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**ORGANIZATIONAL DESIGN:
THE PAST, PRESENT AND FUTURE**

**CEO PUBLICATION
G 90-9 (171)**

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Organization Design: The Past, Present and Future

The design of organizations has passed through a number of different stages. These stages are best reviewed chronologically. The recording of systematic knowledge about organizations began with the classical management school and their principles of organization. For example, they articulated principles about the span of control which should not exceed seven people. Another principle was that the organizational hierarchy should be constructed so as to preserve a unity of command. That is, each person in the organization should have one and only one superior. A debate began about the universality of these principles. There were simply too many anomalies for the principles to hold on any kind of universal basis. Another school of thought also formed around a different basis of social control, that of the work group. This other school initiated a debate about the formal or informal basis of control in organizations.

In the late 1960's a new school of thought arose around the concept of a contingency theory. The contingency theory stated that both of these schools were correct, but only under certain conditions. The reconciliation of these two opposing schools of thought became rather popular. For example, it was stated that in stable, predictable environments the classical management form of organization was appropriate. In these environments mechanistic, hierarchical forms of organization appeared and appeared to be the most effective form for that environment. By contrast, organizations in more uncertain and turbulent environments appeared to be less mechanical and less hierarchical. The organizations in the turbulent environment appeared to be more informal, more organic. These views then became the basis of a search for the type of environments that would lead to different types of organization. The principle that was accepted at the time was that different environments lead to different forms of organization. Research then focused on what kinds of environments lead to different kinds of organization.

The accumulation of knowledge in the field of organization design has progressed like any other field of inquiry. Anomalies began to appear and they drove the search for new explanations. For example, some mechanistic firms appeared and appeared to be thriving in what were very dynamic industries. These observations and others like them led to the proposing of the concept of strategic choice. That is, a firm could choose a strategy of focusing on stable niches in even the most turbulent of environments. That firm would then adopt a mechanistic organization structure in order to implement that stable strategy. So, even in the most uncertain and turbulent industries, one could find some stable niches. In those niches one would find organizations of a mechanistic nature. The proportions of mechanistic firms would be smaller in turbulent industries however. For example, one would find more organic informal organizations in turbulent industries than one would find in mature and stable industries. But in the mature and stable industries, one would find more mechanistic hierarchical organizations. But, even here, change would be led by a few organizations that sought out the more turbulent niches of the industry and would lead change in products and processes. These organic, informal organizations would be in the minority in these mature industries. The result was

that different environments then led to different strategies, and in turn, these strategies led to different forms of organization. That is, this choice of strategies mediated between the type of business environment in which an organization was operating. The effect of environment on organization was, in turn, mediated by the strategic choice that management made about how to position the organization in that particular environment. In the remainder of the paper, the notion that environment leads to different strategies and different strategies lead to organizations will be the framework that will be followed.

While knowledge about organizations was evolving from universal principles of organization to a concept of different strategies lead different organizations, the definition of organization itself was changing. Initially, organization was synonymous with organization structure. Organization structure was that concept that was represented by the organization chart. However, one could find very substantial changes to organizations that didn't involve structural change. For example, one could find changes to the new product development processes, the material control processes of forecasting, scheduling and so forth. Then there was the performance measurement and reward systems that were regarded as equal partners in the design of organization structures and processes. The most complex of the concepts of organization has been the one that evolved with the McKinsey Excellent Companies Study. They proposed a sevens model of organization. That is, in order to design an organization one must design the strategy, the structure, the systems, the style of management, the skills of the people and the staffing of roles, and relate these to a super ordinate goal. The concept that has evolved from this more complex definition of organization is the concept of fit. That is, an effective organization is one that has achieved a congruence or an alignment between all of these seven components that constitute an organization. The organization is effective if its strategy, structure, systems, skills, and so forth all fit together in a harmonious way that leads to effective performance. The concept of fit has been tested in various ways and has not yet achieved a great deal of confirmation. It is the prevailing thought among academics, consultants and practitioners at the moment. It is the concept that I will assume as the one that we know and the one that will guide our subsequent development of knowledge about different forms of organization and, more importantly, about new forms of organization.

In summary, the inquiry into the design of effective organizations has evolved from a set of universal principles to a concept that different organizations are appropriate for different strategies in different business environments. The environmental forces have been identified as those leading to uncertainty or turbulence versus stability or predictability. The concept of organization has also evolved from organization being just structure to organization being a set of components of which structure is but one. The other components include organizational processes, organizational reward systems and the various people-related practices that are adopted.

Finally, the concept of fit or alignment among all of these components is the key to effectiveness in the organization. If one or more components are out of alignment, then the organization will be less effective. If these concepts are valid, then new forms of organization that are evolving will depend on the new strategies that are being adopted by organizations. These strategies, in turn, follow from the

business environments in which these organizations will be operating. The next section follows this framework.

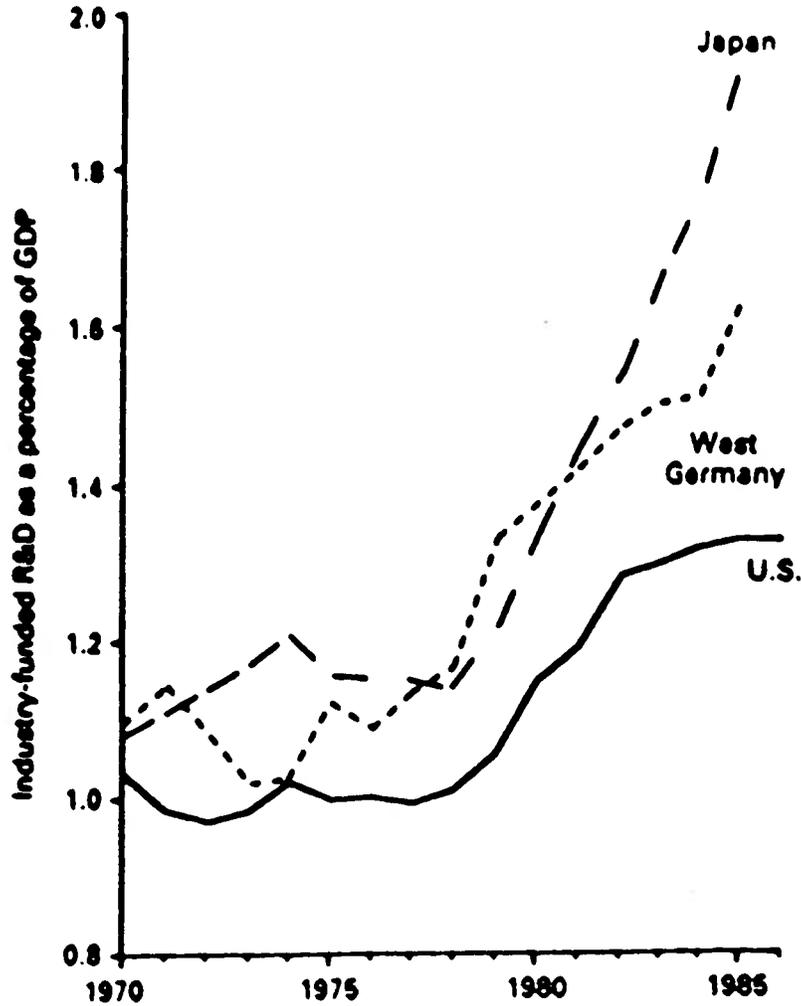
First, the assumptions about the future business environment will be articulated. Then the strategies that organizations are adopting, or will adopt, are identified. Finally, the organizations that will be used to implement these strategies are hypothesized.

Future Organization Designs

New forms of organization continue to evolve. These new forms continue the trend that was started earlier, away from hierarchy, structure and authority as the means of social control. Instead, authority is being replaced by group norms based on mutuality and reciprocity, and by customer demands. These new organization forms are emerging as a response to the global environmental forces. Figure 1 shows the primary driving force. The graph shows the increasing amounts of investment in research and development. All of the OECD countries have been part of this trend which started in the late 1970's. Simply put, these increased expenditures on R&D significantly raised the fixed costs of doing business. Fixed costs require more volume in order to cover them. Companies cannot rely simply on domestic volume in order to provide the revenues to cover these fixed costs. As a result, every company is searching for volume outside of their own country. Collectively, the search for worldwide volume to cover increased costs of research and development and new capital are increasing the amounts of supply relative to the demand for the products that are being offered. This increased quest for volume is the primary engine behind today's global competition. Other forces are at play as well. These forces are worldwide skill shortages, deregulation (and possible re-regulation), and ubiquitous computing power. Collectively, these forces are the primary causes of the strategies and organizations that are starting to appear.

The strategies to respond to these environmental forces began appearing in the early 1980's. First, western companies went through a period of recovery. They restored their competitiveness by focusing on costs and quality. They got out of marginal businesses. Second, they took their remaining core businesses and extended them globally when that was appropriate. Today these two strategies of recovery and globalization continue, but increasingly, the priority is going to development. That is, companies are experiencing increasing cash flows that cannot be reinvested in the core businesses. The search for new sources of investment, growth and development are now becoming the top priority on management's strategy list. In addition, responsiveness to the customer is replacing down-sizing. The net effect of the new global competition is to increase the power of the customer over those of other stake holders. Globalization is going to continue with a question mark about how governments will respond to the unsustainable trade imbalances. A number of companies are already beginning to work towards regionalization based upon three trade blocks.

In summary, the strategies of down-sizing will continue and will be of increased importance in some industries such as defense. However, down-sizing is giving way to responsiveness in many companies where the cost structure has already been reduced, and customer service and quality are now assuming a much higher priority. Down-sizing is giving way to development in many other organizations. Increased



Industry-funded research and development
 Sources: National Science Board, Science and Engineering Indicators - 1987 (Washington, D.C.: U.S. Government Printing Office 1987), appendix table 6-1, p. 293; National Science Foundation, National Patterns of Science and Technology Resources, 1986, Surveys of Science Resources Series, NSF 88-305 (Washington D.C.: U.S. Government Printing Office, January 1988), table B-5, p. 46; Organization for Economic Cooperation and Development (OECD), National Accounts of OECD Countries, 1960-1986, vol. 1, Main Aggregates (Paris: OECD, 1988), table for the United States, West Germany, and Japan.

Figure 1

focus is going to improvement of the top line. Globalization is continuing, but is increasingly being replaced by regionalization, focusing on a trade block for Europe, Middle East and Africa, the Americas and the Pacific Rim. The organization forms that will be used for these strategies are of six types: First is the matrix overlay; second, global overlay; third, network organization; fourth, customer-driven business unit; fifth, neo-conglomerate and sixth is the Western Keiretsu. Each of these will be discussed individually, beginning with the matrix overlay.

Initially, western companies were subjected to an organizational wind shear. That is, the forces of global competition caused them to consolidate, reduce costs and reduce the number of people. In addition, they had to become increasingly customer responsive and to introduce new product services more quickly. The best way to consolidate and reduce numbers of people is to form large functional organizations. These functional organizations minimize the number of people that are needed to perform a particular task. The problem with the functional organization, however, is that it is slow and not responsive. The most effective way to organize for responsiveness is to have many small independent organizations. The trouble with these small, independent, autonomous units is that they operate independently and lose scale economies and duplicate human resources. Companies were faced with choosing between these two diametrically opposed ways of organization. The response has been to revive the matrix types of organizations, but to use different names for them. Everyone is using cross functional teams based on products or markets, customers or commodities. Program managers are being revived, product managers are being sought. All of these roles are returns to the matrix kinds of organizations that were adopted on a fashion basis in the late 1970's. There is also a revival of interest in ways of promoting the informal organization. One of the most outstanding ways is the construction of a prototype factory at BMW. This factory is for introducing new products. The factory manufactures the first few prototype models for a new 500 series or 700 series. The entire design team moves into a floor of this building. The building contains the equipment that has been designed to build the actual cars. Engineering, manufacturing engineering, manufacturing, procurement, quality control, and all other functions take a space in this building on the same floor. The floor is dedicated to a particular model. All of this co-location effort is aimed at generating cross functional communication among a large team of people so as to improve the effectiveness of the design, improve quality of the design, make the design more manufacturable, and to reduce the time that it takes to launch a new product. Figure II gives a schematic drawing of the change in the way that organizations are now operating.

These same matrix type of organizations are being extended on a global basis as well. There is a similar wind shear force operating on a business that is operating globally. One set of forces causes the company to treat the world as a single market place. Ford invests three billion dollars to design the car line of Taurus and Sable. They cannot afford another three billion dollar investment to design another line for Europe. Instead, the product is designed from the very beginning to satisfy both markets with appropriate modifications. On the other hand, active host governments and rising interests in protectionism cause companies to view each country or region on a separate basis. One force causes the organization to be organized by worldwide business units. The second favors a more country or regional profit center organization. The two together force organizations into some

kind of matrix organization, or a network organization that will be discussed subsequently.

The dominant organization form that is now emerging to satisfy these simultaneous pressures on organizations is the distributed organizational form. That is, the headquarters's functions are being distributed around the world to where the competence exists to perform that particular function or responsibility. Each distributed unit serves its own market but also has a worldwide responsibility to the rest of the organization. Ford, for example, sees the United States as designing and manufacturing the high-end products. Europe will design and manufacture the mid-range automobiles while the Far East will take responsibility for the low-end and sub-compacts. General Electric's medical systems business concentrates the responsibility for X-ray equipment in Europe with the Thompson subsidiary. The United States takes the high-end CAT scanners and MR equipment. The Japanese are responsible worldwide for the low-end CAT scanning and MR equipment. These organizations are held together less by authority and more by mutual dependence and reciprocity. Each unit must supply the other units and, in turn, be supplied by them. Each must do its own part. Another force holding together all of these distributed units are the emerging telecommunications networks. Each of the distributed units is connected via electronic mail, fax and other computer conferencing systems so as to maintain the coordination across the various units. The headquarters is involved in orchestrating this process through reviews, rotations of people and the design of the appropriate management systems.

The third form of organization that is emerging is the network organization. Currently, this type is among the more fashionable trends. The Center believes that this form of organization will pass from a fad to a more permanent piece of organizational technology. There will probably be a shake-out and the creation of a new name for this organization, but its permanence is based on the forces that are causing it to arise in the first place. The network organization is arising based on pressures from three types of strategies. In order to recover their competitiveness, companies are increasingly buying functions and activities that they previously performed themselves. Companies are finding that they cannot do everything well nor can they afford to do everything well. In a competitive arena you must do everything well in order to be effective at meeting the customer's demands. In order to achieve a global reach, organizations cannot always be present in all countries or markets. Instead, they have to forge joint ventures or strategic alliances in order to achieve the volume that they need to cover their fixed costs. So both recovery and globalization are causing this form of organization to arise in the first place. The last force is that arising from development. As organizations start new ventures, new businesses and new divisions, they do not vertically integrate. Instead, they perform only those activities that they do best and buy the rest of the activities from someone who is superior at performing that activity.

The design of the network organization is one of deciding which activities are to be performed inside the organization and which are to be purchased outside the organization. Then, for those activities that are purchased, there is the decision as to how to control those activities that you do not own. This form of organization is best seen by viewing some of the newer organizations such as Nike, Reebok, or Benetton.

The case of Benetton can be instructive. Let us look at what Benetton keeps in the organization and what it buys on the outside. Benetton has no stores, it has no

sales agents, it has no designers that design the clothes, it has no manufacturing operations. All of these operations are performed by subcontractors, franchisees and free-lance designers. What Benetton does perform is the marketing. The marketing organization is staffed with a large number of product managers. The company controls the brand and the advertising. They are, in a fashion, consumer business and therefore the marketing and the brand are the key assets for the company.

Benetton also designs the information and logistics systems that hold together the flow of product from the small shops and manufacturers through to the stores that are operated by the franchisees. They design the system but use General Electric's telecommunication system to actually perform the information transfers. Benetton also does all of the buying of materials which go to the manufacturers that they do not own. In this way, Benetton can be big when it is good to be big. It is good to be big when one is buying. Benetton is also small when it is good to be small. When conducting labor intensive operations in 20 person groups, Benetton subcontracts all of these to independent outside non-union contractors. Benetton also performs the manufacturing process design. They also purchase the manufacturing process equipment. This equipment is supplied to and operated by the outside manufacturers.

So Benetton performs all of those activities that require professional contributions. They do not perform activities that require the management of hourly personnel. They do not perform activities that require selling organizations. They do not perform activities that require a high degree of capital intensity. In short, Benetton is a professional organization specifically designed to manage high-talent people.

Benetton does own about a dozen stores located in key markets. These stores provide intelligence on the markets to the company. They are also places for experimentation of new designs and of new products. The stores also provide information about the cost structure to Benetton. This information is useful in negotiating with franchisees over the profits and profitability of the franchises. A similar situation exists in manufacturing. Benetton owns about one percent of the manufacturing capacity. This manufacturing plant gives first hand intelligence about the cost structure of the manufacturing activity. This information is useful in negotiations with other manufacturers who work for them. The manufacturing plant is also the place for experimentation. In the wholly owned plant, change is more easily introduced. The designers can get a quick turnaround of new sweater designs. The manufacturing process people can get quick turnarounds on experiments with new forms of equipment. So, parts of the vertically integrated network are owned but are owned for purposes of gathering information and intelligence with which the network can be managed.

In summary, Benetton, Nike and Reebok perform only those activities at which they have a competitive advantage and at which they are superior. All other activities are purchased by them and performed by companies that are better able to perform that specific activity. The collective network of independent companies is controlled largely by Benetton being the largest organization in the network. It is also controlled by Benetton performing the key activity, that of the marketing, the brand management, and product line management. Benetton also links together other members of the network by using a firm specific value-added telecom network. In addition Benetton provides financial services to other members of its network. It

leases equipment; it finances accounts receivable; it finances the inventories of various members of the network. But, most importantly, Benetton tries to manage the entire network for the benefit of all members of the network. It must look out for the profitability of all members of the network and not try to squeeze margins of suppliers and customers. Benetton must be interested in the good of the order of the entire network. This broker role or network designer role requires that Benetton manage the network so that everyone profits. Benetton also manages the network so as to be competitive with other networks and not competitive among the members of the same network.

This network form of organization is one that has been used for some time in the toys, games and fashion businesses. It allows a great deal of flexibility and rapid response. It is hypothesized that as more businesses become like the fashion and same business, their organizations will become more like the network organizations of toy, game and fashion companies. More and more companies are existing in rapidly changing markets and require fast moving organizational responses. The network organization is to be useful in these kinds of situations.

The fourth kind of organization is the flexible customer driven business unit. One of the features of this organization is represented in Figure 2. In that figure the organization is shown to be flatter, to have fewer levels and to be much more horizontal in its orientation relative to the organizations that existed prior to today. Like the matrix organization described earlier, these organizations make extensive use of teams. Teams exist on the shop floor in employee involvement activities. And teams are used extensively for cross functional coordination on products, purchased commodities and, increasingly, for customer and quality issues. The most extensive trend occurring currently is the organization of the business unit around customer groups. This trend means designing the part of the organization that interfaces with the customer on a customer or market or industry basis. For example, Dupont has recently reorganized away from products towards markets as the basis for their organization. They have changed from a fibers group to an automotive group, an agriculture group and an electronics group. All of these are customer or industry segment oriented.

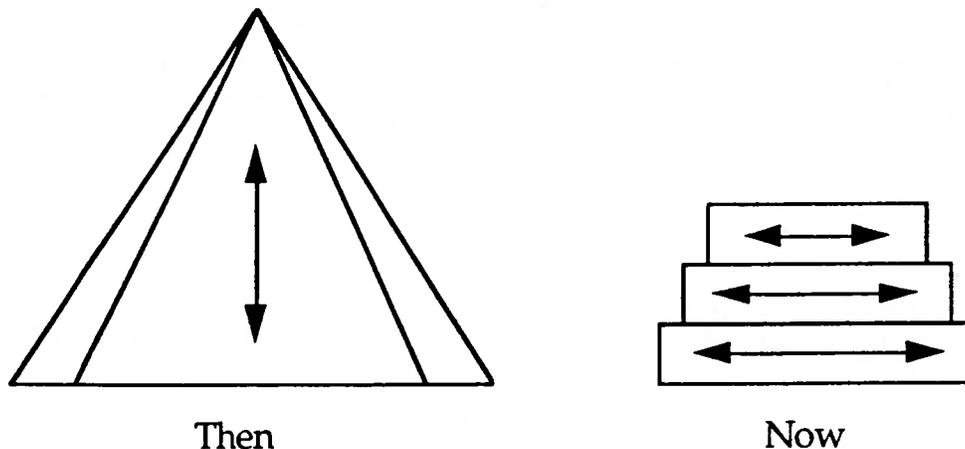


Figure 2

The customer oriented groups are being extended as far back into the organization as possible. Attempts are being made to get a clear line of sight across all functions for customer activity. Not all functions can be aligned by customer. The result is that business units are being organized in two ways. There is a front end of the business that is organized by customer and industry group. And there is a back end of the business that is organized by product or technology. Front end typically consists of sales, service, administration, customer education and increasingly, application software. More and more of the value added is going to this front end part of the business. The back end tends to be the engineering, manufacturing, quality and component groups of the company. Increasingly, the customer penetrates this part of the organization. Customers become members of teams that are working on customer issues and quality problems. The management of these organizations has the role to support these teams in dealing with the customer. The customer performs more and more of the control and direction activities. Management has less authority and control over the work groups. Instead, they try to make the work groups effective in dealing with the customer. Supporting these customer oriented groups are new database systems that accumulate information about the customer and about products and services. Each customer is tracked within the information system and a database accumulated about them. The data base helps the work groups become more effective in dealing with these individual customers. Increasingly, the contact with the customer takes on a relationship aspect as opposed to a transaction aspect. More organizations are forming relationships that are longer lasting and focusing on the total experience of the customer with the company. The database supports the people in the organization in managing this relationship. Often, partnering activities take place to provide products and services that the customer desires but that the company itself does not provide. This means the front end of the business sources outside for a number of products and services for that individual customer. The customer prefers to deal with a single source for these products.

In summary, more and more business units are being organized on a customer basis. More and more the profit and loss accountability is being created on a customer basis. The customer penetrates farther into the organization in these forms of organization and the activities become truly customer driven. The management style of these customer driven business units changes to one of supporting and counseling the workforce that deals with the customer and less on operating on a control basis through the hierarchy.

The last forms of organization are those that are emerging at the corporate level and between corporations themselves. At the corporate level, the neo-conglomerate is the form that appears to be emerging throughout the 1990's. Previously, there were two dominant forms of diversified corporations. The first was the corporation that diversified into related businesses. These businesses were related on a market or technology basis to the core business from which the corporation made its diversification changes. These companies used the divisionalized profit center form of organization. The corporate unit had several thousand people in staff roles. The corporate unit dealt with overall strategy and decentralized day to day operating decisions to the profit center divisions. The other form was the corporation that diversified into unrelated businesses. This company then adopted a holding company or conglomerate form of organization. The profit centers in the holding company were much more independent. They did not use resources from corporate.

The divisions were more autonomous and were measured solely on the basis of their financial performance. Compensation was much more variable for the management of these divisions.

The new form that is emerging is a combination of these two forms of organization. The neo-conglomerate is conducting a mixed strategy which combines aspects of both related and unrelated business strategies. The neo-conglomerate is adopting a cluster form of organization structure. The corporate unit begins to look more like the holding company model with a few additional staffs. The large number of corporate staff people are decentralized to the next level of the organization. Sometimes this next level is called a sector level or sometimes it is called a group level. The divisions then report to this group or sector level of organization. Each cluster is itself like the old related form of organization. The divisions within a cluster are internally related. The clusters themselves are more unrelated. That is, the clusters tend to serve different markets or are based on different technologies. For example, one cluster would serve the consumer businesses while other clusters would serve the industrial sector and perhaps one for government or defense.

The related businesses are being forced into this neo-conglomerate form for a number of reasons. First, companies that used to grow internally like Hewlett-Packard or Procter & Gamble, are now growing by acquisition. By acquiring whole companies and acquiring people with entirely different policies, the organization is now legitimizing differences from practices that prevailed in the core business. A second force is the trend toward joint venturing some of the divisions, or spinning off some percentage of the stock of a division. The net affect is that a division is now less than 100 percent owned by the corporation. The corporation cannot impose its will unilaterally upon such a division. Again, the affect is to permit more differentiation on the part of the business unit in order for that business unit to be more competitive in its current business. A third force operating on corporations to differentiate their business units is the current competitive environment. That is, for each business unit to be most effective in serving its market, it usually has to differentiate itself in some way from other business units. This means more decentralization of policy making from the corporation to the business unit in order for the business unit to adopt a compensation policy, a labor policy, a manufacturing policy, a purchasing policy, etc., that fits better with its competitive situation. A fourth force that is operating is the continual movement from manufacturing business units to service business units. Very often a business adopted a service activity in order to support its product that was being sold on warranty. Currently, many of these vertically integrated service units are being freed from their vertically integrated relationship with a product business in order to be a stand alone profit center by itself. To the degree that companies move into service businesses, the service business units need to be differentiated from the product businesses in some policy sense. The reasoning is as mentioned above. The business unit needs more differentiation to be competitive in its particular market. The last force that is operating on single or related businesses is the process of vertical desegregation. The oil companies are separating their upstream, exploration and production activity from the downstream refining and marketing activity. Each of these are regarded as separate independent businesses. The use of a Rotterdam price between the two businesses allows for separate profit measurement. They serve different markets.

The net effect of all of these changes is to allow more differentiation of policy and resource usage at the business unit level. It means more decentralization of policy making from the corporation to the business unit or to a cluster of business units that serve a common market. The staffs that are the policy formulators and policy reviewers move from the corporation to a division or to a group or sector level. They move to a level in the organization where their particular expertise can be applied to all of the activities that are part of their unit, but not part of other units that need to be differentiated.

The neo-conglomerate is also emerging from companies that previously were conglomerates or holding companies. These organizations are the ones that have been underperforming other businesses and are currently trading at a lower price earnings ratio on the stock market. That means their breakup value exceeds their current value. They have been a favorite source of hostile takeover bids from raiders. As a result, these organizations have been broken up into smaller units or have broken themselves up into smaller units. Currently, these conglomerate organizations are reducing the number of business areas in which they are operating. Current research shows that there is an optimal amount of diversity. That is, the most effective organizations in terms of return on equity are those that are operating in two to four different business areas. Fewer areas do not give the diversity while more areas stretch management beyond its level of competence.

The main difference between the neo-conglomerate and holding company model of yesterday is the degree to which the management at the corporate level is active in pursuing relationships between the business units. The old Textron model of organization was strictly a financial relationship between the corporation and the profit center. Today a company such Rockwell or General Electric are much more active in pursuing interdependencies across business units. Both GE and Rockwell have central marketing groups that attempt to sell products, services, and systems integration capability across a number business units to a common customer. Almost all of these corporations try to transfer technology across the various business areas. The best example here is Daimler Benz from West Germany. Daimler is active in the automotive cars and trucks area, electronics, and in aerospace. There are joint projects in semiconductor technology, advanced materials, robotics and computer-aided design, which are funded by the business units and yet centrally managed to benefit all of the business areas. A third area of value added by the corporate unit is in the international area. Most of the business units or business areas have worldwide responsibility. However, in some countries with fairly unique and different cultures and ways of doing business, the corporation sets up a separate unit to help the business units. In Japan, China, India and Brazil, for example, a central country manager can add value to the businesses that are unfamiliar with conducting economic activity in those countries. The fourth and emerging activity that is performed at the corporate unit is the management of strategic accounts or relationships. Different business units will relate to other companies in very different ways. For example, the customer of one business unit can be a competitor, a partner, or a supplier to another business unit. These intricate webs of relationships are beginning to become more complicated and more numerous. Some companies will find that some 15 or 20 corporations are doing a very large amount of business in some way with the company. The management of this relationship is either directly managed at the corporate level or is managed via a business unit with some kind of corporate oversight.

In summary, the neo-conglomerate is one that is different from the divisionalized structure or the holding company structure that have been used before. The neo-conglomerate is more differentiated and more decentralized than the divisionalized structure used classically by Hewlett-Packard or Procter and Gamble. The neo-conglomerate is bit more centralized in selective areas than the holding company model. The corporation is attempting to add value so that the business units are more valuable as a group than as independent business units under a board of directors. In technology, joint selling, joint relationships or in international areas of different countries, the corporation can add value to the business units. The neo-conglomerate form of organization is still being articulated today in terms of what its compensation policies are, what its management development policies are, and so on. It is the form that will be most common in the 1990's.

The last emerging form of organization is perhaps not an organization at all, but a collection of organizations. Often, this form of organization is referred to as the Western Keiretsu. That is, in the West, a collection of businesses are emerging and acting together in ways quite similar to the Japanese banking groups. Three activities are distinguishing these groupings of companies. First, there is the increased level of partnering in various ways that companies are using quite extensively, for example, in joint ventures. The number of joint ventures that were formed in 1984 alone were greater than all of the joint ventures formed by American companies in every year up to 1984. That 1984 number has been increasing every year since then. Since 1984 there has been a quantum leap in the number of joint ventures that have been formed. If we add to this the number of strategic alliances, minority investments, long-term contracts, and sourcing relationships, there is a high level of partnering that is occurring. Usually, if a company forms a partnership with one organization, it limits itself, in some ways, in being able to form a partnership with competitors to that organization. The net affect is that various groups are forming.

The second and third features of the Western Keiretsu are the financing relationships and the use of firm specific value added networks. These phenomena are being generated by many corporations, and are not "news" per se. It is the use of these tools as a means to promote the generation and maintenance of the network of companies that is unique. The financing subsidiaries of General Electric or General Motors have been freed and are moneymaking profit centers within the company. However, it is the use of this financing relationship to build business relationships that is unique. For example, General Motors, along with Ford, have financed the rental car companies that have recently done leveraged buyouts. Often, the automotive companies take a minority position. Their financing arms provide the funds to the rental company for the buyout. The rental car company then supplies its auto needs primarily from the company that has provided the financing. As more cars are sold through the rental car channel to consumers, this becomes an important distribution channel. General Motors, Ford and Chrysler have essentially locked out the Japanese from using this channel by the means of their financing program and relationships with the rental car companies.

General Electric uses its GE Capital subsidiary in much the same way. GE Capital is the major lender to the cable industry. As NBC and other parts of GE become interested in cable, the financing relationships have created a knowledge from which an acquisition strategy can be launched.

The companies are also using their value-added networks as ways to tie together various groups of companies. General Motors has a network that they use to conduct all of their activities and expect all of their suppliers and customers to use that network. If you want to do business with General Motors, you need to have a computer system that speaks MAP. General Electric and its information systems subsidiary are forming similar sets of relationships. The company that links up its activity on a GE network can get loans from GE Capital at favorable rates, and can have its economic transactions take place rapidly on each day.

The same kinds of organizations can be seen by viewing Daimler Benz. Daimler has a set of diverse businesses which are related to the activities of Deutsche Bank. The net effect is that groups of businesses are being formed around banks and trading companies. In this way, they are very similar to the Japanese banking groups, like a Mitsubishi group or a Mitsui group. The western equivalent of these banking groups are the newest form of organization that is now forming. The partnering activities are going to continue and groups are going to continue to grow.

Summary

In this paper the author has tried to identify some types of organizations that are going to be used rather extensively in the 1990's. Some of them are re-designs of some old forms such as the matrix organization. Others, such as the network organization, the neo-conglomerate, or the Western Keiretsu, all appear to be fairly new kinds of phenomena that are emerging. All of these forms of organization are products of the new global competition that is operating along with other environmental factors, such as the worldwide labor shortages in certain areas, the use of computers that are embedded in just about everything, and the new role that government is playing.