NEOCLASSICAL ORGANIZATION THEORY: FROM INCENTIVES OF BERNARD TO ORGANIZATIONAL OBJECTIVES OF CYERT AND MARCH

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ABSTRACT: *Organization is a relatively young science in comparison with the other scientific disciplines. (Ivanko, 2013) Accounts of the growth of organizational theory usually start with Taylor and Weber, but, as Scott (1987) mentions, organizations were present in the old civilizations which goes back to Sumerians (5000, BC) and which experiences its maturation phase with Taylor, Fayol and Weber, continuing to come up to present with modern management methods and principles. The modern organization may be the most crucial innovation of the past 100 years and it is a theory which will never complete its evolution as the human being continues to exist. Understanding how organizations work has been the focus of scientists and scholars until the early part of the 20th century. Just as organizations have evolved, so to have the theories explaining them. These theories can be divided into 9 different "schools" of thought (Shafritz, Ott, Jang, 2005): Classical Organization Theory, Neoclassical Organization Theory, Human Resource Theory, or the Organizational Behavior Perspective, Modern Structural Organization Theory, Organizational Economics Theory, Power and Politics Organization Theory, Organizational Culture Theory, Reform Though Changes in Organizational Culture and Theories of Organizations and Environments. This paper will concentrate on theory named neoclassical organization theory and the paper is divided as follows. The introduction talks about the developments of the organization and organization theory from its early stages with detailed definitions. In section 2, theoretical roots in other words literature review on the subject will be presented. At further section, by looking at the perspectives of the 5 pioneering people (Simon, Selznick, Merton, Cyert and March) main principles of the neoclassical organization theory are presented one by one. Section 4 mentions strengths and weaknesses of the neoclassical organizational theory and section 5 discusses and concludes the paper.*

KEYWORDS: Neoclassical, Organization, Organization Theory.

INTRODUCTION

Man is intent on describing himself into a web of collectivized patterns. ``Modern man has learned to accommodate himself to a world increasingly organized. The trend toward ever more explicit and consciously drawn relationships is profound and sweeping; it is marked by depth no less than by extension.`` This comment by Seidenberg summarizes the influence of organization in many shapes of human activity.

Some of the reasons for hectic organizational activity are found in the main transitions which revolutionized our society, shifting it from a rural culture, to a culture based on technology, industry, and the city. From these shifts, a way of life occurred and characterized by the proximity and dependency of people on each other. Proximity and dependency, as conditions of social life, harbor the threats of human conflict, capricious antisocial behavior, instability of

human relationships, and uncertainty about the nature of the social structure with its concomitant roles.

Of course, these threats to social integrity are still exist to some degree in all societies, ranging from the primitive to the modern. But, these threats become serious when the harmonious functioning of a society acts upon the maintenance of a highly intricate, delicately balanced shape of human collaboration. The civilization we have generated depends on the preservation of a precarious balance. Hence, disrupting forces impinging on this shaky form of collaboration must be prohibited or minimized.

Traditionally organization is seen as a intermediary for accomplishing goals and objectives. While this approach is nifty, it tends to obscure the inner workings and internal aims of organization itself. Another fruitful way of behaving organization is as a mechanism having the ultimate aim of offsetting those forces which undermine human collaboration. In this approach, organization sloping towards to minimize conflict, and to lessen the meaning of individual behavior which deviates from values that the organization has established as worthwhile. Further, organization increases stability in human relationships by decreasing uncertainty regarding the nature of the system's structure and the human roles which are inherent to it. Parallel to this point, organization enhances the predictability of human action, because it limits the number of behavioral alternatives available to an individual. (Scott, 1961)

Furthermore, organization has built-in safeguards. Besides prescribing acceptable shapes of behavior for those who elect to submit to it, organization is also capable to counterbalance the effects of human action which transcends its established ways. Few segments of society have engaged in organizing more strongly than business. The reason is clear. Business depends on what organization offers. Business requires a system of relationships among functions' it requ stabires stability, continuity, and predictability in its internal activities and external contacts. Business also appears to need harmonious relationships between the people and processes which creates it. In other words, a business organization has to be free, relatively, from destructive tendencies which may be caused by divergent interests. (Scott, 1961)

As a main principle for meeting these needs build upon administrative science. A major element of this science is organization theory, which gathers the grounds for management activities in a various number of crucial areas of business endeavor. Organization theory, however, is not a homogeneous science based on generally accepted principles. Different theories of organization have been, are being evolved and continued to be evolving. (Ibid.)

If it is needed to give detailed definition of organization and organization theory; there are various definitions. To start with organizations, organizations are universal phenomena in human social and were explained by March and Simon (1958) as a systems of coordinated action among individuals who differ in the dimensions of interests, preferences and knowledge. Who holding the same philosophy included Arrow (1974), Mintzberg (1979), et cetera. Organizations exist when people interact with one another to implement essential (Daft,2007), they are social units of people with recognizable boundary to reach certain goals (Robbins,1990). Organizations are the unities composed of mental activities of member with same goals and technologies and operate in the clear relationship mode (Liu,2007). On rational, natural, and open system perspectives, there are various emphasis in the definitions of organizations. The rational perspective sees an organization with tool which is designed to meet the pre-defined goals; the natural perspective underlines that an organization is a group; and

the open system perspective concentrates on that an organization as a sef-regulation system and an open system, exchanging with its external environment.

Organization theories comes from organization practices and in turn serve practices. Nicholson explains them as ``a series of academic viewpoints which attempt to explain the multiplicities of organizational structure and operating process (Nicholson, 1995).`` In other words, organization theories are knowledge systems which study and explain organizational structure, function and operation and organizational group behavior and individual behavior (Zhu, 1999).

Complete organization science should include 4 layers: philosophy, methodology, theory and

application, and organization theory takes place on the third layer, under the direction of methodology, it builds various management theories, management methods and management techniques by management practices. The relationship of them shows as the following figure:
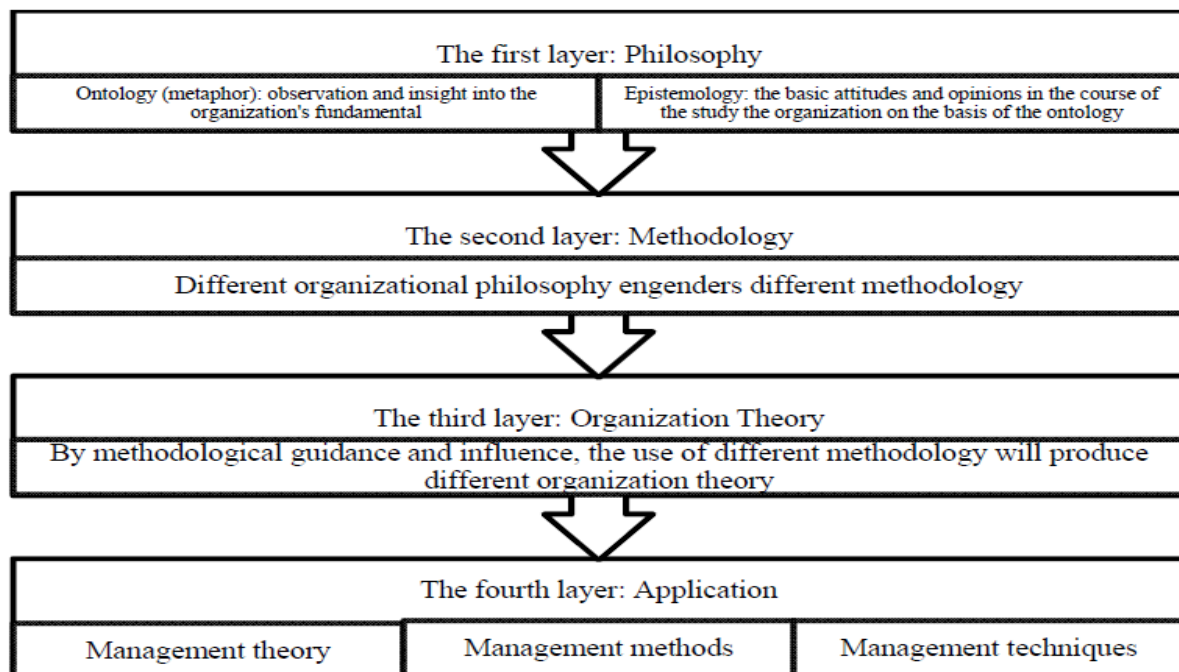

Figure 1. The layers of organization science

LITERATURE REVIEW

Figure 1-1 The Evolution of Management Theory

As early as the 1920s, a various of social critics began to point out the potentially harmful effects of trying to standardize people as well as jobs. Although number of the basic tenets of classical management theory (e.g., formal structure, division of labor) were *not* directly challenged, criticism was concentrated on those individual managers and theorists who appeared to treat employees as little more than mere appendages to machines. In fact, when Taylor proposed his theory of Scientific Management, his work was often met with antagonism and hostility. Taylor defended his principles on the basis of a "mental revolution" that would take place in the attitudes of management and labor. In essence, Taylor felt that both sides would recognize the need for cooperation and the significance of scientific investigation rather than individual judgment as the basis for structuring work assignments. Critics, however, argued that while management might look for standardize skills and methods, it could not expect perfectly standard, emotionless behavior from its employees. (Bowditch, Buono and Stewart, 2008)

Studies during this period also started to draw attention to the possibility that coworkers may exert a greater influence on work behavior than the economic incentives offered by management. The recognition that workers had social needs led to a new set of assumptions about human nature. Rather than viewing people solely as rational, economic creatures, social considerations were now seen as the prime motivator of behavior and work performance. Since the increasing mechanization of work was stripping jobs of their intrinsic value, people would seek out meaning in their work through social relationships on the job. Management, it was argued, must therefore support people to satisfy these natural desires. Although these arguments may appear to be somewhat moralistic, they were tied to prescriptions for organizational effectiveness and efficiency. If managers did not answer to these socially oriented needs with greater consideration and warmth, lagging work performance and resistance to authority were viewed as likely outcomes. (Ibid.)

Thus, in an attempt to compensate for the neglect of human interaction in the classical school, neoclassical theory introduced the behavioral sciences into management thought. The underlying rationale was that since management involves getting things done with and through people, the study of management must be centered on understanding interpersonal relations. Within this context, the Neoclassical school of thought can be viewed as a critique of the classical doctrine: (Ibid.)

- Each organization should have a defined *structure;* however, human behavior can disrupt the most carefully planned organizational activities. While the formal structure may represent how things are supposed to exist, the informal organization that appears in response to people's social needs dictates how things are actually done.

- Although a *division of labor* might make sense from the organization's standpoint, some of the unintended outcomes for workers are feelings of isolation and anonymity due to insignificant jobs.

- While the *scalar and functional principles* might be theoretically passable, they deteriorate in practice due to the way in which these processes are carried out.

- Finally, a manager's *span of control* is a function of human factors and cannot be decreased to a precise, universally applicable ratio.

There are two main sources of Neoclassical theory: (1) the sociologists and social psychologists who were concerned with interaction and relations within groups, often referred to as the Human Relations school, and (2) the psychologists who focused on individual behavior, or the Behavioral school. (Ibid.)

The classical approach was all about physiological and mechanical variables with no concern on behavioral aspect and that is why classical approach is also called as physiological theory where as neoclassical is also known as behavioral theory. As per behavioral theory organization should be taken into account consisting of social as well as economical and technical factors, consisting of both formal and informal groups ,the neoclassical approach takes the postulates of classical approach and hence the name neoclassical. One more contribution of neoclassical approach was the implementation of behavioral science at work place and the main propositions of neoclassical theory are:

- The organization in general is a social system.

- The social environment on the job affect people .

- In the formal organization, informal organization also occurs and it affects and is affected by formal organization.

- Man is interdependent and his behavior can be predicted in terms of social and psychological factors.

- Man is diversely motivated and wants to fulfill his different types of needs.

- Communication is required as it carries information to the functioning of the organization and the feelings and sentiments of people working in it.

- Collaboration is significant for sound functioning of the organization and work standards are achieved via behavioral approach.

MAJOR THEORISTS AND CONTRIBUTIONS

Chester Bernard – *The Economic of Incentives*

Chester Irving Bernard was the pioneer of management theories and organizational studies. In 1938, Bernard supplied organizational theories based on some structural concepts of the worker and cooperation, formal & informal organization Barnard emphasized two different theories: one on authority and the other on incentives. Both are seen in a situation of a communication system based on seven several rules :

- The channels of communication have to be defined;

- Everyone has to know these channels of communication;

- Everyone should have access to the official channels of communication;

- Lines of communication should be as short and as direct as possible;

- Centers of communication have to be managed by skilled people;

- The line of communication should not be interrupted when the organization is working;

- Each communication has to be authenticated.

Furthermore, what makes a communication authoritative is when the high personal of a company's hierarchy creates communication with their coworkers. Bernard's theory had links with Mary Parker Follett and was it was a very modern theory for this time, and that has persisted until today's management. He seems logical that managers should get authority by taking into account lower workers with respect and competence.

As for incentives, he developed two ways of convincing subordinates to cooperate: tangible incentives and persuasion. Indeed, he supports the idea that persuasion is more important than economic incentives. He provided four general and four specific incentives. The specific incentives were:

- Money and other material incitation;

- Personal non-material opportunities for distinction;

- Desirable physical conditions of work;

- Ideal benefits, such as pride of workmanship, etc.

For Bernard, the hierarchy is not a punctual and coordinated, but "aware, intentional and desired" adaptation to the goals of the company. Bernard presents a systems approach to the study of a company's organization, which bases on a theory about motivation and behavior.

- From the viewpoint of the organization need or seeking contributions from individuals, the problem of effective incentives may be either one of finding positive incentives or of decreasing or eliminating negative incentives or burdens.

- A great list of classes of incentives

- Methods of persuasion

- Sought to create a comprehensive theory of behavior in organizations that was centered on the need for people in organizations to cooperate – to enlist others to help accomplish tasks that individuals could not accomplish alone.

- The responsibility of an executive is (1) to create and maintain a sense of purpose and a moral code for the organization – a set of ethical visions that established "right or wrong" in a moral sense, a deep feeling or innate conviction, not arguable; emotional, not intellectual in character"; (2) to develop systems of formal and informal communication; and (3) to be sure about the willingness of people to cooperate.

- Individuals must be induced to cooperate, "the executive needs to employ different strategies for inducing cooperation, including ways not only to find and use objective positive incentives and reduce negative incentives but also to change the state of mind, or attitudes, or motives so that the available objective incentives can become effective``.

Robert Merton – *Bureaucratic Structure and Personality*

Bureaucratic Structure and Personality was the basic contribution to neoclassical school. A formal, rationally organized social structure deals with clearly defined patterns of activity in which, ideally, ever series of actions is functionally related to the purposes of the organization. In such an organization there is integrated a series of offices, of hierarchized statuses, in which inhere a number obligations and privileges closely explained by limited and spesific rules. Each of these offices takes into account an area of imputed competence and responsiblity. Authority, the power of control which comes from an acknowledged status, inheres in the office and not in the particular person who implements the official role. Official action ordinarily exists within the framework of preexisting rules of the organization. The system of prescribed relations between the different offices involves a considerable degree of formality and clearly defined social distance between the occupants of these positions. Formality is manifested by means of more or less complicated social ritual which symbolizes and supports the pecking order of the various offices. Such formality, which is integrated with the distribution of authority within the system, serves to minimize friction by largely restricting contact to modes which are previosuly defined by the rules pof the organization.

Like Follett, Merton argued the meaning of organization depended upon the personalities and groupings of individuals within bureaucracy. He went so on by speculating that the individual that tried to act according to the stipulations of classic bureaucracy would have a dysfunctional personality, especially in public service organizations.

Merton's underlying assumptions are as follows: (Shafritz et al., 2005).

- "Bureaucracy is administration which almost completely voids public discussion of its techniques, although there may be public discussions of its policies".

- "Another feature of the bureaucratic structure, the stress on depersonalization of relationships, also plays its part in the bureaucrat's trained incapacity".

- ``Discusses dysfunctions of bureaucracy and problems this creates for research``.

- ``Proclaimed that the 'ideal type" bureaucracy as described by Max Weber inhibiting dysfunctions – characteristics that prevented it from being optimally efficient and negative effects on the people who worked in it``.

Herbert A Simon – *The proverbs of Administration*

The criticism of Taylorism and orthodoxy was based on different perspectives in case of limitations and problems dealt with the science of administration in the field. One of the strongest voices to criticize scientific management and orthodoxy in public administration was Herbert Simon in his 1946 article the proverbs of administration (and later in his 1947 book, the administrative behavior), although, he is credit with Taylor's work. He argued that a true scientific method should be used in the study of administration, but what was used by the orthodoxy lacked the empirical basis to do so. Simon (1946) believed that for "almost every principle (of orthodoxy) one can find an equally plausible and acceptable contradictory principle." For Simon (1946), the POSDCORB functions of the public administration orthodoxy were inconsistent, conflicting, and inapplicable in public administration (Shafritz et al.,2004). Thus, he maintained that what were called the (POSDCORB) principles of administration are only proverbs of administration because public administration should only deal with facts. Simon supported the fact value dichotomy because it provides a stronger basis for a science of administration. Via the behavioral approach, Simon narrowed the scope of rationalism by separating facts from values and introducing his concept of bounded rationality. According to Fry (1998), Simon did not support the politics-administration dichotomy because of its failure to "define a value-free domain required for the development of a science of administration, since administrators are involved in policy functions and thus values consideration". Simon (1946) called for empirical research and experiments to determine the appropriate administrative arrangements that can run organizations effectively.

Simon's underlying assumptions are as follows: (Shafritz et al., 2005).

- For almost every principle one can find an equally plausible and acceptable contradictory principle.

- He attacks classical organization/administrative theory.

- Points out, with a topic of centralization vs. decentralization, that each has their benefits/advantages.

- Satisfice!

- Stated that classical organization theory was "inconsistent, conflicting, and inapplicable to many of the administrative situations facing managers".

- Stated that the "so-called principles of administration are instead proverbs of administration".

- Asserted that "organizational theory is, in fact, the theory of the bounded rationality of human beings who 'satisfice' because they do not have the intellectual capacity to maximize``.

- He developed the "science" of developing decision making via quantitative measures.

- He "was the leader in studying the processes by which administrative organizations make decisions".

Philip Selznick – *Foundations of the Theory of Organization*

Philip Selznick (1948) Foundations of the Theory of Organization was the basic contribution to Neoclassical School. The three major ideas in Selznick's theory of organization are; organizations as cooperative, adaptive social systems; the conflict of personal and organizational goals and needs; and controlling conflict for the good of the organization. He was also the first person to talk about co-optation, which is a method of protecting the organization and its mission by taking into account threatening elements into the policy making process. Organizations exist to serve human needs (rather than the reverse). Organizations and people need each other. (Organizations need ideas, energy, and talent; people need careers, salaries, and work opportunities.) When the fit between the individual and the organization is poor, one or both will suffer: individuals will be exploited, or will seek to exploit the organization, or both. A good fit between individual and organization benefits both: human beings find meaningful and satisfying work, and organizations get the human talent and energy that they need. No other perspective of organizations has ever had such a wealth ıf research findings and methods at its disposal. According to this theory, the organization is not the independent element to the manipulated in order to change behavior (as a dependent variable), even though organizations pay employees to support them to achieve organizational goal.

Selznick's underlying assumptions are as follows: (Shafritz et al., 2005).

- "But as we inspect these formal structures we begin to see that they never succeeded in conquering the non-rational dimensions of organizational behavior".

- "On one hand, any concrete organizational system is an economy; at the same time, it is an adaptive social structure".

- Sociologist, asserted that "while it is possible to describe and design organizations in a purely rational manner, such efforts can never hope to cope with the non-rational aspects of organizational behavior".

- Stated that "organizations consist not simply of a number of positions for management to control, but of individuals, whose goals and aspirations might not necessarily coincide with the formal goals of the organization".

- Known for his concept of "Cooptation" which "describes the process of an organization taking together and subsuming new elements into its policy-making process in order to prevent such elements from becoming a threat to the organization or its mission".

Richard M. Cyert and James G. March – *A Behavioral Theory of Organizational Objectives*

A Behavioral Theory of Organizational Objectives was the basic contribution to neoclassical school. Organizations make decisions. They do decisions in the same sense in which individuals make decisions. The organization as a whole behaves as though there existed a central coordination and control system capable of directing the behavior of the members of the organization sufficiently to allow the meaningful imputation of aim to the total system. Because the central nervous system of most organizations appears to be somewhat various from that of the individual system, we are understandbly cautious about viewing organization decision making in quite the same terms as those implemented to individual choice. Nevertheless, organizational choice is a legitimate and significant concentration of research attention.

Cyert and March's underlying assumptions are as follows: (Shafritz et al., 2005).

- Firms seek to maximize profits

- Firms operate with perfect knowledge.

- "Our interest is in understanding how complex organizations make decisions, not how they ought to do so".

- Includes four major subsystems "required for a behavioral theory of organizational decision-making".

- "Discussed the formation and activation of coalitions as well as negotiations to impose coalitions' demands on the organization".

- "Postulated that corporations tended to 'satisfice' rather than engage in economically rational profit-maximizing behavior".

STRENGTHS AND WEAKNESSES

Strengths

- It found "holes" in classical organization theory, attempted to revise it, and spurred almost all other schools of thought that followed.

- It led to further research and study relating to the humanness of organizational members, coordination needs among administrative units, the operation of internal-external relations, and the processes used in decision making.

- ``De-emphasized simplistic mechanistic organizational theories``.

- Helped the future incorporation of professions into organization theory, such as sociology.

Weaknesses

- "The neoclassicalists did not support a body of theory that could enough replace the classical school".

- "It attempted to blend assumptions of classical theory with concepts that were subsequently used by later organization theorists from all perspectives": It was an "anti-school" – it couldn't stand on its own``.

DISCUSSION AND CONCLUSION

It should be clear from this introductory paper that models we use and ways we examine people and organizations have become more dynamic and complex. The concentration of attention gradually changed from an emphasis on physical and structural factors, to human relationships and interactions, to the application of quantitative methods and computer technology in organizational decision making. Nowadays, management theorists have developed a more integrated approach in the systemic analysis of organizations, their members, and their environments. We have shifted from "one-best-way" approaches to a situational or contingency perspective. Different theories of organization have been, are being evolved and continued to be evolving since people continued to be exist.

The field itself has evolved from what has been termed a *micro*-orientation (concentration on the structures and processes within and between individuals, small groups, and their leaders) to include more of a *macro*-perspective (concentration on the structures and processes within and among major sub-systems, organizations, and their environments) as well. There is an attempt to combine the logic of the classical school and the nonlogical feelings of the neoclassical tradition via more systematic, integrated analyses of behavior and structure at the individual, small group, organizational, and inter-organizational levels.

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