimed at a purpose, and rational because they are based on a choice among several alternatives. However, the identification of these alternatives is constitutionally limited, since the same human rationality that is its assumption is limited.

In order to control the decision-making process, it is therefore necessary to identify suitable and effective influence mechanisms to reduce the natural and intrinsic limits of rationality.

The first of the tools available to the organization is the division of labor, which responds to a general logic of simplifying complex processes and problems. Through the division of labor, which is the *essence* of an organization, it is possible to obtain a reduction in the level of knowledge and required skills, with a more concrete adaptation to those actually owned by individuals. In fact, the decision about the methods of the subdivision and organization of work is not only a technical problem, but a choice with relevant practical repercussions, linked especially to the need to control and coordinate the activities and results of the whole organization (Schepker et al., 2014).

In order that the division of labor can be effective, the organizational planning must be structured through the formulation of standardized procedures and actions, capable of guiding the performance of the single activities. The effectiveness of these procedures must be subjected to constant monitoring and it depends, mostly, on the level of competence and specialization of the subjects who have contributed to their standardization.

The high level of labor division and the existence of procedures make it necessary that management, although no longer tied to the traditional concept of hierarchy, should in any case be able to exercise its own authority, considered by the subjects as acceptance of having their behavior influenced by other people's decisions. We speak of authority precisely because this level of acceptance must disregard the

judgment and the degree of the individuals' sharing in relation to the decision to be implemented.

Furthermore, this level of acceptance is what ultimately determines the effectiveness of an order or a decision: the more extensive this predisposition, the more achievable the operational results. To ensure the extent of this level of acceptance, it is necessary for the organization to adopt suitable incentives, not just monetary ones, which push the individual to feel part of a *system* that develops and progresses thanks to the contribution of each and everyone.

Although the concept of authority is fundamental, Simon understands the importance of all range of informal relations that naturally are created within the organization and that support the formal structure, integrating it. Following the contingent theories and the school of Human Relations, the author underlines the importance of such informal relations and the fact that they do not develop on the basis of the concept of authority, but rather of mechanisms such as solidarity, persuasion, communion of purposes and needs.

These really social mechanisms thus become tools, in the hands of management, which can be used to encourage and motivate employees, persuading them that the development of the organization as a whole is what ensures the prosperity of its individual members.

The goal of creating a sense of sharing and communion of purpose is achievable through the creation of an efficient information system, accompanied by a constant and exhaustive training and learning program.

The creation of accurate information systems contributes to the creation of a competitive advantage for the company, ensuring a deep knowledge of both its internal dynamics and the external context, in order to foresee and identify possible changes and face them in a perspective of transformation and flexibility (Berman & Marshall, 2014).

An efficient information system contributes, in general, to reduce the limits of rationality, guaranteeing a common knowledge base for all the company members, obtained thanks to the selection of the necessary and relevant information flow for the decision-making process (Antonelli et al., 2018).

After having built a suitable system to create this common basis of knowledge, this level of knowledge should not be permanently crystallized as a result already achieved, but its constant updating and development have to be ensured, with a view to innovation and change.

It is for this reason that in the modern organization the building of training and learning systems becomes more and more fundamental, since they are internal instruments of influence for the company. With the creation of these training programs, in fact, it is possible to increase in the workers the sense of belonging to the organization, emphasizing the importance of everyone's contribution to its progress. The acquisition of knowledge is no longer just a necessary requirement to become part of the organization and carry out a role correctly, but it becomes the real engine of change as the individual no longer performs a task mechanically, but he understands the importance of his job within the overall process, thus acquiring a greater motivation for a continuous improvement (Hull & Covin, 2010).

The creation of efficient learning systems contributes to the circulation of knowledge both inside and outside the organization, thus stimulating its members to continuous improvement and to a greater ability to analyze the situations and the adaptability to change (March, 1991).

According to Simon's vision, learning processes act in two different and complementary ways: on the one hand, they act on the members of the organization, expanding their knowledge; on the other, through the integration of new subjects who, with their entry, bring about the knowledge that the organization did not previously possess.

The creation of knowledge therefore begins to be, in modern and contemporary business organization, a topic of increasing importance since, in a world constantly changing, it is now more than ever necessary for the organizational system to ensure flexibility and rapid responsiveness to changes. Only through an in-depth knowledge of the reference context is it possible to foresee possible changes and possible requests, in order to exploit them proactively instead of being subjected to them passively.

Knowledge, considered in a broad sense, is in fact the prerequisite of the decision-making process which, according to the vision proposed by Simon, is the real engine of the organization development. While in the classical and rational conception of organization, decisions are concentrated on the company's board and top management, with its clear division from the operational structure, with the company considered as an open system inspired by cooperation and flexibility, there is a redistribution of the decision-making process in the organizational structure, no longer strictly pyramidal but more diluted through the establishment of staff positions and, in general, of support, subtracted from the structure based on hierarchical principles (Calabrese et al., 2018; Etzioni, 1999).

Furthermore human capital becomes more and more important and individuals are endowed with greater levels of responsibility and autonomy, thus guaranteeing the creation of a central structure that can devote itself almost exclusively to the analysis of strategic decisions and to the choice of general guidelines. The single members of the organization, thanks to the greater responsibility and autonomy recognized to them, increase their skills and their specialization, which also continues to be guaranteed not only through the division of labor, now less "scientific," but also thanks to an efficient learning and training system. In this way, as underlined by the so-called theories of motivation, the organization's members receive further stimuli besides monetary incentive and therefore they are more and more motivated and encouraged to a continuous and constant improvement.

This is a process of gradual decentralization of the authority and decision-making power, with a tendency to create more flattened structures that develop horizontally following a vision inspired by cooperation rather than by hierarchy and authority. The reasons for this process largely depend on the gradual increase in the complexity of the environment and the competitive, social, and economic reference context, which is more and more unstable and unpredictable. This growing level of instability and unpredictability has increasingly shown the inadequacy of rigid structures such

as the ones proposed by the models of scientific organization of work, highlighting the need not only to ensure the stability but also the flexibility of a company.

6.3 Organizational Structures

As we have tried to explain in the previous sections, the organizational structure is an element of the organization outlined according to a clearly defined planning of the company as a whole (Woodward, 1965). The difference between organizational structures is given, in short, by the differences that can be found in the way the division of labor is planned and in the different level of the authority centralization or decentralization adopted with the related acknowledgment of the planning and control powers (Ahmady et al., 2016; Cafferata, 2007; Dedahanov et al., 2017; Ouchi, 1977).

The labor division and its subsequent and correlated coordination is in fact the real essence of every organization: by applying these principles, in fact, the organizational structure can achieve its primary purpose of obtaining a better and more complete result than the sum of the individual results of isolated activities. The work organization carried out according to these principles takes along three fundamental advantages: a considerable reduction of learning times; the achievement of a higher level of skills and competences; the possibility to take advantage of the specialized subjects' contribution, above all in order to develop and improve the working methods.

The different ways of understanding and applying these principles have undergone a profound evolution, adapting to the growth of the companies size (Visitin et al., 2014; Visitin & Pittino, 2016).

As we have seen in the previous chapters, in fact, the progressive enhancement of the human factor and its peculiarities has led to a radical change in the organizational forms, today more and more distant from the traditional models recommended by the classical and rationalist school.

Traditionally, two fundamental techniques can be identified to build an organizational structure: linear organization and organization structured in staff positions.

In the linear organization, each subordinate subject depends on a single superior authority, since there is a direct relationship between them and it follows the complete chain of hierarchical levels, from the highest to the lowest one, thus guaranteeing the so-called continuity of authority. This type of organization has the advantages to ensure the unity of command, which implies rapid implementation and a clear definition of the responsibilities and authorities boundaries. The development of the linear organization can take a vertical direction, with the increase of hierarchical levels, or a horizontal direction, using the means of the labor division and specialization (Cafferata, 2007). The organization divided into staff positions is a structural type that, somehow, supports the linear organization, as the complexity of the surrounding context grows. This increase in the level of complexity of the operational context, in fact, creates the need to set up staff bodies to support the

linear structure in order to provide purely advisory and strictly technical contributions. A different type of relationship is thus created between the line and the staff compared to the traditional one based on the concepts of authority, responsibility, and hierarchical subordination. Depending on the way the power to delegate authority from the line to the staff is exercised, it is possible to trace the related relationship, in order to verify whether or not they are in a position of subordination. The staff bodies peculiarity is given, especially, by the greater level of autonomy they are recognized and the greater level of specialization they are required.

The type of organization set up on the division into staff positions can be considered as the structural *base* from which all those organizational forms characterized by a horizontal development originate, which therefore tend towards a progressive flattening of the structure, in favor of a more and more emphasized decentralization of authority and its related responsibilities (Pugh et al., 1969).

This trend emerges, especially, in the organizational arrangements structured in divisions or departments, which are units endowed with a fairly relevant level of autonomy. Even in this case, the possible *practical* aspects of adopting a division by departments are several and cannot be fully outlined, as there are no fixed and unchangeable rules to establish which methods to use to *break up* an organization. In general, however, this subdivision is based on the type of the functions performed, which are unified according to similarity and complementarity criteria, inspired by the related request for coordination between them. Adopting this method of subdivision, the advantage of promoting specialization and coordination is obtained, and, at the same time, control is more effective. The most common types of departments are those in which the subdivision occurs on the basis of the function performed: the marketing units, the sales units, the production units.

In turn, the division into functions may *unify* further subdivisions in relation to the type of product, the geographical area or, for example, the various types of end customer classes.

Structuring by departments, besides, taking along the already listed advantages of labor division, involves some disadvantages such as, for example, the creation of new hierarchical levels, and therefore of their relative costs, and the need to set up a large number of staff members. Furthermore, the division into departments can cause considerable difficulties in the circulation of knowledge and information, certainly due to the variety of horizontal and vertical levels that it must cover (Polanyi, 1966).

We will briefly mention the organizational types by function, by geographical area, and by type of product. As already mentioned, the division of the company into departments organized according to the function performed can be considered the most widespread type in business practice. It can be said that the functional criterion is, in fact, always present within a company, even if with a new restriction of its boundaries, but in any company there are units divided and organized on the basis of this criterion. The structure built on this criterion gathers together in the same function and, consequently, under a single control, all similar or comparable transactions: classic examples of subdivision by function are the sales unit, the financial unit, the product unit, the human resources management unit, the research and development unit, etc. (Cafferata, 2007).

The greatest advantage ensured by the function structure consists in ensuring a very high level of specialization of its components, both from an operational and managerial point of view. While, on the one hand, the grouping by functions allows a higher level of operational specialization, on the other hand, it allows a faster and effective coordination among the different units, also optimizing the role of the managers, who are assigned responsibilities for only one business division. This *fragmentation* can cause some disadvantages, first of all making the different units *detached* from the others, especially with reference to the level of the managers and employees specialization, who run the risk of becoming too sectorial.

A further drawback can be given by the fact that the proliferation of the various units and their expansion causes a multiplication of the hierarchical levels internal to each unit, creating the coordination problems already examined in relation to the classical linear structure. This multiplication of levels can produce costs increase and their difficult estimate, since activities related to different production lines can be grouped into a single function.

The divisional structure developed by product, instead, expects that all the operations regarding a specific product should be grouped in a single unit. The *focus*, in this case, is no longer on the specific function, but on the type of product. The organizational structure is organized in a central level of top management, where the experts of the main functions are placed in staff positions; from this management body different lines corresponding to the various product lines develop. These lines develop containing within them all the functions (marketing, sales, finance, etc.) concerning that particular product. A fundamental prerequisite for the functioning and preparation of this type of structure is given by the fact that a high degree of autonomy exists and it can be detected among the various products, especially regarding the means of production and control and sales operations. Only if a product line can be created independently, in fact, it can be divided into a corresponding and partially autonomous operating unit.

The main advantages of this type of organizational form are in facilitating diversification and flexibility. The divisional structure by product ensures, in fact, a high level of *reaction* to possible recessions of some market sectors, preventing such negative effects from influencing indiscriminately the whole organization (Romanelli, 1991). Furthermore, the guarantee of flexibility and diversification is associated with the advantage of a high level of coordination within the individual units, which in fact behave as almost completely independent companies. Also in this case, as in the structure divided according to the functional criterion, the disadvantages are created by the multiplication of hierarchical levels, with a relative increase of the possibilities to create conflicts among the different bodies (Cafferata, 2007; Martinez et al., 2013).

The divisional structure by geographical areas bases its organization on the different geographical areas in which it is functioning. The assumption that justifies the adoption of this type of organization is obviously that the production plants and the reference markets are distributed either over different and very large territories or that the company produces only one product but sells it in distinct and distant geographical areas. Also in this case, there is the creation of a central unit to

which the decentralized organizational units are connected, each corresponding to a specific geographical area and each decentralized unit has a high level of autonomy, behaving as an independent business but still being part of the central holding coordination.

As for this type of structure, the most relevant advantages are ensured by the greater level of contact with the reference markets and territories. First, this makes easier to manage the production and distribution of perishable goods and, moreover, it guarantees greater efficiency in distribution, since the transport costs are reduced, together with a better and more exhaustive knowledge of the reference market and it can, therefore, give a faster response to the changes in the consumers' needs. A further advantage is given by the fact that, even if they are multinational companies of continental or global dimensions, this type of structure allows to benefit from the advantages linked to the average size of the company, on the basis of which the various geographical units are built (Cafferata, 2007).

These advantages are accompanied by the negative data due to the multiplication of hierarchical levels, to which the geographical distribution and decentralization are added and they are possible obstacles to a correct and linear circulation of information. The expanded geographical division therefore also brings along an increase in the costs concerning coordination, due to the high degree decentralization of the various units. As in the other two types of structure just examined, even in the divisional structure by geographical area the multiplication of hierarchical levels can increase the possibilities of conflicts among the different bodies and the different units, with a further increase in their coordination costs (Martinez et al., 2013).

This concise analysis of some of the main types of organizational structures allows us to state that it is not possible to definitely identify an organizational form that is always better and superior than the others. As we have seen, each of them has advantages and disadvantages, their relative effects can be assessed by with reference to the real functioning of the company and its concrete development objectives. Moreover, in the productive reality, no organizational principle can be applied in *isolation* from the others, since the effectiveness and efficiency of a divisional structure can only be ensured through a correct implementation and integration of the various principles described above. The two fundamental elements that are, generally, able to ensure the success of a divisional structure are the level of decentralization efficiency and therefore its relative coordination and the level of the staff efficiency.

The companies operational reality proves how the organizational models really adopted are rarely superimposable on the theoretical models described so far, since the companies adopt mixed structures that combine these models, to make the most of the advantages connected to them.

6.4 Knowledge Management Systems

The discipline of business organization, in the most recent studies, has recognized increasing importance to the issue of knowledge and its management, identifying in it a real intellectual capital and therefore a strategic resource for the company (Nonaka & Takeuchi, 1995).

The radical changes in the economic and social reference context, which took place because of globalization and the progressive and rapid technological evolution, have had important consequences on the market, cancelling the physical and geographical boundaries and ensuring immediate communication and circulation of information without any physical obstacles. The level of competition has considerably increased, causing a parallel increase in the quantity and differentiation of the offer which has been accompanied by the creation of more informed and aware customers (Daft, 2013).

The creation and gradual development of the concepts of learning organization and of knowledge management is based on the belief that the degree of competitiveness on the market of an organization is determined by its ability to produce knowledge continuously. This statement derives from a conception of knowledge considered as the activation and production of continuous and permanent processes of adaptation to disturbances and changes in the external context, in order to improve production skills and productive results (Gallupe, 2001; Wagner & Moos, 2015).

The radical change of the reference context has made more difficult for organizations to gain competitive advantages, because they are not only determined by changes within the company, but also by external factors that are more and more unstable and difficult to predict. In this renewed perspective the ability of the organization to anticipate and react to changes in the external context, characterized by an increasing level of complexity, becomes more and more important.

The fundamental tool to ensure the success of a company therefore becomes its striving for innovation, which can only be achieved through the creation of knowledge (McInerney, 2002).

The increased level of competition, which is now global, has considerably raised the level of demand for innovation and of quality enhancement, which can only be achieved through the implementation of the employee's skills and competences. The increase in the level of innovation research thus becomes the cause and effect of the increase in the importance of human capital for the organization development.

The idea of human capital as a real strategic resource for the company is the prerequisite for the belief that this resource should be the investment base for the creation of a real and enduring competitive advantage, not easily undermined by competitors. In fact, through the integration and coordination of its own resources, the organization develops its own competences, of which it can boast the exclusivity regarding transmission and circulation.

Considering the changed context dynamics described, the most recent studies of the company organization focus their attention on the role of knowledge, identified

as a real source of a lasting and sustainable competitive advantage and as a competitive resource capable of ensuring the creation of value for the company.

The main reasons for the progressive focusing of the analysis on the role of knowledge have to be traced back, first of all, to the gradual acceleration of change, both from the point of view of the technological progress and from the point of view of the competitive one. The rapidity of change has therefore gradually increased the value of the organizational memory role and the related processes of knowledge accumulation and archiving. Furthermore, these changes have led to a gradual reduction in the level of results achievable through the traditional sources of competitive advantage, which are no longer able to produce stable and durable advantages.

These phenomena have produced an increase in the amount of information collected and available and therefore the need to identify adequate methods of management and organization of the same emerges even more intensively if we take into account the processes of gradual geographical relocation of modern companies. If the relocation is not supported by a correct management and circulation of information, the result can only be a decrease in the productivity level of the company.

All these situations have therefore highlighted the need to deal with the knowledge issue with greater attention, through the creation of the so-called *knowledge management systems*.

Knowledge management can be defined as a continuous and constantly increasing process to gather, organize, and manage knowledge, in order to make it available and ensure its effective circulation. To guarantee that knowledge is available it is necessary to invest in its transformation and transfer, which thus change from an individual and *tacit* plan to an express and collective one. The starting point is therefore the possession of knowledge, but the real strategic resource has to be identified in its mobilization within the organization's members.

The characteristics of knowledge management mainly concern the collection and selection of information, together with the adoption of incentives for the acquisition and exchange of knowledge. This information context can only be ensured through the implementation of organizational and technological solutions in order to increase the level of cooperation within the system that is beginning to be conceived as a network of internal and external relations, which cannot be imposed or rigidly standardized (Antonelli, 2013; Antonelli & Corrado, 2014; Lazzeretti et al., 2019; Valeri & Baggio, 2020a, 2020b, 2021).

The creation, accumulation, and sharing of knowledge become the core of the company's functioning and they have in common the fact that they cannot be imposed but they are realized only if voluntary forms of cooperation are guaranteed.

In the vision adopted by knowledge management systems, therefore, knowledge must first of all be learnt, thus becoming part of the company's heritage through its preservation and memorization. The knowledge thus acquired can be used as a real resource by the company, which can reveal its potential only if properly managed and with a guarantee of its circulation (Canonico et al., 2012, 2017).

In particular, the correct management of information and knowledge becomes an essential condition for the achievement of the business objectives. The simple possession of information is not sufficient to ensure its value, which instead depends on the ability of the subject who acquires it to use it: a capacity that derives mainly from his experience (Baggio & Valeri, 2020; Innocenti & Lazzeretti, 2019; Valeri, 2016).

The mere access to information does not ensure itself, the ability to transform information into knowledge and, therefore, into competitive benefits and advantages. In order that this transformation can take place it is necessary for the recipients of the information to develop their skills and ability to decode these different stimuli, to translate immaterial knowledge into real and effective actions (Valeri, 2021a, 2021b; Van Zolingen et al., 2001).

In knowledge management systems, knowledge therefore has the role of a further and new source of competitive advantages for the company, with its own characteristics, especially concerning the potential to transfer it without high costs.

Furthermore, the resource represented by knowledge has its own peculiarity, as it is the only resource the use of which does not involve an erosion or a decrease, but rather an increase. The more knowledge is used, the more it grows, increasing the company's competitive advantage. Knowledge management thus becomes a more and more important process to ensure the process control and the achievement of expected results, in order to reduce costs and to be constantly enhancing innovation.

The organization must therefore be able to cope with active changes and transformations and the fundamental element of this capacity for transformation is continuous innovation through the enhancement of knowledge and learning. We thus move from a concept of the information society to a concept of a knowledge society. The globalization of markets, the growing complexity of society, and the exponential amount of information available have changed the concept of the organization, in which the main instrument of success becomes the ability to create, transfer, and manage knowledge adequately.

The term knowledge management therefore identifies the management and development function of organizational resources concerning the knowledge that identifies the company, which includes both tangible knowledge, such as patents, *database* and the research and development area, as well as intangible knowledge, represented by the tacit and individual skills and experiences of the single members. As mentioned above, one of the main aims of knowledge management is to transform tacit and individual knowledge into expressed and shared knowledge, in order to be able to spread it and to profit within the company (Paniccia, 2006; Valeri & Katsoni, 2021).

The ability of an organization to identify and acquire information, to organize it and at the same time make it usable and available within each of its components becomes the factor that mainly ensures the connected ability of the company to develop new products, services, skills, and, in general, more efficient and effective processes.

Knowledge management therefore becomes a real business objective, since the company aims at making all the information it owns accessible to all its employees

and collaborators, quickly and efficiently, reducing the time required to search for specific data and increasing the level of knowledge of the company as a whole by individual employees. This type of organizational and managerial approach has developed quite recently and many organizations have undertaken a process of revision of their corporate structure based on the enhancement and best management of knowledge.

This organizational approach has as its starting point the search for all the knowledge, tangible and intangible, in the possession of the company, in order to proceed with their organization and their connected memorization. To ensure memorization should be efficient, it must guarantee an easy management of the technological support and easy circulation and dissemination. It is immediately noticeable how the pervasive expansion of technologies such as Intranet and Internet has radically changed the way of dealing with these problems, since there are practically no physical limits to the archiving and circulation of information, which today takes the form of *file* and external memories, in a world where the computer has become an essential tool for any type of job (Valeri & Baggio, 2020c).

The aim of knowledge management is to make the intellectual and cognitive capital of the company usable and available, ensuring that all those who operate within it should be able to take advantage.

In addition to research, archiving and circulation of knowledge, the approach adopted by knowledge management aims at promoting a true culture of knowledge, communication and their constant sharing within the company. The objective therefore becomes the creation of a real structural substratum built from and as a function of knowledge (Cameron & Quinn, 2011).

New technologies, first of all Internet, offer companies a real competitive advantage only if used in a careful and optimal way, with a proper training of its users. However, this must be accompanied by an increase in informal relations, to encourage the creation of opportunities for exchange and contact and, consequently, an increase in information flows both within the company and towards the outside.

At the macro-structure level, these needs turn into a streamlining of the hierarchical system, developing along horizontal lines and with the enhancement of the individual components of the system. Human capital, as a producer and vehicle of knowledge, becomes the main strategic resource of the modern organization, on which to invest in order to guarantee its training and flexibility.

The development of an organizational system inspired by the principles of knowledge management allows the company to respond flexibly to the needs caused by the new economic and social reference context. In a globalized market, in which customers demand a faster response to new different requests and in which competitors and technologies are now accessible to all, it is more necessary than ever for the company to be able to identify new market and customer's sectors, through the acquisition and management of their own knowledge. By structuring the organization according to a strategy aimed at a constant learning, knowledge and its sharing and circulation, the company is able to minimize time and costs, providing a common framework that can help the organizational change.

Furthermore, the enhancement of knowledge involves, as a natural consequence, a predisposition to adaptability and flexibility, which are no longer conceived as conditions imposed by the environment, but as real needs and requirements of the company in order to ensure its own success.

The approach adopted by knowledge management identifies knowledge and its training, organization and management methods as the core of the analysis. Knowledge thus becomes the main strategic resource to ensure a company a durable and stable competitive advantage and human capital becomes the main vehicle of its production and circulation.

The main objective of knowledge management is, in short, the maximization of the value of the company's intellectual assets, to which the guarantee of its constant updating is related. To achieve these objectives, the organization must be able to manage knowledge optimally, adopting an approach inspired by structural, technological, and operational innovation and aimed at developing skills and abilities. Through the development and implementation of these skills, the company is able to increase its competitiveness by optimizing processes, reducing time to market and, in general, orienting its business in a flexible way in relation to the expected results.

Learning Organization

The analysis carried out in the previous chapters has tried to show how the company organization and its discipline have evolved in a parallel and continuous way in relation to the company and its economic, social, and cultural reference context. Since the Industrial Revolution, society and economy have undergone radical changes, always posing new challenges and new goals to organizations. Organizations have reacted trying to model themselves on the new reference contexts and trying not to undergo such changes in a passive and traumatic way, but by exploiting them as opportunities and occasions for success. The organization thus begins to be more and more conceived as an open system, in continuous interaction with the surrounding environment.

The economic and social scenario of the new millennium, characterized above all by the relentless and constant technological progress, has created in the companies the need for a managerial and organizational review suitable for the new challenges posed by the context, with effects on the management control, on the methods of real performance of the work and with a renewed attention to the level of the employees' motivation. These new improvement techniques aim at reinterpreting the generality of the processes present in the value production chain according to an approach aimed at innovation, in order to make the company competitive and successful on the market (Aquilani et al., 2017, 2020).

Innovation thus becomes the real core of the corporate objectives and from this perspective, as we have seen, the propensity to cooperation and to human capital constantly increases together with the attention to the role of knowledge and its circulation (Knott & Turner, 2019).

The best knowledge management not only requires the provision of technological tools (computers, social network, Intranet) suitable for ensuring its circulation, but also the creation of a *business environment* that tends to knowledge training, sharing, and exchange (Seaman et al., 2017). It is necessary to develop a real organizational context, also exploiting the informal relations formed within it, in which the single members understand the value of knowledge and learning and, consequently, the need for innovation and change to which they are subjected together with the organization as a whole. Flexibility and propensity to cooperation therefore become real needs that single members are motivated to satisfy increasing their efforts and their collaborative contribution (Adler & Heckscher, 2006; Hansen & Nohria, 2004; Kolbjornsrud, 2017).

The company context must therefore be characterized by the existence of a climate of confidence within the management and between it and the workers and by an environment favorable to training and learning processes (Burton, 2004; Hakonsson et al., 2008a, 2008b). The requirement of *creativity* in the workers and in the management levels, which is considered as a break in the routine begins to be more and more important to the detriment of the scientific vision of the classical school. Creativity becomes a fundamental strategic resource as it is the basis of innovation. In fact, innovation is determined by a learning process which is connected and supported by new ideas and new solutions.

The working environment and, in general, the organizational context have a relevant influence on the propensity of individuals towards creativity and innovative activities. For this reason, a modern and contemporary organization has to face more frequently the need to reinvent itself, in the perspective of constant renewal and a propensity for adaptation and flexibility.

Together with the concept of knowledge management, the model of the so-called *learning organization* begins to develop, an organizational model that ensures the development of knowledge generating practices and, consequently, better levels of response to the changes imposed by the external environment. The system that wants to become a learning organization must therefore be able to create shared knowledge, visions, and behavioral models, by increasing the propensity for experimentation and the application of new knowledge, learning from the previous and others' experiences, in order to obtain advantages and benefits from the mistakes made and the successes achieved (Huysman, 2000; Sun, 2003).

In the learning organization, therefore, learning and innovation become the basic concepts through which intellectual capital can be accumulated and translated into competitive advantage. At the same time, cooperation, confidence, and innovation become the new key values on which to build the modern organizational system.

Within the organization, interactions among the various contexts and the various components have a central role, since these interaction fields are identified as the starting point to create knowledge within the learning organization (Loermans, 2002).

The organizational structure must reflect these trends, managing and dividing activities in a systemic way, considering them as articulated according to interactive and reciprocal relations, rather than as linear chains determined by the cause-effect

mechanism. The basic belief is that any organizational change can take place because there is a predisposition to the same by the structure as a whole; therefore, it has to cultivate the way of thinking of the single participants, with a stimulating and motivating effect on the structures where socialization takes place. Dialogue is created in fact in these places and together with the knowledge and interaction among the single components of the organization. The company that is able to have an accurate mapping of these relations and interactions has the advantage of being able to identify the limits and the need for intervention more easily and quickly, since it can find them and thus avoid the waste of resources.

In the learning organization, the continuous and constant accumulation and sharing of new knowledge is a fundamental element, in order to guarantee a shared, constant, and continuous learning process. The basic condition for ensuring the learning process is that single members have the tools and skills to learn. In fact, learning is not an automatic procedure, related to the mere availability of knowledge, but it is a well-structured process that first of all requires a particular predisposition and defined cognitive tools (Newman & Newman, 2015).

With the development of knowledge management systems, the concept of learning organization becomes more and more central for the analysis of the company organization, since knowledge is now unanimously identified as the basis of competitiveness in the new economic and social context of the second millennium.

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