



Trends

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Here you will find short descriptions of research projects currently being undertaken around Europe (or about the European business environment).

Diseconomies of scale

It may seem an odd question to ask in the age of globalisation, but why aren't companies bigger than they are? At time of writing, there is no business organisation with more than one million employees or more than ten hierarchical levels. Why are there no corporations with ten million, a hundred million or even a billion employees? The answer, says Dr Staffan Canbäck of Henley Management College, is that there are significant diseconomies of scale that discourage organisations from growing beyond a certain size. His Henley working paper, *Bureaucratic Limits of Firm Size*, gives a summary of his research.

Canbäck classes diseconomies into four categories: atmospheric consequences, bureaucratic insularity, incentive limits and communication distortion. Atmospheric consequences means that as companies expand, there will be increased specialisation of function for employees, but also less commitment on the part of those employees. Employees often have a hard time understanding the purpose of corporate activities, or to value appropriately the small contribution that each of them makes to the whole. Bureaucratic insularity means that as companies increase in size, senior managers are less accountable to the lower ranks of the organisation and to shareholders. They thus become insulated and will often strive to maximise their personal benefits rather than overall corporate performance. In terms of incentive limits, large corporations tend to base incentives on tenure and position, rather than on merit. This puts them at a disadvantage when compared with smaller enterprises, in which employees are often given a direct stake in the success of the company. Communication distortion is a consequence of the inevitable adding of hierarchical layers. Information passed between layers becomes distorted, and this reduces the ability of high-level executives to make decisions based on facts.

This research has a number of practical implications. First, strategy and structure appear to be intimately linked, and strategic development cannot be done in isolation from organisational development. Also, much of the rationale for mergers and acquisitions seems to be weak, at best. Proponents of mergers typically argue that the resulting larger entity after a merger will realise economies of scale, but the impact of diseconomies of scale is either discounted or not fully recognised. In general, big

companies have a harder time when it comes to managing assets and motivating employees than do small companies, and as the company gets still bigger so the problems become still harder.

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Corporate internationalisation

Expanding internationally is one of the hardest challenges that faces most companies, and the issues raised by internationalisation go far beyond day-to-day management. Professor Winfried Ruigrok, Dr Hardy Wagner and Dr Wolfgang Amann, all from the University of St Gallen, are currently studying several far-reaching aspects of corporate internationalisation, including the implications for firm performance, the effect on the top management team, and the implications for corporate culture.

One strand of the research has focused on the so-called 'internationalisation threshold', first observed by researchers in the US who found that once sales in foreign markets began to account for the majority of total sales, overall performance begins to decline. For American firms, this internationalisation threshold was reached once foreign sales accounted for between 50 and 80 per cent of total sales, depending on the company and the sector. But researchers have since found that European companies experience significant performance improvement well beyond that threshold. European firms, it would seem, can become international to a far greater extent than their American counterparts. Professor Ruigrok and his colleagues have explored this phenomenon and suggested that the basic concept of the internationalisation threshold may need revising.

A second strand looks at the composition of the top management team and is exploring the notion that to achieve success in internationalisation, companies must be steered by multinational teams. Exposure to foreign markets and working in an international environment are highly important qualities that top managers must have, and this project is looking at how such multinational teams can best be formulated. A third strand considers the implications of internationalisation for organisation culture, and suggests that culture and especially culture change needs to be managed in a proactive way in order to take full advantage of the opportunities that internationalisation offers. One paper from this project, on performance, has been published in *Management International Review* in 2003, and other papers are forthcoming.

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The Tarzan syndrome

The importance of culture and ritual in the workplace can take many different forms. One manifestation which is commonly seen among male workers, especially in heavy

industries or industries where there are high levels of risk, is known as the 'Tarzan Syndrome'. This refers to men whose behaviour is determined to a large extent by their maleness. For men affected by the Tarzan syndrome, the need for self-image and status will lead them to undertake behaviours which are not rational and sometimes even dangerous.

Dr Karin Tweddell Levinsen of the Department of Informatics, Copenhagen Business School, observed this syndrome during a recent research project centred around the development of an audio-visual CD-ROM on safety issues. The project began from a conventional starting point: workers were consulted on safety issues in order to determine what they themselves felt were key problems. The Tarzan syndrome manifested itself almost at once. Some forms of behaviour could be described as rational: that is, workers would violate safety regulations but would come up with apparently reasonable explanations for why they were doing so. Others Dr Levinsen describes as alienated behaviour, in which workers either made excuses for their behaviour but without attempting to rationalise it – such as standing on a high ladder without supports because the worker did not want to bother asking for help – or openly bragged about their risk-taking and even about their past injuries. In none of these cases would workers openly discuss the consequences of having an accident.

In order to get around the problem, Dr Levinsen then adopted a more indirect approach, in which apparently completed parts of the safety programme were put before the workers, who then commented on and criticised what they saw; the programme was then modified to reflect their views. Her analysis of the problem and its solution, published as 'System Development Influenced by Rituals and Taboo' in Proceedings of the HCI International, has implications for similar projects, and opens up a whole range of questions on the relationship between culture and technology.

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Accountability and culture

In the aftermath of recent financial and managerial scandals growing interest has been shown in the subject of accountability generally and, particularly, the setting of standards and procedures which will force companies to become more accountable to their shareholders, regulators and the general public. But, as Dr Dermot Williamson of Lancaster University Management School has demonstrated, the exact definition of accountability, along with its purposes and procedures, varies from place to place. In a Lancaster working paper entitled Parochial Accountability: Chinese, Czech and British Perceptions, Dr Williamson reports on a three-country study of accountability and how it is perceived by managers around the world.

Perhaps unsurprisingly, it was found that Chinese managers had quite different perceptions of accountability than did British ones. Chinese culture values relationships over targets, Chinese managers perceived control in terms of relationships and reliability rather than setting targets. What is perhaps more

surprising is that Czech managers also had quite different perceptions. While, like their British counterparts, they accepted the need for a well-designed system of management controls, they appeared more willing to put their faith in the design of the system itself and of the reliability of its people, and saw less need for internal checks and balances. Thus, for different reasons, both Chinese and Czech managers placed less emphasis on accountability and saw less need for it. Accountability is not an institutionalised social construction in the management culture of either country.

The implications, says Dr Williamson, are profound, particularly for international regulators and for companies working across boundaries. Instead of seeing accountability as a given, a part of world-wide best practice, we need to recognise that it is a quite parochial concept, founded in the business culture and more general social mores of the West. And applying Western standards and systems for accountability in other cultures – particularly in cultures that do not sympathise with or understand the need for our kind of accountability – may be fraught with dangers. In the headlong rush towards more accountable management, this is serious food for thought.

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Managing people risk

Risk is always a hot topic among financial services professionals and finance academics, and there is a substantial literature in areas such as operational and credit risk and how to mitigate these. Less common are studies of an area which can be potentially much more damaging to financial services firms, ‘people risk’. Dr Keith Blacker at Henley Management College has now helped to remedy this, looking in detail at the nature of people risk and its impacts in a new Henley working paper, *People Risk in the Financial Services Industry*.

People are, says Dr Blacker, a cause of operational risk, just like failed systems and processes, and companies need to recognise this. In particular, they need to recognise the link between risk and human agency. Dr Blacker's own definition of people risk does so explicitly; he describes people risk as ‘the possibility that people will damage themselves, their organisation or the wider community either inadvertently or intentionally by deviating from best practice or prescribed rules for controlling risk.’ Thus there are two primary elements of people risk, human error and human malfeasance, and both have to be planned for and guarded against.

The solution, says Dr Blacker, lies in the culture of the organisation and in ensuring that this culture accepts, understands and manages people risk. Like other forms of risk, people risk is inextricably linked to the risk culture of the organisation. This risk culture manifests itself in the shared beliefs and values of employees, and in how they behave and perform on a day-to-day basis.

If the latter share the same risk values in every aspect of work performance, then risk management becomes second nature. It is impossible to eliminate people risk entirely,

and it is far better to accept some level of risk and even encourage risk taking, so long as the consequences are understood and properly managed. Ultimately, the consequences of this research go far beyond the financial services industry.

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