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A FORMULATION OF PROFIT SEEKING ORGANIZATIONS: CAPITAL ACCUMULATION, IRRATIONALITY, AND POLITICS

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This essay is critical of traditional conceptions of organizations, which attempt to develop models and propositions that apply to all kinds of organizations, employ nomothetic ahistorical methods, or assume that organizational change is an outcome of rational managerial decisions. In contrast to these mainstream perspectives, the theoretical framework herein is anchored in the Marxian and radical Weberian traditions in organization theory. This essay suggests that the need to accumulate capital and the emphasis on cost accounting principles, to determine its income yielding power, distinguishes profit seeking organizations from other kinds of organizations. Moreover, the tendency of mainstream organizational theory to assimilate Weber's distinction between substantive rationality and formal rationality conceals the profoundly political nature of strategic decisions, and the effects of irrationalities on organizational change.

The study of complex organizations has been guided by rational theories and methodologies that attempt to establish models and propositions that apply to all organizations over an indefinite time span. In contrast, this essay: (1) advances a conception of profit seeking organizations that articulates how extra-organizational processes and internal irrationalities effect organizational change, and (2) asserts that a conceptual framework that grasps the unique characteristics of profit seeking organizations is necessary to advance our understanding of these kinds of organization.

The theoretical framework is anchored within the Marxian and radical Weberian traditions in organizational theory. The analysis herein is Marxian to the extent that it emphasizes internal organizational crises (e.g., Benson 1977a, 1977b; Heydebrand 1977, 1985; Zeitz 1980), and the effect of capital accumulation opportunities and constraints in the organization's economic environment (Clegg 1981; Prechel 1987). This conception of profit seeking organizations also stresses the Weberian emphasis on economic considerations in the rationalization process, and the political dimension of managerial decision making as matters of choice rather than inevitable outcomes of historical process (e.g., Clegg 1981; Clegg, Boerham, and Dow 1986; Clegg and Dunkerley 1980; McNeil 1978). In addition, this essay identifies how Weberian theory is useful to identify organizational irrationalities.

THE CONTEMPORARY CONCEPTION OF ORGANIZATIONS

Although organizational sociologists have studied profit seeking organizations, few have distinguished between these organizations and those that do not pursue profits. Moreover, little attention has been given to the relationship between these organizations and the on-going historical processes in their economic environments, and how economic changes influence internal organizational arrangements. This is particularly perplexing in a society, such as the United States, where profit seeking organizations are so ubiquitous.

There are three interrelated reasons why, despite the abundant literature on organizations, there is an absence of an adequate conceptualization of profit seeking organizations. First, organizational theorists have attempted to develop models and propositions that explain the behavior of all kinds of organizations (e.g., business firms, hospitals, public agencies). This emphasis on positivistic universal explanations, borrowed from the natural sciences, is based on the assumptions that there are sets of principles, causal relations, and universal laws of organizational structure and functioning (Zey-Ferrell and Aiken 1981, p. 16). These assumptions explicitly suggest that similar principles govern all kinds of organizations, which makes it unnecessary to differentiate among organizational types. In contrast, this essay suggests that different types of organizations have different processes, structures, and environments. Moreover, changes in these internal organizational variables are effected by extra-organizational variables, such as capital accumulation opportunities and constraints, that are unique to specific kinds of organizations. Research strategies that emphasize context attempt to understand organizations in terms of those elements that are unique or specific to them, rather than in terms of those things that are general to all organizations (Colignon and Cray 1980).

Second, the preoccupation with managerial agendas and assumptions of "managerial potency" among organizational researchers has contributed to an inadequate conception of profit seeking organizations. Much organizational research is preoccupied with how to increase organizational efficiency and achieve organizational goals. This bias is most obvious within the managerial tradition, which explicitly presupposes rationality and efficiency as the ultimate criteria for managerial action (e.g., Chandler 1962, p. 16-41, 1977, pp. 286, 339; Williamson 1975, pp. 133-4, 1983, pp. 125, 133-4).[1] Managerialist arguments attribute causation to managers and presume that organizational structures and processes are consciously structured outcomes of rational decisions rather than outcomes of unconscious processes (also see Warriner 1984, p. 6). This conception of causation emerges from the prevailing definition of organizations as "established for the explicit purpose of achieving certain goals" (Blau and Scott 1962, p. 1). Implicit within organizational perspectives that associate conscious managerial action with organizational design to achieve goals are the assumptions that managers correctly perceive their environment, are capable of acting on those perceptions, and organizational change is a rational response to organizational inefficiencies (also see Fligstein 1985; Fischer and Sirianni 1984; Warriner 1984). These

assumptions ignore how bounded rationality (Simon 1957) limits the ability of social actors to make rational decisions (Schulman 1989).

Third, the attempt to develop models and propositions that explain the behavior of all kinds of organizations has resulted in an emphasis on nomothetic ahistorical methods. Ahistorical methodologies assume stable relationships within organizations as well as between organizations and their environments. Changes in the social structure are explained by analyzing quantitative variations in social facts that are associated with quantitative variations in other social facts. This tradition attempts to develop a coherent body of precise statistical regularities to serve as laws in explanations conforming to a nomological-deductive model (see Porpora 1987). The findings from these methodologies are used to develop models and propositions that are stated as if they apply to all organizations over an indefinite time span (Benson 1977a; Therborn 1984). This emphasis on equilibrium is seductive because it suggests that collective harmony exists not only within the organization itself, but between the organization and its environment. However, rational assumptions of linearity and normality in ahistorical methodologies cannot grasp the context or complexity of organizational change (Benson 1977a; Heydebrand 1977). The findings from studies that employ ahistorical methodologies are rendered false by changes in relationships among variables as we move from one time period to another (Miller and Friesen 1982, p. 1013), and they unduly stress short-term stability at the expense of the long-term dynamic process of structuring (Frombrun 1986). The tendency to ignore changing historical conditions is particularly paradoxical because much organizational theory (e.g., institutional, population ecology, resource dependence) attempts to link organizational processes to societal processes.

In contrast to the ahistorical formulations in mainstream organizational theory, a wide range of literature outside the traditional boundaries of organizational theory suggests that, historically, capitalism has taken various forms and has been sustained by various institutions. For example, Gordon, Edwards, and Reich (1982) maintain that the social structures of accumulation have changed throughout the history of American capitalism. Similarly, Piore and Sabel (1984) argue that successive capitalist regulatory mechanisms have defined the changing relationship between production and consumption. Both arguments suggest that the social organization of production evolves in relation to political and economic conditions.

Moreover, certain traditions within organizational theory have demonstrated the importance of historical variation on profit seeking organizations. Historical conditions shape the structure of industries and corporations because they must adapt to historical variations in the external environments such as changes in consumption patterns and competition (e.g., Tushman and Romanelli 1985). Similarly, other studies suggest that there are great spurts of organizational types, followed by fundamentally different kinds of organizational forms. Organizations construct their social systems with the resources available, and organizational forms tend to be "imprinted:" they are

likely to retain the features acquired at the time of their origin (Stinchcombe 1965, p. 154-168).

In summary, these arguments suggest that organizational theorists have not developed an adequate conception of profit seeking organizations because of the linear and rational assumptions of ahistorical methodologies, the presumption that decision making is a rational response to organizational constraints, and the tendency to establish propositions and models that apply to all organizations over an indefinite span of time.

PROFIT SEEKING ORGANIZATIONS

Organizational theorists that have attempted to identify profit seeking organizations advance a broad definition of economic organizations as those that produce goods and services, develop systems to exchange goods, or manipulate the monetary process (Etzioni 1958). This definition, however, fails to include the most critical feature of profit seeking organizations; they must accumulate capital to survive. *Capital accumulation* is the process by which capitalism is reproduced and expanded over time through profits and reinvestment. The capital accumulation process within the profit seeking organization includes the mobilization, transformation, and exploitation of inputs and outputs in such a way that the total capital of the organization increases (see Gordon et al. 1982). In contrast to simple profits, capital accumulation reflects management's broad concern with the overall financial position of the corporation. Steady rates of accumulation maintain a strong liquidity position to ensure capital reinvestment, and reduce the debt burden (i.e., the ratio between total debt and total assets). These variables are important because they determine the financial strength of the corporation, the value of its stock, and ultimately the financial worth of the corporation.

Most importantly, accumulation is not solely an economic issue. For Marx, accumulation encompasses social relations and social organization.

> The capitalist process of production, therefore, seen as a total, connected process, i.e. a process of reproduction, produces not only commodities, not only surplus-value, but it also produces and reproduces the capital-relation itself; on the one side the capitalist, on the other the wage-labourer (Marx 1976, p. 724).

Similarly, although Weber did not explicitly discuss capital accumulation, he maintained that rational calculation profoundly effects social organization (1978, pp. 85, 91-9). Moreover, organizational mechanisms to ensure efficiency were important to Weber because they effected the "sociological conditions of economic activity" (1978, p. 92).[2]

These insights of Marx and Weber emphasize the central characteristics of profit seeking organizations. *Profit seeking organizations* produce goods and services to sell in the marketplace in order to accumulate capital, and have capital accounting systems that rationally calculate the income yielding

power of the organization. Data obtained from the accounting system provides information to establish a complex unity of controls over organizational activities (Prechel 1989). Capital accumulation and the variables that affect accumulation are important not only because the survival of the corporation is dependent upon accumulation, but also because accumulation considerations are a primary concern among top level decision makers who make strategic decisions that effect organizational change (e.g., Chandler 1962, 1977; Prechel 1989). Much of the information to make these decisions is derived from formally rational calculation of market opportunities and internal costs.

Their need to steadily accumulate capital differentiates profit seeking organizations from nonprofit seeking organizations (e.g., government bureaucracies, labor unions) because their survival is dependent on accumulation. Nonprofit seeking organizations typically operate on pre-established budgets, and changes in macroeconomic conditions impact their internal operating capital primarily through government decisions and legislation. In contrast, profit seeking organizations are directly effected by exchanges in the marketplace. Whereas a recession or increased competition retards the accumulation process and reduces their internal operating capital, which may threaten the survival of profit seeking organizations, steady economic growth facilitates accumulation and ensures survival.

PROFIT-SEEKING ORGANIZATIONS, THEIR ECONOMIC ENVIRONMENT, AND THE RATIONALIZATION PROCESS

Several organizational theorists have recognized the need to develop a sharper conceptualization of the relationships between the organization and the economy. Hall (1982, p. 230) maintains that economic conditions impose important constraints on any organization. McMillan (1973) suggests that the development of multinational corporations is a consequence of corporate choices to implement product-market strategy; as corporations begin to produce a complex range of products, they are sold in different markets through multiple channels of distribution. Pfeffer and Leblebici (1973) argue that competition significantly contributes to organizational change. Perrow (1979a, p. 213) suggests that economic considerations are foremost in organizational adjustments to changing environments. In addition, the organizational typologies developed by Parsons (1960), and Blau and Scott (1962) suggest that economic organizations are distinct from other kinds of organizations. Directly or indirectly, these researchers suggest that efforts to explain the behavior of profit seeking organizations must consider economic agendas. However, sociologists tend to ignore the economy and economic considerations (Hall 1982, p. 7).

The macroeconomic environment is important because it influences the capital accumulation process within profit seeking organizations. *Macroeconomics* is the study of the relationships among broad economic aggregates (Bannock, Baxter, and Rees 1978); the macroeconomic conditions that have a significant effect on profit seeking organizations include economic

growth rates, recessions and depressions, and changes in the degree of market competition within the domestic and global economies. All of these variables effect price and demand, which, in turn, provide accumulation opportunities or constraints. Change within profit seeking organizations is a response to capital accumulation opportunities and constraints in their environment because their survival depends on capital accumulation.

For Weber, the formally rational bureaucratized profit seeking organization is the organizational prototype of the emerging rationalization process (Salaman 1984, p. 188; Wilson 1977, p. 146). Although Weber identified distinct types of rationality that combine and struggle against one another in history, formal rationality dominates in modern society (Kalberg 1980). *Formal rationality* is a means-ends orientation that emphasizes precise calculation in terms of abstract rules, and decisions are arrived at "without regard to persons" (Weber 1978, pp. 85-86, 223-6). At the societal level *rationalization* is characterized as the application of science, calculation, technology, and measurement which serves the achievement of ends (Weber 1978; also see Kalberg 1980; Salaman 1984, p. 188). At the organizational level rationalization is oriented toward formal rules designed to extend quantitative calculation to evaluate the income yielding power of the corporation to the degree that it is technically possible (Weber 1978, p. 85; 1981, p. 275).

One of the predominant organizational manifestations of formal rationality is the emphasis placed on rational capital accounting. The capitalist establishment determines its ability to accumulate capital by evaluating its income yielding power by calculation according to the methods of modern bookkeeping and the striking of a balance (Weber 1978, pp. 91-2, 96, 99; 1981, p. 275). Formally rational calculation is emphasized because from a purely technical point of view, money is the most 'perfect' means of economic calculation, and the most rational means of orienting economic activity (Weber 1978, p. 108). Moreover, rational calculation is intensified when capital accumulation is constrained. Cost accounting systems are specified in increasingly precise modes when accumulation opportunities are constrained by macroeconomic conditions (Prechel forthcoming). Data obtained from cost accounting systems are used, among other things, to develop corporate strategies to ensure survival under the new economic conditions.

There is, however, no guarantee that formally rational means ensure substantive goal rationality. *Substantive rationality* applies certain criteria of "ultimate ends" to the calculation of economic action as distinct from the formal calculation of actions into numerically calculable terms (Weber 1978, pp. 85-6; also see Antonio 1979, 1984; Brubaker 1984; Clegg et al. 1986, p. 237). In fact, formally rational calculation, by itself, may be "against these scales of ... substantive goal rationality" (Weber 1978, pp. 85-6).

IRRATIONALITY AND ORGANIZATIONAL CHANGE

Despite the efforts of managerial capitalism to impose rationality on the modern corporation (for different perspectives on this process see Chandler

1977 and Herman 1982), the following argument suggests that a great deal of organizational change is an outcome of irrationality. The source of irrationality is best understood by the Weberian distinction between formal and substantive rationality, which makes it possible to demonstrate the inherent irrationalities in the application of formal rationality to the modern corporation. Weberian theory suggests that the rationalization process includes not only the application of formally rational techniques, but also irrationalities.

Within large and complex profit seeking organizations, the dominance of formal rationality over substantive rationality generates substantive irrationalities. That is, formally rational means to control the organizational sub-units generate substantively rational goals within these sub-units that are irrational when compared to the ultimate substantively rational goals of the organization. For example, formal budgets are allocated to middle managers responsible for organizational sub-units as a means to exercise fiscal control throughout the corporation (e.g., Chandler 1977; Weber 1978). This means of formal control encourages the middle managers, responsible for these organizational sub-units, to make decisions that will ensure that they remain within their budgets. Sub-unit managers adhere to these formally rational controls because their ability to remain within these predetermined budgets is used to evaluate their managerial skills, and determine if they merit a raise or cut in salary (Prechel 1986, 1989; also see Weber 1978; Chandler 1977). However, decisions that minimize sub-unit costs can undermine total costs because cost cutting decisions by sub-unit managers sometimes reduce product quality. Lower quality products must be sold at lower prices, which undermines profits and the ultimate substantive accumulation goals (Prechel 1986, forthcoming). Although this form of substantive irrationality undermines the efficient use of organizational resources, it is often undetected or ignored as long as a steady demand exists, and accumulation (i.e., profits, reinvestment) continues at a rate that ensures the survival of the corporation.

Substantive irrationality contributes to crises when the formally rational organizational form, which includes both the managerial system and the organizational structure, is no longer able to realize its substantive goals (i.e., accumulation, survival). Although crises are exacerbated by the inefficient use of organizational resources, crises emerge when organizational stability is disrupted by periods of rapid economic change. In conjunction with organizational irrationalities, ruptures in the environment undermine the corporation's ability to realize its substantive accumulation goals, which threatens the organization's ability to survive. When a crisis of survival emerges organizational transformation occurs to recreate a better fit between the organizational form and the environment to restore a rate of capital accumulation that will ensure survival. For example, transformations in the organizational form of a large steel corporation followed the depression of the 1930s, the increased competition in early 1970s, and the capital accumulation constraints (i.e., recessions in the domestic economy, increased global competition) in the 1980s (Prechel 1987).

In summary, accumulation crises are outcomes, on the one hand, of the substantively irrational action generated by the emphasis on formally rational means (e.g., adherence to sub-unit budgets), which undermine the organization's substantively rational accumulation goals. On the other, this substantive irrational action emerges as crisis when shifts in the economy (e.g., recessions, depression, competition) render the historical specific organizational form ineffective to ensure accumulation and survival in its new economic environment. The tendency of managerial and mainstream social scientific approaches to confuse formal rationality with the rationalization process, and the failure to analyze sources of organizational irrationality may account for why several theorists have asserted that current organizational theories explain only a small percentage of the variance found in the organizational world (e.g., Benson 1977a; Fischer and Sirianni 1984; Perrow 1979b; Warriner 1984; Zey-Ferrell and Aiken 1981).

THE POLITICS OF THE RATIONALIZATION PROCESS

The tendency in contemporary organizational theory to assimilate Weber's distinction between substantive rationality with formally rational means also conceals the profoundly political nature of corporate strategic decisions (also see Clegg et al. 1986, p. 237). Decisions concerning social control within organizations come to be seen as technical matters in which participation is limited to those organizational members with technical expertise. Behind this facade of formal rationality is an over-arching ideology that defines the rationalization of profit seeking organizations as reasonable or an inevitable outcome of existing historical forces. This type of analysis ignores the central Weberian conception of bureaucracy as a mechanism to exercise authority over organizational members.

Weberian theory suggests that there is a substantive political dimension of corporate strategies. That is, there is something more than mere technical efficiency that is at stake in decisions concerning the selection of a managerial technique or production technology. Weber explicitly argued that the selection and implementation of formally rational techniques effect the distribution of authority. This political dimension of profit seeking organizations is exemplified throughout the twentieth century when corporations have progressively centralized authority, and reduced lower and middle managerial control (Braverman 1974; Edwards 1979; Prechel forthcoming).

Discipline is emphasized in large complex corporations because the lack of standardized social action has profound affects on production costs. When production is based on many interconnected technologies, which characterizes profit seeking organizations in the late twentieth century, the lack of control in one area of production significantly effects production cost and profits. For example, decisions that disrupt or stop production in one sub-unit also disrupt production in other segments of the manufacturing process. Similarly, the use of an improper steel 'recipe' lowers the quality of raw steel, which cannot be processed to meet the quality specifications established in the marketplace.

Steel that does not meet market specifications is often sold at lower prices or scrapped, which undermines capital accumulation (see Prechel 1986). This is especially the case when competition is high and the marketplace establishes quality standards. In short, the lack of standardized decision making and predictability undermines the smooth flow of production and product quality. Disciplinary technologies, which use anonymous instruments of power such as hierarchial surveillance and perpetual assessment technologies (i.e., computers), are implemented to ensure the smooth flow of production, and centralize control and authority. The failure to conceptualize organizations as mechanisms to ensure authority, and recognize that the decisions of the dominant political coalition structure the organization to ensure this substantive end ignores the inherently political dimension of organizational change.

CONCLUSION

In this essay I have identified sources of organizational irrationality and crisis, and stressed how these dimensions of profit seeking organizations effect organizational change. Profit seeking organizations change not simply as an outcome of abstracted societal processes and rationalization (Hannan and Freeman 1977; Meyer and Scott 1983), nor as a result of organizational complexity under expanding market conditions (Chandler 1962, 1977; Williamson 1975). Rather, much organizational change is an outcome of irrationalities that undermine the efficient use of organizational resources. A primary source of irrationality within the capitalist enterprise is the incongruence between the formally rational controls (e.g., budgets), and the ultimate substantively rational accumulation goals; budgetary controls encourage middle managers to maximize sub-unit goals, which generates social action that is irrational in context of substantively rational accumulation goals. Although substantive irrationality exists under a wide range of historical conditions, the inefficiencies generated by irrationalities are catalysts to accumulation crisis and organizational change when economic downturns occur or competition increases in the organizational environment.

This essay has been critical of those conceptions of organizational change that incorporate normative, linear, and rational assumptions because such conceptions presuppose equilibrium and stability. These assumptions underestimate the irrational dimensions of organizational processes, and the degree to which irrationality and crisis contribute to organizational transformation. On the one hand, current quantitative methodologies cannot adequately grasp the irrational and contradictory dimension of these organizations. On the other, the managerialist assumption of rationality and efficiency ignore how irrational organizational action undermines substantively rational goals, and that the subsequent crises are catalysts to organizational change. The failure to recognize irrationality and crisis as a catalyst to organizational change is due, in part, to the tendency to accept the models of corporate change that emerged between the 1950s and mid-1970s when the

United States economy steadily expanded (e.g., Chandler 1962, 1977; Williamson 1975). This era of steady economic expansions generated few extra-organizational ruptures that resulted in accumulation crises. Although these theories may be useful to explain organizational change in the mid-twentieth century, they are inadequate in the late-twentieth century.

Moreover, the choice of technology and the emergent corporate form is not as inevitable, neutral, or rational as scholars of business history (Chandler 1962, 1977) or economics (Williamson 1975) suggest. Although decisions concerning corporate strategies, technologies, and structures are made within specific opportunities and constraints, these decisions are a matter of choice which makes them inherently political.

ENDNOTES

1. The managerial tradition is discussed because it is the only area of organizational research that specifically focuses on profit seeking organizations.

2. Despite early interpretation of Weber's work, which emphasized the absolute efficiency of bureaucratic social organization, Weber's primary concern was with what happened when people adhered to formally rational cost accounting principles (see Weber 1978, p. 92). Moreover, mainstream social scientific organizational theories have incorrectly portrayed Weber as advocating a conception of absolute efficiency (e.g., Jacoby 1973; Stinchcombe 1974; Thompson 1967). To the contrary, as a comparative sociologist, Weber was advancing a conception of relative efficiency. That is, Weber viewed legal-rational bureaucratic organization as more efficient than traditional organizational forms (also see Albrow 1970, p. 63; Clegg and Dunkerley 1980, p. 169; Kalberg 1983; Salaman 1984).

   Moreover, the use of efficiency is a misrepresentation of Weber. The German word *leistungsfahigkeit* in Weber's work is translated as efficiency. However, "leistungsfahigkeit" is normally translated as "capacity to perform" or "performance capacity," which suggests that, for Weber, formally rational means are implemented *to increase* performance (for specific citations and page numbers see Prechel 1989). (I thank Stephen Kalberg for bringing this to my attention.)

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