

# MARKET, ORGANIZATION HIERARCHY AND NETWORK FORMS

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**Abstract:** *The purpose of this article is to analyze literature in the organizational behavior field. Powell (1990) contrast three modes of organization and stress the salient features of each - market, hierarchy, and network. The logic of network forms demonstrates how networks differ from other forms, illustrative examples of network arrangements in craft and high-technology industries, in regional economies, and in formerly vertically integrated fields. The aim is to develop a number of empirical arguments about the circumstances that encourage the growth of networks and allow them to proliferate. The paper concludes with conditions that encourage the growth of network forms of organization.*

**Keywords:** *Market, Organization hierarchy, Network, Know-how*

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## 1. INTRODUCTION

Literature in this paper followed the fields of international business, technology strategy, industrial relations, organizational sociology, and the new institutional economies. Coase [1] in article on the nature of the firm, conceived firm as a “black box”. Williamson and Oliver’s [2] define it as a “transaction that involve uncertainty require specific investments”- of money, time or energy that cannot be easily transferred. Transactions are moved out of markets into hierarchy, where inefficiencies of bureaucratic organization preferred to the relatively greater costs of market transactions, for two reasons: bounded rationality and opportunism. According to Powell [3] “out-side boundaries of firms are competitors, while inside managers exercise authority and curb opportunistic behavior”.

The view that transactions are distributed at points along a continuum implies that markets are the starting point which other methods evolve. As Moses Finley [4] tells us “only money in the nature of free booty and treasure trove”. Williamson remarks “transactions in the middle range are much more common”.

For high tech start-ups in the U.S. and craft-based firms in Northern Italy, continuum fails to capture the complex realities of exchange, blinds us by reciprocity and collaboration as alternative governance mechanisms. Goldberg [5] notes that many market exchanges have been replaced by international collaborations.

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## 2. MARKET, ORGANIZATION HIERARCHY, AND NETWORK

Powell [3] aim to identify a coherent set of factors which talk about networks as a distinctive form of coordinating economic activity, then employ these ideas to generate arguments about the frequency, durability, and limitations of networks.

Table 1: Stylized Comparison of Forms of Economic Organization

<i>Key Features</i>	<i>Forms</i>		
	<i>Market</i>	<i>Hierarchy</i>	<i>Network</i>
Normative Basis	Contract-Property Rights	Employment Relationship	Complementary Strengths
Means of Communication	Prices	Low	Relational
Methods of Conflict Resolution	Haggling-resort to courts for enforcement	Administrative flat-Supervision	Norm of reciprocity-Reputational concerns
Degree of Flexibility	High	Low	Medium
Amount of Commitment Among the Parties	Low	Medium to High	Medium to High
Tone or Climate	Precision and/or Suspicion	Formal, bureaucratic	Open-ended, mutual benefits
Actor Preferences or Choices	Independent	Depended	Interdependent
Mixing of Forms	Repeat transactions	Informal organization	Status Hierarchies
	Contracts as hierarchical documents	Market-like features: profit centers, transfer pricing	Multiple Partners Formal rules

Organization, or hierarchy, arises when the boundaries of a firm expand transactions and resource flows that were previously conducted in the marketplace. In hierarchies, communication occurs in the context of the employment contract. Relationships matter and previous interactions shape current ones [3]. The strength of hierarchical organization, is its reliability - its capacity for producing large numbers of goods or services of given quality repeatedly. A hierarchical structure is well-suited for mass production and distribution.

In networks, the preferred option is often one of creating indebtedness and reliance over the long haul [3]. Each approach thus devalues the other: prosperous market traders would be viewed as petty and untrustworthy shysters in networks, while successful participants in networks would be viewed as naive and foolish. These relationships effort to establish and sustain ability to adapt to changing circumstances. As networks evoke, communication and problem solving-is established.

## 3. ILLUSTRATIVE CASES OF NETWORK FORMS

Powell [3] provide examples of networks from a diversity of industries, involving intricate, multifaceted, durable relationships in which horizontal forms of exchange are paramount. Argument was based on notion that similar patterns of exchange are likely to entail similar behavioral consequences, no matter what the substantive context is. It begins with craft industries, where each product is relatively unique, search procedures are no routine, and the week process

depends to considerable degree on intuition and experimentation (Persow, 1967); Powell discuss book industry where large firm is able to keep top-flight editors' content and gain great financial stake. He concluded that the both spinoff arrangements and the quasi-organizations based on personal networks reflect the fact that editors are located in structurally ambivalent positions.

Powell [3] turn next to discussion of industrial districts, where network move to high technology. Firms locate in an area because of skilled laborers, and an institutional infrastructure [6]. Sabel et al. [7] describe the German textile industry, as an "association of specialists, each with unmatched expertise and flexibility in particular phase or type of production". The Emilian Model presents small Italian firms typical vertically-integrated. Production is conducted through extensive, collaborative subcontracting agreements. A combination of familiar, legislative, ideological, and historical factors buttresses Emilia-Romagna's economic progress. Small firms are able to offer vast array of new products and are able to give shape to new ideas with a speed unimaginable in larger enterprises.

As example of interfirm cooperation which often can be found in Japan, Dore [8] argues that stable trading relationships are a viable alternative to vertical integration. The success of these forms of extended trading networks has two keys: boundaries of the firm, a new constellation of forces recognized as crucial to economic success, and the spread of technologically advanced firms.

### **3.1. Strategic Alliances and Partnerships**

There is widespread evidence, with various new kinds of interfirm agreements, collaborations, and partnerships. Firms are seeking to combine their strengths and overcome weaknesses in collaboration that is much broader and deeper than the typical marketing joint ventures and technology licensing. Large firms include joint ventures, strategic alliances, equity partnerships, collaborative research pacts of large-scale research consortia, reciprocity deals, and satellite organizations. Equity investment - cooperative agreements in order to gain fast access to new technologies or new markets combine direct project financing and varying degrees of ownership, such as research contracts, exclusive licensing agreements, loan and other financial agreements [9].

The larger and more technology-intensive firm invests, rather than purchases. The basic thrust is quite obvious and critical to success is knowing how to make a product and how to make it work. General Motors invest in tech-knowledge, type of artificial intelligence, by noting that "if we purchased the company outright, we would kill the goose that laid the golden egg."

In joint ventures the relationships are multidimensional and long-term. On the push side are technological constraints and on the pull side financial concerns and the advantages of risk reduction. Borys and Jemison [10] suggest that because partners have not previously worked together, they may misperceive one another's actions.

Powell [3] concluded with the case of vertical disaggregation, where networks represent an effort to introduce collaboration into well-established contexts in which trust and cooperation have long been absent. Failures in vertically-integrated firms are an inability, resistance to process innovations and systematic resistance to introduction of new products. Disadvantages of large-scale vertical integration become acute when technological change quickens, product life cycles shorten, and markets become more specialized, to slow response times, and decreased employee satisfaction.

Heightened competition exposed number of serious defects in this system in auto industry, which led to inflexibility. Joint venture activity is extensive between Ford and Mazda, General Motors and Toyota, GM and Volvo, and Chrysler and Mitsubishi. Ownership is also held in tandem. The automakers become more dependent on the technological expertise of the suppliers, pursuing outsourcing strategy to low wage areas.

#### 4. THE ETIOLOGY OF NETWORK FORMS

Many of the arrangements discussed above actually release transaction costs, but in return they provide concrete benefits or intangible assets that are far more valuable. The reduction of uncertainty, fast access to information, reliability, and responsiveness are among the paramount concerns that motivate the participants in exchange networks.

The powerful trading companies such as Mitsui, Mitsubishi and Sumitomo, enables us to understand the circumstances under which network forms arise, as suggested: cooperation over the long run, incentives for learning, open-ended quality of networks, and high feasibility utilizing and enhancing intangible assets as tacit knowledge and technological innovation.

#### 5. RATIONALE FOR NETWORK FORMS

Powell [3] highlights three factors - know-how, the demand for speed and trust as critical components of networks.

**Know-how.** Intellectual capital, education, training, and experience, cultural production, scientific research, design work, mathematical analysis, computer programming or software development, require little in the way of costly physical resources. Networks are most likely to arise and proliferate in fields in which knowledge and/or skills do not lend themselves to either monopoly control or expropriation by the wealthiest bidder.

**The demand for speed.** This view suggests fast access to information, flexibility, and responsiveness to changing tastes. Key advantages are ability to disseminate and interpret new information is seen most clearly when networks are contrasted with markets, hierarchies, and when the flow of information is controlled. As information passes through network, it is both freer and richer, new connections and new meanings are generated, debated, and evaluated.

**Trust.** As examples, craft-based networks and industrial districts suggest that the more homogeneous the group, the greater the trust, hence the easier it is to sustain network-like arrangements. When the diversity of participants increase, trust recedes, and so does the willingness to enter into long-term collaborations.

#### 6. CONCLUSIONS

Number of key issues was suggested for the future research, the durability of networks, distinction between very specific resources and intangible assets that might account for divergent patterns, behavioral differences among markets, hierarchies, and networks etc. When the diversity of participants increase, trust recedes, and so does the willingness to enter into long-term collaborations. So, basic trust, know-how, and demand for speed are critical to make a product and to succeed.

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