Introduction
The Reorganised Economy

STEPHEN ACKROYD

THE question of the organizational composition of the economy is the central concern of the chapters in Part IV. The chapters offer a number of perspectives on the organizational basis of the national and international economy: they consider the way the economy of the advanced regions and their interrelations are now organizationally constituted and the implications this has for contemporary work.

Much has changed in the organization of the economy in the last quarter of a century. There is now greater specialization of activities by organizations, combined with greater interdependence among them. The average size of organizations has decreased. Care must be taken, however, in understanding the nature of these changes. There has not been the creation of an entrepreneurial economy driven by the activities of independent or highly innovative small firms. Rather, there has been the specialization of the activities undertaken by business units and increasing cooperation between them. Large organizations remain important, but they are increasingly made up of interdependent small units, in which self-conscious coordination between constituent units is prominent. Large organizations have become deconstructed into constellations of small business units, but they often continue to play a dominant role in economic exchanges. Similar patterns are widespread outside the corporate sector. Through such things as subsidiarization, spin-offs, franchising, and formal alliances as well as varied affiliation arrangements, new patterns of interrelatedness are now ubiquitous. Consequently, considering organizations in isolation from each other as the objects of attention will not yield an understanding of the developments and changes occurring in the corporate economy.

This is in sharp contrast to most organizational research conducted up to and including the 1970s, which was based on the assumption that organizations could be understood and analyzed as independent actors. From the first few decades following World War II to the 1970s, the dominant understanding of organizations was colored by the assumptions and outlook of neoclassical economics, in which individual firms were seen as rational actors and business executives were cast as independent entrepreneurs taking the risks associated with independent operation in the market. Similarly, in organizational analysis, the dominant approach was to the organization, which was seen as the main object of attention (Donaldson 1985; Mintzberg 1983; Pugh and Hickson 1976; Pugh and Hinings 1976). Despite the

continued advocacy of contingency theory, and ideas derived from it by a residue of supporters (Donaldson 2002; Mintzberg 1993), this approach has been largely discarded.

There is now more awareness of the increase in interorganizational dependency. Since the beginning of the 1980s, there have been attempts to produce new accounts of the economy that make organizational interdependence central. Arrangements variously defined as interorganizational cooperation (Alexander 1994), network forms of organization (Thompson 2003*a*; Thompson *et al.* 1991), organizational networks (Castells 1996), and alliance capitalism (Dunning 1997) have moved center stage. An extreme example of the trend of events is the emergence of widespread franchising. Franchising involves the licensed use of business recipes and is thus a considerable departure from the entrepreneurial idea of business as it has been traditionally conceived (Felstead 1993). Despite the undoubted importance of franchises, due to the conspicuous example of the MacDonald's chain (Ritzer 1993; Smart 1999) and the domination of particular industries by franchising (Schlosser 2002), franchising is just one example of a host of changes involving increased organizational interdependency. More important than franchising, though much less obvious to the casual observer, is the large corporation that is now organized as numerous disaggregated and quasi-independent cost centers, affiliated businesses, and cooperative alliances. More general, but no less significant, are whole industries organized as supply chains, some of which spread across the world.

The Importance of Interorganizational Relations

While the chapters in Part IV and elsewhere in the book consider particular new forms of organizations, they differ from the older tradition of organizational studies in that they offer a new understanding of the social and organizational context that has given rise to such forms. In traditional organizational analysis, of course, a concern for the environment of organizations has been present; but the view has been that the organization was shaped by its context considered as a generalized environment. These days, such views have been largely discarded, in favor of understanding the relationship between organizations as variable, often being both reciprocal and dynamic. Large organizations have probably always affected externalities much more than they were affected by them. Today, for powerful organizations, interorganizational operations are an effective means of environmental management.

Since the first intellectually significant efforts at understanding the importance of intraorganizational connections (Piore and Sabel 1984), it has become clear that such relationships are of increasing importance (see Sayer and Walker 1992 for a review). The proliferation of supply chains, which, as has been noted, for some industries extend across continents linking developed and underdeveloped regions, is a compelling instance of a new type of interorganizational connectedness and dependency. New forms of flexible economic organization themselves achieve a new level of adaptiveness, allowing changes in both the kinds of products and services and their volume to be produced by a firm (or business unit of a larger entity), but these are not nearly so important as the flexibility allowed by new relationships *between* organizations and business units. In the first chapter in this Part, Stephen Procter has a good deal to say about the types of small firms and business units that now make up the economy. He rightly contrasts development in the last few decades as being decisively different from what came before. Hitherto, under the system of mass production often identified as Fordism, productivity had been achieved in large plants, usually at the expense of the quality and variety of output. The organizational basis of this was the highly bureaucratized organization having an extended and elaborate division of labor. By contrast, Procter argues that today we see high productivity being combined with variety of output. This is achieved by: the redesign of jobs involving employees moving between tasks (flexible working); organizations adapting their structures to undertake different activities (flexible organizations); and the development of flexible interorganizational systems. Procter argues that interorganizational arrangements are more contributory to success than intraorganizational efficiency.

Alternative Approaches to Organizational Transformation: Neo-Bureaucracy vs. Networks

How to describe and account for the new modes of articulation between business units is a matter of considerable debate. Hence, there follow two chapters that further explore the question of the structural transformation of the economy from opposite directions. First, there is a chapter by Mats Alvesson and Paul Thompson that looks at the extent to which the bureaucracy, the large-scale and highly structured organization that dominated the economic landscape in developed regions for much of the last century, has been disassembled and replaced with something different. It is, of course, widely argued that organizations have been fundamentally changed in this respect. Allegedly, the bureaucracy has been replaced by post-bureaucratic structures (Heckscher and Donnellon 1994). According to some, the post-bureaucracy is simply an inversion of the bureaucratic form. Where the bureaucracy involved many levels of hierarchy, the post-bureaucracy has few; crucially, where the bureaucracy relied on authority to coordinate activities, allegedly, the post-bureaucracy relies on spontaneous cooperation, and so on (see Ackroyd 2002: 170; Thompson and McHugh 2002: 155).

Through a close analysis of the research record in which corporations have been studied, Alvesson and Thompson show that the simplistic picture drawn by the supporters of post-bureaucratic models is inaccurate. There is not so much the relinquishment of bureaucratic modes of organizational articulation as their augmentation by other modes of control. By such changes, it is possible to understand how it is that major corporations are larger than ever, especially in terms of the assets and resources they have at their command, while seeming to operate on a human scale and to offer unprecedented degrees of autonomy in work performance to employees. Alvesson and Thompson concentrate on considering how corporations exert power within the organizational boundary. But if what has been argued so far is true, that the relationships between organizations are now much more important than they were in the past, then attention needs to be paid equally to the way corporations direct and control the activities of affiliates and partners. Alvesson and Thompson contribute to such analysis. They argue, among other things, that corporations exert control through the use of MIS. Clearly, it does not much matter whether the organizations undertaking joint activities are the business units actually belonging to a large corporation, or are apparently independent entities from a legal point of view. The new modes of control that augment bureaucratic hierarchy can be brought to bear just as effectively on businesses that are merely affiliates or subcontractors. Hence, appropriately considered, the analysis of Alvesson and Thompson does have significance for interorganizational relationships.

By way of contrast to the arguments of Mats Alvesson and Paul Thompson, Grahame Thompson takes a different tack. Thompson suggests that the extent of change in the relationships between firms in the economy has become so extensive that the corporate economy has been fundamentally transformed. He argues that in the past it was realistic to analyze the economy dualistically in terms of, on the one hand, hierarchies (i.e. organizations and institutions of which the most developed form was the bureaucracy), and, on the other hand, markets of various kinds (institutions coordinated by the price mechanism). His analysis proceeds by comparing and contrasting patterns of relationships in organizations and in market contexts and by trying to explain the logic of these alternative modes of allocation. Thompson argues that focusing directly on understanding the pattern of interorganizational relations as a network is also a fruitful way to analyze interorganizational relationships as well as looking at them in terms of hierarchy and market. However, he concedes that any existing network will contain elements of hierarchy and market and only approximate to an idealized form of network.

Considered like this, there is no necessary incompatibility between the positions of Mats Alvesson and Paul Thompson and that of Grahame Thompson. The former are arguing for the recognition of changed patterns of organizational relationships within large firms. They argue that relationships between the constituent parts of such firms have changed from their traditional forms and are now, through modes of augmentation, greatly extended in their reach and effectiveness. Grahame Thompson argues that such is the extent of these and other changes that it is necessary to change the traditional analysis of interorganizational relationships. Insistence on the contrast between hierarchy and market certainly isolates the organization, seeing it as a distinctive kind of structure in the sea of the market. This tends to focus attention on the organization and renders the connections between organizations invisible to the scrutiny of traditional organizational analysis, and, presumably, they can be assumed to be unproblematic. Thus far the argument of Grahame Thompson is logical and defensible and hence highly persuasive in these ways.

However, in common with many theorists of networks, Grahame Thompson, also defines the relations of networks in terms that are fundamentally different from either hierarchy or market. The basis of hierarchy is authority, while that of market is the coincidence of wants mediated by price and backed by contract. Networks, by contrast, are allegedly based on trust. It is implied, moreover, that the discovery of this new (and, by implication, superior) organizational principle accounts for much of the organizational change currently to be observed. Here the approach of Grahame Thompson and that of Mats Alvesson and Paul Thompson, not to mention several other chapters in Part IV, are substantively at odds. It is questionable whether there are any actual examples of interorganizational relationships based purely, or even mainly, on trust. Most also seem to involve authority and other forms of coercion. The chapter of Mats Alvesson and Paul Thompson, indeed, suggests that networks constituted by the extended organization, including those coordinated by large firms, are far from being unlike traditional bureaucratic modes of coordination, i.e. based on the concentration of power and the exercise of authority. Almost any significant example of constellations of firms working together—with the possible exception of the regional industrial cluster—has fairly obvious coercive aspects. This is true, for example, of the arrangements found within many business groups, as well as franchises and other types of business alliances, which are often highly one-sided.

Change in the State Sector and the Multinationals

In the next two chapters, attention is turned to the consideration of two types of formerly large-scale, hierarchically integrated institutions: state organizations and multinationals, both traditionally sites of considerable bureaucracy. The fourth

chapter of Part IV, by Robert Hebdon and Ian Kirkpatrick, deals with change in the state sector, while that following it, by Glenn Morgan, examines what is known of change among the multinationals. Both of these also emphasize the increased importance of interorganizational relationships. Although they are clearly changing for different reasons, change in public sector institutions seems to be as widespread as it is in the private sector. In the state institutions, political imperatives are operative as much (if not more) than economic ones. Governments are driving processes of reform. As Hebdon and Kirkpatrick show, change has been continuous in the state sector in all developed economies for some time. The consequence of this has been, in many cases, the adoption of similar organizational forms to those found in the private sector. There is clearly a degree of mimesis underlying this, in that public sector managers, lacking legitimacy, achieve it to some extent by adopting what are taken to be the best practices from the private sector. However, the primary cause of public sector change has been the politically inspired drive to curtail expenditure on public services.

The policy objective of reducing the significance of the public sector has been given focus by the development of what is called new public management (NPM). NPM has appeal to right-leaning governments, and the policies indicated by these doctrines have been widely adopted as a means to reducing costs. As Hebdon and Kirkpatrick show, however, the public sector has been an area in which there has been considerable industrial unrest, as NPM led to the adoption of policies contradicting the traditional practices of public sector professionals. Part of the impetus for both the policy of cutting support for the public sector and NPM has been the decline in tax revenues, a trend that can be traced, at least in part, to the activities and policies of the largest companies. Here is yet another piece of evidence that it is not small firms that have been the source of change in recent decades, but the very largest ones. Major companies, especially the largest multinational corporations (MNCs), which contribute disproportionately to both the extent of employment and output, have been adopting policies of internationalization that, among other things, have allowed them to evade taxation and to test the ability of governments to meet the costs of an increasingly expensive repertoire of public sector services. It is thus highly appropriate that changes in public sector organizations are considered alongside changes in multinational corporations.

It should be emphasized that pressures for restructuring, from outside the state itself, do not have uniform effects because of choices made by governments about how to respond. Similarly, reform is mediated by national institutions and the nature and outcome of reform efforts are different in different countries. Hence, in the public domain, it is as difficult to talk in terms of a convergence of organizational models as it is among the largest companies. As Glenn Morgan shows in his

contribution to this section, MNCs are an increasingly important feature of the economic landscape, in terms of the proportion of output and employment they account for in all economies in which they operate. Although MNCs originated in traditional areas of manufacture and raw material extraction and processing (and are still strongly concentrated in these economic sectors), they increasingly operate in all areas: in commerce and services and tertiary areas of the economy more generally. Not surprisingly, given their size and importance, an emerging area of debate concerns how the tensions between states and MNCs are resolved. Given that the latter are formidable assemblages of economic assets and other resources, bigger than many of the most populous countries (Anderson and Cavanagh 2000; De Grauwe and Camerman 2002; Sklair 2001, 2002), it is hardly surprising that they should be politically effective and able to evade state policies designed to control them. There is of course considerable controversy about the validity of the comparisons made between corporations and countries. In his work on globalization, Grahame Thompson has introduced an important note of realism into the discussion of the economic resources and the power disposed by major companies and suggested that some of the comparisons between countries and companies are grossly misleading (Thompson 2003*b*).

Nevertheless, MNCs by any standard are impressive assemblages of capital, and today are seldom seen simply as economic agents. The perspective of neoclassical economics has contributed little to accounting for them and their activities. MNCs have demonstrated their importance to national governments in a number of ways. Not only are domestic economies vulnerable to the FDI decisions made by multinationals based in a particular country, but, to make up the shortfall in employment, governments are highly dependent on the incoming FDI of foreign companies. The internationalization activities of the largest companies are seen to be the source of change and to have stimulated the development of small companies, especially business services companies, to support them. Given this, it is understandable that the strategies of the MNCs have become the subject of intense interest and sustained public scrutiny. In his chapter, Glenn Morgan shows that the authoritative accounts of the activities of the MNCs have involved recognition of their political features. He shows that even primarily economic analyses of the activities of MNCs, such as that developed by Dunning (1997), have suggested political motives. Morgan shows just how active the MNCs have been in reorganizing themselves to seek and to operate profitably within new areas of the globe, and what political compromises they have to make to accommodate local conditions. Effective control of such large and complex structures is not straightforward and the emergence of political processes, which affect their internal organization, is not unexpected. Such a conclusion points to the relevance of understanding more fully the governance of major companies.

Restructuring the Economy

It is true that the relationships between organizations of different types have been extensively considered, as when the relationships between organizations and the state were looked at by Hebdon and Kirkpatrick or Morgan. However, none of the contributions considered so far has given attention to changes that are systemic and affect economies considered as wholes. Complex though change at this level is, it has to be considered, for there is no doubt that we are living through a period of systemic change in the organization of the advanced economies, and the US economy has perhaps proceeded further and faster with such change than any other. The task of analyzing economic restructuring is undertaken by William Lazonick, who focuses—primarily but not exclusively—on the restructuring of the US economy in recent decades.

Responding to events in the 1930s, Joseph Schumpeter recognized that capitalism is subject to periodic upheavals during which there is transformation of the organizational infrastructure that he labelled periods of creative destruction. Relating creative destruction specifically to organizational change, Schumpeter (1943: 83) writes that such periods are 'not ... incessant: they occur in discrete rushes, separated from each other by periods of relative quiet'. Lazonick's chapter includes an extended analysis of the destruction and reformation that has been taking place in the largest corporations of the American economy in recent times. What is insightful in this is the way Lazonick brings into the light the mechanisms by which corporations have been transformed. Lazonick argues that this particular sequence of change has been made possible because of financial innovations and ideological changes which, together, have allowed more freedom of action to corporate executives.

Drawing on his earlier work with O'Sullivan (Lazonick and O'Sullivan 2000), Lazonick identifies a change in the character of corporate policy in that what he calls their allocative regime has changed. From being primarily concerned to retain profits and reinvest them in tried and tested technology while simply developing the associated management structures (what he calls the retain and reinvest allocative regime), corporate executives have shifted to a strategy of downsizing their organizations and distributing the realized value (what he calls the downsize and distribute allocative regime). In the jargon of the time, 'leaner and fitter', smaller corporations were created, which nonetheless have superior profitability while continuing to have extraordinary influence in virtue of their pivotal importance in production processes and their control of affiliated companies. Lazonick specifically identifies corporate executives as the prime movers in these changes: using the ideology of shareholder value as the legitimation of their activities, they have reduced and reorganized corporate assets, leaving corporations that are more profitable. In the process, corporate elites have also greatly enriched themselves.

In the course of his discussion, Lazonick is careful to draw the distinction between changes occurring in traditional industries from the new economy, suggesting that it is in the former that the downsize and redistribute allocative regime has been extensively adopted. By contrast, in organizations of the new economy, which have, in a very short time, come to rival the older corporations in size, a variant of the retain and reinvest allocative regime has been adopted. By implication therefore, as the size of the new economy has advanced, some of the more distasteful and socially divisive aspects of the recent period of organizational change have also receded in importance. However, top executives in the new economy too are substantially remunerated through stock options, and, to this extent, some substantial redistributive elements of the new allocation regime are also present in the organizations of the new economy. This suggests that the enrichment of the corporate elite is a permanent change, and one of considerable social as well as economic importance. Not for the first time in this volume, the substantial shift in the proportion of the benefits from major corporations going to different sections of the population have been remarked. Lazonick shows that, in the last two or three decades, the balance of power has swung decisively in favor of capital in corporate America. His findings in this respect echo the conclusion of Kunda and Ailon-Souday in Part II that 'the new corporate division is between top executives and everyone else'.

Lazonick's consideration of the benchmark case of the economy of the United States has relatively little to say about the question of how it compares with other regions of the world. The United States is the world's largest economy, but it is by no means typical. Not only is it very large, but it is also one in which government expenditure on social projects is limited. State expenditure indirectly supports particular sections of the corporate economy, often referred to as the military–industrial complex. It is also an economy in which economic activity is relatively unrestricted; in short, in which the philosophy and practice of laissez-faire is endemic (Hutton 2002). It is therefore an economy in which we might see relatively swift movements between recession and recovery. For these reasons alone, the extent to which the US economy can be regarded as an exemplar, and what the United States does today, sooner or later, other developed regions are bound to follow, is a moot point. For some theorists, the institutional dissimilarities between societies are a significant feature of them (Lane 1995; Whitley 1999). That these differences continue to exist suggests they are self-perpetuating, tending to lock organizational forms and practices into particular and highly distinctive patterns. It is clear, then, that the question of the extent to which the US political economy is an exemplary pattern raises theoretical questions.

In his chapter, which is the seventh and last of Part IV, Chris Smith puts forward a general analytical framework, the SSD model, with which to consider the processes at work in organizational change. Dissatisfied with the approach of institutional writers whose work emphasizes continuity over change (Lane 1995;

Whitley 1999), Smith argues that it is necessary to envisage other processes than those which produce organizational isomorphism, and which tend to shape the institutions of particular societies to adopt readily identifiable recurrent patterns. Smith argues that these researchers have identified important formative processes that do shape organizational practices and structures and he calls them societal effects. Significantly, however, institutional writings that identify societal effects have difficulty accounting for other recurrent features of contemporary capitalism that lead to discontinuity. A key example here might be the kind of epochal change that has occurred in recent years and that was examined in the United States by Lazonick. It seems clear that these stem from general features of capitalism, rather than the arrangements developed in particular societies. However, they are also formative of organizational practices and forms of organization. Smith labels these system effects. In addition to societal effects and system effects, Smith suggests that there are pressures towards emulation which induce firms to adopt ways of organizing that are not part of any indigenous societal pattern, nor do they follow from systemic features of capitalism. Here Smith is primarily concerned with accounting for the tendency for organizations to put in place policies and organizational arrangements copied from what are taken to be the most successful corporations at any given time. These Smith identifies as dominance effects because they are features of the economic organization of the dominant economic power. It is no accident that Taylorism is succeeded by Fordism and Fordism by Toyotaism, as authoritative models for economic organization.

Smith's argument is that there will be various external pressures on the corporation, stemming from societal, system, or dominance effects and these may push firms in different directions and have contradictory implications. Because of this, there is in fact no substitute for the empirical examination of industrial practices and for the researcher to unravel the complex motivations and sources of ideas that are animating managers at any given time and place. It does seem true that although British manufacturing companies were persuaded about the effectiveness and value of Japanese techniques (a dominance effect), they would also be very unlikely to adopt them in their entirety, given the costs involved and the reluctance of British banks to provide long-term low-interest loans (a societal effect). Yet they still had to find a profitable mode of organizing manufacture (the system effect). In sum, Smith's SSD model is a helpful tool for understanding the differences of policy and organization of different economies at different times.

Conclusion: A Global Skepticism?

This discussion of our knowledge of organizing and organized systems began with the recognition that we now inhabit a world in which organizations are pivotal institutions and interorganizational arrangements are increasingly important. At the end of this review, what conclusions can be drawn about the consequences of the organizational changes? Two observations will be made and briefly considered. Both concern the wider implications of the trends that have been analyzed in Part IV and elsewhere in this book, and follow from the recognition that change is being driven by the activities of very large firms. First, there are concerns about the social and economic effects of organizational restructuring within the developed regions. Second, there are concerns regarding the effects of the same trends outside the developed regions in the world at large.

It is undoubtedly true that corporate change has made a contribution to the prosperity of the advanced regions of the world; however, the chief beneficiaries of these changes have been particular groups within a reformulated capitalism. The changes in question have of course proceeded at different rates in different places. However, in Britain and the United States, these changes have initiated profound social reorganization as well as economic developments. We should note the emergence of a transnational capitalist class (Sklair 2001, 2002) and its associated ideologies of managerialism and consumerism. Arguably, however, the effects of these changes are presently mostly hidden from view. In some ways more significant perhaps, the development of footloose corporations owing less and less allegiance to particular nation states has challenged the authority of the state and its ability to raise taxation (Ackroyd 2002; Starbuck 2004). These changes have in some countries undermined and, effectively, cast aside the national settlement between capital and labor, which in earlier decades stabilized economy and society, suggesting that future social stability depends on a high level of prosperity and reasonably full employment, which neither private capital nor nations can any longer guarantee (Hertz 2001).

If change would nonetheless lead to the redistribution of wealth in the world, while risking considerable instability in the developed regions, there might be something to be said for it. However, there is much reason to think that what is happening in economic development is potentially even more challenging when considered in a broader context. The reason for this is that the developments considered here are not to be understood as initiating an inclusive process of economic development having beneficial effects in the whole world. What we are witnessing is not so much economic globalization, as the development of corporations able to compete with large corporations from any part of the world and able to contest with them the yield from the most lucrative of the world's markets. Certainly, large organizations based in the developed world are moving capital (employment and productive capacity) abroad in large amounts, but in doing so they show a marked preference for movement to (a) adjacent economies to the one in which they originated and (b) for making investments in the developed world much more extensively than in the underdeveloped parts of it (Hirst and Thompson 1999).

What we see, then, is a pattern of development that is far from being applicable to the whole world, unless we mean by globalization the emergence in the whole world of a propensity to consume the products of the developed parts of it.

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