Network Organisations?
Some Empirical Evidence Concerning UK Corporate Change

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What Kind of - and Whose – Flexibility?

• **Organisational Flexibility**	**flexible working (2)**	**flexible firms (4)**	**Networked economic system (6)**
• **Organisational Control**	**work design Taylorism (1)**	**organisational Fordism (3)**	**societal Fordism bureaucratic society (5)**
‘Level’ of Organised phenomena	**intra-firm organising (organisation behaviour)**	**constitution of organisation (organisation theory)**	**inter-organis-ational systems**

Competing Arguments

- How to understand the flexibility of the contemporary corporation?
  - Towards an effective new corporate model
    - Growth based on efficiency as a response to competition
    - Structurally: “To change the scope of [the firm’s] activities, typically focussing on their ‘core’ business.
    - Closer relationships with customers and suppliers – towards longer term
    - Eliminated layers of hierarchy
    - Redefined business and other organisational units
    - “To facilitate co-ordination and learning...linking people in different parts of the organisation directly, so that communications are more horizontal and not just up and down the hierarchy.” J. Roberts, 2004:
  - Or is it something different – limiting competition whilst extracting value?
    - Buying and selling businesses to increase manoeuvrability
    - Avoiding the activity of the activist investor and private equity fund
    - Owning or controlling business partners
    - Using market relations inside the organisational boundary
    - Binding business partners via long-term contracts

Challenges to Received Wisdom

- What we see in the activities of large business groups offers some considerable challenges
- First to the idea that there is much network flexibility
  - There is not the expected density of connections
  - Lateral connections are usually absent and discouraged
  - A main source of flexibility comes from ‘structural adjustments’ in which subsidiaries are bought and sold.
- Business groups are effectively co-ordinated by management information systems (MIS) allow for tight control of key variables, whilst often not setting out how targets are to be achieved.
- Second to the idea that there is much strategic leadership.
  - There is not much in the way of strategic goals - mission statement is some variant of remaining profitable and redistributing shareholder value
  - In actuality social systems at the periphery have to make businesses functional, without strategic direction.

Wanted: Not Models…..But Maps

- Models / Typologies are popular and numerous - but not very precise or helpful
  - Network models (eg, Castells and others)
  - Managerial - economistic models (eg Bartlett and Goshall)
  - Organisational models (eg Hedlund et al)
  - The ‘M’ Form renewed (eg Whittington and Mayer)
- Now going back to look at the empirical record – what have firms been doing?
- What does the empirical record say about structures, flexibility and network properties?

The Research Background

- An ongoing programme of research on UK corporations
- Monitoring the largest firms with headquarters in the UK and quoted on the LSE (n=200)
- There is special interest in the fate of manufacturing firms (n=64 in 1996)
- What are firms doing? How are they reconstructing?
- What are the implications for the reconstruction of the economy?
- There is also general interest in the development of the economic system and the place of corporations in the new configuration.

Some Major Changes since 1996

- A small number of huge companies

  (Top 10 capitalised at an average of $130 billion. Top 15 firms worth more than the next 185)
- Growth concentrated in few sectors

  (Oil and minerals; Banking and finance; Pharmaceuticals)
- Median value of the top 200 increased by only 30% in money terms
- Net wealth of many of the largest firms actually shrinking
- This shrinkage is very marked in some sectors

Some Changes in Selected UK Economic Sectors, 1996 - 2006

	1996		1996		2006		2006	
	No of firms	% firms	Capitalisation in£Bn	%of Total ave size	No of firms	% firms	Capitalisation in £Bn	% of Total ave size
Oil and Extraction	7	3.5	10.9	12.6	18	9.0	24.9	23.2
Banking Finance and Property	35	17.5	21.5	5.0	49	24.5	27.9	13.4
Retail and Commerce	23	11.5	9.0	3.2	20	10.0	6.2	5.2
Manufacture	64	32.0	23.2	2.9	36	18.0	15.0	6.9
Services and Transport	17	8.5	4.2	2.0	37	18.5	4.7	2.1

Fate of Major Manufacturing Firms in 1996 sample

Still in the data base:	No	%	Firm Types and Examples
Grown – organically and by M&A (3 mergers with others in sample)	11	18.0	Tobacco, Drinks, Household Goods (eg Diageo, Cadbury)
Survived more or less same type – some diff activities and / or more focussed	16	26.2	Various: Some Engineers – mainly defence contractors (eg Defence, Engineering
Disappeared from the data base:			
Split up, greatly downsized or completely re-focussed	13	21.3	Many diversified and old firms (eg Courtaulds)
Acquired by foreign owners	14	23.0	Many focussed Co's and Building materials groups (eg BOC, Corus, Pilks)
Directly or Indirectly acquired by Private Equity	7	11.5	Mixed (eg the automotive arm of Lucas, United Biscuits)

Large Firms in the British Manufacturing Sector Today

- Retail-Related Manufacture
  - The largest group with 14 Companies (70 % of sector) average size = £12.3 billion
    - Tobacco (eg BAT, Imperial Tobacco (2))
    - Drinks (eg Diageo, Scottish and Newcastle (3))
    - Food (eg Cadbury-Schweppes, Associated British Food (5))
    - Household (eg Reckitt-Benckiser (4))
- Engineering Group
  - The second-largest group with 13 Companies, average size = £4.4 billion
    - Defence sub Group (6 Companies, average size = £5.3 billion (eg B.Ae., Rolls-Royce, Smiths)
    - Other Engineering (7 Companies, average size =£2.0 billion) (Invensys, GKN, Tomkins)

There ARE Common Elements of Strategy

- The activities of firms in the Manufacturing Sector (esp Engineering Co's) exemplify practices amongst many of the large Co's in several other sectors including:
  - Commerce and Retailing
  - Chemicals and Pharmaceuticals
  - Media
  - Utilities
  - Transport

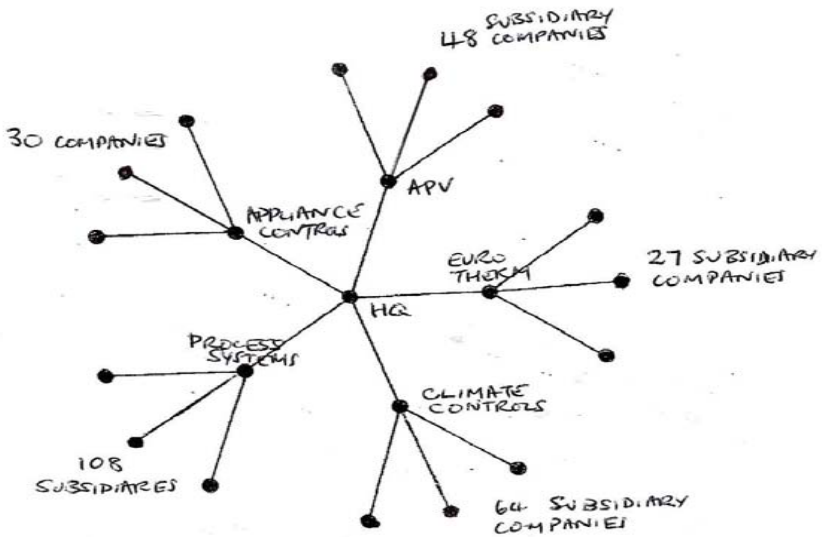
Structural Properties and Strategies

- Multi-subsidiary organisational form (cf Prechel and Boise, 1998)
- Many subsidiaries (200 or 300 are common)
- Subsidiaries are a high proportion of the total equity
- Legal and financial firewalls
- Most firms (even the largest) are structurally flexible – buying an selling subsidiary companies continuously
- Many sales excused as focussing – but the focus changes!
- Allows changes of strategic direction
- Moves make sense as “downsize and redistribute” regime.
  (Lazonick and O’Sullivan, 2002)
- Moves also make sense as defensive manoeuvring.
  - Buying and selling of Companies allow the realisation of cash, allowing share buyback, gives new signals to the market etc, evades activists and PE funds? (Littler,)

Example I Engineering Co

- From Lame Duck to Sitting Duck? : Formed by a merger between two others - a large, diversified former conglomerate with a large engineering interests and a smaller but more successful engineering group, in 1999.
- A high percentage of British Engineering capacity (possibly 25%) was contained in these two Co's
- The Company embarked on a sustained period of corporate restructuring aiming to become engineering group focussed on control systems.
  - Between late 1999 and early 2001 Engineering Co divested 32 major businesses and many many smaller ones
  - In the same period, it acquired (and sometimes resold) 10 major businesses
  - Many conventional engineering activities were divested.
  - Software and systems capability was acquired
  - The share price sank to £0.11p at the lowest. The Company was felt to be "dead in the water" and an unlikely takeover target
- After reorganisation, Engineering Co is organised as 350 subsidiaries. Its share price is now c£3.40, and market cap is a £2.9 Bn

Engineering Co in 2004



+ 3 SMALLER "DIVISIONS" (RAIL SYSTEMS (20); LAMBDA (20); VALIDATION TECHNOLOGIES (9))

350+ COMPANIES IN THE GROUP, 2004

Example II Aero Co

- Chosen because of its difference from Invensys
- One of the very few British Co's producing complex manufactured products of high quality
- Also has many subsidiaries
- The level of product development however is limited. R&D is focussed on a narrow range of new products.
  - Much strategic investment focussed on the aftermarket – Aero Co is seeking a higher proportion of its business in servicing and reconditioning its products
  - A high proportion of this development has been through the formation of joint ventures in many countries of the world
  - Aero Co also has been buying and selling subsidiaries. In the same period of the Engineering Co restructuring (1999 – 02), Aero Co sold more than 20 major companies. It acquired, more than it sold, but the main acquisitions were again to facilitate growth in after market capability
  - Conventional engineering businesses - judged to be not central to the core business were divested.
- Market Capitalisation up from £3.6 Bn to just £9.0 Bn 1996 – 2006
  - This compares unfavourably with German and Japanese firms

What do they have in Common? I

- Distributed Organisational Design
  - Many subsidiaries of different kinds (200 or more is common)
  - A high proportion of net assets in subsidiaries
  - Legal and financial firewalls
  - Prechel and Boies' MLSF
  - Divisionlisation (where it exists) is not about covering the market
- Continuous Reconstruction
  - Buying and selling subsidiary companies gives structural flexibility
  - Repositioning through buying and selling
  - Identifying and occupying lucrative niche activities and captive markets.
  - Identifying key positions in value chains through owned subsidiaries.
  - Increasing the number of long-term partners and joint ventures
  - Limited in house R&D, preference to buy smaller innovative Co's
  - Limited organic growth if any

What do they have in Common? II

- Strategic Manoeuvring
  - Redistributive Corporate Regime (Lazonick and O'Sullivan)
  - Manipulating the share price by buyback and paying artificially high dividend payments
  - Giving limited information about strategy and giving misleading signals about intentions – Littler
  - Dealing with potential predation from takeover / private equity
  - Increasing proportion of assets paid out to corporate executives
- Controlling Market Relations
  - Allowing market relations inside the organisational boundary through transfer-pricing
  - Extending hierarchy outside the organisational boundary though ownership of joint ventures and long-term affiliations
  - Entering long-term contractual relationships which suppress market relations for the duration of the contract

Experimental Mapping

- Most network analysts are not very precise in their ideas about networks
- SNA recommends itself as a very precise research tool – allow the use of graph theory
- Organisations – as any collectivity - can be resolved into a network of points and ties
- Key issue in using this approach is defining what counts as a tie.
  - The more diffusely a tie is defined, the less point the resulting graph may have
  - Ties defined too narrowly miss the richness of social organisation

THREE SOURCES OF FLEXIBILITY IN CORPORATIONS

- **Is There Network Flexibility?** This is the theoretical idea behind much theorisation of new economic relationships. New organisational forms and wider groupings are said to be densely interconnected, unlike both hierarchies and markets. Such networks are said to lead to more efficient communication, to feature greater reciprocity and make it possible for alternative flows of goods and services to appear. Postulated network densities are high. Such points are constantly made, but the demonstration that they exist and have the alleged qualities is missing.
- **On the other hand we can show structures which combine**
  - **Structural Flexibility: This managerially induced flexibility as discussed here. It involves, inter-alia, the willingness to adjust the size and composition of the business group by buying and selling businesses, finding cheaper sources by outsourcing supply, or offshoring services and adjusting the size of the workforce. Densities of the relationships here are very low**
  - **Social Flexibility: This uses the capacity of employees to make contacts and to form alliances and to overcome the defects of existing business systems and social relationships.**

Conclusions

- New corporate forms can be seen to be very demanding of social capacities
  - The ability to make effective links requires affective commitments.
  - But there is an inverse relationship between number of relationships we can have an their quality.
- As business requires more and more of our social self, civil society diminishes.
  - The individual citizen and the society is vulnerable in these circumstances.
- Hybridised forms of governance have emerged, in which private capital has penetrated the State and is more influential than the State in some arenas.
- Arguably, this is not so much the triumph of trust over market, as the triumph of a new combination of hierarchy and market over civil society and the state.