From Organizational Economics Theory to Theories of Organizations and Environments

Őzgür Őnday

Department of Business Administration, Yeditepe University.

ABSTRACT

Organization is a relatively young science in comparison with the other scientific disciplines. (Ivanko, 2013) Accounts of the growth of organizational theory usually start with Taylor and Weber, but, as Scott (1987) mentions, organizations were present in the old civilizations which goes back to Sumerians (5000, BC) and which experiences its maturation phase with Taylor, Fayol and Weber, continuing to come up to present with modern management methods and principles. The modern organization may be the most crucial innovation of the past 100 years and it is a theory which will never complete its evolution as the human being continues to exist. Understanding how organizations work has been the focus of scientists and scholars until the early part of the 20th century. Just as organizations have evolved, so to have the theories explaining them. These theories can be divided into 9 different "schools" of thought (Shafritz, Ott, Jang, 2005): Classical Organization Theory, Neoclassical Organization Theory, Human Resource Theory, or the Organizational Behavior Perspective, Modern Structural Organization Theory, Organizational Economics Theory, Power and Politics Organization Theory, Organizational Culture Theory, Reform Though Changes in Organizational Culture and Theories of Organizations and Environments. This introductory paper will concentrate on the organizational economics theory and is divided as follows: The introduction talks about the developments of the organization and organization theory from its early stages with detailed definitions. In section 2, theoretical roots in other words literature review on the subject will be presented. At further section, by looking at the perspectives of the 25 pioneering people, main principles of the organization theory are presented one by one. Section 4 discusses and concludes the paper.

I. Introductıon

Organization theory is not an easy concept. Unless you are naturally interested to the abstract, you probably expect this subject to be dry, unconnected to practical matters and perhaps a little boring. Even if you are interested about abstractions, it can be boring to confront as many of them at one time as organization theory asks you to do. So why would anyone sign up to study this complex and difficult subject matter?

There are many answers to this question. For some, studying organization theory is motivated by curiosity. They want to know what it would be like to think like an organization, to get inside organizing processes far enough to reveal the intricate organizational patterns that make organizations understandable. Others are motivated by the attraction of stretching their minds in new ways. For example, organization theory relies on the sciences, the humanities and the arts, and so presents the intellectual challenge of thinking in interdisciplinary ways. Some turn to organization theory in the hope that it will get better their chances of becoming successful executives in business, government or non-profit organizations. Table lists some of their specific reasons.

Man is intent on describing himself into a web of collectivized patterns.``Modern man has learned to accommodate himself to a world increasingly organized. The trend toward ever more explicit and consciously drawn relationships is profound and sweeping; it is marked by depth no less than by extension.`` This comment by Seidenberg summarizes the influence of organization in many shapes of human activity.

Some of the reasons for hectic organizational activity are found in the main transitions which revolutionized our society, shifting it from a rural culture, to a culture based on technology, industry, and the city. From these shifts, a way of life occurred and characterized by the proximity and dependency of people on each other. Proximity and dependency, as conditions of social life, harbor the threats of human conflict, capricious antisocial behavior, instability of human relationships, and uncertainty about the nature of the social structure with its concomitant roles.

Of course, these threats to social integrity are still exist to some degree in all societies, ranging from the primitive to the modern. But, these threats become serious when the harmonious functioning of a society acts upon the maintenance of a highly intricate, delicately balanced shape of human collaboration. The civilization we have generated depends on the preservation of a precarious balance.

Hence, disrupting forces impinging on this shaky form of collaboration must be prohibited or minimized.

Traditionally organization is seen as a intermediary for accomplishing goals and objectives. While this approach is nifty, it tends to obscure the inner workings and internal aims

Tele:
E-mail address: ozgur.onday@std.yeditepe.edu.tr

Strategy/Finance	Those who want to improve the value of a company need to know how to organize to achieve organizational goals; those who want to monitor and control performance will need to understand how to achieve results by structuring activities and designing organizational processes.
Marketing	Marketers know that to create a successful corporate brand they need to get the organization behind the delivery of its promise; a thorough understanding of what an organization is and how it operates will make their endeavors to align the organization and its brand strategy more feasible and productive.
Information technology	The way information flows through the organization affects work processes and outcomes, so knowing organization theory can help IT specialists identify, understand and serve the organization's informational needs as they design and promote the use of their information systems.
Operations	Value chain management has created a need for operations managers to interconnect their organizing processes with those of suppliers, distributors and customers; organization theory not only supports the technical aspects of operations and systems integration, but explains their socio-cultural aspects as well.
Human resources	Nearly everything HR specialists do from recruiting to compensation has organizational ramifications and hence benefits from knowledge provided by organization theory; organizational development and change are particularly important elements of HR that demand deep knowledge of organizations and organizing, and organization theory can provide content for executive training programs.
Communication	Corporate communication specialists must understand the interpretive processes of organizational stakeholders and need to address the many ways in which different parts of the organization interact with each other and the environment, in order to design communication systems that are effective or to diagnose ways existing systems are misaligned with the organization's needs.

of organization itself. Another fruitful way of behaving organization is as a mechanism having the ultimate aim of offsetting those forces which undermine human collaboration. In this approach, organization sloping towards to minimize conflict, and to lessen the meaning of individual behavior which deviates from values that the organization has established as worthwhile. Further, organization increases stability in human relationships by decreasing uncertainty regarding the nature of the system's structure and the human roles which are inherent to it. Parallel to this point, organization enhances the predictability of human action, because it limits the number of behavioral alternatives available to an individual. (Scott, 1961)

Furthermore, organization has built-in safeguards. Besides prescribing acceptable shapes of behavior for those who elect to submit to it, organization is also capable to counterbalance the effects of human action which transcends its established ways. Few segments of society have engaged in organizing more strongly than business. The reason is clear. Business depends on what organization offers. Business requires a system of relationships among functions' it requires stability, continuity, and predictability in its internal activities and external contacts. Business also appears to need harmonious relationships between the people and processes which creates it. In other words, a business organization has to be free, relatively, from destructive tendencies which may be caused by divergent interests. (Scott, 1961)

As a main principle for meeting these needs build upon administrative science. A major element of this science is organization theory, which gathers the grounds for management activities in a various number of crucial areas of business endeavor. Organization theory, however, is not a homogeneous science based on generally accepted principles.

Different theories of organization have been, are being evolved and continued to be evolving. (Ibid.)

If it is needed to give detailed definition of organization and organization theory; there are various definitions. To start with organizations, organizations are universal phenomena in human social and were explained by March and Simon (1958) as a systems of coordinated action among individuals who differ in the dimensions of interests, preferences and knowledge. Who holding the same philosophy included Arrow (1974), Mintzberg (1979), et cetera. Organizations exist when people interact with one another to implement essential (Daft, 2007), they are social units of people with recognizable boundary to reach certain goals (Robbins, 1990). Organizations are the unities composed of mental activities of member with same goals and technologies and operate in the clear relationship mode (Liu,2007). On rational, natural, and open system perspectives, there are various emphasis in the definitions of organizations. The rational perspective sees an organization with tool which is designed to meet the pre-defined goals; the natural perspective underlines that an organization is a group; and the open system perspective concentrates on that an organization as a self-regulation system and an open system, exchanging with its external environment.

Organization theories comes from organization practices and in turn serve practices. Nicholson explains them as ``a series of academic viewpoints which attempt to explain the multiplicities of organizational structure and operating process (Nicholson, 1995).`` In other words, organization theories are knowledge systems which study and explain organizational structure, function and operation and organizational group behavior and individual behavior (Zhu, 1999).

Complete organization science should include 4 layers: philosophy, methodology, theory and application, and organization theory takes place on the third layer, under the direction of methodology, it builds various management theories, management methods and management techniques by management practices. The relationship of them shows as the following figure:

Furthermore, science of management is a process arise of which goes back to Sumerians (5000, BC) and which experiences its maturation phase with Taylor, Fayol and Weber, going to exist up to present with modern management methods and principles such as, Total Quality Management, Process Management and it is a theory that will never complete its development. On the contrary, to developments and changes in world economy and industry during years before First World War, especially fast economic growth breaking out in the USA, production techniques used being far away from science interested some scientists. With Industry Revolution happening at the end of 18th c., human abilities, skills and energy were replaced with machines, small scaled employers who couldn't adapt to these changes began to work as workers in enterprising implementing change; and production moved from small locations to big locations (factories). Thus came out with problems regarding management and organization structure (Celik and Dogan, 2011).

Organization is a relatively young science in comparison with the other scientific disciplines. An organization is a system of two or more persons, engaged in cooperative action, trying to reach some purpose. Organizations are bounded systems of structured social interaction featuring authority relations, communication systems, and the use of incentives. Example of organizations includes businesses, hospitals,
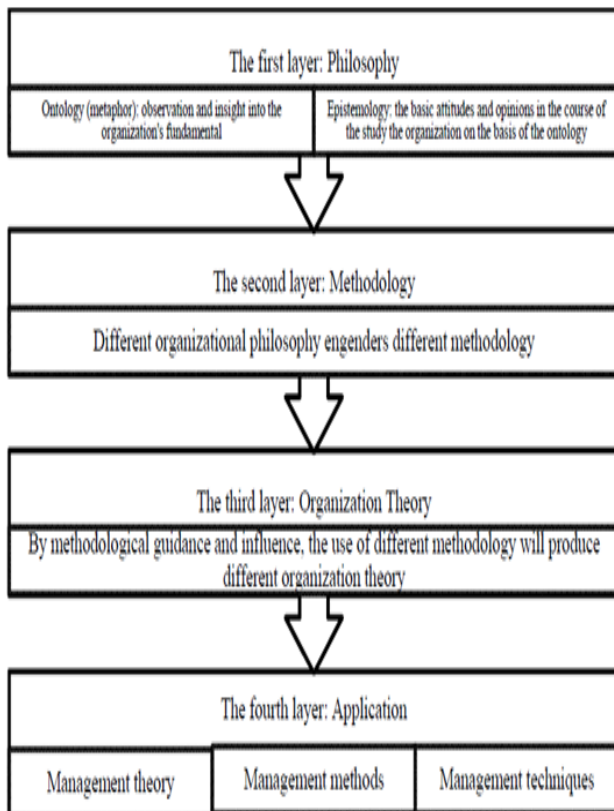
colleges, retail stores et cetera. (Ivanko, 2013) Accounts of the growth of organizational theory usually start with Taylor and Weber, but, as Scott (1987) mentions, organizations were present in the old civilizations which goes back to Sumerians (5000, BC).

Complex forms of organization were necessiated and did change as families grew into tribes and tribes evolved into nations. The earliest written record, the clay tablets of the Sumerians, recorded division of labor and supervision practices. In Sumerian society, as in various others since then, the wisest and best leaders were thought to be the priests and other religious leaders.

Likewise, the ancient Babylonian cities developed very strict codes, such as the code of Hammurabi. King Nebuchadnezzar used color codes to control production of the hanging gardens and there were weekly and annual reports, norms for productivity, and rewards for piecework. The Egyptians organized their human and their slaves to build cities and pyramids. Construction of one pyramid, around 5000 B.C., required the labor of 100,000 people working for approximately 20 years. Planning, organizing, and controlling were required elements.
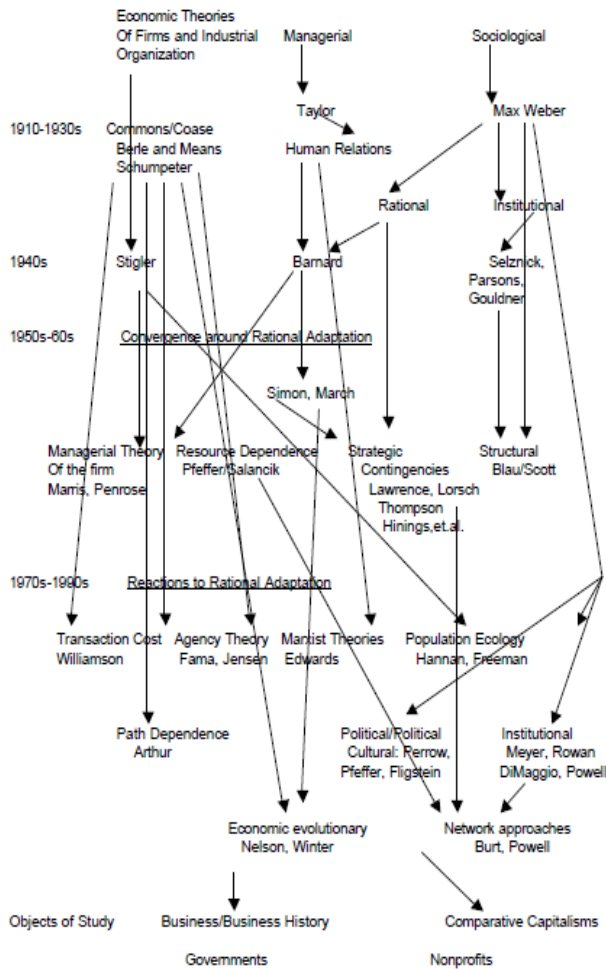
China was perfected military organization based on line-and-staff principles and utilized these same principles in the early Chinese dynasties. Confucius wrote parables that offered practical suggestions for public administration. The city-states of ancient Greece were commonwealths, with councils, courts, administrative officials, and boards of generals. Socrates talked about management as a skill different from technical knowledge and experience. Plato wrote about specialization and suggested notions of a healthy republic. Many think the Roman Empire did well also because of the Romans' great ability to organize the military and conquer new lands. Similarly, those sent to govern the far-flung parts of the empire were successful administrators and were able to maintain relationships with the other provinces and the empire as a whole. There are various other ancient examples of

organization development, such as Hannibal leading a massive army across the Alps, Alexander the Great building a vast inter-connected empire, and the first emperor of China building the Great Wall. Many of the practices employed today in leading, managing, and administering modern organizations have their origins in antiquity.

The Industrial Revolution caused occurence a need for new thinking and the refinement of old thinking. However, modern management theory, as discussed in this paper and applied specifically to organizations, is primarily a phenomenon of the 20th century with new theoretical constructs and practices emerging now in the early 21st century. Taylor, Fayol and Weber, continuing to come up to present with modern management methods and principles. The modern organization may be the most crucial innovation of the past 100 years and it is a theory which will never complete its evolution as the human being continues to exist. Organization theory comes from practice and the evolution of it depends on the evolution of organization practice. The development of productivity causes the development of organization theory. As environments have become more complex, organizations going to be flat-structure, class stratified, network relationship, flexible and fuzzy boundary. The paradigm of organization theory has developed to the complexity one as seen below (Chunxia et. al, 2013).

Understanding how organizations work has been the focus of scientists and scholars until the early part of the 20th century. Just as organizations have evolved, so to have the theories explaining them. These theories can be divided into 9 different "schools" of thought (Shafritz, Ott, Jang, 2005): Classical Organization Theory, Neoclassical Organization Theory, Human Resource Theory, or the Organizational Behavior Perspective, Modern Structural Organization Theory, Organizational Economics Theory, Power and Politics Organization Theory, Organizational Culture Theory, Reform Though Changes in Organizational Culture and Theories of Organizations and Environments. This paper will concentrate on modern structural organization theory.

Economic Theories Of Firms and Industrial Organization   Managerial   Sociological

Taylor   Max Weber

1910-1930s   Commons/Coase Berle and Means Schumpeter   Human Relations

Rational   Institutional

1940s   Stigler   Barnard   Selznick, Parsons, Gouldner

1950s-60s   Convergence around Rational Adaptation

Simon, March

Managerial Theory Of the firm Marris, Penrose   Resource Dependence Pfeffer/Salancik   Strategic Contingencies Lawrence, Lorsch Thompson Hinings,et.al.   Structural Blau/Scott

1970s-1990s   Reactions to Rational Adaptation

Transaction Cost Williamson   Agency Theory Fama, Jensen   Marxist Theories Edwards   Population Ecology Hannan, Freeman

Path Dependence Arthur   Political/Political Cultural: Perrow, Pfeffer, Fligstein   Institutional Meyer, Rowan DiMaggio, Powell

Economic evolutionary Nelson, Winter   Network approaches Burt, Powell

Objects of Study   Business/Business History   Comparative Capitalisms

Governments   Nonprofits

II. Literature Review

Organizational economics inherits the use of economic logic and methods to understand the existence, nature, design, and performance of organizations, especially managed ones. As Kenneth Arrow (1974: 33) described it, "organizations are a means of achieving the benefits of collective action in situations where the price system fails," thus including not only business firms but also consortia, unions, legislatures, agencies, schools, churches, social movements, and beyond. All organizations, Arrow (1974: 26) explained, share "the need for collective action and the allocation of resources through nonmarket methods," suggesting a range of possible structures and processes for decision making in organizations, including dictatorship, coalitions, committees, and much more. ``

With in Arrow's broad view of the possible purposes and designs of organizations, many other various distinguished economists can be seen as having addressed organizational issues during the first two centuries of the discipline. For example, Adam Smith (1977) famously was dealt about moral hazard and free riding by directors of joint-stock companies, and his pin factory is a discussion of job design. A century after the first publication of Smith's volume, in the first volume, the establishing president of the American Economic Association, Francis Walker (1887), described that differences in the quality of management account for persistent intra-industry differences in productivity and profitability. Frank Knight (1921) argued entrepreneurship and the nature of the firm, which he saw as an institution in which the more uncertainty-averse worked for fixed wages, whereas the entrepreneur bore the risk but had authority over the employees. Berleand Means (1932) explained conflicts of interest arising from the separation of corporate ownership by shareholders from corporate control by top managers. Ronald Coase (1937) came with the question of the boundaries of the firm, arguing that economizing on the costs of transacting would determine what was done in the market versus under hierarchic control.

Herbert Simon (1951) proposed that perhaps the first formal model in organizational economics, treating the employment relationship as the use of authority rather than as contracting in response to uncertainty and the need for adaptation. Edith Penrose (1959) dealt with managerial activities and decision making, organizational routines, and knowledge creation in firms and argued that the sear critical determinants of the success and growth of the firm. Alfred Chandler (1962, 1977) documented the historical emergence of the modern corporation and professional management.

At the edges of economics, there was related work in organizational theory. Chester Barnard (1938) was one of the first contributors, acceptingg\ organizations as a whole systems of collaborative activity and discussing the roles of incentives and authority in the formal and informal aspects of organization. Building on Barnard, the Carnegie School then concentrated on two major issues: bounded rationality and conflict of interests. Simon (1947) and March (1958) asked how the organization can orchestrate the acquisition and communication of information and the allocation of decision making so as to produce a tolerable outcome for the organization when its members are boundedly rational. Cyert and March (1963: 30) offered that "people (i.e., individuals) have goals; collectivities of people do not" and that "since the existence of unresolved conflict is a conspicuous feature of organizations, it is exceedingly difficult to construct a useful positive theory of organizational decision making if we insist on internal goal consistency." Instead, March (1962) described "The Business Firm as a Political Coalition."

Relying on these early developments, Arrow (1964: 397–398) underlined that "the large organization, so prominent on our contemporary social landscape, is of great antiquity .... But it is perhaps only in our era, and even then haltingly, that the rational design of organization has become a subject of inquiry." Around 1970, however, the field began to take off.

Many significant contributions in the 1970s concerned the nature and boundaries of the firm. Oliver Williamson (1971, 1975) offered a theory of the replacement of market dealings by authority in the firm, based on the potential for inefficient haggling when unplanned adaptations are required. In contrast, Armen Alchian and Harold Demsetz (1972) argued against the idea that the firm is a manifestation of authority, offering instead that the firm was best viewed as a collection of contracts. George Richardson (1972) undercut the simple firm-versus-market dichotomy by accentuating the great variety of organizational forms and relationships between firms that actually populate the economy, and he wrote convincingly of the role of capabilities—information, knowledge, and skills—in determining the effectiveness of activities in and between firms. And Benjamin Klein et al. (1978) and Williamson (1979) explored the consequences of specific assets and hold-up for firms' make-or-buy decisions and contracting between firms.

Other important contributions were concentrated within organizations. Arrow's (1974) beautiful little book addressed topics ranging from authority and codes to responsibility, trust, and values. Richard Nelson and Sydney Winter (1982) wrote in evolutionary terms about organizational routines that enable the organization to do what it does (and hence may convey

competitive advantage or its opposite). And Michael Jensen and William Meckling (1976) provided the first treatment of agency costs as a necessary consequence of the separation of ownership from control.

In formal modeling, Jacob Marschak and Roy Radner (1972) proposed optimal communication and decision making processes in uncertain environments with dispersed information but shared objectives. Leonid Hurwicz (1973) came with the concept of incentive compatibility and initiated mechanism-design theory, where the institutions used to allocate resources become a choice variable, thereby setting the stage for economic analysis of organizational design. And James Mirrlees (1975/1999) and Bengt Holmstrom (1979) introduced formal models of moral hazard, launching a literature that would have tremendous influence on organizational economics.

These early contributions laid the foundations for the work that has started to seen in the past 30 years. Extrapolating from this early work suggests a wide range of issues for organizational economics, including the following. What are the vertical boundaries of the organization? How are relations with suppliers and customers organized? Who owns which assets, and how are the activities of the organization financed? How is governance defined and exercised, both internally, within the organization, and by external parties with ownership claims? What are the horizontal boundaries of the firm (i.e., what businesses is it in)? How are departments and divisions defined? How are resources of different types allocated? What is the role of hierarchy, how many levels are there, and what are the spans of control? Is the organization an expression of authority or a nexus of contracts? What are the roles of formal versus relational contracts in the organization? Where does decision making occur in the organization? How is power achieved and exercised, and what role does politics play in organizations? What information is collected, by whom, to whom is it communicated, and how is it used? How are people recruited, trained, and assigned to jobs? How is performance measured? How are people rewarded? What effects do rewards have on behavior? What norms exist regarding behavior toward others in the organization, as well as outsiders, and how do these norms affect behavior and organizational performance? How do other aspects of corporate culture manifest themselves and affect behavior? What is the nature and role of leadership in organizations? And, finally, how do the answers to these questions depend on the markets in which the organization operates; the strategies it adopts to compete; and the social, legal, regulatory, and technological environment in which it is embedded; and how do all these choices interact and affect performance?

Power in and around associations has built up itself as a noteworthy part of association hypothesis in the previous couple of decades. This noteworthiness is obvious in the way that at present, there is not really a reading material on association hypothesis that does not list control among the key subjects in writing. Critical samples incorporate Hatch (1997), Scott and Davis (2007), Daft (2009) etc. The ebb and flow ubiquity of the point makes it strange to envision that around 50 years prior, force was not really an exploration enthusiasm inside of association hypothesis, not to mention a key part of the field. Dialogs on associations stayed around their structures and their capacities to perform different capacities. Control in this manner was seen as something chiefs in the hierarchical chain of importance could use to get a productive yield from their subordinates (Weber, 1958). Simon (1947) was among

the first to view associations as choice making frameworks. Further research by March and Simon (1958) and others in the later years tested further into choice making inside of association. Difficulties to the normal choice making model cleared a path for models of authoritative choice making that could represent vagueness, irreconcilable situation, and different issues that couldn't be secured under the supposition or levelheadedness.

Presently social researchers, from Hellenistic savants to postmodern researchers, have utilized alternate points of view and allegories to take a gander at associations (Hatch, 1997). Contingent upon the epistemological courses taken by scholars, they can watch associations as various leveled structures intended to perform particular capacities (machines), homogenous frameworks adjusting to the adjustments in environment (creatures), examples of shared qualities (societies), learning and data preparing frameworks (brains), choice making and strife administration frameworks (political frameworks), frameworks for creating human brain science (psychic detainment facilities), works of art joining different points of view (arrangement) and last yet not minimal, devices of control (Hatch, 1997; Morgan, 2006).

The freshly discovered accentuation on choice making frameworks and peculiarities in that made an open door for supporters of the "association as political request" similitude. The dialog was not contained to the choice making forms, but rather issues like control over method for generation (assets) and techniques for preparations (activities) were additionally breathed life into back inside of the extent of associations (March and Olsen, 1984). The ubiquity of the political request analogy acquired an exceptional change the way power was seen in authoritative hypothesis writing. The machine illustration of established hierarchical scholars saw formal power as the main attractive type of force. Different types of force should offer ascent to wastefulness (Weber, 1958). The innovator view worked with a presumption of reasonability. Force was a variable that could influence soundness henceforth power was seen as an irregularity in the sane choice making process (Hatch, 1997). The political request analogy offered authoritative scholars some assistance with researching into various types of forces and utilize them as necessary parts of the hierarchical talk.

The case for force in associations was made in the behavioral financial aspects writing when experimental studies directed by March and Simon (1958) revealed the vagueness and struggle in hierarchical choice making, instead of the presence of last and commonly pleasant answers for every single authoritative issue. The social way of force called for social clinicians to add to the idea also, henceforth we see the original work of French and Raven (1959) developing that. Of course, political researchers, for example, Dahl (1961) and Luke (1974) and numerous others, frame the majority of givers to the idea. Power in the later past has turned into a necessary piece of hierarchical studies and there have been noteworthy commitments to the writing from authoritative scholars, for example, Mintzberg (1983) and all the more as of late Clegg, Courpasson and Phillips (2006).

The writing on force in association hypothesis originates from a few fields of sociology. As far as the for the most part acknowledged hypothetical ideal models, the idea of force in association has been talked about by functionalists (Weber, 1958; Simon, 1947), structuralists and post-structuralists (Lukes, 1974; Foucault, 1980; Foucault, 2000), new institutionalisms' (DiMaggio and Powell, 1983) et cetera. As

far as hypothetical foundation, power has been concentrated on by clinicians (French and Raven, 1959; Cialdini, 2001), sociologists (Perrow, 2002; Grewal, 2008) and obviously political researchers (Bacharach and Baratz, 1962). The investigation of force was not generally seen as an indispensable piece of association studies. This was on account of force did not fit into the present day strategies for exploration, nor might it be able to be characterized as standards that could be mechanically connected. It is fascinating to note that while power has ventured into all types of hierarchical examination, its peculiar nature is still a point of study both in and outside scholarly writing. Among the allegories Morgan (2006) utilizations to take a gander at associations, an especially fascinating one is "associations as apparatuses of control". While a lot of writing can be evaluated in regards to the relationship of an association with its individuals and in addition its institutional surroundings, very little scholarly writing can be found on the force amassed in, and abused by an association as it collaborates with its social and political environment. Perrow (2002) has endeavored to dissect the huge force assembled by huge associations in the United States in the course of recent hundreds of years. He asserts that substantial associations, notwithstanding controlling countless resources, are fit for characterizing the social structure of the present day society in the US. He distinguishes two noteworthy wellsprings of this influence pick up, the gigantic accumulation of riches inside of associations as a consequence of large scale manufacturing and mass appropriation and the multinational organization's heartlessness to nearby and provincial issues.

These speculations for the most part regard power as something that can be accomplished by a specific performing artist and can be utilized to increase certain points of interest in an association. Such accomplishment and utilization of force is called governmental issues (Pfeffer, 1994). These hypotheses for the most part manage the impression of force inside of an association as far as images, assets or capacities that constitute power, recognize the on-screen characters that hold that power and the qualities or strategies that empower them to hold and utilize such power. In light of the meaning of force and connections in the middle of inward and outside authoritative on-screen characters, these speculations can be ordered into two classifications, i.e. speculations that regard associations as shut frameworks and hypotheses that regard associations as open frameworks.

Speculations that regard associations as settled frameworks negotiations with the force contrasts inside hierarchical on-screen characters paying little respect to the connection of those performing artists with the association's surroundings. Power in such speculations is regularly constituted as one on-screen character's capacity to force the other performer to perform a specific activity. Pfeffer (1981) enrolls various definitions that characterize power as far as capacity of an on-screen character to force another on-screen character into conferring a non-deliberate activity. These hypotheses check the early commitments to the writing on force in association hypothesis and can be characterized into two noteworthy sorts, unopinionated speculations, that regard power as a true blue hierarchical asset and political hypotheses that attention on the use of force inside of associations for purposes other than satisfying expressed authoritative objectives.

Weber (1958) is one of the principal researchers who talked about the part of force in associations. He distinguished

three sorts of force in a various leveled structure: Legitimate or formal, customary and appealing. He likewise recognized force and power. As per him, a force practiced by a director gets to be power when the subordinate considers it to be true blue. Formal power thusly was an attractive type of force that could guarantee improved productivity.

Conventional power was a consequence of the matchless quality appreciated by certain authoritative performing artists because of their position in the public eye. Alluring force was the force amassed by people utilizing their own characteristics, for example, information and skill or long range informal communication. While Weber displayed a clarification of the idea of force in associations, the main operational meaning of force came a couple of decades after his demise. Dahl (1961) characterized power as the capacity of a performer A to impact another on-screen character B into accomplishing something that B will generally not do. Force was in this way an element of the social relationship between two authoritative on-screen characters. Dahl's was by all account not the only voice sounding on the social way of force. French and Raven (1959) distributed their fundamental work on the wellsprings of social force around the same time. Their work lastingly affected the writing and their bases of force are still a vital part of each writing survey on force. The accompanying are the bases of force as recognized by them:

Reward power is the capacity of a hierarchical performing artist to hold assets that will be alluring to different on-screen characters. The on-screen character possessing those assets will along these lines have the capacity to impact different performing artists who will work with a foresight to get an offer of those assets as prizes. Utilization of prize force decreases resistance among authoritative connections.

Coercive power is the capacity of a hierarchical performing artist to withhold certain assets that other authoritative on-screen characters esteem. The on-screen character in control of such assets will turn out to be effective as alternate performers dread hardship of the esteemed assets as discipline for non-conformance. Utilization of coercive force builds resistance among authoritative connections.

Legitimate power originates from the part of the boss as surrounded in the formal expected set of responsibilities. It can incorporate the privilege to practice reward or coercive force. Coercive force produces lesser resistance if utilized as real power.

Referential power is a consequence of the casual connections between two authoritative performing artists. Individual fellowships and gathering brotherhood are huge wellsprings of this force. However these connections can likewise originate from backhanded affiliations among two authoritative performing artists, for example, comparative natures of occupation, comparable assignment gathering, religious or political affiliations and so on.

Expert power is the ownership of learning assets by an authoritative on-screen character that are viewed as important by other hierarchical performing artists. Master force can likewise be utilized to fortify genuine force, as the apparent authenticity of power by a subordinate is expanded with a high view of manager's skill. French and Raven (1959) inferred that power driven from each of these bases is subject to the significance given by authoritative performing artists to the assets included in the premise.

Every premise is constrained by extension henceforth master force won't not work in regions where coercive force is required. Etzioni (1973) utilized the bases of energy to one of

the primary force based investigations of associations. He utilized grouping like French and Raven (1959), in any case he characterized associations are frameworks in light of one or alternate bases of force. Detainment facilities and insane person shelters hence were home to coercive force though work environments were prize force focuses where individuals went in suspicion of picking up assets. Standardizing power as characterized by him was like French and Raven's referential power and was portrayed by establishments, for example, spots of love and person to person communication bunches and so forth.

The greater part of the early speculations were worried with the sources and utilization of force for the positions of high power. Workman however saw that chance to increase master and referential forces is accessible to hierarchical performing artists paying little heed to their position in the pecking order. Lower level on-screen characters can get control in an association on the off chance that they pick up aptitude that is makes them vital in the association. Pfeffer (1981) led tests in a cigarette industrial facility where he saw that repair laborers could appreciate an extraordinary admiration from line specialists significantly higher than them as far as pay scale. One reason recognized for this was the way that the extensive preparing process for the repair work made them difficult to supplant. The position of lower level performing artists in the hierarchical structure can demonstrate another wellspring of force on the off chance that they serve as a state of access to somebody with higher power. This was in a few routes like Crozier's (1964) investigation of organization where he saw that administrators frequently utilize their mastery to increase significantly more than the real power allocated to them. The converse was concentrated on when Kanter (1979) utilized the bases of energy to clarify the authority disappointment in associations. The examination inferred that to be fruitful, an authoritative pioneer needs to makes utilization of various bases of force. For instance, reward force was to be utilized to fortify efficiency as well as to enable the subordinates that could make more backing than commonly anticipated. Additionally coercive force was to be maintained a strategic distance from as the resistance created therefore could diminish general backing. Inability to oversee forces can bring about a circumstance where the formal power is counteracted totally by resistances in different extents of force, leaving the pioneer weak.

The investigation of associations as open frameworks was made well known by scholars such as some of them. Being open frameworks, associations were relied upon to be affected by variables outer to the association, for example, social standards of the general public, changes in innovation and information, laws and regulations and rivalry with different associations for assets, for example, capital, work, supplies and clients (Aldrich and Pfeffer, 1976). This had noteworthy ramifications on the routes by which authoritative on-screen characters would acquire and utilize power on inside and outer hierarchical performing artists. The two noteworthy ways to deal with hierarchical force and governmental issues that regard associations as open frameworks are authoritative environment speculations of force and new institutionalism point of view on hierarchical force.

Aldrich and Pfeffer (1976) estimated that the outside environment of an association gives various assets that the association is indigent upon. These assets incorporate fundamental inputs and open doors for yield utilization. The association, however imparts those assets to various different associations. Because of the shortage of assets, associations are dependably in rivalry with each other.

The key possibility hypothesis (Salancik and Pfeffer, 1977) conveys this discourse into the association. The association's reliance on rare outer assets adds altogether to the estimation of advantages equipped for gaining those assets. This thankfulness in worth relegates energy to the people in the association who are in control of the advantages. This task is reflected in the structure of the association that places those people on positions of high formal power and expanded self-rule. Organizing of an association as a reaction to its outside surroundings has likewise been examined by Mintzberg (1979) who considers nature as one of the variables that decides the multifaceted nature of an association's structure.

As indicated by the vital possibility hypothesis, an adjustment in the outside environment may change the structure of the assets it offers to the association. Key possibility hypothesis will accordingly require rearrangement inside of association. This rearrangement will bring about the choice of performing artists who are equipped for getting to the outer assets in the changed environment. Henceforth power may move hands from a few people to alternate as an association endeavors to adjust itself to its surroundings. As a conclusion, capacity of an authoritative performing artist to foresee and adapt to vagueness can turn out to be a standout amongst the most critical wellsprings of clutching force (Morgan, 2006; Pfeffer, 1981).

Note that the key possibility hypothesis, similar to the speculations examined in the past area, places power as an element of the association's structure (Pfeffer, 1981; Salancik and Pfeffer, 1977). However control for this situation is exogenous (March and Olsen, 1984) while the prior models regarded power as producing inside of the association.

The arrival of institutionalism or "new institutionalism" in sociologies opened new boulevards for examination in numerous ranges of sociologies. DiMaggio and Powell (1983) conveyed new institutionalism to association hypothesis.

The appearance of New Institutionalism to association hypothesis brought about the rediscovery of various association hypothesis ideas by institutionalisms (DiMaggio and Powell, 1983). This new line of exploration opened up roads for the investigation of various ecological variables that had been ignored in asset reliance writing. These variables included societal standards, tenets and regulations, shared qualities and progression in shared information and innovation. The effect of societal qualities and their effect on an association was talked about by researchers as ahead of schedule. As indicated by new institutionalisms', hierarchical situations collect standards and qualities that characterize levelheaded conduct through social and specialized learning over a timeframe. An association, as a balanced performer feels pressurized to fit in with these standards and qualities. DiMaggio and Powell (1983) separate between various types of weights a domain puts on an association for such consistence. The weights that make an association adjust with nearby laws and regulations and global guidelines and sets of accepted rules are named "coercive weights". Then again, experts inside of an associations frequently attempt to accommodate with the standards created by nearby or global expert associations, thus influencing the association to receive those standards too. For instance, specialists in the US, paying little mind to their healing facility alliance, are prone to acclimate with standards set up by the American Medical Association, bringing about a uniform conduct among doctor's

facilities everywhere throughout the nation in the territories of practice administered by those standards. Such weights originating from expert associations with no lawful power are called "regularizing weights" (DiMaggio and Powell, 1983; Meyer and Rowan, 1977). In questionable circumstances, associations may feel pressurized to take after the strides of different associations in an applicable industry. Such weights are titled by DiMaggio and Powell as "mimetic weights". While both talk about an's association with its surroundings, the principle distinction between new institutionalism perspective of force and the key reliance hypothesis is about the way authoritative structures create. Vital possibility hypothesis considers an association as reacting to nature by indigenously making its structure. Institutionalism then again proposes that the hierarchical structures are produced by adjusting existing societal structures to the association. By end product, the significant distinction between institutional hypothesis of force and the asset based speculations is that in asset based hypotheses, force is dealt with as a social marvel. Institutionalism then again sees power as a complementary wonder. It fits not into Dahl's (1961) impact based definition, but rather it just characterizes how the powerful in an organization are differentiated from the powerless.

The literature on organizational culture is as relevant to public science management as it is to the management of private sector business organizations. Given a rapidly changing environment and continuing insights into organizational effectiveness, science organizations, as most other organizations, are seriously rethinking what they do and how they can best define and maintain their goals and objectives. Once goals are explained, it is required to address the type of culture that is necessary to advance these goals and objectives and to be sure that the successful implementation of the necessary changes. In addition, the organizational effectiveness literature has been tremendously underlining the significance of culture in motivating and maximizing the value of its intellectual assets, particularly its human capital. This is especially crucial in knowledge intensive organizations, such as publicly funded scientific laboratories. This review of the organizational culture literature does it seeable that (1) culture is required for both successful organizational change and maximizing the value of human capital (2) culture management should become a critical management competency, and (3) while the right culture may be a required condition for organizational success, it is by no means a sufficient condition. An important challenge for managers is to determine what the most effective culture is for their organization and, when necessary, how to change the organizational culture effectively.

Organizational culture became a business phenomenon in the early 1980s, triggered by four seminal books:
● Ouchi's (1981) *Theory Z: How American Business Can Meet the Japanese Challenge*
● Pascale and Athos's (1982) *The Art of Japanese Management: Applications for American Executives*
● Deal and Kennedy's (1982) *Corporate Cultures: The Rites and Rituals of Corporate Life*
● Peters and Waterman's (1982) *In Search of Excellence: Lessons from America's Best Run Companies*.

The concept of organizational culture also appealed to organizational scientists and practitioners who had grown disillusioned with the prevailing formalistic, quantitative organizational research. The concentration on organizational culture changed attention away from the functional and technical aspects (the so-called *hard* side) of management that could be more readily quantified and empirically analyzed to the interpersonal and symbolic aspects (the *soft* side) of management that required in-depth, qualitative studies of organizational life. This concentration on the qualitative, symbolic aspects of organizations and management stimulated a large literature on *leadership*. In addition, specialized literatures occurred around particular variants of organizational culture considered increasingly important for success in the modern business world, such as change oriented culture, learning culture, innovating culture, team- and project-oriented cultures. More recently, attention has shifted to identifying and creating an organizational culture that facilitates agility; promotes alliances, partnerships and networks; encourages knowledge management; fosters corporate responsibility and/or moral integrity; and embraces diversity. The concept of organizational culture has created a massive literature with enormous popularity. By the 1990s, a literature search would generate over 2500 hits (Alvesson and Berg 1992). It is an extremely significant literature because the concept of organizational culture has been central to much of the subsequent work on organizational effectiveness.

Although the concept of organizational culture was came in front in the early 1980s, its roots can be gone back to the early human relations view of organizations that originated in the 1940s. Human relations theorists viewed the informal, nonmaterial, interpersonal, and moral bases of cooperation and commitment as perhaps more important than the formal, material, and instrumental controls stressed by the rational system theorists. The human relations perspective drew its inspiration from even earlier anthropological and sociological work on culture related with groups and societies (see Geertz 1973; Mead 1934; Durkheim 1964; Weber 1947, 1958).

Attention to organizational culture lost ground as organizational science, and social science on general, became increasingly quantitative. To the extent that research on organizational culture survived, its focus changed to its more measurable aspects, particularly employee attitudes and perceptions and/or observable organizational conditions thought to correspond to employee perceptions (i.e., the level of individual involvement, the degree of delegation, the extent of social distance as implied by status differences, and the amount of coordination across units). This research, known to as *organizational climate* studies, was prominent during the 1960s and 1970s (Denison 1990). The renewed interest in organizational culture that emerged in the late 1970s and concluded in the four books mentioned above suggested that a deeper, more complex anthropological approach was necessary to understand crucial but largely invisible aspects of organizational life. This renewed interest in organizational culture represented a return to the early organizational literature but it went far beyond this literature in contributing important new insights and ways of thinking about the role, significance, and characteristics of organizational culture. Also, research on the effect of culture on organizational performance and investigations into how organizational cultures are created, maintained, and changed received greater attention. The main difference was that organizational culture was now seen less as a natural, organically emergent phenomenon and more as a *manipulable and manageable* competitive asset.

Definitions of organizational culture initially focused on distinguishing levels of organizational culture and strong versus weak cultures. Many definitions of culture give primacy

to the cognitive components, such as assumptions, beliefs, and values. Others tried to expand the concept to touch behaviors and artifacts, leading to a common distinction between the visible and the hidden levels of organizational culture – a distinction basically corresponding to the *climate/culture* distinction noted above (Kotter and Heskett 1992). In contrast to the distinction between the visible and hidden levels, some theorists distinguished multiple levels. Schein (1985), one of the foremost experts in the area, explains the following levels.
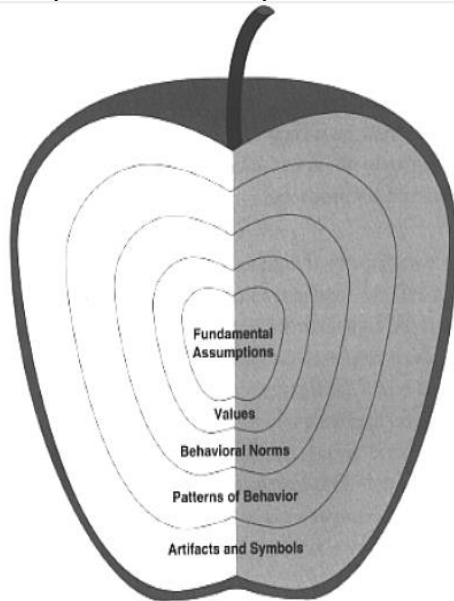
In Schein's understanding, fundamental assumptions constitute the core and most crucial aspect of organizational culture. In an order, he points out the following formal definition of organizational culture: A pattern of shared basic assumptions that the group learned as it solved its problems of external adaptation and internal integration, that has worked well enough to be considered valid and, therefore, to be taught to new members as the true way to perceive, think, and feel within relation to those problems (Schein 1992:12). While the deeper levels may have been somewhat invisible in the past, this may no longer be the case. As a result of greater attention being directed at managing culture, organizations are recognizing the importance of articulating and stressing their fundamental assumptions. This is somehow similar to what later exists with knowledge management – greater attention becomes directed at making the tacit knowledge within an organization more explicit and accessible *"Knowledge Management"*). This suggests a general trend toward more explicitly managing what previously was thought largely unmanageable.

Although all organizations have cultures, some seem to be having stronger, more deeply rooted cultures than others. Firstly, a strong culture was conceptualized as a coherent set of beliefs, values, assumptions, and practices embraced by most members of the organization. The emphasis was on (1) the degree of consistency of beliefs, values, assumptions, and practice across organizational members; and (2) the pervasiveness (number) of consistent beliefs, values, assumptions, and practices. Any other early proponents of organizational culture tended to assume that a strong, pervasive culture was beneficial to all organizations because it fostered motivation, commitment, identity, solidarity, and sameness, which, in turn, facilitated internal integration and coordination. Some, however, underlined that a strong culture might be more crucial for some types of organizations than

others. For instance, volunteer organizations may need to stress culture more than business organizations. Still others say that potential dysfunctions of a strong culture, to the point of suggesting that a strong culture may not always be wanted. For example, a strong culture and the internalized controls associated with it could result in individuals placing unconstrained demands on themselves, as well as acting as a barrier to adaptation and change. A strong culture could also be a means of manipulation and co-optation (Perrow 1979). It could also contribute to a displacement of goals or sub-goal formation, meaning that behavioral norms and ways of doing things become so significant that they begin to overshadow the original aim of the organization (Merton 1957; March and Simon 1958).

Culture was firstly seen as a means of enhancing internal integration and coordination, but the open system view of organizations recognized that culture is also important in mediating adaptation to the environment. The traditional view of a strong culture could be oppositely to the ability of organizations to adapt and shift. Seeing culture as crucial for reasoning organizational innovation, the acceptance of new ideas and perspectives, and needed organizational change may require a different, or more nuanced, view of organizational culture. Schein (1992) notes that, indeed, a strong organizational culture has generally been viewed as a conservative power. However, in contrast to the view that a strong organizational culture may be dysfunctional for contemporary business organizations that need to be change-oriented, he argues that just because a strong organizational culture is fairly stable does not mean that the organization will be resistant to change. It is possible for the content of a strong culture to be change-oriented, even if strong organizational cultures in the past typically were not. He offers that the culture of modern organizations should be *strong* but *limited,* differentiating main assumptions that are *pivotal* (vital to organizational survival and success) from everything else that is merely *relevant* (desirable but not mandatory). Today's organizations, characterized by rapidly changing environments and internal workforce diversity, need a strong organizational culture but one that is less pervasive in terms of prescribing particular norms and behavioral patterns than may have existed in the past. This view was supported by Collins and Porras (1994) in their famous study (*Built to Last*) of companies that had strong and lasting performance.

Schein (1992) suggests that organizational culture is even more important today than it was in the past. Increased competition, globalization, mergers, acquisitions, alliances, and various workforce developments have created a greater need for: Coordination and integration across organizational units in order to improve efficiency, quality, and speed of designing, manufacturing, and delivering products and services product innovation. Moreover, a greater need to adapt to these external and internal changes, organizational culture has become more crucial because, for an increasing number of corporations, intellectual as opposed to material assets now crate the fundamental source of value. Maximizing the value of employees as intellectual assets requires a culture that promotes their intellectual participation and reasoning both individual and organizational learning, new knowledge creation and application, and the willingness to share knowledge with others. Culture today should play a key role in facilitating:

● Knowledge management
● Creativity

● Participative management
● Leadership.

Organization theory draws on interdisciplinary thinking to provide knowledge and understanding of the phenomena of organizations, which helps to explain the concepts and general principles of the various organizational elements and their interrelationships with each other. People embrace organization theories to improve their chances of becoming successful in business practices such as strategy, finance, sales and marketing, information technology, human resources and operations. To apply organization theories to these business practices, societal culture is an important factor to be considered, as it is the supersystem of which organizational systems are a part. First, "the success of the organization in external adaptation required closeness to the contextual culture". Second, employees who are members of the societal culture bring the same values into their activities within the organization. The studies of organizations and societal cultures are an "inseparable reciprocal process by which organizations and societal spheres influence each other".

The ability of organizations to manage and survive change is becoming increasingly important in an environment where competition and globalization of markets are ever intensifying. Through the mid-20th century, there had been increased attempts to apply theories of organizational change to the analysis of human organizations. The first attempt, which applied concepts of systems theory was mainly concerned with equilibrium and stability, and their maintenance through control of negative feedback. The systems concept views organizations as constantly interacting with their environment. The organizational environment is comprised of a set of relationships between agents or stakeholders and other factors that may be beyond the control of the organization (Mason, 2007: 10). With the ever-increasing complexity of the organizational environment, the systems concepts no longer seems adequate in dealing with complex phenomena. This shortcoming, among others, has led to the emergence of complexity theory which focuses on the use of such terms as entropy, non-equilibrium, instability, and the emergence of new patterns and structures. In the complexity paradigm, systems are usually considered to be evolving or self-organizing into something new.

Since the most prevalent trends in contemporary organizations are towards continuous and pervasive change and increasing interdependencies, close parallels can be drawn between the private and public sectors where there are broadly similar environmental challenges. Within this context, public and private organizations are approaching a turbulent environment characterized by increasing uncertainties. These uncertainties are due to dramatic changes that have taken place in the political and economic environment, as well as changes in technology. To help understand change better and manage the process more effectively, a more dynamic and comprehensive view of change management has been suggested as a way forward. By integrating complexity and systems theories, the disruptive, and fluid processes of organizational change may be better understood.

Remaining part of the paper is based on Shafritz, J. M., Ott, S. J., & Jang, Y. S. (2011). *Classics of Organizational Theory (7th ed.)*. Belmont, Calif.: Wadsworth.

Dominant Model, Metaphor, Underlying Assumptions
Open Systems Theory vs. Closed – p. 401
• "The primary focus of research and theory building shifted from the internal characteristics of organizations to the external dynamics of organizational competition, interaction, and interdependency" (p. 401).
• "The organization as open systems perspective views organizations as systems of interdependent activities embedded in and dependent on wider environments" (p. 401).
• "System theories of organization have two major conceptual themes or components:
● Applications of Ludwig Von Bertalanffy's general systems theory to organizations, and
● The use of quantitative tools and techniques to understand complex relationships among organizational and environmental variables and thereby to optimize decisions" (p. 401).
• "A system is an organized collection of parts united by prescribed interactions and designed for the accomplishment of specific goals or general purposes" (p. 401).
• "System theory views and organization as a complex set of dynamically intertwined and interconnected elements, including its inputs, processes, outputs, and feedback loops, and the environment in which it operates and with which it continually interacts" and "a change in any element of the system causes changes in other elements" (p. 401).
• "The interconnections tend to be complex, dynamic, and often unknown; thus, when management makes decisions involving one organizational element, unanticipated impacts usually occur throughout the organizational system" (p. 401).
• "Whereas classical organization theory tends to be single-dimensional and somewhat simplistic, open systems theories tend to be multidimensional and complex in their assumptions about organizational cause-and-effect relationships. The classicalists viewed organizations as static structures; systems theorists see organizations as always-changing processes of interaction among organizational and environmental elements" (p. 401).
• "Classical organization theorists saw organizations as rational but closed systems that pursued the goal of economic efficiency" (p. 403).
• "Organizations are not static, but are rather in constantly shifting states of dynamic equilibrium. They are adaptive systems that are integral parts of their environments. Organizations must adjust to changes in their environment if they are to survive; in turn, virtually all of their decisions and actions affect their environment" (p. 401-402).
• "The systems approach is strongly cause-and-effect oriented ('positivist') in its philosophy and methods. In these respects, system theories have close ties to the scientific management approach of Frederick Winslow Taylor. Whereas Taylor used quantitative scientific methods to find 'the one best way," the systems theorist uses quantitative scientific methods to identify cause-and-effect relationships to find optimal solutions systems theories are often called management sciences" (p. 402).
• "Computers, models, and interdisciplinary teams of analysts are the tools of the systems perspective" (p. 402).
• "defense and aerospace programs provided the development and testing settings for many of the tools and techniques of operations research, including PERT (Performance Evaluation and Review Technique), CPM (Critical Path Method), statistical inference, linear programming, gaming, Monte Carol methods, and simulation" (p. 402).

Institutional Theory – p. 403
• "asserts that the world is a product of our ideas and conceptions; our socially created and validated meanings *define* reality. The rise of the modern world as we know it was

not caused solely by new production technologies and administrative structures for coordinating complex activities. The growth of certain beliefs and cognitions about the nature of the world and the way things happen – and should happen – also shaped the modern world" (p. 403).

• "Beliefs about organizations and institutions are created and reinforced by a wide range of actors and forces, including universities, professional groups, public opinion, the mass media, the state, and laws (p. 403).

• "According to institutional theory, an organization's life chances are significantly improved by an organization's demonstrated conformity to the norms and social expectations of the institutional environments. Thus, environments are sources of legitimacy and support" (p. 403).

• "Many of the environmental forces that affect organizations are not based on the values of efficiency or effectiveness but instead on social and cultural pressures to conform to a prescribed structural form" (p. 403).

• "The early intra-organizational-level theories focused on primarily on the internal structure, processes, and dynamics of organizations, while depicting organizations as separate from their environments – as closed entities with clear boundaries" (p. 404).

Resource Dependence Theory – p. 403

• "Stresses that all organizations exchange resources with their environment as a condition for survival" (p. 403).

III. Major Theorists and Contributions
Michael C. Jensen & William H. Meckling – *Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure*

Agency theory holds a main role in the corporate governance literature. It explains the fundamental conflict between self-interested managers and owners, when the former have the control of the firm but the latter bear most of the wealth effects. Jensen's and Meckling's (1976) original model illustrates this by describing how lower managerial stakes lead to tremendous effect in non-pecuniary spending by the managers as they do not fully internalize the costs. Agency problems of this kind create agency costs. A key ingredient in their theory is that outside shareholders cannot costless to observe the managers' actions. While the model makes many restricting assumptions, the results are applicable to a more general setting as shown by the variouss theoretical and empirical articles that have followed Jensen's and Meckling's work.

Jensen's and Meckling's insight has also caused to models, where the ownership structure matters not only in the sense how much the company insiders own, but also in the sense how concentrated the holdings of the outside shareholders are. Large shareholders are argued to monitor the management better than small shareholders as they internalize larger part of the monitoring costs and have sufficient voting power to influence corporate decisions. Moreover, a range of other mechanisms that either align the interests of the managers and owners or limit managerial discretion have been suggested to decline agency costs.

Jensen and Meckling put their discussion in to a more formal context with explicit models on the behavior of the agents. The point in this literature as well as in Jensen's and Meckling's model is that there is a conflict of interest as managers do not bear the full consequences of their actions. It is good to be aware that a long discussion precedes Jensen's and Meckling's work, and for example Alchian and Demsetz (1972) had before analyzed a similar problem of managerial

shirking and monitoring. The fundamental advantage of Jensen's and Meckling's approach is its generality, agency relationships are all around us.

The main insight of Jensen and Meckling (1976) was to model the relationship between owners and managers similar to one between a principal and an agent. The owners contract the managers to perform the controlling tasks of a firm, and as both seek to maximize their own utility and are self-interested a conflict of interest arises. As the managers have the effective control of the firm, they have the incentive and the ability to consume benefits at the expense of the owners. Jensen and Meckling explain the costs caused by the divergence of interests between owners and managers as agency costs consisting of 1) the monitoring expenditures by the principal, 2) bonding expenditures by the agent and 3) the residual loss.

Principals' monitoring come arise from activities designed to limit the agents' (from the principals' point of view) harmful actions. Bonding expenditures result from the agents' actions to assure the principals that they will not take certain actions. Despite these monitoring and bonding expenditures by the principals and the agents, there will still be a loss caused by the divergence of the decisions taken by the agents and the decisions that would maximize the principals' welfare. These decisions by the managers can entail, for example, shirking from work or the consumption of perquisites. This cost created by the agency relationship is explained as the residual loss.The empirical studies mostly refer (implicitly or explicitly) to it, when they argue agency costs.

The starting point for the analysis of agency costs is a firm, whose equity is owned 100 % by the manager. Decisions in which we are interested in this setting not only include pecuniary benefits, but especially non-pecuniary benefits such as having larger office space, more comfortable furniture, making charitable contributions, having a larger secretarial staff than necessary, shirking from work, etc. When the manager owns 100 % of the equity, the optimal amount of both pecuniary and non-pecuniary benefits are reached as she bears all the costs created by these actions. Agency costs enter into the picture, if the owner-manager sells limited liability equity claims on the firm and thus owns less than 100 %. She will then bear only a fraction of the costs on the non-pecuniary benefits paid by the firm. The agency costs are a natural consequence of the utility maximization by self-interested manager. (Jensen and Meckling 1976)

Monitoring by outside shareholders is likely to decrease the costs created by the manager as it limits her discretion, but is unlikely to eliminate them completely. However, the owner-manager cannot escape bearing the ultimate price for the agency costs as she will bear the wealth effects on the value of her equity share, if the market anticipates the agency costs generated by her actions. For the empirical part, the idea that the markets anticipate agency costs is a crucial assumption. Furthermore, the manager then has an incentive to try to limit agency costs. (Jensen and Meckling 1976)

To put the managers behavior and its effect on firm value into a more formal context we need to make a set of restricting assumptions. Jensen and Meckling (1976) present the following list as their permanent assumptions:
1) No taxes
2) No trade credit
3) Outside equity is non-voting
4) No warrants, convertible bonds, complex financial instruments etc. can be issued
5) Outsider owners only gain utility through the wealth effects

on the firm
6) Single period world
7) Money wages for the owner-manager held constant
8) There is a single manager with ownership interest in the firm

Furhermore, for the aims of analyzing the effect of outside equity, the size of the firm is fixed, presence of diversifiable risk is ignored and since we are really interested in the residual loss on equity values we also drop the effects of external debt, monitoring and bonding activities. In addition, all of the manager's wealth is tied to the firm. Even though Jensen and Meckling (1976) present a special case in their paper, it shows the conflict between managers and owners well. Naturally, we have left out any effects of the monitoring or the bonding (compensation tied to firm value, etc.) activities gathered by the outside investors or the managers that would help to reduce agency costs. Nevertheless, even if most of the assumptions are loosened, the conflict of interest between owners and managers is relevant as long as the owners cannot observe the managers actions or their consequences completely.

The central point of Jensen's and Meckling's (1976) model is that there is a trade-off in the form of agency costs between having more or less insider ownership. Agency costs are created whenever the manager also controls an outsider's investment besides her own, because there is a main conflict of interest. This is the same conclusion Berle and Means argued already in 1932 by underlying that the separation of ownership and control in large public companies created room for managers to use the wealth of the companies to their own advantage. Jensen and Meckling formulated a theory of ownership structure based on this problem of agency. Because of the conflict of interest between managers and outside shareholders, firm performance is not independent of ownership structure. Jensen's and Meckling's (1976) analysis of agency problems serves as the starting point for the analysis, there are many other further complications to be taken into account

Oliver E. Williamson – *The Economics of Organization: The Transaction Cost Approach*

The existence of transaction cost economics (TCE) in the early 1970s with Oliver Williamson's successful reconciliation of the so called neoclassical approach with Herbert Simon's organizational theory can be taken into account as an important part of the first cognitive turn in economics. The development of TCE until the late 1980s was particularly marked by treating the firm as an avoider of negative frictions, i.e., of transaction costs. However, since the 1990s TCE has been enriched by many other approaches dealing with the role of the firm in creating positive value, e.g., the literature on modularity. Hence, a second cognitive turn has taken place: the firm is no longer only seen as an avoider of negative costs but also as a creator of positive knowledge.

While the term 'transaction costs' appeared in the economic literature relatively late, the notion of 'transaction cost economics' entered into economics even later, that is, in the work of Oliver Williamson from the late 1970s. Before that, the approach starting from Coase's (1937) "The nature of the firm" was explained as *transaction cost reasoning, transactional paradigm* or *transaction cost approach*. Surprisingly, even in his now classic papers from the early 1970s Williamson did not use the term 'transaction cost economics'. For Williamson the *transaction cost approach* was at that time outside the domain of mainstream economics, based on the work of Arrow and Debreu.

In *Markets and hierarchies*, Williamson explains his doubts as about the place of *transaction cost reasoning* within economic theory as follows: "Whether such an approach qualifies as economics is problematic" (1975, 248). A few years later he adds: "[...] the origins of transaction cost theory must be sought in influences and motives that lie outside the normal domain of economics" (Williamson 1981b, 1538). In other words, in the economics built on the general equilibrium framework any attempt to incorporate transaction costs into the realm of ME would be treated as a heresy, and the term 'transaction cost economics' would seem an oxymoron.

In the 1970s, however, something had changed in mainstream economics: economic theory started to become more pluralistic again (as it had been in the 1920s and the 1930s). On the one hand, many economists had not been successful in their attempts to build a "whole" economic theory on the general equilibrium framework, e.g., because of the impossibility of formulating the so called micro foundations of macroeconomics—the implication of the Sonnenschein-Mantel-Debreu theorem (Sent 2006). On the contrast, the introduction of transaction costs into the world of Arrow-Debreu resulted in claims such as that "[...] different social arrangements result in different transaction technologies purely as a result of legal ways of protecting property rights" (Kurz 1974, 4), i.e., that the set of possible transaction opportunities relies on the institutional framework of the economy. Consequently, mainstream economics has been transformed into many other complementary approaches based on game theory, bounded rationality, experimental methods, and last but not least transaction cost reasoning. In the late 1970s putting the term 'transaction cost' together with the word 'economics' became not only possible, but also desirable. The long past of TCE was over, and the history of TCE had begun.

Williamson's PhD dissertation entitled *The economics of discretionary behavior: managerial objectives in a theory of the firm* is situated just at the *intersection of economics and organization*:

[...] although the objective function of the firm was reformulated in favor of realism in motivation, I worked out of a maximization rather than a satisfying setup. The dissertation therefore reflected some of the tensions between behavioral economics and orthodoxy (Williamson 1996, 150).

The research strategy of Oliver Williamson was to benefit the behavioral assumptions of organizational theory combined with the quantitative and marginal analytical framework of neoclassical economics (Allen 1999). The following statement by Williamson from "Hierarchical control and optimum firm size" clearly summarizes his research strategy: The strategy of borrowing behavioral assumptions from the organization theory literature and developing the implications of the behavior observed within the framework of economic analysis would seem to be one which might find application quite generally. Combining these two research areas so as to secure access to the strengths of each would thus appear to be quite promising`` (Williamson 1967, 135).

For Williamson, the theories and concepts of organization theory literature including those of Simon's behavioral economics were in relation with to the analysis of individual decision making and hence had a very microeconomic character. However, the most of organization theory's concepts were explained so broadly that it was nearly impossible to use them in empirical research. It became evident for Williamson that there was a need to translate the

behavioral concepts of Carnegie into the language of economics (Simon 1997, 38).

In the late 1960s, Williamson tried to explicate the rationale for vertical integration, but he could not reasoned within the framework of ME. That question is similar to the one posed by Coase in "The nature of the firm", but the answer given by Williamson is slightly different from that of Coase. Although Williamson was deeply convinced that the existence of market exchange costs was significant for describing the existence of firms, "[he] was not persuaded of the possibilities inherent in the transaction cost approach" (Williamson 1990, 117). Then, while preparing a series of seminars on the theory of vertical integration requested by Julius Margolis, he discovered that the reasons for integration lie in the behavioral characteristic of contracting actors and first of all in bounded rationality:

``Bounded rationality is one of them. I don't know if I defined opportunism at the time, but we focused on two critical issues which are close to opportunism, namely limitations associated with promises and the fact that some promises need institutional support`` (Williamson 1990, 118).

In order, the problem of opportunistic behavior combined with that of bounded rationality arising in the situation of bilateral monopoly (small-numbers exchange) and uncertainty occurred as the defining specialities of his analytical framework. To proceed, Williamson translated ideas from organization literature into concepts observable in the functioning of firms and markets: Simonian bounded rationality gave a theoretical foundation for formulating the idea of incomplete contracts and opportunism, and the search theories of Cyert and March (1964)—e.g., myopic search, trial-and-error learning, and local search— enabled Williamson to develop the concept of "feasible foresight". Next, he combined that conceptual framework with the "classical" assumption of neoclassical economics, namely that of cost minimization. The emerging transaction cost economics, here explained also as Williamsonian TCE, followed. The first paper in which he used that framework was "The vertical integration of production: market failure considerations" (1971). Twenty years after its publication he says: "I really feel, at the time when I wrote the paper, that I cracked the problem. This was certainly an obvious exaggeration. But I did have a sense that this reformulation [of concepts] really got to some of the basic issues" (Williamson 1990, 119).

The organizational theory of Carnegie was the introductory attempt within (broadly defined) economics of building a connection between (cognitive) psychology and (old behavioral) economics (Sent 2004, 739- 740). That was possible mainly due to Simon's contribution to the so called cognitive revolution: the successful attempt to bring psychological insights into the realm of economic theory and simultaneously to limit the role of behaviorism. But still, organizational researchers at Carnegie remained quite dissatisfied with mainstream economics. Simon, for instance, left the Carnegie Graduate School of Industrial Administration in the 1970s for the psychology department of the same university, noting: "My economist friends have long since given up on me, consigning me to psychology or some other distant wasteland" (Simon 1991, 385). Sent (2004) even claims that due to its distance from ME the organizational theory of Carnegie had a very bounded impact on economic theory of the 1960s and 1970s; however, the existence of Williamsonian TCE proves the contrary.

There is no doubt that TCE had a vigorous impact on the state of economic theory in the 1970s, and that it is partly responsible for its current plurality. Moreover, there is no doubt that the rise of TCE in the 1970s was only possible due to the Carnegie revolution of the incorporation of psychological concepts into economics. Within that relation, Carnegie, by making the rise of TCE possible, played an important role in transforming ME, and hence the rise of TCE can be treated as the first cognitive turn in economics.

And theory had following assumptions: (Shafritz, Ott, Jang, 2005)

● Explains "a transactional cost occurs when a good or service is transferred across a technologically separable interface".

● "By converting exchange relations into hierarchical sub-elements (for example, by 'making' instead of 'buying' components of the final products), behaviors of transaction partners can be better monitored through direct supervision, auditing, and other organizational control mechanisms".

● "Transaction costs are thereby reduced or at least controlled by the presence of hierarchy".

Jay B. Barney & William G. Ouchi – *Learning from Organizational Economics*

The theory of organizational economics is a new paradigm that takes place in the field of administrative theory (Barney & Ouchi, 1986). But like any new paradigm, organizational economics has many questions for established management theories. As Donaldson (1990), organizational economics up to the paradox that the administrative relevance is achieved via the criticism of the behavior of managers.

Organizational economics and organizational capabilities or resources are relied on two streams of research contributing to the strategic organization (Argyres, Felin, Foss and Senger, 2009). Donaldson (1990) adds the need to determine the nature and potential of organizational economics with the aim of identifying main key issues and somehow pointing a path for resolution.

The theory of organizational economics deals with the nature of the obstacles to coordination of activities in and between firms. Economics studies organizational tasks of coordination and motivation of human activities in organizations to contribute to the design of forms and arrangements efficient organizational structures. The organizational economics theory deals with the costs and benefits of institutional, organizational and contractual. Also organizational economics identifies organizational alternatives with their costs and benefits. And organizational economics underlines organizational efficiency with implications for the organization of transactions. Because organizational economics plays an unimportant role in the evolution of knowledge management, little emphasis is placed on the costs of activities.

The criticisms of organizational economics are various and some of them very strong considering the impact it has had organizational economics in the general theory of organizations. It criticizes the organizational economics literature that is not supported and acknowledge the significant contributions of traditional management theories.

Perrow (1986:2359) criticism of agency theory and organizational economics generally as dangerous and insidious compared to the critique of other theoretical models of organization. The negative reaction of Perrow's theory is based on agency that thought to be more inclined to favor the main by the agent and therefore is more critical than other economic

organizational theories, organizational position may be considered more of political sentiment in this debate.

The discussion of Donaldson (1990) on organizational economics is a systematic critique of the difference from other traditions and calls for further research to understand the wide range of organizational phenomena that can be analyzed. Donaldson (1990) argues that differences in assumptions and scientific methods organizational economics separate from other approaches in organizational research and differences in the assumptions and methods are of conflicts, once settled theoretical integration is possible. Donaldson (1990) criticizes the attributes of the organizational model of the economy that hinder the intellectual discourse and theoretical integration with traditional management theory. Donaldson (1990) cites four attributes differences between the models of organizational economics and traditional management theory and discourse prevent the integration of the two models. These differences in the attributes are different assumptions about human nature and the assumption of opportunism, different levels of analysis used, the theories of motivation used in the many other models and the prescriptive and descriptive of the economy and other organizational different models.

The organizational capabilities approach underlines the theory of organizational diversity and differences of sustainable performance. The organizational capabilities approach has not investigated the organizational forms and governance arrangements relating to the creation of differences in organizational capabilities. Capacity building uses organizational governance issues through the design of structures, forms and organizational arrangements to improve decision-making processes.

Organizational capacity building and resource acquisition are essentially decisions about organizational boundaries implying approaches of transaction costs and property rights. Human capital is an crucial component of organizational capabilities. Jones, George and Kosnik (1989) developed a growth model of the firm that combines elements of organizational economics to the concept of bias and heuristics drawn from research in cognitive psychology (Tversky & Kahneman, 1974). The resulting model proposes that firms can grow and be bigger than traditional organizational economics course with simple self-interest. Additional work that integrates organizational economics approaches of organizational behavior, social psychology, anthropology and related disciplines will be very successful (Barney, 1990).

Future research on organizational economics must develop and articulate the theories and hypothesis that complement derive new hypotheses and theories existing traditional organizational and administrative approaches to create new theoretical - methodological and empirical approaches can support the scope of organizational theory. Organizational economics can make important contributions to management theory only if it enhances their development in variables such as motivation.

The methodological individualist approach motivation and the systems approach for the coordination of team efforts, require research in the processes of integration and synthesis. Barney (1990) suggests that in their understanding of the limitations and potential is encouraged by the analysis of Donaldson (1990) and hoped that the limitations and potential of traditional management theories are encouraged by a careful study of organizational economics.

The organizational economic theory was developed to give greater significance to the role of management in marketing organizations. The organizational economics theories concentrate on the neglected category of the economy as traditional theory of government, which complicates the relationship between academics and administrators. It is difficult to determine a priori the potential contributions of the organizational economic theory, but only until this research paradigm has more conclusions.

Organizational economics concentrates on the compatibility of incentives to investment issues for the production and sharing of knowledge, but neglected the costs of incentives and benefits of the practices of knowledge management. According to Foss and Mahnke (2003), organizational economics proposes three options to provide incentives to employees to investment in firm-specific knowledge, such as high-powered incentives, promotion rules and give access to critical resources. Organizational economics addresses stress with these situations of conflict of interest that are central to the practice of knowledge management. Economic theories that concentrate on organizational conflict of interest and that are positive by nature live in what is known as credible transactions.

Paul H. Rubin – *Managing Business Transactions*
● "focuses on the cost of maintaining the principal-agent relationship, how to minimize costs, and the effects of transaction costs on management decisions".
● "First people are self-interested and opportunistic. Second, it is impossible to write complete contracts with take account of any and all possible events and which eliminate all forms of opportunism or cheating".
● "Thus, other mechanisms must be used to minimize agency costs" such as "pre-contractual and post-contractual mechanisms, including adverse selection, the market, the 'use of hostages and credible commitments to support exchange,' strategically selected payment schemes, reputation, and ethics".
● "Because there is a limit to our willingness to reduce our own incomes in order to benefit others (another possible meaning of ethics), there are advantages of structuring transactions in ways which lead us to provide such benefits without harming ourselves" (Shafritz, Ott, Jang, 2005).

Jeffrey Pfeffer – *Understanding the Role of Power in Decision Making*

Most definitions include an element stating that power is the "Capability of one social actor to overcome resistance in achieving a desired objective". Power becomes defined as force; a force exerted from one actor onto another. The enforcement changes the behavior. Legitimacy is defined and is accepted as a series of activities that are accepted and expected. Therefore, power that is accepted and expected becomes authority. A preference (be it willing or unwilling) to such procedures of power strengthen the concept of authority. They become defined as activities through which power is used to obtain a certain catalogue of desired results. Usually, in a setting in which politics are used or seen, belief is widespread. Power is then the property of the system at rest, politics is the system seen in its most dynamic setting. Influence is the key to organizational politics.

Understanding the Role of Power in Decision Making was the basic contribution to Power and Politics Organization Theory. "Power is the ability to get things done the way one wants them done; it is the latent ability to influence people." This definition offers several advantages for understanding organizations. First, it emphasizes the relativity of power. As Pfeffer points out, "power is context or relationship specific. A

person is not powerful or powerless in general, but only with respect to other social actors in a specific relationship." Second, the phrase " the way one want them done" is a potent reminder that conflict and the use of power often are over the choice of methods, means, approaches, and/or "turf." They are not limited to battles about outcomes. This point is important because power is primarily a structural phenomenon, a consequence of the division of labor and specialization (Shafritz, Ott, Jang, 2005).

Robert Michels – *Democracy and the Iron Law of Oligarchy*

Democracy and the Iron Law of Oligarchy was the basic contribution to Power and Politics Organization Theory.

Argue power in organizations from a political perspective. "Organization implies the tendency to oligarchy. In every organization ... the aristocratic tendency manifests itself very clearly. The mechanism of the organization, while conferring a solidity of structure, induces serious changes in the organized mass, completely inverting the respective position of the leaders and the led. As a result of organization, every political party or professional union becomes divided into a minority of directors and a majority of the directed.

Organizations are oligarchic by their nature because majorities in organizations are not able to rule themselves. The mechanism of the organization induces serious changes in the organized mass, completely inverting the respective position of leaders and the led. As a result, every party or union becomes divided into a minority of directors and a majority of directed. According to Marxist theory;

The capitalist's mode of production transforms the great majority of the population into proletarians, and so digs its own grave. As soon as it attains maturity, the proletariat will seize political power and will immediately transform private property into state property (Shafritz, Ott, Jang, 2005).

John R. P. French Jr. & Bertram Raven – *The Bases of Social Power*

The Bases of Social Power was the basic contribution to Power and Politics Organization Theory. Identifies the major types of power and define them systematically. Power, Influence and Change

Psychological Change: is defined as any alteration of the state of the state of behavior, opinion, attitude, goal, need, value, etc. over time.

Social Influence: influence on a person by a social agent (person, role, norms, group, or a part of a group)

Social Power: The strength of power of a social agent in a person's system is defined as maximum potential ability to influence.

The Bases of Power

Reward power: power whose basis is the ability to reward.

Coercive power: power whose basis is the ability to punish.

Legitimate power: legitimized power by cultural values, acceptance of social norms, and designation by a legitimate agent.

Referent Power: attractiveness of a social agent (influencer) to the person (being influenced)

Expert power: extent of the knowledge or perception which person attributes to the social agent.

French and Raven examines the effects of power derived from these 5 different bases of attraction and resistance to the use of power. They conclude that the use of power from the different bases has different consequences (Shafritz, Ott, Jang, 2005).

James G. March – *The Power of Power*

The Power of Power was the basic contribution to Power and Politics Organization Theory.

" The power of power" is not limited to power inside of organizations. March reviews alternative definitions, concepts, and approaches for empirically studying social power in organizations and communities. His observations about "community power" are more than tangentially germane to organization theory because of the current enthusiasm for "boundary less organizations," "virtual organizations" and networks.

March discusses the advantages and limitations of three approaches to the study of power: experimental studies, community studies, and institutional studies. In addition six models of social choice existed: Chance Models, Force Activation Models, Force Depletion Models, Basic Force Models, Force Conditioning Models, Process Models.

He concludes: "Although power and influence are useful concepts for many kinds of situations, they have not greatly helped us to understand many of the natural social – choice mechanisms to which they have traditionally been applied (Shafritz, Ott, Jang, 2005).

Rosabeth Moss Kanter – *Power Failure in Management Crisis*

Rosabeth Moss Kanter has touched upon the double yard stick of gender appropriateness and managerial efficiency, which often leaves women in an unbreakable double bind. If the women are an unbreakable double bind, if the norm is male, women will always be the other, the deviant. Superior or inferior, she is not the same. Sexuality puts an added burden on women already carrying a heavy load of trying to compete as managers.

Moss Kanter, existing patterns of thinking and existing assumptions about the organization, its markets, customers and relationships have to be challenged. Thus, change agents should realize that there is more than one right solution. The change agent has to be able to evaluate facts from different points of view, e.g. from the customer's or competitor's perspective.

Furthermore, Moss Kanter stresses the importance of coalition building, which she describes as an often-ignored step in change processes. Change agents should identify and involve opinion leaders, decision makers on resources, functional experts and other important persons as early as possible in the project-planning phase. Moss Kanter, existing patterns of thinking and existing assumptions about the organization, its markets, customers and relationships have to be challenged. Thus, change agents should realize that there is more than one right solution. The change agent has to be able to evaluate facts from different points of view, e.g. from the customer's or competitor's perspective. Furthermore, Moss Kanter stresses the importance of coalition building, which she describes as an often-ignored step in change processes. Change agents should identify and involve opinion leaders, decision makers on resources, functional experts and other important persons as early as possible in the project-planning phase.

The importance of the factor motivation is well described with the phrases transferring ownership to a working team and making everyone a hero . Moss Kanter gives the most important preconditions for successful change management – the involvement of the people – with these two phrases. Members of the change team and other employees affected by the change initiative must not feel like as if they are just the tools for change or the subject of change. But, it may not

enough to have a convincing vision. Real commitment can only be gained by giving people the chance to become actively involved, to contribute their own experiences. Every employee needs to know that his contribution to the project is import ant and is valued. Thus, people will develop a sense of ownership for the project, which, in turn may serve as a major source of motivation when it comes to the inevitable problems and barriers. Rosabeth Moss Kanter provides a great summary of the characteristics of a good change agents when she writes that the most important things a leader can bring to a changing organization are passion, conviction, and confidence in others (Shafritz, Ott, Jang, 2005).

Henry Mintzberg – *The Power Game and the Players*

The Power Game and the Players was the basic contribution to Power and Politics Organization Theory.

He stresses that, organizational behavior is viewed as a power game. The players are influencers with varying personal needs who attempt to control organizational decisions and actions. Thus to understand the behavior of organization, it is necessary to understand which influencers are present, what needs each seeks to fulfill in the organization, and how each is able to exercise power to fulfill them.

General Bases of Power are: Dependency, Non-substitutable, Concentrated (short supply), Formal Power, Derives from access to those who can rely on all 4 Types of Influencers (Shafritz, Ott, Jang, 2005).

External Coalition	Internal Coalition
Owners	Top Management
Associates	Operators
Employee associations	Line managers
Public	Support staff
Directors	Analysts of techno-structure
	Ideology

Edgar H. Schein – *The Concept of Organizational Culture: Why Bother*

Organizational culture is an crucial concept. It is a perspective from which to get into knowledge the behavior of individuals and groups within organizations. Like so various other concepts, organizational culture is not defined the same way by any two popular theorists or researchers. Some of the definitions of culture explain it as:

• Symbols, language, ideologies, rituals and myths.
• Organizational scripts derived from the personal scripts of the organization's founder(s) or dominant leader(s).
• A product; historical; based on symbols; and an abstraction from behavior and the products of behavior.

Why do we require the concept of culture anyway? What does it add that concepts like norms, behavior patterns and climate do not necessiately convey? Why not just settle for the study of symbols and observed behavior patterns in their own right? Why do we need a conceptually "deeper" level? To answer these questions we must stop and ask ourselves about the origin of the culture concept. Why was it taken out of the context of representing some of the more refined aspects of social phenomena into anthropology as a core concept for having time on societies?

According to Schein's theory:

Culture implies stability

Without doing the necessary historical analysis, Schein would speculate that the concept was required initial of all to describe the fact that, in most societies, strong phenomena persisted over time and displayed remarkable stability, even in the face of pressures toward change. This stability would be especially noticeable in some of the preliterate societies that had survived in a basically unchanged way for centuries. Culture, then, has something to do with long-range stability.

Culture emphasizes conceptual sharing

Secondly, he would speculate that what struck early ethnographers was the remarkable degree of similarity not only of manifest behavior but also the perceptions, cognitions, and feelings of the members of a given society, offering that there was something under the surface that new members learned, which led to a high degree of similarity of outlook. Culture, then, has something to do with sharing or consensus via the members of a group. The most obvious aspect of such sharing is the common language and conceptual categories that are discovered whenever one studies a social group that has had any kind of history and shared experience; the study of socialization processes, especially their content, then became one of the primary ways of deciphering what the common underlying shared things were.

Culture implies patterning

Thirdly, he would speculate that what struck at least some anthropologists was the degree to which patterns were evident in societies. The observed regularities reflected higher order phenomena that caused patterns and paradigms, sometimes leading to premature formulations of cultural types. The fact that early typologies proved to be more stereotypic and ignored significant variations among and within societies only reinforced the idea that patterns had to be studied carefully and were somehow at the crux of deciphering cultural phenomena.

Culture implies dynamics

How is one to describe the perpetuation of observed regularities and the ability of a group to perpetuate patterns over long periods of time and across many generations of membership? The analysis of culture forces us to the analysis of how culture is created and perpetuated, thus leading to studies of the socialization process and a renewed emphasis on origins. Anthropologists had difficulty with cultural origins because one could not obtain historical data on the kinds of societies that were studied. Current attempts to apply culture to organizations do not suffer from this limitation because one can reconstruct historically the origin of organizations. In fact, historians have designed some of the best cultural analyses in organization studies, because they have been able to capture the dynamic, holistic patterning that is characteristic of cultures

Culture implies all aspects of group life

If one looks at early ethnographies, one is struck by the fact that cultural phenomena penetrate all of the aspects of daily life. There is virtually nothing that we do that is not colored by our shared ways of looking at things. In analyzing culture, then, it gets crucial not to develop simplistic models that rely only on a few key dimensions, but to find models that reflect the vastness that culture represents.

Schein offers that what we need is a model of culture that does justice to (a) what the concept connotes and (b) what has been its source of utility in other fields. Such a model comes out of an eclectic approach that draws on anthropology, sociology, and social psychology, and that reflects research methods broader than the traditional ones. Specifically, we need to add to other methods what he have named the "cultural perspective", by which he means what one learns when one is in a helper/consultant role (as contrasted with a researcher role). Sometimes one learns most about what culture is, how it operates, and what its implications are when one is helping an organization to solve real problems. At such times the insiders

are more open, more willing to reveal what they really think and feel, and, thereby, make it more obvious what things are shared and how things are patterned. At such times, one also starts to understand what it means to go to "deeper" levels.

Joanne Martin – *Organizational Culture: Pieces of the Puzzle* (Shafritz, Ott, Jang, 2005).

● "Attempts to answer the questions 'what is culture' and 'what is not culture?' using the intellectual traditions of functionalism, critical theory, and postmodernism" (p. 344).

● "What distinguishes a cultural study from an inventory is a willingness to look beneath the surface, to gain an in-depth understanding of how people interpret the meanings of manifestations and how interpretations form patterns of clarity, inconsistency, and ambiguity that can be used to characterize understandings of working lives" (p. 344).'

● "She concludes 'Because cultural researchers do not agree what we should study when we claim to be studying culture, and because our definitions of culture do not always agree with how we operationalize the concept, it is no wonder that we also disagree about what we have learned, so far, about culture'" (p. 344).

● "Common types of rituals" (p. 370).

● "Cultural manifestations are consistent or not, cultural members appear to agree or not, and interpretations are singular and clear or multiple and ambiguous" (p. 380).

William G. Ouchi – *The Z Organization* (Shafritz, Ott, Jang, 2005).

The origin of the William Ouchi was Japan and affected by American management system. That's, why The Organization is an amalgam of Japan and American management system.

13 step must be implemented for successful Z Organization

Step 1: To understand Z organization structure

Step 2: To determine organization philosophy

Step 3: To determine adopted and expected management philosophy

Step 4: To set organization to new management idea occur

Step 5 : To improve employees skills and abilities

Step 6: To control implemented management philosophy and management

Step 7: To develop cooperation with trade unions

13 step must be implemented for successful Z Organization (cnt'd)

Step 8: To set and apply stable decisions for employment structure

Step 9: To think going concern and to provide development and progress of the organization

Step 10: To provide employees career opportunities

Step 11: To change in organization must be started the top. (Top – down)

Step 12: To participate employees comments and suggestions for decision making process

Step 13: To integrate all level of employees.

The Fifth Discipline: A shift of Mind

The Fifth Discipline is an essential structure of Learning Organization. These discipline are:

● Systems Thinking
● Personal Mastery
● Mental Models
● Building Shared Vision
● Team Learning

System Thinking

Due to the organizational environment is to complex, decisions for entity's system should be taken wholly.

Decisions which are taken in accordance to part of the organization cannot be added benefit.

Personnel Mastery

People have personnel mastery, to show all attention and care on their job.

The learning desire of an organization cannot be more than a profession.

Building Shared Vision

The organization objective should be accepted by all of the employees. This means, everyone wants to reach common target provides with belief.

Team Learning

Team oriented working results pass the individual outcomes mostly. The democratic and fair environment is the way of team successful.

David L. Cooperrider and Diana Whitney – *Appreciative Inquiry* (Shafritz, Ott, Jang, 2005).

● Appreciative Inquiry (AI) "proposes, quite bluntly, that organizations are not, at their core, problems to be solved. Organizations are centers of vital connections and life-giving potentials: relationships, partnerships, alliances, and ever-expanding webs of knowledge and action that are capable of harnessing the power of combinations of strengths" (p. 345).

● Based on a "socio-rationalist" view "that engages organizational embers in a process for appreciating and valuing what might be rather than analyzing existing problems or their causes" (p. 345).

● "The principles of Appreciative Inquiry suggest the idea that collective strengths do more than perform – they transform (p. 395).

● The Positive Core of Organizational Life – p. 398.

Daniel Katz and Robert L. Kahn – *Organizations and the System Concept* (p. 407)

Conclude "that the traditional closed-system view of organizations has led to a failure to fully appreciate the interdependencies and interactions between organizations and their environments" (p. 403).

Common characteristics of open systems" (p. 410-415):

● Importation of Energy
● The Through-Put
● The Output
● Systems as Cycles of Events
● Negative Entropy
● Information Input, Negative Feedback, and the Coding process
● The Steady State and Dynamic Homeostasis
● Differentiation
● Equifinality

● The open-system approach to organizations is contrasted with common-sense approaches, which tend to accept popular names and stereotypes as basic organizational properties and to identify the purpose of an organization in terms of the goals of its founders and leaders (p. 416).

● The open system approach, on the other hand, begins by identify and mapping the repeated cycles of input, transformation, output, and renewed input which comprise the organizational pattern (p. 416).

● Traditional organizational theories have tended to view the human organization as a closed system. This tendency has led to a disregard of differing organizational environments and the nature of organizational dependency on environment. It has led also to an overconcentration on principles of internal organizational functioning, with consequent failure to develop and understand the processes of feedback which are essential

to survival" (p. 417).

James D. Thompson – *Organizations in Action* (p. 419)

● Thompson "seeks to bridge the gap between open and closed systems by postulating that organizations 'abhor uncertainty' and deal with it in the environment by creating specific elements designed to cope with the outside world, while other elements are able to focus on the rational nature of technical operations" (p. 403).

● "Core technologies rest on closed systems of logic, but are invariably embedded in a larger organizational rationality which pins the technology to a time and place, and links it with the larger environment through input and output activities. Organizational rationality thus calls for an open-system of logic, for when the organization is opened to environmental influences" (p. 430).

John W. Meyer and Brian Rowan – *Institutionalized Organizations: Formal Structure as Myth and Ceremony* (p. 433).

● "Emphasize cultural and institutional environmental influences while arguing that the modern world contains socially constructed practices and norms that provide the framework for the creation and elaboration of formal organizations (p. 403).

● "Organizational structures are created and made more elaborate with the rise of institutionalized myths, and, in highly institutionalized contexts, organizational action must support these myths. But an organization must also tend to practical activity. The two requirements are at odds. A stable solution is to maintain the organization in a loosely coupled nature" (p. 446).

Jeffrey Pfeffer and Gerald R. Salancik – *External Control of Organizations: A Resource Dependence Perspective* (p. 449).

● Explain that "one cannot understand the structure and behavior of an organization without understanding the context within which it operates" (p. 403).

● "No organizations are self-sufficient, and thus they must engage in exchanges with their environment in order to survive. Organizations need to acquire resources from their environment, and the importance and scarcity of these resources determine the extent of organizational dependency in and on their environment. For example, information is a resource organizations need to reduce uncertainty and dependency, and thus organizations seek information to survive" (p. 403).

● "The key to organizational survival is the ability to acquire and maintain resources" (p. 449).

● "When the administrator really does make a difference and really does affect organizational performance, his effect will be obvious to all and there will be little need to make a show of power and control. It is only when the administrator makes little or no difference that some symbol of control and effectiveness is needed" (p. 457).

● "Many organizational troubles stem from inaccurate perceptions of external demands or from patterns of dependence on the environment (p. 549).

● "After all, anyone can make decisions or take actions – it requires more skill to be correct" (p. 459).

Glenn R. Carroll and Michael T. Hannan – *Demography of Corporations and Industries* (p. 461)

● Draw "on the theories of organizational ecology to explore theories, models, methods, and data used in demographic approaches to organizational studies. Organizational ecologists assess the applicability of bio-ecological models to the study

or organization–environment relations (p. 404).

● "From this perspective, organizational environments are the loci of competition, selection, and the survival of the fittest. Organizations do not adapt to their changing environments by making decisions, instead, the environment selects the fittest among different organizational forms" (p. 404).

● "Explain how 'populations of organizations' change over time through the processes of founding, growth, decline, transformation, and mortality" (p. 404).

● The organizational ecology approach differs from other open system theory approaches in that it focuses on populations of organizations rather than individual organizational units" and "organizational ecology attempts to explain why certain types or species of organizations survive and multiply whereas others languish and die" (p. 404).

● "Environments differentially select organizations for survival on the basis of the fit between organization forms and environmental characteristics" and "the stronger the pressures are from within or outside an organization, the less flexibly adaptive it can be and the higher likelihood that environmental selection will prevail" (p. 404).

Explicit assumptions about the knowledge held by entrepreneur-managers and employees have been an integral part of organizational economics since its beginning (Knight, 1921; Coase, 1937). The large body of research in organizational economics, over the last forty years, has overseen assumptions about how well agents and individuals process knowledge (team theory), and what knowledge they possess (contract theory, transaction cost economics), fundamental stage. For example, agency theory does many explicit assumptions in these domains (e.g., shared common priors, common knowledge, specific assumptions about what exactly is asymmetric information). Equilibrium outcomes in terms of contracting, levels of monitoring, and so on are significantly dependent on what exactly is assumed about knowledge in these models. In general, asymmetric information, ignorance about future contingencies, ambiguity concerning contract terms, and the like are invoked to describe imperfect and incomplete contracting, ownership patterns, and incentive design. Thus, organizational economists have never truly "neglected knowledge" or capability.

However, what can rightly be claimed is that, until recently, organizational economics did not pay much attention to organizational heterogeneity; thus, the organization of transactions across governance structures was in focus, but the possibility that various instances of the same governance structure (e.g., firms) in the same industry may organize transactions differently, and with different results, was not looked into (Holmström and Roberts, 1998). Therefore, it is only recently that organizational economists and organizational scholars influenced by organizational economics have systematically started to address the governance of capability and the capability of governance. Of course, as the paper argued, organizational economics already has for several decades pointed to theoretical mechanisms that help endogenize firm-level knowledge, that is, capability. Despite the capability critique that organizational economics proposes homogeneity of such firm-level knowledge, nonetheless scholars increasingly include knowledge-related factors and mechanisms in the study of capability formation.

It is so significant to note that although we argue that organizational economics can significantly develop our understanding of capability formation, they are hardly the entire story. Some areas of organizational economics do make

certain and strong assumptions about the cognitive powers of individuals. At least, the formal manifestations of organizational economics (i.e., contract theory) explicitly make the assumption that individuals hold the same, correct, model of the world. These assumptions are built into formal contract theory (i.e., agency theory and property rights theory) via the assumption that payoffs, strategies, the structure of the game, and so on are common knowledge. Bounded rationality is often invoked as a required part of the theory of the firm, particularly by Williamson (1985, 1996). However, most of the contracting problems proposed in the modern theory of the firm require only asymmetric information (Hart, 1990). Indeed, bounded rationality seems until to have served little function beyond justifying the assumption that contracts are incomplete. And yet, bounded rationality may influence economic organization in many other ways, as is increasingly being recognized (Tirole, 2009; Fehr, Hart and Zehnder, 2008; Hart and Moore, 2008). Thus, behavioral economics insights about reference points, ambiguity, loss aversion, etc. are tremendously being brought to bear on contracting. Incorporating them more fully into organizational economics may direct to additional insight into heterogeneity and otherwise allow organizational economists to tackle issues that have often been idea of as the turf of capabilities theorists (e.g., loss aversion may help explaining organizational rigidity). In conclusion, this article invites on scholars to more carefully specify and discuss the relationship between capabilities and governance. Paper offer that it is central to recognize the role that organizational economics can play in helping us understand both capability governance and the comparative factors associated with the governance of capabilities. Finally, encourage theoretical work that elevates the logical integration between organizational economics and capabilities work and avoids semantic debate (Argyres & Felin & Foss and Zinger, 2012).

Furthermore, the power and politics school rejects the assumptions about organizations as being naive and unrealistic, and therefore of minimal practical value. Instead, organizations are viewed as complex systems of individuals and coalitions, each having its own interests, beliefs, values, preferences, perspectives, and perceptions. The coalitions continuously compete with each other for scare organizational resources. Conflict is inevitable. Influence – as well as the power and political activities through which influence is acquired and maintained – is primary "weapon " for use in competition and conflicts. Thus, power, politics, and influence are essential and permanent facts of organizational life.

In understanding the role of organizational culture in achieving the desired changes in public science management, the various public science organizations will need to understand not only their internal culture but the cultural attributes best suited to promoting desired behaviors on the part of the science system as a whole. A crucial role for science management is to help define and bring about the cultural orientations that will provide the context and promote the behaviors, values, and relationships that cause effective science, including scientific collaborations. This literature suggests it would be worthwhile to (1) identify how science funding and directing organizations could promote appropriate cultural orientations and a favorable cultural environment for funded science organizations (laboratories, universities, and private R&D centers) and (2) determine the cultural orientations and cultural environment needed within the funding and directing organizations to make this exist.

Relevant questions for managers and science include:
1. Have the goals and strategies for effecting effective and efficient scientific development shifted over time?
2. What culture attributes are required to ease achieve the goals and strategies on the part of publicly funded science organizations (public and private laboratories, universities, R&D centers, etc.) as well as the goals and strategies required to achieve effective and efficient scientific development for the system as a whole? Is there potential conflict among these two sets of goals and strategies? How could this conflict be addressed?
3. How can public science funding and directing organizations contribute to bringing about desired cultural attributes in these publicly funded science organizations? What are the obstacles to doing this?
4. Will the culture (and perhaps goals, strategies, structures, and practices) of public science funding and directing organizations need to change with the aim of for them to be successful in effecting desired change within the publicly funded science organizations? If so, what changes may be required?
5. How can desired cultural (as well as strategy, structure, and practice) changes be identified by and promoted within the many science funding and directing organizations? Will this require a collaborative effort among these organizations? If so, how can this collaboration be encouraged? What are the obstacles to successful cultural shift?

By benefiting from theories of organizational change, this paper attempts to explain the complex, dynamic, unpredictable and sometimes chaotic process of organizational transformation (Sullivan, 2004: 50; Styhre, 2002: 348). Organizational change activities can be successfully examined from complexity and systems theories framework. The organizational change paradigms discussed in the paper suggest that changes are produced on the basis of a number of interconnected causes and effects whose relationships are complicated to conceive of from an analytical framework relied on linearity. Systems and complexity models can propose more promising avenues from which organizational leaders can appreciate and address complex organizational dilemmas.

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