
Socio-economic Systems and Organizational Management: An Institutional Perspective on the Socialist Firm

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Abstract

In this article the necessary links between the macro-logic of socialist socio-economic systems and key organizational features are explored. The ideal types of capitalist and socialist systems are first described and their implications for organizations are later discussed. Socialist socio-economic systems are conceptualized as highly institutionalized environments which are postulated to be key causal influences on firms operating within them. The key characteristics of socialist firms are shown to be the following: the isomorphic relationships between socialist enterprises and the state caused by the structural and political-ideological dependence of the former upon the latter; the prevalence of ceremonial management; the systematic decoupling of the formal system from actual organizational practices and behaviours, as well as the disjuncture of the actions of economic units from their consequences. In addition, the structurally generated reliance of socialist firms on rules and hierarchies for organizational decision-making is noted. Socialist socio-economic systems also generate multiple lines of authority in enterprises which are managed through a combination of participative management, ideological campaigns, and coercion.

Introduction

The comparative study of business organizations has mainly concentrated on the influence of broad societal features such as training and education systems, financial institutions, industrial relations systems, and cultural orientations on particular intra-organizational characteristics and/or inter-organizational patterns of relations (Lammers and Hickson 1979; Sorge and Warner 1986; Maurice et al. 1980; Orru et al. 1991; Whitley 1990, 1991). The impact of different political economies on organizations has received less attention, and has usually been conceptualized either in neo-Marxist terms (Burawoy 1985; Burawoy and Lukacs 1985, 1989; Littler 1984, 1985) or in terms of neoclassical economics (Granick 1975, 1990). Moreover, although there have been several studies comparing different economic systems in aggregate (Zimbalist et al. 1989; Berger 1987; Halal 1988), the *links* between the macro-logic of socio-economic systems and formal micro-organizational structures and practices have not been adequately spelled out.

A conceptual framework specifying the interactions between societal, cultural, and political-economic features, and their combined impact on

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organizations has yet to be constructed (cf. Child 1981; Child and Tayeb 1982–83), but at least the conceptual disaggregation and analytical isolation of each one of those influences can be attempted and their ideal-typical effects can be delineated. If the latter mode of analysis is followed, a theory of the socialist firm would have to specify the *necessary* connections between a socialist socio-economic system and formal organizational characteristics, as opposed to the latter's relationships with 'mere' historical contingencies, or deeper (and usually more enduring) national cultural patterns.

In postulating necessary connections it is important to clarify three methodological points. First, the connections between two sets of phenomena are thought to be *necessary* (or *intrinsic*) when one cannot be conceived without the other (Berger 1987; Sayer 1984; Tsoukas 1989). Although a purely conceptual analysis cannot usually assume the direction of causality, the asymmetry of interaction between socio-economic systems on the one hand and business organizations on the other, makes it possible for causal influences to be postulated *ex ante*, namely the higher level influences the lower level (Heilbroner 1985; Pettigrew 1985; Carroll et al. 1988).

Second, the conceptual disaggregation I alluded to earlier is not always easy or unproblematic to achieve. For example, the similarities between Tsarist and Soviet Russia noted by several analysts with respect to the centralized and authoritarian organization of social and economic life (Arendt 1967; Castoriadis 1973; Jowitt 1983; Walder 1986) are a clear sign of the difficulties in separating the causal influences of political economy from those stemming from cultural-cum-societal factors. Nevertheless, socio-economic systems have a certain logic which is reliably manifested in the action of diverse economic agents (Berger 1987; Heilbroner 1985; Friedland and Alford 1991). Stable empirical continuities across business organizations in a variety of socialist countries are *prima facie* evidence of the causal operation of a common socio-economic logic which is not derivable from, or reducible to, broader cultural-cum-societal or historically contingent factors. For example, the link between multiple lines of authority observed in most socialist enterprises across a variety of countries and the logic of the socialist socio-economic system seems to be an intrinsic one (Zamfir 1987). The same appears to hold true with regard to the link between socialism on the one hand and the systematic dissociation of the formal organizational system from actual organizational practices on the other (Carroll et al. 1988). However, the link between socialist socio-economic systems and particular forms of employee involvement in decision-making appears to be a historically and societally contingent one (Granick 1975).

Third, socio-economic systems change over time as they attempt to respond to the results yielded by their operation. For example, the slow but steady introduction of market forces in most socialist countries marked certain periods in their socio-economic development (cf. Hinds 1990; Lee and Nellis 1990) and, naturally, the effects of waves of eco-

conomic reform on business organizations were different in each period. However, such differences along the historical trajectories of individual socialist countries will be, of necessity, underplayed in this article in favour of a comparative understanding of socialist firms at the general level of political economy. Comparative studies necessarily highlight certain aspects of the objects of study at the expense of others (Kohn 1987; Tsoukas 1989). In this study, following the analytical strategy of Berger (1987) and Dembinski (1991), I will attempt to delineate theoretically the logic of socialist socio-economic systems and how it influences formal organizational characteristics. I will do this, to a large extent, via a comparison with the logic of capitalist socio-economic systems. For the purpose of this analysis, therefore, national differences as well as differences between historical periods will be consciously played down, since I will concentrate on the fundamental features of socialist socio-economic systems common to all countries that professed to have embarked on the 'road to socialism', in comparison with those of capitalist socio-economic systems (cf. Dembinski 1991: 32).

The purpose of this paper is to outline the necessary links between socialist socio-economic systems and the organizational characteristics of firms operating within those systems. After an account of the main features of socialist socio-economic systems, it will be argued that these necessary links are responsible for the manifestation of a number of continuities in the management of socialist firms, irrespective of national context and historical circumstances. More specifically, I will argue that the logic of socialist socio-economic systems entails (a) isomorphic relationships between enterprises and the state caused by the structural and political-ideological dependence of the former upon the latter; (b) the prevalence of ceremonial management; (c) the systematic decoupling of the formal organizational system from actual organizational practices; and (d) the disjuncture of the actions of economic units from their consequences. Furthermore, it will be argued that socialist socio-economic systems generate a highly hierarchical and rule-bound style of organizational management. In addition, they give rise to multiple lines of authority in business organizations which are managed through a combination of participative management, ideological propaganda, and coercion.

One question that may be raised at this point is this: 'What is so interesting about the study of firms in socialist economies that have almost disappeared?' While it is certainly true that in the late 20th century we have experienced the terminal death of socialism, there is no reason to believe that we have also seen the death of Utopia. Insofar as socialism, or any soteriological 'ism', was only a historically contingent realization of the common human search for ultimate solutions to what appear to be intractable socio-economic problems, the spirit of socialism is still, and probably will continue to be, with us (Marquand 1991). Despite the neo-conservativist triumphalism, the spectres of nationalism, of apocalyptic environmental, and/or of religious movements — all of which share with socialism a desire for the creation of a fraternalist 'Promised Society'

(Dembinski 1991: 12; Booker 1991) – still constitute powerful eschatological visions (cf. Bestuzhev-Lada 1990), unable perhaps to deliver economic prosperity but extremely adept at offering redeeming myths and mobilizing people (Berger 1987; Dembinski 1991). Unless one joins Fukuyama (1989) in his Hegelian prophesy about the end of history, there is no reason to assume that the modernist desire for rational social improvements or that the human thirst for utopias has come, or will ever come, to an end.

Investigating the implications of socialist socio-economic systems for business organizations is still relevant inasmuch as modernity seems to be historically wavering between market mechanisms and mechanisms of political allocation for the management of economic processes. Furthermore, to the extent that the political allocation of resources can still be found in market economies – and, despite the triumphant ascendance of the market paradigm there are no indications that political allocation mechanisms will completely vanish – comparative knowledge of what are the implications of such an economic mechanism for the management of business organizations can only be helpful. It is also useful to identify the specific management implications of socialist economies in order to highlight, by comparison, intrinsic features of market economies and identify those features which can vary across them.

The Logic of Socio-economic Systems

The logic of socio-economic systems refers to the key institutions and relationships that help to constitute the nature, and influence the behaviour of, economic agents (Heilbroner 1985); it is the behaviour-shaping implications of socio-economic systems that are of interest in this paper. While premodern societies are characterized by a diversity of economic arrangements, modern industrial societies seem to have narrowed their institutional options to a continuum, the two ends of which are market mechanisms and political allocation mechanisms (Aron 1963; Berger 1987). In other words, modern economic systems are versions of either a capitalist economy or a socialist economy.

An ideal type of capitalist economy is based on production activities which are decentralized to private-property-rights holders (or their agents) who carry out these activities for the purpose of making profits in a competitive market (Berger 1987; Dembinski 1991). An important feature of market economies is the use of capital as a *process* to amass more capital. As Heilbroner (1985: 36) put it:

'[market economies] set into motion a process of continuous transformation of capital-as-money into capital-as-commodities, followed by a retransformation of capital-as-commodities into capital-as-more-money. This is the famous M-C-M' formula by which Marx schematized the repetitive, expansive metamorphosis through which 'capital' manifests itself.'

Rights of private property are central to this process of capital accumulation since it is primarily the decisions made by capital owners and/or their agents that influence the process of accumulation (Giddens 1985). The ownership of property rights confers discretion over the use of resources to holders of such rights, and allows them to delegate control to their representatives (Stinchcombe 1983; Whitley 1987, 1989). Property rights and the logic of capital accumulation render the capitalist enterprise a formally quasi-autonomous unit of decision-making, and contribute to the relative insulation of the 'economy' from other societal domains, especially from the power of the state (Berger 1987; Heilbroner 1985; Giddens 1985; Whitley 1987).

The separation between different domains of social life is reinforced by the primarily economic (as opposed to moral) nature of capitalism: 'economics is averse to myth' as Berger (1987: 206) has put it. The incessant search for new activities to be incorporated into the process of capital accumulation entails the substantive irrelevance of particular moral criteria within the economic domain. As Heilbroner (1985: 140) aptly observes:

'It is part of the nature of capitalism that the circuit of capital has no intrinsic moral dimension, no vision of art or idea aside from the commodity form in which it is embedded. In this setting, ideas thrive but morality languishes, and the regime of capital becomes the breeding ground for an explosion of ideational and aesthetic creations that conceal beneath their brilliance the absence of an organizing moral force.'

In contrast to capitalism, the most distinguishing feature of socialism is its 'ideocratic' character (Aron 1962), namely the design of a distinctive moral order and the enunciation of a secular 'Creed' purporting to guide its followers to the construction of a fraternalist 'Promised Society' (Booker 1991; Dembinski 1991: 12; Gellner 1992; Hayek 1988).

An ideal type of socialist socio-economic system is characterized by the collective ownership of the means of production and the extensive use of various forms of central economic coordination and planning for the purpose of satisfying the higher-order moral goals proclaimed by the Creed (that is the goals of social equality, security and solidarity), as well as overall economic efficiency (Bottomore 1990; Brus and Laski 1989; Dembinski 1991; Hinds 1990; Kornai 1980a, 1980b). The cornerstone of socialism, as well as that of several other eschatological visions (see Gorz 1985, 1989; Bahro 1984) is the replacement of production for profit by production for human use or, to put it differently, the satisfaction of human needs rather than the satisfaction of the profit motive. Markets are criticized by socialists for allocating resources according to the self-interests of private owners and/or their representatives, thus generating income inequalities, waste, unemployment, inflation — the usual scourges of capitalist economies. Instead, by substituting public ownership for private ownership, and instituting the direct and conscious control of economic processes by the state, or the society at large, the avoid-

ance of the capitalist ailments will allegedly be achieved (Berger 1987; Brus and Laski 1989; Dembinski 1991; Hayek 1945, 1988; Hinds 1990).

In contrast to the intrinsic a-morality of capitalism, it is important to underline the *simultaneously moral and rationalistic* nature of socialist claims. The case for socialism is made on both ethical and rational grounds. Socialism is claimed to be morally superior in that it aims at human emancipation, social equality, and freedom from ignorance and subjection to 'blind' economic processes that prevent humans from realizing their potential and taking control of their destiny (Bottomore 1990; Brus and Laski 1989; Dembinski 1991). It is central to the socialist project that the dominant emphasis is on achieving *common concrete goals* as opposed to following common abstract *rules* (Hayek 1982, 1988). While in capitalist economies economic actors are formally led by the rules of the pricing system 'to do things by circumstances of which [they] are unaware and which produce results that [they] do not intend' (Hayek 1988: 14), in socialist economies it is the (agreed or imposed) common goals that primarily guide economic behaviour. Following abstract rules allows the pursuit of individual purposes and gives economic agents the formal discretion to determine outcomes, whereas attempting to achieve common ends entails the formally homogeneous constitution and behaviour of economic actors (cf. Ouchi 1980; Mintzberg 1989).

Socialism is thought to be a superior economic system not only because it lets economic forces free from the obsolete shackles of capitalist relations of production, but also because socialism makes claims to a 'holistic' economic rationality. In opposition to capitalism, socialism elevates the criteria of rational behaviour from the private to the societal level. The latter is alleged to be the only level at which the inefficiencies caused by the pursuit of seemingly rational objectives at the level of individual economic agents can be eliminated (Bottomore 1990; Kolakowski 1978). Discussing Lange's concept of socialism, Brus and Laski (1989: 5) remark as follows: '[In a socialist economy] lower-rank objectives become the means for attaining higher-level ones, and the criteria for rational behaviour of the sub-systems (sectors, branches, enterprises) are subordinated to those of the system as a whole'. Central planning is, naturally, the necessary medium through which such a hierarchical economy can be made to work. However, even in those cases where central planning was progressively abolished or significantly limited (mainly in Yugoslavia, Hungary and Poland), allegiance to the higher-order goals of socialism necessitated continuous government intervention in enterprises in order to eliminate or reduce wage inequalities, skill shortages, and profit disparities, as well as improve labour mobility and boost investment, all of which are intrinsically out of balance in a self-managed socialist economy (Hinds 1990).

Thus, the 'ethical principles of a socialist economy' (Kornai 1980b: 149) entail the dissociation of the action of individual economic agents from the consequences of their action, with significant implications for the

management of economic units. While, for example, in market economies individual firms are in principle the main beneficiaries of successful innovations, in command economies the introduction of particular innovations is decided with the view of the benefits that are likely to accrue to an industrial branch or to the entire economic system rather than the economic benefits to the individual firm (Hewett 1988; Richman 1965). Similarly, and even more acutely, the rules of the market are formally instrumental in determining who survives in market economies, but in socialist economies individual economic failure is tolerated and compensated by the successful performance of other firms. The general interest, as defined by central authorities, takes priority over partial interest (Kornai 1980a, 1980b).

Of course, it could be argued at this point that even in market economies (notably in Southern Europe, Third World countries, etc.) economic failure is often tolerated by governments, but such a remark would miss the crucial distinction between the intrinsic logic of a socio-economic system and its contingent relations to forms of societal governance. The point is that governments can be more or less interventionist within the framework of a market economy, in which the logic of the latter formally allows the possibility of failure — although this principle may be contingently inoperative. In other words, government policies are contingent on socio-political circumstances which may or may not allow the logic of a market economy to be fully activated. Conversely, in socialist economies, market forces are contingently related to the logic of the system, which is alien to the promotion of economic self-interest by formally autonomous economic agents. From the above analysis it follows, more generally, that mixed economies are fundamentally market economies (Berger 1987), insofar as their logic is predicated on the self-interest of economic agents, although the latter need not be defined in atomistic terms (Albrow 1990; Orru et al. 1991; Whitley 1991). Whether an economy is more or less regulated, or whether the government is more or less active in pursuing an industrial policy, all these are contingent features of an economic system which clearly influence a system's underlying logic, without, however, programmatically altering it.

The proclaimed philosophical unity between the socialist moral vision and the socialist claims to economic rationality is directly translated into the inseparability of the economic domain from other societal domains (Castoriadis 1987 ; Gellner 1992; Kaminski 1991; Lefort 1986). As Zimbalist (1981: 971–972) remarks, echoing a socialist view:

'In a planned socialist system the economic sphere tends to be embedded or submerged in the larger social system and to serve and promote the goals and values of that system. [. . .] A prerequisite, then, for an effective planned economy in the long run is the generation of willing and dedicated economic actors with a strong sense of commitment to the larger community.'

In the preceding quote, there is an implicit recognition of the intrinsic link between socialism and moral-cum-coercive forms of discipline

(Besancon 1987; Zinoviev 1984, 1985). For while following abstract rules leaves individuals formally free to act 'for ends whose relative importance only these individuals know' (Hayek 1945: 520), following 'rationally' designed morals implies the formal subordination of individual goals. Given the plurality of social actors and values in industrial societies and the programmatic absence of rival centres of political and economic power in socialist systems, the generation of 'dedicated and willing' economic actors on a societal scale is possible only through the systematic inculcation of the centrally defined values and goals to individuals, plus coercive forms of control (Dembinski 1991; Kolakowski 1978). As Gellner (1992: 10) epigrammatically put it: 'A genuine absolutist ideology must be socialist; and a genuine, full-blooded socialism must also be an absolutist ideology'.

In addition to the previous core characteristics of capitalism and socialism, their distinctive economic features need to be discussed. Following Hewett (1988), all economic systems can be distinguished from each other in terms of their answers to the following three questions: What are the dominant institutions deciding over resource allocation? What sorts of information do decision-makers have at their disposal, and what mechanisms exist for its use? What incentives motivate decision-makers to act in particular ways on the information they receive? Analogously, economic systems consist of three interrelated components: (a) an institutional configuration that includes the main actors who have responsibility for, and power over, resource allocation; (b) an information and decision-making system that provides information to the institutional configuration; and (c) an incentive system inducing decision-makers to use the information at hand to decide on resource allocation. Each one of these components is discussed below.

The Institutional Configuration

In an ideal type of capitalist economy individual enterprises are the key economic agents making decisions about resource allocation and transformation within a legal framework set by the state government. The latter formally plays no direct role in managing the activities of business organizations. In an ideal type of socialist economy, two hierarchies work in parallel to control resource allocation: an organization embodying, and attempting to implement, the socialist vision (i.e. the party) and an organization running the economy (i.e. the government). The former is the strategic apex deciding on the most fundamental issues affecting the economy (e.g. key economic variables, investment, division of GNP among different economy sectors, etc.), while the latter is the technostucture that manages the economy according to the targets set by the party, and provides information to the latter to aid decision-making (Bleaney 1988; Dembinski 1991; Grossman 1963; Hewett 1988).

The party influences the operation of the economic systems through (a) the choice of key personnel to staff economic units, and (b) the party

officials whose duty it is to see that party decisions are properly implemented. The institutional manifestation of these policies differs from country to country (cf. Child and Bate 1987; Granick 1975; Warner 1987; Zeffane 1988), but what seems to be a stable feature of socialist economies is the responsibility of the party for economic performance. This responsibility is operationalized by making local parties responsible for the economic performance of 'their' regions and/or enterprises. Given such responsibility the party tends to intervene in enterprises to make sure the plan is followed, has a decisive say in the appointment of managers, and aims to mobilize, motivate, and/or coerce the workforce towards the attainment of the plan targets. Overall responsibility for the welfare of a region gives the party the liberty to requisition the labour force and materials of local firms for various other tasks (Dembinski 1991). For example, the labour force of a firm may be regularly 'requested' to help with harvesting, road construction, and various other local projects that are deemed to be important to the local party authorities (Berliner 1988; Hewett 1988; Lawrence and Vlachoutsicos 1990).

The centrality of the party in all socialist economies affords it the role of an advocate for special interests. The case of local enterprises is pleaded with higher authorities with regard to investment, securing raw materials, etc; often also the party protects local companies in cases of unsatisfactory performance. Although the instrumental (and usually authoritarian) role of the ruling party in mobilizing the population for industrial development has been noted in several industrializing countries (cf. Berger 1987; Mouzelis 1986; Wade 1991; Zeffane 1988) irrespective of their economic system, the advocacy role of the party in socialist economies is legitimated and reinforced not only by economic or nationalistic criteria (as in several third-world countries), but also by moral-cum-rationalistic principles — its 'historical mission' to bring about the 'Promised Society' (Dembinski 1991).

The Information and Decision-Making System

The actors making up an institutional configuration rely on information to aid their economic decision-making. Two types of information are of particular importance: information about production *possibilities* (i.e. what is possible?), and information about social *preferences* (i.e. what is desirable?). In ideal market economies, the price system generates both types of information. Prices provide producers with information on consumer preferences, and consumers with information on the cost of various production possibilities. Consumers' saving decisions, influenced by government policies (e.g. interest rates), also decide on the division of GNP between consumption and investment (Hewett 1988). The chief characteristics of prices in market economies is that they *influence* both producers and consumers to change their behaviour when prices change.

In an ideal socialist economy, information on production possibilities and consumers' preferences is transmitted through the planning process. Five-year and annual plans are designed and supervised by the government for the purpose of directing economic units, in conformance to the broad goals laid down by the party. Ministries are responsible for industry branches and the enterprises in them, while state commissions decide on competing claims between ministries and supervise the entire planning exercise. Planning involves a process of aggregation (and disaggregation) of information from the individual enterprises all the way up to ministries and the state commissions (and vice versa). This process is accompanied by negotiations between the parties involved in setting up 'realistic' targets for individual economic units.

Central authorities — usually in the form of branch ministries and state bodies — have considerable authority over all major activities of an economic unit. The annual plans for enterprises are usually legal documents and consist, in the case of the former Soviet Union, for example, of detailed instructions about production, material inputs, introduction of new products and new technology, capital construction, labour and social development, and finance. It was not unusual for enterprises in the former U.S.S.R. to have had to meet more than 200 targets (Berliner 1988; Bleaney 1988; Hewett 1988). Moreover, in ideal socialist economies, wages and prices are centrally fixed, and key management appointments are made by the ministries — although, in practice, the centralization of these decisions varied over time, as well as across countries, as socialist economies attempted to reduce the dysfunctions of central planning.

Periodic waves of economic reforms modified the ideal-typical logic of socialist economies, allowing more autonomy to individual enterprises in fixing wages, determining prices, and negotiating directly with suppliers and customers. Thus the information system was progressively made to resemble — to varying degrees, depending on the country concerned — more the price system of the market economies, but with two important differences. First, the state continued to have significant influence over investment decisions; and second, ownership remained largely in the hands of the state and local government. For example, even after the introduction of the New Economic Mechanism in Hungary, the central authorities retained a major responsibility for decisions on investment, to the extent that in 1976 only a quarter of total investment was considered to be fully decentralized (Kornai 1980b; Meszaros 1989). Similarly, the drive towards decentralization that characterized many Eastern European countries after the late 1960s was not followed by a corresponding shift of patterns of ownership. As recently as 1987, 72 per cent of the gross fixed assets of Hungarian companies, and 70 per cent of employment were controlled by the state.

Although even a socialist economy needs prices to guide resource allocation, the function of prices in this type of economy does *not* have behaviour-shaping implications for producers and consumers. Prices are simply

an accounting convention that is used in planning decisions in order to collect information on production possibilities and to control economic units (Dembinski 1991). As Hewett (1988: 191) remarked with reference to the former Soviet Union:

'When the world price of oil drops from \$30 to \$10 a barrel, there is no impact on domestic wholesale or retail prices for crude oil or its products; nor will a price rise have any effect. A shift in demand for a product causes no change in its state price — indeed there is no mechanism to accommodate that — but rather long lines, and possibly associated bribes. On those infrequent occasions when a general price revision occurs, it is production costs alone, and not demand elements, that enter into decisions on the new prices. Production in excess of current demand does not result in a price decline for the producer. Therefore, the price system is in fact, as well as in theory, not used to signal emerging disequilibriums.'

In market economies, the formal separation of the economic domain from other societal domains implies the operation of firms on hard budget constraints: firms spend only as much as their own resources allow them, plus borrowing on commercial terms (Crook 1990). However, in socialist economies the dissociation of the action of economic units from its consequences implies the operation of business organizations on soft budget constraints (Kornai 1980a, 1980b). What this means is the acceptance, if not rewarding, of business failure (Dembinski 1991; Hinds 1990). Given that firms in ideal-typical socialist economies lack the status of formally autonomous economic agents existing at the pleasure of the state, and in the service of the 'general good', there are many opportunities for softening the budget constraints of a firm, and thus for bailing it out of difficulties.

There are four ways this softening can be achieved: (a) enterprises can negotiate price increases with the ministries so that they can boost their income. (b) The state can subsidize firms in a variety of ways — a tactic also only too well-known in the case of state-owned companies in capitalist economies (see *The Economist*, March 2nd, 1991). In Poland, for example, 10 percent of GNP throughout the 1980s was consumed by government subsidies to ailing companies. In Hungary, up to 1987, 20 percent of GDP was absorbed by explicit subsidies to industry (Hinds 1990). (c) Tax reliefs introduced by the government can also help socialist organizations in trouble; and (d) credit might be easily available. For instance, credit can be extended to companies without financial considerations, loans may be given with negative interest rates, or companies may *de facto* refuse to pay their suppliers, which in turn can provoke a chain reaction (Crook 1990).

The near impossibility of economic failure in socialist systems is manifested by the extent to which the state systematically intervenes to rescue ailing companies. For example, in 1980, in Hungary, there was no correlation between initial company profitability and profitability after taxes and subsidies. In 1988, a sample of Polish enterprises showed an initial loss of 26 percent which, after state subsidies, turned to a profit of 5

percent (Crook 1990). Similarly, in Yugoslavia socio-political considerations have made bankruptcy almost impossible. Between 1964 and 1970 less than 400 workers lost their jobs as a result of firm failure. Instead, government-induced mergers took place extensively so that, between 1965–1967, 12 percent of all Yugoslav enterprises took part in a merger (Zimbalist et al. 1989; Granick 1975). Indeed, the operation of socialist firms on soft budget constraints is one of the most remarkably stable continuities running through all socialist economies and, to a lesser degree, through capitalist economies with a strong state sector (Lioukas et al. 1994).

The Incentive System

As argued earlier, the management of modern economic units entails the receipt of information by decision-makers on the production possibilities of their units. Managers and planners in capitalist and socialist economies, respectively, need to know the *capability* of the individual units for which they are responsible, and this raises the following two questions. First, ‘How can this capability be known?’, and second, ‘How can the capability of those managed be enhanced so that they perform as best they can?’. The first question, as we saw earlier, is tackled by the market prices and the planning process in capitalist and socialist economies, respectively. The second question raises the issue of incentives, namely how can individual economic units be induced to perform up to their full capabilities (bearing in mind the inherently variable nature of the latter).

In ideal-typical capitalist economies, combinations of material and moral incentives, defined by individual business organizations within the framework of superordinate value systems, are the dominant incentives. In ideal-typical socialist economies, material and moral incentives are similarly used to induce enterprises to perform according to the plan, with the important difference that these incentives are centrally fixed and promoted. Moreover, given the monopolization of political-cum-economic power by the party and the consequent high degree of control over access to key resources, coercion can be explicitly used to make individuals comply with the central directives of the plan or the government (Gellner 1992; Haraszti 1977; Zinoviev 1984; Zimbalist 1981). The centralization of material incentives, and the intensity with which moral incentives and coercion had been resorted to, varied between socialist economies according to the extent to which they had allowed elements of self-management and the logic of the market to creep into their economic policies (Brus and Laski 1989).

In an ideal-typical socialist economy, the central authorities are empowered to determine the size of earnings retained by an economic unit, as well as the distribution of retained earnings between the various enterprise accounts. A large part of the history of economic reforms in socialist economies hinged on continuous modifications of the rules for

the distribution of earnings between various accounts, in order to influence bonuses and investments as a way of controlling the operation of economic units. In 1985, for example, Soviet enterprises were allowed to retain 45 percent of their profits which were distributed according to centrally enforced rules to various accounts, the most important being the economic stimulation account (including the critical funds for bonuses, workers' amenities and welfare) and the interest and debt repayment accounts (Hewett 1988; Berliner 1988).

Whereas the structure as well as the particular mode of operation of capitalist economies is constituted and animated by particular value systems and society-specific institutions (Child 1981; Hamilton and Biggart 1988; Maurice et al. 1980; Orru et al. 1991; Whitley 1991), the relationship between the latter and local organizational cultures is loose and, at any rate, formally contingent on firm-specific circumstances. Capitalist firms strive to articulate, clarify, and promote a distinctive organizational culture in order to supplement the material incentives used for the motivation of their employees (Kilmann et al. 1985). In contrast, in socialist economies it is not so much the locally-defined organizational culture that is relied upon to motivate employees, as the centrally imposed and extra-organizationally determined moral incentives — although the precise manner in which this is achieved is crucially dependent on broader national values. In the former Soviet Union, for example, party and government propaganda, press campaigns, and the ubiquitous involvement of the Party in inculcating moral incentives into employees were major distinguishing features.

Given that, as noted earlier, party organizations are responsible for economic performance at all levels of the hierarchy, enterprise party committees, local party secretaries, ministerial party committees, and occasionally the Central Committee itself, exert pressure on their respective areas of authority in order to induce compliance with the plan or, at any rate, government and party policies. Ideological and nationalistic rhetoric, the exhortation of work ethic as the driving force for building the socialist society, and the coercive treatment of dissident voices are well documented means by which material incentives were supplemented in order to fulfil plan indicators, and/or meet party and government targets (Zinoviev 1984, 1985; Besancon 1987; Kolakowski 1989; Leites 1985).

The Implications of Socialist Socio-economic Systems for Organizational Management

The absence or, at any rate, the insignificant behaviour-shaping implications of market relations in socialist economies underlines the salience of institutionalized symbolic elements in explaining organizational characteristics. Formal organizations in both capitalist and socialist economies represent administrative edifices for managing complex relations of technical-cum-economic exchange within institutional environments. The

latter comprise myths, cognitive categories, belief systems, social rules and requirements to which organizations must conform if they are to secure cultural support (that is, legitimacy) and resources from the environment (Scott, 1991). As Meyer and Rowan (1977: 343) put it:

'In modern societies, the elements of rationalised formal structure are deeply ingrained in, and reflect, widespread understandings of social reality. [. . .] Such elements [. . .] are manifestations of powerful institutional rules which function as highly rationalized myths that are binding on particular organizations.'

Thus, institutionalized myths in modern societies entail that myths are normatively taken into account by organizational actors and are reflected in organizational arrangements. Patterns of continuous exchange with the institutional environment, particularly the state, as well as the existence of institutionalized symbolic elements, influence organizations operating within the same field to become *structurally* isomorphic: their formal structures tend to resemble each other, as well as the structure of the state (Carroll et al. 1988; Meyer and Rowan 1977; DiMaggio and Powell 1983; Powell and DiMaggio 1991; Zucker 1987).

Structural isomorphism is largely the result of the increased involvement of the modern state in economic processes, and occurs in both capitalist and socialist economies through primarily five channels (see Carroll et al. 1988). First, the state gives firms the legal license to exist, i.e. their formal identity. Second, organizations interact regularly with the state on a variety of issues and this asymmetric interaction facilitates structural isomorphism. Third, the state may directly found, or induce the founding of, particular organizations. Fourth, the state is usually responsible for skill establishment, maintenance and certification, and fifth, certain state institutions may be the greenhouse for senior professional managers. In socialist economies, the programmatic centrality of the state in economic transactions renders structural isomorphism far more intense and comprehensive than in the case of capitalist economies.

What, however, is qualitatively different in the case of socialist economies is the additional presence of *politically-induced* isomorphism. The all-pervasive presence of a socialist moral vision of society — which, as we saw earlier is a defining characteristic of socialism as well as of all eschatological movements —, in combination with the socialist claims to a 'holistic' economic rationality and the consequent subordination of economic activities to broader societal goals, implies that the socialist political blueprint is invariably and unproblematically transposed at the formal organizational level. The organization becomes a political-cum-ideological miniature of the state (Carroll et al. 1988; Dembinski 1991). For example, the principles of democratic centralism that guide the organization of almost all Communist Parties become the organizational blueprints for business organizations. To that end, Lawrence and Vlachoutsicos (1990) noted the synthesis of one-man leadership and collective leadership frequently encountered in the Soviet enterprises. This seemingly paradoxical leadership style was the translation of Leninist demo-

cratic centralism to the economic and organizational domains: a combination of centralized direction of the economy by the state with the democratic initiative of the people (Aganbegyan 1988).

Whereas the sanctions-bestowing nature of the market in market economies (especially in those sectors characterized by strong technical environments — see Scott 1991) renders organizational success dependent, to a large extent, on the efficient coordination and control of productive activities, the near-impossibility of economic failure in socialist economies renders conformity to the requirements of a highly institutionalized environment the critical factor for legitimacy and success. After all, socialism is an ideocracy: remove its Creed and the system collapses (Dembinski 1991). That is why ideocracies are particularly concerned with their ideological legitimacy and their ability to accommodate empirical reality into their ideological frame of reference (Arendt 1967; Havel 1986). Insofar as the socialist organization depends exclusively for its legitimacy upon conforming to institutionalized symbols and myths (such as the superiority of socialism, the irreplaceable role of the proletariat and its party representatives, etc.), displaying near-absolute conformity to these myths gives it more chances of success. Thus, both structural *and* political-cum-ideological compliance are required.

Formal organizations operating in highly institutionalized environments tend to emphasize *ceremonial management* far more systematically than organizations operating in strong technical environments (the latter are those environments where organizations are primarily rewarded for their efficiency and effectiveness defined in techno-economic terms). Reliance on strong technical environments requires an organizational emphasis on efficiency and concrete results, while ceremonial activities underline the need for apparent compliance with institutionalized myths (Meyer and Rowan 1977). In this case ‘ceremonial management’ is not so much the emphasis on those ceremonies and rituals often encountered in organizations with a strong culture — which is usually what is meant by this term in organizational literature — but the emphasis on keeping up appearances, and on being seen to be going through the ‘right’ motions. ‘They pretend to pay us and we pretend to work’ was the perennial Soviet joke. In such a context ‘games’ abound (Berliner 1988; Dembinski 1991; Hinds 1990). Enterprise managers select those performance indicators that are more beneficial to them and to their company; plans are submitted that are below actual capacity; material requirements are grossly exaggerated; investment plans are put forward with the sole motive of increasing productive capacity and promoting ‘empire building’; systematic satisficing is encouraged (Berliner 1988; Hewett 1988; Dearden et al. 1990).

In such an organization, goals become economically vacuous, and attention is focused on complying with the formal operationalization of goals, not with the goals *per se*: concepts are construed to be completely defined by their indicators. As Hewett (1988: 206) comments on the elaborate Soviet system of quality control: ‘Enterprises and ministries have naturally focused their efforts on the *indicators*, *not quality per se*, or the

preferences of their customers for goods with particular qualities' [emphasis added]. In the highly institutionalized environments within which socialist firms operate, to be *seen* to conform to the production plan is a substitute for production (Besancon 1987), 'the virtuosity of the ritual becomes more important than the reality hidden behind it' (Havel 1986: 47). Havel (1986: 36–122) has given a wonderful analysis of this system of institutionalized hypocrisy and deception in his description of the greengrocer who displays on his window the slogan 'Workers of the World, Unite'! Havel argues that the greengrocer is not displaying his conviction, but rather his fear of the authorities. A fear not for what he has done, but for what *he has not be seen to have done!* — that is showing signs of compliance with the official ideology.

Total conformity to institutionalized myths, however, is often in conflict with immediate efficiency criteria: ceremonial management has its limits! In addition, the general nature of institutionalized myths cannot confront the specific and unstandardized technical activities that enterprises undertake. The potential conflict between ceremonial conformity and economic efficiency is resolved by *decoupling* formal organizational structures from actual organizational practices (Meyer and Rowan 1977). Thus, while the explicitly moral nature of socialism and the highly formalized transactions between business organizations and the state give rise to politically induced isomorphism as well as to structural isomorphism (in so far as formal organizational structure is concerned), the decoupling between the formal and the behavioural systems of a socialist organization is a *sine qua non* for the latter's operation. That is why politically induced isomorphism is not always empirically evident: organizational culture does not diverge from state ideology, it is its logical converse. Politically induced isomorphism obtains in the sense that the state ideology 'serves as a negative template for the observable organisational culture' (Carroll et al. 1988: 373).

Thus, a socialist economic system causes two fundamental dissociations: vertically, the dissociation of the formal organizational structure and culture from actual practices and behaviours and, horizontally, the dissociation of the actions of an economic unit from their consequences. Both these disjunctions generate vicious circles: the more actual behaviour is different from that intended, the more central authorities respond with more indicators, regulations and restrictions which, in turn, produce more of the initial non-conforming behaviour. Similarly, the softer the budget constraints, the greater the appeal of economic units to the usually receptive state, to rid them of their difficulties.

The preceding analysis helps to explain better than a neo-Marxist approach some empirical findings with regard to certain features of socialist organizations. Burawoy and Lukacs (1989) noticed the comparatively high autonomy that had existed at the work place of a Hungarian steel company, which they explained by reference to the bifurcation of operative and strategic management, the job security offered to workers, and the supply uncertainty inherent in the socialist economic system. Con-

versely, they argued that the unity of ownership and control, in combination with job insecurity and demand uncertainty give rise to centralization of control over the workplace in capitalist firms. I would like to suggest, however, that this interpretation is not correct.

As far as capitalist organizations are concerned, empirical research has repeatedly demonstrated (see Cappelli and McKersie 1987; Kelly 1985; Lupton et al. 1981; Friedman 1977) that centralization of control over the workplace is *not* intrinsically linked to the logic of capitalism, but is contingent on the presence of particular sets of circumstances. The relationship between capitalist relations of production and workplace centralization is *mediated* by a number of conditions such as technology, product markets, labour markets, etc. One of the recent trends, noted by several researchers, has been the increase of workplace autonomy in the 1970s and 1980s as the best way of creating flexible and lean organizations in response to increased competition (Hirst and Zeitlin 1990; Kanter 1983; Piore and Sable 1984).

Supply uncertainty certainly has different behaviour-shaping implications from demand uncertainty, not the least that it encourages the hoarding and barter of resources as well as the crypto-privatization of socialist firms via widespread corrupt practices such as stealing, deliberate distortion of accounts and plan targets, etc. (Dembinski 1991; Grancelli 1987; Hewett 1988; Jowitt 1983). All of these behaviours are very different from those caused by the exigencies of demand uncertainty and the concomitant pressure for rationalizing the production function in capitalist firms. The 'autonomy' Burawoy and Lukacs observed in the Hungarian firm was empirically manifested as workers' discretion over production-related decisions. Such autonomy, however, is empirically very different from the preceding behaviours that are typically associated with supply uncertainty. Supply constraints do not necessitate workers' autonomy any more than demand constraints do. Instead, a more plausible explanation is that the Hungarian workers' autonomy was the result of the *decoupling* of the formal from the behavioural systems that occur in socialist firms. Although both capitalist and socialist firms face an equivocal environment (Weick 1979) and are thus compelled to afford workers a minimum, at least, autonomy (Beer 1985; Warmington et al. 1977), socialist firms decouple their formal from their behavioural systems far more systematically than capitalist firms do. This happens not because supply constraints *per se* demand that higher autonomy be given to workers in order for production to run more efficiently and effectively, but because socialist firms have to accommodate the conflict between efficiency and ideological legitimacy.

Structural and politically induced isomorphism entail extensive reliance on rules and hierarchy as the two dominant ways of making decisions and resolving conflict in socialist organizations. This is vividly illustrated in Lawrence and Vlachoutsicos's (1990) case study in which they compared two Soviet firms with two similar American ones. In both Soviet organizations, conflicts over, say, the introduction of new products, plan

indicators, purchasing equipment, or appointing new senior managers, 'travelled' all the way up through the organizational hierarchy (the branch ministry included, of course) *en route* to their settlement. Similarly, as noted in the previous section, formal rules regulate most aspects of work in socialist economies. Reliance on rules and hierarchy does not seem to be accidental: insofar as socialist economic systems draw their legitimacy from the moral-cum-rationalistic nature of their claims, a hierarchical-cum-regulatory approach to managing organizations is inevitable, compared to the 'mutual adjustment' of the market (Mintzberg 1989). The reason is that the 'parts' need to be subjected to the 'whole', and the 'general' takes precedence over the 'sectional'. Given that the 'general good of society' does not have a voice of its own, it needs an advocate and this, inevitably, is the state which articulates the socialist goals and manages the transactions between economic units within the overall framework of the official ideology.

The totalizing nature of the socialist project that was noted earlier subsumes enterprises under the broader social system and entails *multiple* lines of authority in them. As argued in the previous section, in market economies, ownership of property rights confers single-line authority to the owners or their representatives over decisions regarding the procurement and transformation of resources. In socialist economies, however, the *collectivity* is the ultimate source of authority which is exercised indirectly through a number of channels. In addition to managerial authority at the enterprise level, the authority of the state (through the ministries and state commissions), the authority of the community of employees working in an enterprise, and the political authority of the Communist Party (or any other dominant political organization) plus various social organizations, are additional lines of authority encountered in socialist enterprises (Zamfir 1987; Zeffane 1988; Leites 1985). The authority of the Party, for example, was frequently enlisted by Soviet managers to secure employee commitment to certain goals and personnel policies. In addition to the Soviet party being strongly concerned with employee morale and motivation, it was also involved in appointing and firing key personnel. Functions, which in capitalist firms are typically performed by the personnel department, were carried out in socialist enterprises by the Party (Lawrence and Vlachoutsicos 1990; Purg 1990).

The existence of multiple lines of authority generates likely incompatibility between goals and policies, which is managed by a combination of participative management, ideological propaganda and coercion (Zamfir 1987; Zimbalist 1981; Wood 1987). Echoing the socialist point of view, Zimbalist (1981: 972) characteristically remarks: 'In lieu of market incentives, a socialist economy must rely either on coercion or a combination of socially created material (collective or individual) incentives, social discipline (socially generated and enforced norms of behaviour) or internal incentives (involvement in and identification with collective goals)'.

Insofar as socialism programmatically strives to strike a balance between

economic efficiency and social equality (cf. Kornai 1980b), there are inherent limits to the extent to which extrinsic satisfaction can be used to motivate employees. In Romania, for example, the ratio between the lowest and the highest wages was approximately 1:5 (Zamfir 1987: 78), while in Yugoslavia it was even lower, 1:3 (Purg 1990: 149). The 'ethical principles of a socialist economy' (Kornai 1980b: 149), necessitate that emphasis is placed upon intrinsic forms of motivation. In the presence of multiplicity of actors, interests, and values, intrinsic forms of motivation are translated into, mainly, ideological campaigns for the 'development of socialist consciousness' (Lawrence and Vlachoutsicos 1990; Zinoviev 1984, 1985).

Conclusions

In this paper, the necessary connections between the macro-logic of the socialist socio-economic system and key organizational characteristics of the socialist firm have been explored. The preceding analysis leads to the conclusion that an ideal-typical socialist system constitutes a highly institutionalized environment in which business organizations have, at best, an ambiguous role as economic agents and, at worst, are denied such a status altogether. Socialism is an ideocracy by design and thus places extraordinary emphasis on ideology and ideological legitimacy. Its moral vision of society as a fraternity, along with its rationalistic claim that economic inefficiencies are eliminated only at the level of a rationally designed society, leave very little space for autonomous economic agents.

The programmatic adherence to a teleological Creed which articulates this vision and, through the actions of the state, attempts to guide society towards its *telos*, renders socialist systems highly institutionalized environments. In this type of environment, firms increase their chances of survival by displaying conformity to the dominant official ideology and state instructions. Thus, structurally and ideologically, socialist firms are isomorphic with one another as well as with the state. Given that in order to realize its claims to a 'holistic' economic rationality a socialist economy has to be hierarchically organized, a strong reliance on formal rules and hierarchical decision-making is also an intrinsic feature of socialist firms.

The decoupling of actual organizational behaviour from the formal organizational structure is a logical consequence of socialist firms having to operate in a highly institutionalized environment. Very few things are accomplished unless what people actually do is different from what they have been instructed to do, or what they pretend to be doing. The management of socialist firms is thus inherently ceremonial: obedience to the official ideology demands outward signs of conformity. The totalizing nature of the socialist project is intrinsically connected to the existence of multiple lines of authority in socialist firms. The contradictions among multiple lines of authority are managed through a mixture of participative

management, ideological campaigns and coercion. The egalitarian ideology of socialism places limits on the size of extrinsic motivation, privileging instead ideological forms of intrinsic motivation.

The preceding conclusions have been predicated on the assumption that socio-economic systems have a relatively coherent and stable logic which causes business organizations to have particular features. Admittedly, I have suppressed differences among socialist countries as well as differences between a socialist economy's stages of evolution. I chose this analytical strategy because I wanted to focus on the stable empirical continuities across socialist economies in order to identify the effects of the socialist socio-economic logic on business organizations. These empirical continuities are *prima facie* evidence for the validity of my claims (for a similar approach see Berger 1987; Dembinski 1991). Needless to say, the empirical reality of concrete socialist firms is complicated far more by the simultaneous causal influences of national cultures and historical contingencies (Lawrence and Vlachoutsicos 1990; Child and Bate 1987). Only empirical research can show how, and to what extent, all these influences combine to generate particular organizational arrangements. My analysis has described the causal tendencies of a socialist political economy, but the extent to which these tendencies are activated is a matter which can only be settled empirically (Sayer 1984; Tsoukas 1989).

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