The change programme through alignments — which also appears in this approach — is not applicable in complex business involved in highly turbulent environments[6]. In this case, an adequate strategic management model should be adopted using the systemic approach model in the SWOT analysis in the diagnosis phase.

In fact this model was not designed for this purpose but to give direct potential to the diagnosis model in business areas and in medium-turbulent environments and allow a first approach to fundamental areas of change in the other cases.

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Markets and Networks: How they Operate in Asia

1. INTRODUCTION

Until approximately the late 1950s, the theory of organisations was stabilised. The scene was dominated by the classical management theory, with its idea that there was one best way' to structure all organisations — through a hierarchical, highly formalised arrangement in which organisational life was governed by detailed plans and systems laid down centrally. A secondary approach was contained in the human relations movement which took a more individual centred perspective and advocated participation. In the beginning of the 60s these two perspectives were synthesised into the contingency theory of organisational structure which held that the organisations should be more centralised or more participatory depending upon their contingent circumstances (or the contingency factor). And these factors could be its operational technology (Woodward, 1958), the rate of environmental change (Burns and Stalker, 1961) and size (Pugh *et al.*, 1969).

Common to all different structural contingency theories was the idea that the fit between the structure and the contingency factor affected organisational performance-with a fit raising performance and a misfit lowering performance.

Structural contingency theory constituted a research paradigm in that there was a core theory (the idea of a structural contingency fit which affected performance) and a style of empirical research which featured comparisons of structures and contingencies across organisations.

This paradigm was constructed step by step and academics and practitioners navigated in this quiet sea. But, in the 70s the things changed. On one hand, the environmental changes and uncertainties became a serious external threat in managing organisations and, on other hand, the pressure to publish in order to be promoted forced the academics to look for something, new and different in order to improve their reputation (and salary). Anyone reading through what purports to be theory of organisations literature will perceive the analogy between it and a "terminological jungle in which any newcomer may plant a tree".

The late sixties and the early seventies was a turbulent time in the United States, with active opposition on the university campuses to the war in Vietnam. The movement against the war linked its atrocities to the establishment and to established ideas in social research, creating a mood hostile to sociological functionalism and to what was seen as scientism. If in society there was a growing support for a counterculture, in the Universities there was a pressure to overthrow existing paradigms.

The core theory of organisations shifted its emphasis from the functionality of structure to seeing structures as political. Managers were no long seen as builders of functionalist strategies and structures in the Chandlerian manner. With this world view, a new generation of theories of organisations was spawned, differing among themselves but reflecting a common origin in the political model of organisations. In particular, three new paradigms arose in the USA in the 70s, which all shared elements of the political view: resource dependence theory, institutional theory and population-ecology theory.

Resource dependence theory states that the organisations need certain resources and will tend to comply with resource suppliers, thereby granting power to those who assist resource supply, either as external providers or as internal facilitators.

Institutional theory states that organisations are to a considerable extent shaped in their structures by the need to fit not with task contingencies, but with demands and expectations of the wider institutional environment stemming from cultural norms, standards set by professional bodies, requirements of funding agencies.

Population-ecology theory stresses how organisational form and structure is shaped through organisational birth and death rather than through adaptive change by organisation fails to occur or lack sufficient frequency or speed, refers to the internal power system. Population ecologists stress organisational inertia, the inability to change structures and processes once established. Population ecologists view organisational design as a wager on fitness that, once planned, consigns an organisation to its fate.

2. ORGANISATIONAL ECONOMICS

Even if the majority of the proponents of these schools were sociologists and psychologists, the economists are not quiet. They developed and divulged others paradigms. Analytic framework derived from economics have grown in popularity in the field of organisational theory. In particular, agency theory (Jensen and Meckling, 1976) and transaction costs theory (Williamson, 1985) have arisen as major theoretical contributions and these collectively may be termed the organisational economics approach (Barney and Ouchi, 1986).

Agency theory is concerned with the study of principal agent relationship. according to the original definition of Jensen and Meckling, an agency rela-

tionship "is a contract under which one or more persons (the principal (s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent". In a narrow sense, agency theory is a special contract theory. Agency theory holds that organisations can be analysed in terms of a conflict of interest between principals and agents. Particularly in the large modern corporation, the principals of the organisations are the owners, the many outside shareholders, who own but delegate control to the executive managers who are the agents. Managers have interests, according to agency theory, which diverge from those of the principals and so may use their discretion to maximise their interests at the expense of the interests of the principals — this termed residual loss.

Agency theory has developed along two distinct lines. On the one hand there is the normative agency theory which is largely concerned with the design of optimal incentive contracts. On the other hand there is an empirically oriented positive branch of agency theory which focuses on the explanation of different institutional arrangements which can be observed in reality. Under two realistic assumptions all the principal agent relationships cause the so called agency problems. The first assumption is that the agent is an individual who attempts to maximise his own utility rather than that of the principal. The second assumption concerns the asymmetrical distribution of information between the parties. Two kinds of information asymmetries can be distinguished: the hidden action case and the hidden information case. In the hidden action case the action choice of the agent is unobservable by the principal; thus a moral hazard problem arises, that is, post-contractual opportunistic behaviour of the agent is likely to happen. In order to maximise his own welfare the agent may take actions which are not in the best interest of the principal. The hidden information case refers to a situation where the agent has access to pre-contractual information which is not observed by the principal. In such a situation an adverse selection problem may arise, that is, the "bad" agents tend to drive out the "good" agents. Agency theory tends to see managers as ever ready to cheat the principals or owners unless constantly controlled in some way.

The transaction cost theory is based on the property rights theory, but emphasises the single transaction. A transaction is the process of negotiating and executing an exchange of performance. Each transaction causes the so called transaction costs, which can be sub-divided into ex-ante transactions costs and ex-post transaction costs. The costs of search and selection of the partner, evaluation of alternative courses of actions, generation of feasible plans, expert and professional advice, and negotiation belong to the first group. Given bounded rationality and the impossibility of writing long term contracts that are complete and binding, and given the potential for self-interested behaviour, ex-post transaction costs arise. Ex-post costs are those incurred in subsequently administering, informing, monitoring, and enforcing the contractually promised performance. The amount of transaction costs depends on certain environmental factors as well as on the behaviour of the individuals.

The environmental factors can be classified as follows:

1. Characteristics of the transaction,
2. Ambiguity of the transaction,
3. Uncertainty,
4. Frequency of the transactions,
5. Infrastructure within the transaction,
6. General institutional framework, and
7. Information systems.

Bounded rationality and opportunism of the individual actors are assumed to be essential sources of transaction costs. Bounded rationality means that individuals intend to be rational but their calculating and choosing capacities are finite, bounded. This implies incomplete information about opportunities have limited ability to predict the future. Assuming omniscience is unrealistic; people do not know everything, so they make mistakes. Opportunism follows from bounded rationality plus self-interest. Opportunistic people pursue their self-interest with guile. If it is profitable, people will lie or cheat. assuming strict honesty is unrealistic.

The transaction cost theory is mainly influenced by Oliver Williamson . In Willamson's approach the firm is seen as an internal organisation of formerly external market transactions. As such the firm (or hierarchy) has five advantages over the market:

1. The firm allows the removal or at least the reduction of bounded rationality of individuals,

2. Opportunistic behaviour of the members of the firm can be reduced by adequate incentive and monitoring mechanisms,

3. Uncertainty is reduced by internal organisation,

4. The internal auditing capacities of the firm overcome the problem of selecting and holding back information, and

5. Other secondary effects result from the intra-firm exchange process, which causes a further decrease of transaction costs.

Because of these general advantages, the firm is a better transaction cost economiser than the market. Transaction cost theory states that market failure occurs such that the normal economic pressure on economic actors to perform effectively breaks down and has to be replaced by hierarchical controls. In the large corporation with a mullet-level hierarchy, middle managers enjoy a degree of independence from top management and begin to subordinate the

corporate goals of the maximisation of profit and shareholder wealth in favour of their personal self-aggrandisement. The solution is to increase control on middle managers by holding them directly accountable for the profitability of their division as assessed by an investigator control staff of head-office accountants.

Williamson states (1985:30): "Transaction cost economics assumes that human agents are ... given to opportunism, which is a condition of self-interest seeking with guile". Williamson also states that his axiom of opportunism does not mean that every person acts opportunistically, but rather that some people act opportunistically. "I do not insist that every individual is continuously or even largely given to opportunism. To the contrary, I merely assume that some individuals are opportunistic some of the time and that differential trustworthiness is rarely transparent ex-ante. As a consequence, ex-ante screening efforts are made and ex-post safeguards are created. Otherwise, those who are least principled (most opportunistic) will be able to exploit egregious those who are more principled" (pp. 64).

Thus there is no general presumption of opportunism, but opportunism is nevertheless sufficiently widespread. Opportunism then becomes the central assumption of institutions and an ever-present apprehension of actors as they face each other in the transactions that they anticipate. "Human agents will not reliably self-enforce promises but will defect from the letter and the spirit of an agreement when it suits their purposes. That somewhat dismal view of human nature alerts contracting parties (and those who would study contracting practices) to be wary of the hazards. To be sure, suspicions and precautions can be and sometimes are taken to excess.... but a healthy regard for opportunism is essential to an understanding of the purposes served by complex modes of economic organisation (388).

Thus the possibility of opportunism becomes sufficiently probable that it is the pivotal tenet of the theory of the economic institutions of capitalism in William son: "governance structures that attenuate opportunism and otherwise infuse confidence are evidently needed" (63).

In this way opportunism becomes an assumption that is constantly repeated in the theory statements with little space devoted to other, more benign, views of human nature. For example: "the manager behaves myopically with respect to the enterprise. The object being to maximise immediate net receipts, labour costs will be saved by utilising equipment intensively, and maintenance expense will be deferred to a successor management.(138) and "But the principal function of the board remains that of providing governance structure protection for the stockholders. Management participation should not become so extensive as to upset that basic board purpose (317) and "As with economic models more generally, the human agents who populate transactions cost economics are highly calculative (391).

Similarly, Jensen and Meckling (1976) specify some of the ways in which agents can gain at cost to their principals. One such set of costs arises from the manager indulging in more non-pecuniary benefits: "such as the physical appointments of the office, the attractiveness of the secretarial staff, the level of employee discipline, the kind and amount of charitable contributions, personal relations ("love", "respect", etc.) with employees, a larger than optimal computer to play with, purchase of production inputs from friends, etc. (Jensen and Meckling, 1976:312).

On turning the pages of organisational economics, one finds oneself back in the world of McGregor's Theory X: people are selfish, lazy, and cannot be trusted, and must be controlled through reward-punishment schedules if there is to be any organisational productivity. Yet there is also in organisational psychology the opposite model of "man". McGregor's Theory Y, which states that people are inherently capable of intrinsically motivated work, of self-management, co-operation and trustworthiness.

For these authors only markets working under perfect competition (or hierarchies if markets fail) could eliminate the opportunistic behaviour's effects. Market is usually understood as an organised process by which buyers and sellers exchange goods and services for money. Markets comprise the central nervous system of a free-enterprise economy. As a basic economic institution, a market has two important aspects, a "functional" aspect, and a "value" aspect (Greer 1992:5). With respect to function, we rely on markets to cope with the fundamental economic problems of a society such as : What to produce; How to produce and For Whom to produce. As far as values are concerned, it is believed that the market system accords well with the fundamental development objective of capitalist societies such as "freedom", "justice" and "welfare".

Based on the framework provided by the classical economists (of' particular relevance is Adam Smith's "invisible hand"), the neo-classical school, which began in 1870, with the pioneering contributes of Alfred Marshal, developed a sophisticated version of market mechanism by using "equilibrium" and "marginal" constructs to frame their analysis. The market economy was treated as a system which was stable, and if it were shocked out of its given states automatic forces could be generated to restore stability (or equilibrium). The marginal analysis refers to incremental changes and by using it the neo-classical economists demonstrated how an individual can maximise his satisfaction or how a firm with usual constraints can maximise its profit. That means that an organisation theory with an unspecified utility function does not provide a basis for understanding real organisations.

The neoclassical model is based on a central idea: the autonomy of economic actors, both individuals and firms, who seek their self-interest in economic matters. The neoclassical economic paradigm conceives the ideal conditions for perfect competition are a large number of firms making substitutable products so that buyers have no reason to prefer one firm's output over another independent and dispersed firms, and complete knowledge of all offers to buy and sell. This model of competitive economic relations conceives actors as isolated units. Capitalists, both buyers and sellers, ideally are independent and mindless of one another and indifferent as to parties from whom they buy or to whom they sell. Price is the only criteria for a transaction.

3. THE JAPANESE APPROACH, PAST AND FUTURE

This conceptualisation of the market with its conditions of autonomy and impersonality and its resultant "optimal" firms, was developed as a means to understand the structure and functioning of Western societies, primarily the British and American economies. Economists, however, do not regard this model as an abstract, ethnocentric representation of these economies, but rather as a general model of capitalism that can be applied world-wide. In a certain way, they forget that the cultural factors are interrelated with the factors that determine the relative superiority of an economic model. "The history of capitalism shows that the unique societal factors have always played important roles in the development of countries such as England, Germany, and the United States, to positions of economic world leadership (and) as each country's characteristics social and cultural factors are interrelated with the factors that determine relative manufacturing superiority, it is clearly insufficient .... to focus solely upon these aspects of the systems that all countries have in common" (Abo, 1994:10).

According to neoclassical theory there are only two forms of economic organisation: markets and firms (also called hierarchies). Economists have difficulty applying this model of markets and firms to Asia with its developed interfirm work (Aoki, 1990). Networks are neither independent market actors, nor hierarchically governed firms. However, Western economists attempt to interpret Asian economic organisation in terms of this dualistic neoclassical conceptualisation. Alfred Chandler, for example describes the Japanese Zaibatsu as an organisation comparable to M-form or multidivisional firm originated in USA.

Japanese economists (Aoki, 1984; Goto, 1982) argue that Japanese business groups are neither firms nor markets, but constitute an intermediate phenomenon that exists between the two. They argue that Japanese groups do not operate like a single firm. They have neither a single set of owners, nor a tightly integrated system of financial controls. They are not independent, competitive firms, nor do they constitute a single megafirm. They are networks, according to Goto(1982), that buffer and channel market forces.

The crucial economyc in Asian societies is typically not the individual, but rather the network in which the individual is embedded. Asian believe that social relations between economic actors do not impede market functioning, but rather promote it. Just as Western economies have institutionalised ways of maintaining autonomy between actors, Asian economies are rooted in institutions that encourage and maintain ties.

The terms "network organisation" (Miles & Snow, 1986), "network form of organisations" (Powell, 1990), "organisation network" (Uzzi, 1997) have been used frequently, and somewhat metaphorically, to refer to interfirm coordination that is characterised by organic or informal social systems, in contrast to bureaucratic structures within firms and formal contractual relationship between them.

In Japan the relationship between employer and employee is not to be explained in contractual terms. The attitude of the employer is expressed by the spirit of the common saying "the enterprise is the people". This affirms that employer and employee are bound as one fate in conditions which produce a tie between man and man often as firm and close as that between husband and wife. Such a relationship is manifestly not a purely contractual one between employer and employee; the employee is already a member of his own family, and all members of his own family are naturally included in the larger company "family". Employers do not employ only a man's labour itself but really employ the total man. The employees are trained by the company not only technically but also morally. In Japan it has always been believed that individual, moral and mental attitudes have an important bearing on productive power.

According to Chie Nakane (1970:80) for a variety of reasons it is difficult for a Japanese to establish operational contractual personal relations. First, it is hard for a Japanese to differentiate his roles and once a relationship is established both parties tend to expect more from it than work itself, and so involve themselves emotionally: only through this involvement can they feel certain that the operation in question will be performed smoothly and effectively. His emotional security seems the foremost requirement for a Japanese engaged in co-operative work. Second, in Japan it is very difficult to form a corporate group by inviting those best suited to the work in question; everyone is already more or less involved in a particular group, and the links and loyalties thus established will not easily be cut. If a man is invited to join a new group he may try his best to take along his whole entourage to the new group, or he may still hold loyally to his former group. In major Japanese firms, cohorts are often hired, compensated, and promoted, with individual performance differences having little import until late in a career (Clark 1979).

The overall picture of a society resulting from such inter-personal (and intergroup) relations is not that of horizontal stratification by class or cast but of vertical stratification by institution or group of institutions which originates special organisational forms, for example "the main bank system".

A Japanese firm usually has a bank that is its largest lender, one of its largest shareholders, and sometimes supplies one or two board members. The

bank in this case is called the "main bank" of the firm, and such a relation is often referred to as "the main bank system". The bank firm relations in Japan are subtle and the arrangements are implicit. Similarly, the boundary of a corporate group is ambiguous: it is often hard to decide whether a firm belongs to a group or not. The primary relationship of the Japanese firm is with its "main bank". The relationship is not limited to credit dealings, in fact, even firms that do not borrow from banks normally have their "main bank".

When a firm goes from the normal to the critical wealth state, a mechanism is triggered for control to shift from the incumbent management to the "main bank". Because the "main bank" is a major stockholder, carries major payment settlement accounts and is the major creditor and the *de facto* lead manager of an "informal" loan syndication in the case of borrowing, the "main bank" may be able to acquire information indicating possible financial trouble of the firm at a relative early stage (Aoki 1994:21).

Hoshi (1994) identifies six types of ties among banks and industrial firms within the horizontal Keiretsu (group of large firms in diverse industries): "1. presidents' council meetings, 2. bank borrowings, 3. cross-share holdings, 4. board members exchange, 5. transactions in intermediate product markets and 6. Joint projects". Hoshi defines "the main bank system" as the close relationship between a firm and a specific bank that is characterised by (2), (3) and (4) of the above ties: i.e. bank borrowings, crossshare holdings and board members' exchange".

Bank Borrowing: Group financial institutions (typically, a city bank, a trust bank, a life insurance company, and a casualty insurance company) are important debt-holders of industrial companies in a horizontal Keiretsu. Although firms also borrow from financial institutions from outside the group, a substantial proportion of bank borrowing comes from group financial institutions.

Cross-share holdings: Group financial institutions are also important shareholders of other firms in the group. Thus, debt-holders are often shareholders at the same time. This network of mutual share holding is often called "cross-share holding", which constitutes another defining characteristic of the Horizontal Keiretsu. Thanks to stable patterns of cross share holding among the members of the Horizontal Keiretsu, the top management of the Japanese firm are freed from the short-term pressures of the stock market. This relationship between top management and the capital market is quite different from the Anglo-American model in which the capital market functions as an effective monitoring device.

Board Members' Exchange: the group bank often sends an employee to become a board member of a group firm. When a bank employee is sent to a group firm in this way, he usually leaves the bank, becomes a permanent employee of the industrial firm, and serves as a board member for more than ten years. He becomes an important source of information for the bank in critical times. When a firm is in serious financial trouble, the group bank sometimes sends current employees to act as directors and thereby intervenes in the management of the firm in order to rescue it, according to Aoki (1994), the selection and policy orientation of top management is controlled by both the body of employees and the "main bank", to whom other investors and financiers delegate monitoring functions. The controlling power of the "main bank" is not explicit in the normal or favourable financial state. However, once a firm faces financial distress, governance shifts from insider to outsider (the "main bank"). In this sense, the controlling power of both parties is contingent on the financial state of the firm. This disciplinary mechanism under the "main bank" system differs from the Anglo-American system which is based on takeovers and bankruptcy procedure. It is somewhat like the German system in which the grossen Bank plays a key role in corporate governance. Firms other than the financial institutions also send their employees to other firms, but rarely to the financial institutions.

In the Horizontal Keiretsu as well in the Vertical Keiretsu (production), the exchange of personnel is often key to bonding group firms to each other. Large firms dispatch retiring employees to subsidiaries or subcontractors, where they serve as senior executives. Also a considerable number of employees, particularly white-collar employees, have their employment contracts with their original employer terminated at a relatively late stage of their career. The termination is often disguised by the arrangements of new jobs by the original employers (the so called shukko and tenseki). The securement of new jobs for workers separated from their original employers is normally with firms of lower rank (i.e. subsidiaries, subcontractors of original employers). Nowadays with the economic crisis the contracts terminate in an early stage of their career and it is becoming more difficult for the original employers to find a place for these employees.

The well known persistence of the crisis in the Japanese economy is typically a transition crisis, i.e., the previous growth regime or model, or the technological basis of the pervious regime was more or less exhausted, or at least unable to produce enough additional progress. However the emergence and the development of a new technical system and a new accumulation process, likely to be based on what we call the information economy are highly needed.

This prolonged crisis (although the trade deficit still persists) led to political realignments and to question, not only, the existing macro-economic model and the pillars (life-time employment, emphasis on seniority and unions) at the micro-model (which is also called the Japanese-style management system), but also the dominant social values, the youth realised that the "Emperor was naked".

The 96 white paper on Japan's economy, prepared by the Economic Planning Agency, describes the "Japanese Economic System in Transition". This was, perhaps, the first time that a white paper analyses structural issues.

The Economic Planning agency recognises that there is a Japanese economic system and, in addition, that the system is in transition. It shows how serious the structural impediments have become for today's Japanese economy.

What is, in essence, the Japanese economic System? According to the paper, it consists of four factors:

(1) The indirect finance system, represented by the major- bank, which is the core of each business group.

(2) The stable employment system based on lifetime employment and seniority based wages.

(3) Business groups characterised by Keiretsu affiliations of closely related companies, and the holding of stocks of each member company by other companies of the same group.

(4) Administrative regulation of the economy.

The first three points represent what is different in the Japanese style of management system. Trust is the cement of these three points . Trust between the enterprises and their main bank. Trust between employees and employers. Trust among the enterprises of a group (Horizontal or Vertical Keiretsu). In Japan, "the enterprise is the people" is a common attitude held by the employees. The relationship between an employer and an employee goes far beyond the black and white of the contract. The paternalistic attitude of the employer often leads him to feel that the new employee is now a member of his "Family". On the side of the employee, this kind of bond is expected and provides a sense of security and belonging.

So, for some time, these pillars provide a perfect explanation for the economic success. The policy of life-time employment for some senior and competent executives and the compensation and promotion system based on seniority have reaped, as a return, loyalty from the members of the organisation. With loyalty, these members, dedicate fully their skills, knowledge and time (the ultimate contribution an employer can ask of an employee) to the organisation. In return, the openness of the organisations and their respect for individual as worker.

However, in the lapse of time, scholars began to examine more closely these pillars and reflect on them. Questions and scepticism arose. Is life-time employment contributory to the organisation or is it creating an over-populated top management in the hierarchy? Do these senior members of the organisations still have clear vision of the business world or have they grown too accustomed to the old rules of the game? Are they helping to develop the "young ones" in the organisation or are they merely blocking their way?.... and many other questions follow. The crisis is not only an economic crisis it is also a crisis of values and the future of the networks is based on the maintenance of trust.

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