

INSIDE OUT

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Introduction

We need a new way of looking at organisations. First and foremost those organisations that we think of as occupying the world of economics, but also other organisations – political, social, domestic.

The models we have at present have many shortcomings. At their worst, the models in common use lead us to reach dangerous conclusions about their proper objectives, about the responsibilities of the people working within them, and about our own personal relationships to them. They are grotesquely simplistic, and fail to capture the richness or the subtlety of human objectives and interests. They create barriers to understanding.

This book sets out to describe some of these shortcomings and, by drawing on a wide variety of ideas, from the political, psychological, social, economic and business thinking, to suggest another approach to understanding organisations, and consequently the meaning of the market economy and political organisation.

It attempts something quite bold, to create a unifying theory of economic and political organisation. It also tries to draw out some of the implications for the strategy makers within organisations, and for the people that work within, or are members of organisations. In doing so, it suggests new ways for thinking about the responsibilities of organisations and consequently their governance, how we should look at the benefits that arise from the existence of these organisations, and asks questions about our own ethical responsibilities as part of organisations.

Background

This section of the book reviews the shortcomings of the models of organisation that are current today, which most people carry around in their heads and which inform the thinking about the organisations that they deal with day-to-day. It then goes on to describe the ways that organisations are described by economists, political scientists and social scientists, before doing the same thing for theories of power and influence.

Finally, this section explains that the theoretical framework set out in this book is not designed to replace existing theories of organisation and of power and influence. Rather it is there to complement them. The objective of this book is to enrich our understanding of organisations and our relationship to them. There are many different ways of looking at the world: this book tries to provide a fresh perspective that helps to add to our appreciation, but does not deny the validity or value of many of the other ways available to us.

Chapter 1: Deficiencies of current theory

Examples abound of the need for a new understanding of the roles and purposes of organisation, of the levers of power and influence.

For example, in relation to organisations:

- The debate around corporate governance and the related *Tomorrow's Company Inquiry* of the Royal Society of Arts
- The Labour Party's anguish over the dropping of the commitment to public ownership in clause 4 of its constitution
- The controversy surrounding payments to directors of large companies.

Alongside this, confusion in relation to the levers of power and influence.

- Role of government intervention into traditionally less regulated parts of life such as environment

- Introduction of market approaches into provision of welfare services
- Status and legitimacy of differing tools of pressure groups, e.g. consumer boycotts, civil disobedience, criminal damage (cf. Brent Spar)

Existing ways of looking at organisations and the levers of power and influence are insufficient.

Chapter 2: Theories of organisation

Economic organisation

Political organisation

Social organisation

Chapter 3: Theories of power and influence

Chapter 4: Relationship of a new model to existing models

"Getting the retaliation in first"

cf Hobbes and Leviathan

- jurisprudence
- social psychology

Building Blocks

This section prepares the way for the new organisational model that is described in chapters 8, 9, and 10.

The first chapter in the section talks about markets, initially undertaking a brief tour d' horizon of market theory in classical economics before introducing the idea that there is a symmetry in market transactions, in which every buyer is a seller and every seller also a buyer. Finally, this initial chapter brings introduces ideas from the world marketing strategy about the "positioning" of products and services to meet the different preferences of consumers and the impact of competition on the precise characteristics of products and services that a commercial organisation presents to its customers.

The second chapter in this section introduces the theories of "the firm" developed by Nobel laureate Ronald Coase and the "Markets and Hierarchies" framework of Oliver Williamson. This approach to thinking about commercial organisations suggests that they exist as alternatives to market transactions as ways of organising economic activity.

The final chapter in this section examines the different ways in which we exercise power and influence, how we attempt to achieve the ends that we desire and how we respond to the efforts of others to achieve their desired ends. This chapter suggests that there are

essentially three "currencies" available to us: money, political influence, and brute force. Each has its place. These currencies or sanctions are part of the armoury of human beings and of the organisations within which they operate when, as in the "Market and Hierarchies" framework, it is advantageous to be part of an organisation.

Chapter 5: Market theory

- markets for different goods and services
- symmetrical relationships at market interfaces
- multi-dimensional positioning - consumer and competitive strategy

Chapter 6: Transactional economics and market failure

- Markets and hierarchies

Chapter 7: Market failure and the three sanctions

Much of the political debate of the twentieth century revolved around the proper role of economic markets. In particular, do they deliver superior outcomes in terms of the welfare of society, whether that it is viewed as some sort of collective, communitarian measure or in simply in terms of the sum of the parts? During the middle part of the twentieth century there was close to a consensus across much of Western Europe, while it was received dogma throughout the communist world, that state planning would deliver superior results. And even after the collapse of communism and of the near consensus in the west, popular doubts about the efficacy of markets continue. There is a distrust of "fat cat" directors and scepticism about the market based reforms that have resulted in the dismantling of many state-run enterprises. The profit motive is suspect: how can profit maximising enterprises deliver better health-care and education or safer railways and air traffic control?

Fukuyama's "End of History" presumed the triumph of the market. To a considerable extent, Hayek and Friedman, or at least Adam Smith, seemed to have won the argument by the end of the twentieth century. But the popular doubts demonstrate that the victory of the argument is at most superficial. Economists appreciate the limitations of markets, that they fail in the absence of sufficient competition and, unless assisted in some shape or form by the state, in the provision of public goods. But the public see the failure in some way being the direct result of harnessing private interest through market mechanisms, or mechanisms that replicate market conditions, rather than a consequence of the lack of the proper involvement of the state to ensure that the outcome more closely reproduces what would arise under "perfect market" conditions.

The previous chapter addressed some of the circumstances in which markets – and here we specifically mean cash based markets – fail. In each of these cases there is a recognised role for the state, broadly defined, to step in and address the market failure. In the case of public goods it may step in to control access, possibly through pricing as with tolls to control congestion charges. In the case of negative externalities, such as pollution, it may step in to regulate through physical controls or it may attempt to address market failure using a market device such as tradeable emission licenses. Where positive externalities and free-rider problems are the cause of market failure, it may step in with a subsidy to encourage the producer to supply up to the level that might be demanded were it possible to charge the free-riders and the customers for the positive externalities the value that they might place on the producer's output. Where markets fail because of the existence of a monopoly or a tendency towards monopoly, the state may attempt to control prices or output to replicate the levels that

might exist under competitive conditions, or may intervene, even to the level of breaking up an industry, to impose competition.

But there are many other circumstances in which the modern state intervenes. Markets are blind to issues of equity. Modern – and more affluent – democratic societies have evolved tax and welfare systems that, even in those with a very strong free market value system, set out to tax those on higher incomes more heavily than those on lower incomes and provide at the very least some minimal level of support to the most disadvantaged. There is a broad recognition that accidents of birth leave some better off and some less well off, and that the state has a role in at least providing opportunities through state provided (or at least assisted) education for those less well off in order to help escape the disadvantages of birth.

A new model of the organisation

The following chapters introduce a new theoretical model for understanding organisations. The first chapter describes the model in relation to commercial companies. The exposition of the theory is limited in the first instance to commercial enterprises and the conventional markets placed transactions that they undertake with customers, and with the suppliers of labour, raw materials and finance. By implication, the application of the theory at this stage is limited to "money" currency rather than a wider range of sanctions described in the last chapter of the previous section. This is done in the interests of simplicity and because the use of conventional economic frameworks is probably more familiar.

In the second chapter, the framework is opened up to less conventional market interfaces with which the commercial enterprise has dealings, and by implication also introduces other currencies and sanctions in addition to the conventional purely economic ones. Finally, in the third chapter, the model is extended to a wide range of organisations and the case for extending it to describe all forms of organisation is also explored.

Chapter 8: A new model of the company

- Virtual space

Chapter 9: Widening the range of market interfaces - non-financial markets

Chapter 10: Extending the model to other organisations

Section 4: Implications of the model

There is not much point in a developing a new theoretical model unless it yields new insights and has implications of practical application. In this section I explore the implications of the model in four areas. These four areas cannot represent the total breadth of potential implications of model, which I hope will be explored further by others.

Chapter 11 examines the notion of ownership in relation to organisations, initially through the examination of the "ownership" of the commercial enterprise and then widening the discussion to explore issues surrounding the ownership of other forms of organisation. This chapter also

examines the obligations of organisations to the parties that transact with them (often, and according to this framework, unhelpfully, described as stakeholders).

Chapter 12 extends the discussion of the notion of ownership to a discussion of purposes of the organisation before moving on to explore the implications of this way of describing the organisation for the understanding of its strategy and development of strategic options. This chapter suggests that, subject to the better understanding of the purpose of the organisation, the "Inside Out" model should open up a wide range of new ways of thinking about the business school discipline of strategic management.

In chapter 13, I draw out the implications of this organisational model for the values adopted by organisations and for the duties of organisations towards the parties that transact with them and vice versa.

Chapter 14 draws out the implications of this model for the individual working within the organisation and working, as a third-party transacting from the outside, with the organisation. In essence, the argument of this chapter is that the individual cannot hide behind the organisation but that his actions have to be informed by his own moral framework.

Chapter 11: Ownership and obligations

Chapter 12: Purposes and strategy

Chapter 13: Values and duties

Chapter 14: The place of the individual

Wider applications of the model

This section moves beyond the more narrowly defined implications of the model for the way in which we understand organisations and the relationship of individuals to them. The chapters in this section explore various ideas and potential applications that are triggered by the theory. Rather than being necessarily core to the model of organisation described in the previous section, these chapters draw on areas of particular professional and academic interest of my own to illustrate some of the potential richness of this way of looking at the world. I had also that they provide valuable lessons in themselves.

Chapter 15 argues prescriptively that the way of thinking adopted by the more strategically minded marketing professionals in the commercial world should be adopted both by their colleagues in other functional disciplines in the commercial world and also more widely outside the commercial world too.

Underlying the "Markets and Hierarchies" framework of Oliver Williamson is the idea that organisations are a response to market failure, specifically in the form of "information impactedness". Chapter 16 examines how the development of information technologies (in the widest sense of the word) may change the economics of information and consequently change the shape of organisations over time. Understanding the application of these trends should assist in developing new forms for specific organisations as circumstances change.

Chapter 17 addresses the suspicions that continue to exist between people working in public and private sector organisations, and between the general public and the organisations with which they interact. This chapter argues for a blurring of the conceptual boundaries between organisations operating in the the "not for profit" state and voluntary sectors and private "profit driven" companies.

Chapter 18 explore the implications of the "Inside Out" model for the purposes that we accord to organisations. Why should certain organisations survive? What are they are there for?

Chapter 19 uses this model of organisation to address one of the hottest topics of the early 21st century, corporate governance and the control of the apparent rapaciousness of top management. I suggest that there is nothing particularly special about the way that those at the heart of large commercial organisations behave, or rather misbehave, but do suggest that the insights arising from the "Inside Out" model points to ways in which the problems so vividly represented by the corrupt behaviour of senior executives in companies such as Enron and Parmalat might be tackled.

Chapter 15: Generalising the marketing mentality

Chapter 16: Information economics: the tide of history?

Chapter 17: Removing the boundaries; removing the suspicion?

Chapter 18: Redefining organisational purpose

Chapter 19: Managing the managers

Conclusion: Removing the mystery