Organisational Theory, the Crown and large corporations

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A controversy has erupted over a recent event at the British Royal Palace. The Royal Family invited corporate leaders for dinner and performances by the Royal Philharmonic and the English National Ballet. A newspaper wrote about it:

"The event, hosted by the Duke of York, reflects growing enthusiasm by the Royal Family to use its premises to promote business interests (...) According to the Palace, the Duke of York is involved in efforts to support British business, and the event was an opportunity to "engage" with international chief executives about what Britain has to offer (...) But Keith Vaz, the Labour chairman of the home affairs select committee said the arrangement threatened to undermine the cachet of the palaces and even the security of the Royal family."

Suppose you are a special advisor to the Royal Family of another European country, and a Prince is considering whether to copy the British initiative, with other companies. Your task is obviously not to decide, but help the Prince think about this in a sophisticated manner. Based on the various schools of Organizational Theory discussed in the course,

1. Provide theoretical support in favor of this practice, relying on at least two theories.
2. Provide theoretical support against it
3. In line with your answers, outline possible changes that you would institute to improve it.

Large corporations have a major role in the economy and their activity cannot be neglected by public authorities. Of the 100 largest economies in the world, 51 are corporations and only 49 are countries (Anderson and Cavanagh, 2000). As Burns and Stalker (1961) have noted, the activity of these large corporations and their role in technological change might have long-term effects in society overall. The innovation process is not the product of isolated geniuses: it is at the core of economic development and it is the consequence of the overlapping action of different forces of the society (corporations, government, educational system etc.). The stakes for the society as a whole are increasingly important because, as corporations get larger, ownership gets diluted in the hands of many small stockholders. There is a stronger separation between management and ownership, therefore, society’s control over management actions is crucial. The role of the Prince, as Head of the State might be fundamental for overseeing the actions of these large private corporations.

This leads us to a major theory that defends the necessity of cooperation between private corporations and the State: Stakeholder theory. Stakeholders are defined as “groups without whose support the organization would cease to exist” (SRI, 1963; quoted in Donaldson and Preston, 1995). There are descriptive, instrumental and normative reasons that recommend the interaction between large corporation and the Government (Donaldson and Preston, 1995). In this particular case, from the descriptive point of view, the activity of the corporations is going to affect the reputation of the
Prince in the long term. The relations are bi-directional as the support of the Prince might affect the performance of the companies, for example gaining international contracts. Therefore, there are instrumental reasons for this cooperation: both the Prince and corporations might gain from taking into account each other’s view. Finally there are normative reasons including ensuring that the well-being of the citizens and employees, which they represent, have been respected. A stakeholder management model is needed, and as Donaldson and Preston argue, managers (in our case the CEOs and the Prince) must direct resources to identify and engage with each other. Is the proposed event a good way of managing this interaction?

The main critique of the Labour party seems to be that the forum is not adequate. The format of the event does not guarantee the level of transparency that a democratic society requires. Furthermore, it seems that the Prince is compromising the neutrality of the Palace, giving preferential treatment to a sector of the economy and not inviting other critic voices (NGOs, consumer associations, the civil society etc.). Both critiques may be addressed on theoretical grounds. Firstly, with regards to the informality and lack of transparency, one has to look at the research undertaken in social movements and corporate social responsibility. As Ferraro and Beunza (2013) have shown, when actors have to engage in long-term relationships, trust becomes a fundamental factor. In their research of activist shareholder engagement, they show how both activists and management attempt to avoid the publicity of their engagements because it might hamper the negotiations and undermine their long-term relationship. Publicity is a form of social coercion and it might be better to leave it as a last resort. Secondly, regarding preferential treatment, the usefulness of this format might be defended in terms of social network theory. The relevance and the stability of the position of the Prince give him a privileged situation in terms of social capital. However, as argued by Burt (1992), maintaining a dense social network has an opportunity cost. The Prince cannot meet a plethora of actors because his screening capabilities are limited. It could be argued that CEOs are valuable contacts who themselves have dense networks and can filter the relevant information for the Prince. Furthermore, Burt’s concept of “structural holes” shows that organizing a meeting just with corporate leaders and not with representatives from other social forces (Labour Union representatives for example) might be beneficial. A structural hole occurs when an actor gathers information from two separate sources but these sources do not share this information between themselves.
Isolating CEOs in the meeting allows the Prince to maintain a position of *tertius gaudens*. The Prince can stay in a moderator position: he can control the uncertainty and mediate in the tensions that might arise between different actors.

There are however associated risks with this practice. Based on DiMaggio and Powell’s (1983) findings, it could be argued that these kind of high level policy meetings might constitute a form of normative pressure that lead to isomorphism between corporations. “Isomorphism” is the process that forces organizations to resemble to each other due to environmental pressures. In this particular case, the normative pressure may arise from the interaction and the exchange of information between high level managers and public officials. The more frequent the interaction, the greater the chances of isomorphism. These events constitute an opportunity for enhancing the reputation of CEOs and the social legitimacy of their companies’ strategy. Through the effect of normative isomorphic pressures, decisions may be taken not on the basis of organizational efficiency but for the survival of the organization in that particular social environment. One could think, for example, in the alliance between corporate executives of a non-competitive industrial sector against challenging EU recommendations. Hence, society as a whole would be negatively affected as free market functioning gets distorted and competition is reduced.

Another danger arises from the public reaction to this Royal meeting, which may be detrimental to the image of the Prince. According to Weick (1979) people want to be told a story that makes sense to them. Indeed, both the CEOs and the Prince are participating in this meeting because they want to tell a story to their public. The Prince wants to show that the Crown takes seriously the economic situation and wants to work with businesses to foster the economy and the job market. CEOs want to show to shareholders and other stakeholders that their companies are respected in the public sphere and their voice counts. However, when organizations “enact” stories, Weick argues that there is a risk that observers may interpret this enactment in a different way than originally intended. Organizations can therefore generate the environmental reaction that they were precisely trying to avoid. In our particular example, it could be argued that there is a risk of the “self-fulfilling prophecy” proposed by Weick. The Prince might be afraid that the public does not like the issues discussed in the meeting with the CEOs. Therefore, instead of doing a public meeting with media presence, he prefers to hold a more private meeting in the Royal Palace. However, what this action
does is to increase the secrecy of the meeting and thus the adverse reaction of the citizens. The prophecy is fulfilled: the story of a “plot” between the royalty and the corporate world emerges and the initial goals of the meeting fail.

How can these limitations be solved? As it has just been argued, the public image of the Prince might be at risk. It has been exposed above that inviting representatives from other social forces to the meeting or holding a public conference would have serious drawbacks. In terms of engagement, it could undermine the relation of trust; in terms of networking, it would weaken the tertius gaudens position of the Prince. Two alternative solutions should be implemented. Firstly, a minimum level of transparency should be guaranteed. For example, the Prince could debrief the key issues discussed to party leaders at the Parliament. This would ensure that democratic transparency standards are met while preserving the relation of trust between the CEOs and the Prince. Secondly, the Prince should engage in similar conversations in the same conditions with other societal actors in the near future. The aforementioned benefits of separate meetings would be preserved, while from the sense-making point of view the argument of the neutral position of the Prince would gain credibility.

Finally, the risk of isomorphism through normative pressures is however very difficult to avoid. As Adam Smith once mentioned, “people of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices.” (Smith, 1776; quoted in Granovetter, 1985). Ultimately, the only solution is to have in place strong corporate regulation that would prevent collusive agreements and inside information whilst guaranteeing a board of directors’ independence to ensure corporate pluralism. Nevertheless, as Granovetter (1985) has argued, it would be an under-socialized misconception of human action to think that the legal framework itself would guarantee the proper functioning of the economy. A certain level of “embeddedness” is still present in modern economies and there is no doubt that Princes and CEOs have a strong social influence.
References


Weick, K. (1979) 'Enactment and Organizing'. Ch. 6 in *The Social Psychology of Organizing*, Addison-Wesley, 2nd ed.