Introduction: New Organizational Forms – Critical Perspectives

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1. New Organizational Forms

The notion of ‘new organizational forms’ began to gain currency about a decade ago (e.g., Daft and Lewin, 1993). It was propagated as a shorthand for what was seen as a surge of firms experimenting with their governance of transactions, that is, adopting new ways of structuring their boundaries and their internal organization. This surge was related to, but followed in the wake of, the corporate refocusing wave; much of it consisted in a strong increase in the adoption of organizational practices such as Total Quality Management, Business Process Reengineering, and outsourcing (Bowman and Singh, 1993), and it was probably to some extent inspired by organizational practices characteristic of recent Japanese economic organization (Aoki and Dore, 1994). The concept was quickly adopted by those management thinkers who embraced concepts such as the ‘knowledge economy’ or the ‘new information economy’ (e.g., Halal, 1998), and who argued that the advent of the Internet would have revolutionary implications for the organization of transactions (Tapscott, 1999). New organizational forms were seen as characteristic ways of ‘organizing in the knowledge age’ (Miles et al., 1997). The ‘virtual organization’, ‘shamrock firm’, ‘boundaryless organization’, and ‘intelligent organization’ quickly became household words in popular management discourse.

Arguably, the notion of new organizational form is one of those concepts that perhaps because it is ill-defined at the core and fuzzy at the edges, yet clearly seems to capture real phenomena, has attracted a great deal of scholarly effort from diverse fields and disciplines. While Daft and Lewin (1993) lamented that there were no theories of the new organizational forms, that situation very quickly changed. Thus, over the last decade, the notion has drawn attention from scholars in organizational behaviour (see special issue of Organization Science (10)5, 1999), social psychologists (DeSanctis and Poole, 1997), organization theory (Daft and Lewin, 1993), computational organization theory (Crowston, 1996), human resource management (Lawler et al., 1995), corporate governance (Rajan and Zingales, 1998), and...
sociology. At the same time, experts on the multinational corporation (e.g., Hedlund, 1986) began to argue that the multinational corporation was changing towards a new organizational form – which was called the ‘heterarchy’ – in response to an increased need of transferring knowledge inside such firms (e.g., Bartlett and Ghoshal, 1989). Labour market scholars (e.g., Ichniowski et al., 1996; Capelli and Neumark, 2001; Godard, 2001) have increasingly taken an interest in the closely related phenomenon of ‘high performance work practices,’ by which reference is made to employee involvement in teams, quality circles and Total Quality Management initiatives. In particular, journals such as Industrial and Labor Relations Review and Industrial Relations have published high-quality empirical work on the incidence and effects of such practices, work that it is fair to characterize as constituting the main bulk of what is empirically known about new organizational forms.²

In comparison with other fields and disciplines, economists seem to have been reluctant to address new organizational forms (save, perhaps, for some interest in Japanese economic organization, cf. Aoki and Dore, 1994). Given economists’ traditional aversion to what they perceive to be imprecise and jargon-ridden discourse, which in turn may only be about surface phenomena, this is quite understandable. Yet, from a different perspective, economists’ aversion to, or lack of interest in, this discussion is quite puzzling. For the issue of new organizational forms would seem to go directly to the heart of a number of concerns that have become increasingly central in economics over the last decades, such as, What is the nature of the firm? In which terms do we define firm boundaries? How do we understand what are optimal firm boundaries? To what extent can we introduce market-like performance incentives inside hierarchical forms? What is the nature of authority?

Essentially, this is because – in an economics interpretation – the debate on new organizational forms concern modes of organizing and managing transactions that represent a blurring of the boundaries between markets and hierarchies. The new organizational forms literature essentially asserts that hierarchies are becoming increasingly infused with elements of the market, such as high-powered incentives and entrepreneurial units with a large degree of discretion in the use of assets, and markets are likewise claimed to be increasingly infused with characteristics of the hierarchy, such as information channels with a broad bandwidth. Thus, the boundaries between firms and markets seem less definite and more permeable than they are portrayed in the economics of organization. At the same time, the control once afforded by ownership of physical capital is becoming less important as (1) human capital is becoming relatively more important in production, (2) employees have acquired more outside options (as reflected in the decrease in length of tenure in any single job), and (3) innovation-based strategies which flow from human capital are becoming increasingly more important (Rajan and Zingales, 1998). This influences traditional authority relations and makes defining firm boundaries in terms of asset ownership problematic.

Although the phenomenon of new organizational forms would thus seem to lie directly within the orbit of standard organizational economics, this conclusion may be too hasty. For although forces such as internalization, de-regulation, falling costs of computing and communicating, and increasing emphasis on shareholder value – that is, forces that economists are used to and can easily fit into a comparative-static framework – probably play an important role in the ongoing transformation of the corporate landscape, other forces that economists are less used to may also play a
large role. More concretely, the changes in firms’ boundaries (i.e., corporate refocusing), the surge in strategic alliances during the last decade, and the increased use of ‘high performance work practices’ are arguably caused by firms’ attempt to increase their rate of creating and leveraging new knowledge in an environment where competitive innovation has become increasingly dominant. Although economists’ standard models of asymmetric information and of human capital go some way in accounting for knowledge that is firm-specific and also help to explain economic organization, they do not come close to capturing the complex interaction of knowledge sourcing and economic organization. As two leading organizational economists, Holmström and Roberts (1998: 90, my emphasis) recently observed:

Information and knowledge are at the heart of organizational design, because they result in contractual and incentive problems that challenge both markets and firms . . . *In light of this, it is surprising that leading economic theories . . . have paid almost no attention to the role of organizational knowledge.*

Thus, although new organizational forms may seem to be given to explanation in terms of organizational economics insights, arguably they also challenge existing theory. To sum up, the phenomenon of new organizational forms raises a number of fundamental definitional, theoretical and empirical issues – viz:

- What *are* new organizational forms?
- What is *new* about new organizational forms?
- What prompts the *emergence* of new organizational forms? How do new organizational forms *interact* with changes on the input side of the economy, particularly with knowledge inputs? For example, how do they relate to the currently fashionable concept of the ‘knowledge economy’? What is the relation to advances in networked computing and other IT-innovations?
- What do we know about their *incidence*?
- What do we know about their *performance implications*?
- Which *theories* are particularly useful for framing an understanding of their basic rationales? In particular, what has *organizational economics* to offer in this respect?

### 2. Critical Perspectives: The Papers

The papers in the present issue derive from a workshop on ‘Learning, Incentives, and Corporate Disaggregation: Theories and Methods for Understanding New Organizational Forms,’ organized by the Danish ‘Learning, Incentives, and Knowledge’ research program (*LINK*; [http://www.cbs.dk/link](http://www.cbs.dk/link)) in Copenhagen, in 26–27 October 2000. The motivation for the workshop, and for the present special issue, was the observation that (1) the phenomenon of new organizational forms had become increasingly common in management discourse, (2) very little economics oriented work existed on it, although it would seem to lie squarely within the orbit of organizational economics; and (3) often rather extreme views on the incidence, performance implications and theoretical implications of new organizational forms were put forward. The emphasis of the workshop, and of the papers in this special issue, is therefore on putting forward *critical* perspectives. The contributors to this issue do so from perspectives that, while leaning heavily towards
the economics side, clearly also reflect the business school affiliation of most of them. They all address aspects of the above fundamental questions, and most do so from the theoretical perspective of organizational economics. Consider the following fundamental issues and how they relate to the papers in this issue.

**What are New Organizational Forms and What is New About Them?**

In ‘Crafting Internal Hybrids: Complementarities, Common Change Initiatives, and the Team-Based Organization,’ Todd Zenger notes that hybrid governance forms that seek to meld the virtues of both market control and traditional hierarchical control are alluring. They include what he calls ‘internal hybrids’ – a very under-researched category of economic organization (excepting work on the M-form) –, as well as the much more frequently investigated ‘external hybrids.’ Zenger argues that relatively recent and widespread practices, such as TQM, re-engineering, autonomous work teams, and group-based rewards, should be seen from a basic organizational economics perspective as attempts to craft internal hybrids by selectively infusing elements of market control within hierarchy. Although it is no doubt possible to find historical predecessors of some of these practices – for example, in the organization of corporate R&D labs – it is still appropriate to call them ‘new’, first, because of the surge in their use during the last one or two decades, and, second, because they are now often applied, not just in specialized, high-level functions, but also in more mundane functions and departments closer to the shop floor. Similar reasoning may be applied in the case of external hybrids: While ‘external hybrids’ are perhaps seldom entirely new organizational innovations *per se*, they are now used on a much more massive scale, and they are applied in new contexts. Thus, Bruce Heimann and Jackson Nickerson argue in ‘Towards Reconciling Transaction Cost Economics and The Knowledge-based View of the Firm: The Context of Interfirm Collaborations’ that knowledge management practices, often taken to be a quintessentially ‘hierarchical’ practice, can be applied to interfirn relations, thus exemplifying what many would see as the blurring of the boundaries between markets and hierarchies represented by new organizational forms.

Yet, the notion that there are new organizational forms which in a meaningful sense represent a blurring of these boundaries is not entirely uncontroversial. Thus, Geoff Hodgson in ‘The Legal Nature of the Firm and the Myth of the Firm-Market Hybrid’ forcefully (as indicated by the title) takes issue with this idea. Rather than the present discourse in management on new organizational forms, Hodgson’s critical starting point is the debate in sociology and some branches on economics which has been going on since the 1970s on the indistinct nature of the boundaries of the firm. His paper re-examines the formal, legal conception of the firm. It is argued that there is no good reason to abandon this conception, even in the light of the seeming blurring of firm boundaries represented by the increased use of relational contracting, networking, subcontracting, etc. When it is realized that the firm is a distinct legal entity, the use of such phrases as ‘markets inside firms’ become rather meaningless, because firms and markets are modes of resource allocation that are legally very different. Paul Gooderham and Svein Ulset’s paper, ‘Beyond the M-form’: Towards a Critical Test of the New Form,’ is also critical of the notion of firm-market-hybrids, although their critique has a much more narrow scope than Hodgson’s. Specifically, they critically discuss Bartlett and Ghoshal’s (1989) claim that a radical new organizational form – distinctly different from the
M-form both in terms of its structure and psychological underpinnings and adopted because of the knowledge-related advantages this organizational form confers may be observed among transnational firms. In contrast, the authors argue that any organizational advantage transnational companies may possess still resides in hierarchical governance as identified by transaction cost economics (Williamson, 1996) and outlined in its multinational M-form application.

Hodgson is entirely correct that legal considerations have been neglected in organizational economics (the exception being the work of Williamson). Also, Gooderham and Ulset’s argument is a strong one. However, it is possible to accept their critiques, and still make meaningful use of notions such as new organizational forms. One solution is to keep the traditional firm-market distinction, for example, on legal grounds, but supplement it with a more refined taxonomy of the many different coordination mechanisms that may be implemented inside the traditional governance structures. In such a perspective, which indeed is the one implicitly followed by most contributors to this issue, new organizational forms represent not so much a blurring of the boundaries between traditional governance structures per se, as an increasing use of coordination mechanisms traditionally characteristic of one structure inside another structure. For example, Zenger, who most strongly argues that it makes sense to think of internal hybrids as representing the infusion of hierarchies with elements characteristic of the market, does not argue that firms are becoming indistinct. Rather, his argument is that because of complementarities between organizational elements, processes are set in motion by selective common change initiatives which consist in the unraveling of the bundle of elements that support traditional hierarchy and spiral hierarchies toward a radically disaggregated organization structured around teams, yet still existing within the legal boundaries of the firm.

*What Prompts the Emergence of New Organizational Forms, and what do we know about their Incidence and Performance Implications?*

New organizational forms is definitely a subject on which speculation (of which a lot exists) has preceded theoretical work (of which rather little exists) which in turn precedes empirical work. In fact, the latter mostly takes the form of offering anecdotal evidence (as in Tapscott, 1999), save for the work mentioned earlier on high performance work practices and a few scattered contributions in economics (Mendelsson and Pillai, 1999). There are good reasons for the dearth of solid empirical work in this field, notably obvious measurement problems caused by the lack of good definitions of new organizational forms and the rather modest amount of theoretical work that exists on what may be called the ‘dynamics of economic organization’, particularly with respect to the change from ‘old’ to ‘new’ organizational forms.

A number of the contributors discuss, however, what may prompt the emergence of new organizational forms. Thus, Nicolai Foss in “Coase vs. Hayek”: Economic Organization and the Knowledge Economy’, critically discusses recent assertions that the emerging knowledge economy will drastically transform economic organization, that is, that authority will vanish, the boundaries of firm blur and very few restrictions will be placed on the design of internal organization. However, his arguments do not deny that those changes that are often put under the heading of the ‘knowledge economy’ – notably, the increasing part of value-added that ‘knowledge workers’ account for, the shift of competitive activity towards
Incessant innovation, etc. – in fact prompt changes in the landscape of economic organization toward, for example, changing authority relations and less importance of the ownership of physical capital goods in the definition of firm boundaries. Like Hodgson, Foss’ aim is to temper the more extreme claims that have been put forward in recent discussion of new organizational forms, in order to clear the ground for a more reasoned discourse.

Only one paper in this issue, namely Keld Laursen’s ‘The Importance of Sectoral Differences in the Application of (Complementary) HRM Practices for Innovation Performance’, directly deals the incidence and performance implications of new organizational forms. In particular, Laursen examines the effects on innovation of new human resource management practices. He finds that such practices impact innovation performance more if they are applied in bundles than if they are applied on a stand-alone basis, lending some support to ideas on complementarities between organizational elements.

Which Theories are Particularly Useful for Understanding New Organizational Forms?

All of the papers in this special issue share a basic organizational economics orientation. However, quite a number of the papers argue that taking full account of the phenomenon of new organizational forms requires that certain ideas and insights be added to the body of organizational economics. The insights are cognitive, knowledge-related and motivational. Thus, Heimann and Nickerson argue that knowledge management practices provide communication channels that economize on man’s cognitive limitations by lowering the cost of transferring tacit knowledge and lowering the cost of communication associated with problem solving. This argument is inspired by the knowledge-based approach in recent work on firm strategy. However, they further argue that adopting certain knowledge management practices gives rise to contracting hazards once the behavioural assumption of opportunism is considered. They predict that governance choice for inter-firm collaboration is made directly with respect to such contracting hazards. This is clearly an orthodox transaction cost economics assertion. Other contributors argue that stronger modifications may well be necessary. Thus, Foss argues that work on economic organization in the context of the knowledge economy suggests that economists of organization may have to rethink such fundamental issues as the organization of knowledge assets and the meaning of authority. And Margit Osterloh, Jetta Frost, and Bruno Frey (‘The Dynamics of Motivation in New Organizational Forms’) argue that a crucial ingredient in the understanding of the potentially beneficial effects of new organizational forms is an understanding of the management of motivation that is grounded in fundamental psychological research. Different kinds of new organizational forms balance intrinsic and extrinsic motivation in different ways, and have different capacities with respect to knowledge building and transfer. Thus, although the underlying orientation is rather different, the Osterloh, Frost and Frey paper shares with the Foss, Gooderham and Ulset, and Heimann and Nickerson papers the ambition of integrating ‘knowledge-based’ insights more fully with organizational economics.

3. Conclusion

The notion of new organizational forms signals that economic organization is not static, but changes through organizational innovation. It refers to new modes of
governing transactions, particularly with respect to the internal organization of firms and to how firms structure dealings with other firms. Although very considerable advances have been made over the last decades with respect to economic organization issues in general, it is also fair to say that understanding the dynamics of economic organization is an extraordinarily complicated undertaking on which little work so far exists. Even less work exists from an organizational economics perspective on new organizational forms. Accordingly, the papers collected in this special issue only represent a first stab at complicated issues. Nevertheless, considered collectively they do suggest a programme of sorts for research in new organizational economics, specifically that (1) organizational economics provides a first, working definition of the notion of new organizational forms, (2) organizational economics is useful for explicating their workings and, hence, the reasons why they are adopted, (3) the understanding of new organizational forms is based on variations on familiar organizational economics explanations of the internal organization and boundaries of firms, but 4) the phenomenon of new organizational forms indicate that organizational economics is somewhat deficient with respect to its treatment of dynamics, knowledge, and, perhaps, motivation. Accordingly, the papers in this issue are offered in the hope that they help stimulate more research on an exciting subject.

Notes

1. For example, in the 1999 Focused Issue of Organization Science on ‘Coevolution of Strategy and New Organizational Forms,’ 10 papers deal with new organizational forms, but not a single one of these define their subject matter!

2. Which is not to say that this literature necessarily offers entirely clear-cut definitions and unambiguous results. See Capelli and Neumark (2001) for a discussion of this.

References


