

ENVIRONMENTAL FEATURES
WHICH LIMIT ORGANIZATION AND INDUSTRY VIABILITY:
A STUDY OF THE FOOTWEAR INDUSTRY

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THE UNIVERSITY OF ASTON IN BIRMINGHAM

THE ENVIRONMENTAL FEATURES WHICH
LIMIT ORGANIZATION AND INDUSTRY VIABILITY:
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THESIS SUMMARY

This thesis proposes a conceptual framework for the analysis of organizational environments. Three primary segments of the task environment - the transaction environment, the industrial environment and the ecotone are delineated. The interrelationships between the organization and these three environmental segments are examined. It is suggested that the task environment i) defines the nature of the task confronting the organization and the economic, political and social position of the organization within this network; ii) influences the way organizations and industries are organized; iii) prevents recognition of the need for adaptation and change; and iv) limits the alternatives available to the organization should changes in the environment render existing technology, behaviour and structures obsolete.

The British Footwear Industry provides an example of how this framework might be used to investigate the problem of industry decline and organization viability. It is argued that the explanations usually put forth to explain organization failure and industrial decline have not taken into consideration the environmental factors which affect organization and industry viability.

The shift from national markets to global markets has altered the composition of the task environment and has changed the nature of competition from firm versus firm to environment versus environment. Organizations do not compete in the market, their products do. These products are often produced by organizations embedded in environments which are significantly different from the one in which the focal organization and industry is embedded.

TASK ENVIRONMENT
INDUSTRIAL DECLINE
VIABILITY
INTERORGANIZATIONAL RELATIONSHIPS

FOOTWEAR INDUSTRY
ORGANIZATION

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CHAPTER 1

THE STUDY OF THE ORGANIZATION'S ENVIRONMENT

The characteristics of organizational environments demand consideration for their own sake, if there is to be an advancement of understanding in the behavioral sciences of a great deal that is taking place under the impact of technological change. - Emery & Trist (1965)

For nearly three decades management theorists have incorporated a collection of factors they refer to as the organization's environment in their study of organizations. Environmental factors such as the economic, educational, legal-political, socio-cultural features of the society; the behaviour of associations, interest groups, suppliers, distributors, shareholders, and customers relevant to the organization; and market and technological conditions have provided the basis for characterizing external or internal states which the organization faces. Sometimes formulated as environmental typologies, these states - diversity and dynamism (Lawrence & Lorsch, 1967); homogeneity and stability (Thompson, 1967); turbulence (Emery & Trist, 1965); and resource scarcity (Pfeffer, 1972, 1977; Aldrich, 1979) - have been used to:

- 1) determine the effect which environment characteristics have on

- i) the organization's structure, autonomy, effectiveness, goal attainment, public image, and self image;
- ii) the flow of information and personnel between organizations; and
- iii) the degree of co-operation and competition which exists between interacting organizations;

and given these influences, to

- 2) identify the organization structures which are most likely to enhance efficiency, increase its information-processing capabilities, and reduce uncertainty;
- 3) identify the strategies an organization can employ to minimize or manage its dependency and resource scarcity; and
- 4) determine the effect environmental characteristics have on the formation of interorganizational relationships.

The above research is an extension of the study of organizations conducted prior to 1950's. The organization was studied in several disciplines with theorists in each discipline examining different issues and research questions. Sociologists were primarily preoccupied with the of defining the nature of organizations, differentiating them from other types of collectivities (Weber, 1947); Classical management theorists attempted to identify means of attaining efficiency, co-ordination and control within organizations (Taylor, 1911; Fayol, 1949) while Industrial Psychologists sought to identify how the formal organizational system affected and influenced organization members (Barnard, 1938). This early research is often characterized as one dominated by closed-system models

which emphasize internal factors as the prime causal agents accounting for the structure and behaviour of organizations.

The emergence, in the late 1950's, of literature which explicitly referred to the organization's environment followed the introduction and acceptance of von Bertalanffy's theory of open systems and coincided with the emergence of the field of organization theory as a consolidated field of study encompassing a sociological, psychological and administrative perspective of organizations. Open System theory made explicit the need for organizations to draw resources from the environment to ensure survival and hence the need for organizations to be cognizant of, and meet external demands. The sociological perspective emphasized the importance of the formal structure of the organization in defining control and co-ordination; the psychological perspective brought to the fore the human character of organizations; and the administrative perspective introduced principles for the design of organizational structures which would achieve both the organization's goals and objectives and member satisfaction.

This thesis examines the environmental factors which limit organization and industry viability. It introduces a new framework for examining the task environment which departs significantly from existing perspectives of the

environment.

Existing conceptions of the task environment cannot explain why large numbers of firms within a single industry, that have survived periods of task environment volatility and change during the past eighty to ninety years, now in the last decade are failing. Declining organization performance is usually attributed, by Organization Theorists to the organization's failure to adopt an appropriate structure. My investigation suggests that the problem extends beyond organization structure and that it is not sufficient to view the organization solely as a social system when examining the organization in relation to its environment.

While current researchers consider the environment to be an important factor influencing organization behaviour, they retain the earlier emphasis on organization structure and interorganizational phenomena. It is from earlier research, therefore, that the primary concerns of current researchers can be traced. Contemporary theorists continue to pursue issues and questions which were raised by the earlier theorists. (e.g., Weber, 1947; Barnard, 1938; Fayol, 1949).

1.1. INFLUENTIAL RESEARCH CONDUCTED PRIOR TO LATE 1950'S

The origin of the sociological study of organizations is usually attributed to Weber (1864 - 1920) and it is in

his work that we find the concepts and themes which have been taken up by later sociologists studying organizations.

Weber's interest lay in the ways in which modern complex organizations exercise control in society - both internally with respect to their members, and externally with respect to their environment. He classified organizations according to the underlying beliefs held by organization members regarding the legitimacy of authority and suggested that bureaucracy presumes a belief, on the part of the organization members, in "the legality of patterns of normative rules and the right of those elevated to authority, under such rules, to issue commands." (Weber 1947). The formal organization system embodied a system of rules and procedures which would ensure that employees worked for and in the interests of their employing organization. Weber's conception of authority, legitimacy, and bureaucracy now serves as the basis of several distinct streams of organization theorizing. The three 'research areas' which emerged from Weber's work: the study of power and control; the study of organization structure; and the development, institution and consequences of legitimacy; remain the primary research agenda of sociological research of organizations. His clear delineation of those characteristics of a bureaucratic organization which foster legitimacy led to a preoccupation with the identification of the types of structure an organization employs.

Weber made explicit the relationship between structure

and efficiency and identified the criteria by which efficiency is assessed.

Experience tends universally to show that the purely bureaucratic type of administrative organization - that is, the monocratic variety of bureaucracy - is, from a purely technical view capable of attaining the highest degree of efficiency and is in this sense formally, the most rational known means of carrying out imperative control over human beings. it is superior to any form in precision, in stability, in the stringency of discipline, and in its reliability. it thus makes possible a particularly high degree of calculability of results for the heads of the organization and for those acting in relation to it. It is finally superior both in intensive efficiency and in the scope of its operations and is formally capable of application to all kinds of administrative tasks. - Weber, 1947:337)

He identified the criteria he used to evaluate the efficiency of various types of structure: precision, stability, stringency of discipline, reliability, calculability of results and applicability to all kinds of administrative tasks. He concluded that the rational legal bureaucracy provides the highest degree of efficiency and the most rational means of carrying out imperative control over human beings.

The administrative (prescriptive) study of management began with the writings of Taylor (1911), Fayol (1916), Urwick (1944), Follet (1949), and Barnard (1938) who set out to provide guidelines for the rationalization of organizational activities in the interest of increasing efficiency. Scientific Management, which was introduced by Taylor (1911) and forwarded by Gilbreth & Gilbreth (1924)

and others, focused on the analysis of tasks performed by individual workers in order to discover those procedures that would produce the maximum output with the minimum input of energies and resources. Mooney & Reiley (1931); Gulick & Urwick (1937) and Fayol (1949) emphasized the importance of management functions and attempted to generate broad administrative principles. These theorists did not always agree on the principles which should serve as guidelines but all stressed the importance of co-ordination, formalization, and specialization. The major principles developed to guide co-ordination activities included the scalar principle, the unity of command principle, the exception principle, and the span of control principle. Those principles which served as a guide for the specialization of activities included the departmentalization principle and the line-staff principle.

[1][2][3][4]

In their writings these authors proclaimed the fundamental features of formal organizational structure. These same features would serve as the basis for a continuing stream of research designed to identify the degree of specialization, formalization, standardization, and centralization required to enhance organizational efficiency. Although later management theorists would criticize the early theorists for presuming that there is "one best way " to organize, examination of Classical management theorists' writings suggests that they were

aware that the principles had to be modified according to the situation.

Students of administration have long sought a single principle of effective departmentalization just as alchemists sought the philosopher's stone, but they have sought in vain. There is apparently no one most effective system of departmentalism.
- Gulick and Urwick, 1937.

About the same time another theorist, Chester Barnard (1938), was contributing to the management literature. Although not associated with the classical schools of management thought, and overshadowed by later theorists' work (Simon, 1947; Cyert & March, 1955; March & Simon, 1958), Barnard's writings have none-the-less been very influential. He stressed the role of the members of the organization; it was individuals, he argued, who communicated, made decisions and had to be motivated. But unlike Weber, he took the willingness of organization members to surrender control of personal conduct to be problematic. Willingness to cooperate, Barnard argued, positively or negatively, is the expression of the net satisfactions or dissatisfactions experienced or anticipated by each individual in comparison with those experienced or anticipated through alternative opportunities.

It is also from Barnard's work that the assumption of and the importance of organization purpose and goals can be traced. He argued that the elements of an organization are communication, willingness to serve, and common purpose,

and he suggested that willingness to cooperate could not develop without an objective of cooperation. Unless there is such an objective, Barnard argued, it cannot be known or anticipated what specific efforts will be required of individuals, nor in many cases what satisfactions they can expect. The necessity of having a purpose is axiomatic, implicit in the words "system", "coordination", and "cooperation".

All of the forementioned researchers were primarily interested in intra-organization phenomenon (organization structure, power, internal control, goals, and rewards) which they believed affected organization members' participation in the organization and thus the internal functioning of an organization. Organizational goals of efficiency, legitimacy, and rationality were to be achieved through the co-ordination and control of its members. The study of organizations was, to this point, a study of means to effectively manage human resources.

In the late 1950's recognition that organizations depend upon the environment for resources, and that many of the decisions organizations face were related to external aspects, resulted in the reformulation of the issues which were considered in organization analysis. Emery & Trist (1960), succinctly articulating the new perspective, argued that viewing the organization as an open socio-technical system helped "to provide a more realistic picture of how [organizations] are both influenced by and able to act back

on their environment" and pointed to the various ways in which enterprises are "enabled by their structural and functional characteristics to cope with the 'lacks' and 'gluts' of their available environment."

The organization was viewed as an social, open system which functioned in relation to an external environment.

A system of interrelated behaviors of people who are performing a task that has been differentiated into several distinct subsystems, each subsystem performing a portion of the task, and the efforts of each being integrated to achieve effective performance of the system. - Lawrence & Lorsch 1967:3)

Interest in organization effectiveness replaced interest in organization efficiency. Organization structure was now viewed, not as a means of ensuring co-ordination and control of organization members, but rather as a means by which the organization could meet impinging external demands. The way in which the enterprise was organized was believed to make a difference to the organization's ability to effectively meet external demands.

At this juncture in the research there could have been a shift in the way in which researchers viewed the organization towards a perspective of the organization as an economic rather than social system but theorists retained the early conception of the organization as a social system and continued to focus on the formal structural characteristics of the organization.

The study of organization environments has therefore,

been confined to those aspects of the task environment which are believed to provide either explanations for interorganizational phenomenon (the explication of organization structure, power, internal control, goals and rewards, and the attainment of efficiency), or a basis for prescribing the structure and strategies necessary to increase effectiveness. This research has required only cursory examination of the environment in order to determine the degree of complexity, munificence, volatility, and heterogeneity which exists to test the central tenets and hypotheses of the research. The study of the environment has remained outside the purview of most organization theory research. Emery and Trist's assertion that environments demand consideration for their own sake, if our understanding of much of what is taking place is to advanced, has largely been ignored.

In the following section the research on the environment which has emerged during the last three decades is examined. As with most investigations, the central issues, conceptualizations, and focus in environment research have changed over time. It will be argued that three distinct streams of research can be discerned in the literature, each stream emerging in successive decades. The reader should note, however, that none of the questions posed in the early streams have been completely resolved and these questions continue to be investigated as new areas of investigation are taken up.

The chart below (Figure 1-1) summarizes the central components of each research stream. These streams are then discussed in the section which follows.

FIGURE 1 -1

THE DEVELOPMENT OF ENVIRONMENT RESEARCH

	STREAM I (1960's)	STREAM II (1970's)	STREAM III (1980's)
CONCEPTUALIZATION OF THE ENVIRONMENT	Market & Technological Conditions	Resources	Source of Change
ENVIRONMENTAL INFLUENCE	Nature of Task	Resource Scarcity	Demands
ORGANIZATION PROBLEM	Uncertainty	Dependence	Adaption
CENTRAL ISSUE	Structure	Strategies/ Change	Survival

1.2. THE THEORETICAL AND EMPIRICAL DEVELOPMENT OF THE FIELD

Stream I began in the late 1950's with research continuing throughout the 1960's. The environment was viewed as a set of market and technological conditions affecting the organization which had to be considered when designing an organization. Changes in market and technological elements were seen to create organizational uncertainty which required organizations to adopt structures which enhanced its ability to cope with this

uncertainty. The nature of the environment was believed to define the nature of the tasks confronting the organization. The central issue addressed during this decade was how an organization should be structured in order to meet the technological and market demands of the environment.

In the early 1970's the research focus shifted from organization structure to internal power, decision-making processes, strategies, interorganizational relationships, and organization change. The environment was viewed as a source of resources upon which the organization was dependent. The level of resource munificence was seen to influence the type of structure the organization adopted, the power structure of that organization, and the strategies organizations employed in their interactions with other organizations.

By the mid-1980's a new problem emerged; organizations were experiencing difficulties and a number were not surviving. The identification of factors which contributed to the survival of organizations thus became a critical issue. The environment was viewed as turbulent and hostile, imposing demands on the organization to change both its structure and strategies. This requirement for adaption to the environment posed an additional problem for organizations as it became evident that many organizations had difficulty adapting.

1.3. STREAM I: 1960's

The theoretical and empirical research conducted during the first decade laid the foundation for all research which was to follow. The writings established ways of thinking about the relationship between organizations and their environment, introduced the concepts used to characterize the environment, and articulated the issues which were later pursued. Open-system theory offered a framework and a conceptual language for understanding and describing the organization located within a larger system. The early writings explicated this framework and conceptual language.

Maurer (1971) provides a comprehensive compilation of the key articles written on the environment between 1958 and 1970. The topics included: the organization as an open system which could be viewed as input/throughput/output, (Katz & Kahn, 1966); information requirements imposed by the task environment, (Dill, 1966); the organization - set, (Evan, 1966); the causal texture of organizational environments, (Emery & Trist, 1965); customer and client relations, (Thompson, 1962; Lefton & Rosengren, 1966); organizational interdependence, (Aiken & Hage, 1968); social responsibility, (Cheit, 1964); the coordination of two forms of organizations, (Litwak & Meyer, 1966); the consequences of crisis which limit the viability of organizations, (Hermann, 1963); contingency theory,

(Lawrence & Lorsch, 1967); and a system resource approach to organizational effectiveness, (Yuchtmann & Seashore, 1967). Most of these theoretical statements were not extended or elaborated upon in the following decades. They were accepted and became the authoritative statements upon which later researchers would draw to support their arguments and explain their empirical findings.

The central problematic during the 1960's, and most later research as well, was how organizations should be structured to accomplish the "primary tasks of the organization which were imposed in part, by the environment. (Miller & Rice, 1963) Like their predecessors, theorists of the 1960's retained the belief that improvements in effectiveness were achieved through the co-ordination and control of organization members and that methods of co-ordination and control were reflected in the structural characteristics of the organization. The difference between the theories proposed by these Stream I theorists and those proposed by the Classical theorists was the absence of an a priori commitment to the rationalization of the organization. That is, researchers such as Woodward, Burns & Stalker, Lawrence & Lorsch, and Emery & Trist attempted to identify the type of organization structure which would improve the effectiveness of the organization in carrying out the tasks imposed by the environment. They were willing to forego efficiency to achieve effectiveness.

The Aston Studies (1963, 1968, 1969) had a major influence on the way in which researchers studied organization structure. An attempt was made in the Aston Studies to synthesize available approaches to the study of organizations and derive a comprehensive conceptual scheme to gauge the predictive impact of a range of contextual variables on a range of structural situations. These studies made the methodology and instruments for assessing organization structure completely explicit and comparatively easy for others to utilize. Consequently, the Aston scales or modified versions of them have been used in much of the empirical research on structure. Later researchers would use the Aston structural categories to infer the existence of organic or mechanistic management practices. The absence of "bureaucratic" features were inferred to mean the existence of an organic structure. (Pugh, Hickson and Hinings, 1969; Pugh, Hickson, Hinings, & Turner, 1968)

Extensive research programs were conducted to test the hypothesis that size or technology determined structural characteristics. No such empirical research investigations, however, were conducted to establish the direct relationship between the environment and structure.

Another stream of research, which did not deal specifically with the organization's environment, but was

also influential in later theoretical development of the study of the relationship between the organization and its environment was the work of Simon (1957), March & Simon (1958) and Cyert & March (1963). They identified the problems organizations face in dealing with uncertainty.

The empirical studies conducted by Woodward (1958), Emery & Trist (1960), Lawrence & Lorsch (1967), and Burns & Stalker (1961) established the environment as a critical factor in the definition of the nature of the tasks confronting organizations. Their investigations focused on internal structural aspects of the organization which might be changed to suit a specific type of environment. Lawrence & Lorsch (1967) argued that there was an important relationship among external variables (the certainty and diversity of the environment and the strategic environmental issue), internal states of differentiation and integration, and the process of conflict resolution. If an organization's internal states and processes are consistent with external demands, the findings of their study suggested that it will be effective in dealing with its environment.

Burns & Stalker (1961) argued that:

When novelty and unfamiliarity in both market situation and technical information become the accepted order of things, a fundamentally different kind of management system becomes appropriate from that which applies to a relatively stable commercial and technical environment.[p. vii] A mechanistic management

system is appropriate to stable conditions... The organic form is appropriate to changing conditions, which give rise constantly to fresh problems and unforeseen requirements for action which cannot be broken down or distributed automatically arising from the functional roles defined within a hierarchic structure.

Woodward (1958:9) argued that:

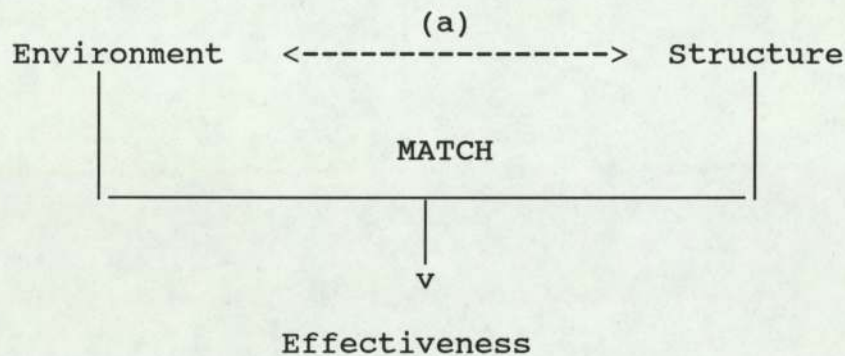
A new approach lay in recognizing that firms differed not only in size, kind of industry and organization structure, but also in objectives. While firms were all manufacturing goods for sale, their detailed objectives depended on the nature of the product and the type of customer. Thus some firms were in more competitive industries than others, some were making perishable goods that could not be stored, some produced for stock and others to orders; in fact, marketing conditions were different in every firm....These differences in objectives controlled and limited the techniques of production that could be employed.[5]

The studies conducted by the above researchers form the foundation of what has become a predominant perspective in the study of the organization's environment - Contingency Theory. Contingency Theory suggests that some types of structures are better suited to some tasks or environments than others and that failure to match structure to the environment leads to decreased performance. Figure 1 - 2, below, depicts the model of the relationship between the organization and the task environment assumed by Contingency Theory. The dotted line (a) is not part of Contingency Theory per se, however all of the empirical research reported by Lawrence & Lorsch (1967); Burns & Stalker (1961); and Woodward (1965) suggest that the task environment does influence the type of

structure which the organization adopts. Although these studies contain considerable descriptive data suggesting that environmental factors correlate with organization structure, Contingency theory was formulated as a normative theory which was highly prescriptive in nature. This may have precluded closer examination of interdependency between environmental and structural features.

FIGURE 1 - 2

MODEL ASSUMED IN CONTINGENCY THEORY



Burns & Stalker (1961) and Lawrence & Lorsch (1967) argued that an uncertain, changing environment increases the information-processing capability, flexibility, and adaptability required by the organization, and that these can be gained by adopting an "organic" structure; that is, a structure with substantial horizontal specialization and coordination, comparatively few rules, and staff units which are placed toward the middle of the organization. In stable environments, on the other hand, the information-processing, flexibility, and adaptability requirements are

not as critical as the maximization of efficiency and therefore a "mechanistic" structure is more appropriate. In changing, uncertain environments decentralization is likely to have a positive effect on organizational effectiveness while centralized decision-making is more likely to be effective under stable conditions where uncertainty is low.

Galbraith's (1973), summary statement of the central tenets of Contingency theory, "the best way to organize is contingent upon the uncertainty and diversity of the basic task being performed by the organizational unit" highlights an important aspect of the contingency theory argument. [6][7] Contingency theory addresses the relationship between the nature of the task confronting the organization, the technology the organization employs and the type of organization structure which facilitates the accomplishment of these tasks not the relationship between environmental factors and organization structure and technology. While the nature of the task may in part be defined by the nature of the environment, it is also defined by the type of industry the organization chose to operate in, the strategies which the organization pursues and the technology it employs.

Contingency theory translates environmental features into intra-organizational problems - namely the relationships between the nature of the task, the

technology, and the type of organization which facilitated the accomplishment of these tasks.

As if anticipating later arguments, Emery & Trist (1960) pointed out that

there are available to an enterprise other aggressive strategies that seek to achieve a steady state by transforming the environment. Thus an enterprise has some possibilities for moving into new markets or inducing changes in the old, for choosing differently from among the range of personnel, resources and technologies offered by the environment or training and making new ones, and for developing new consumer needs or stimulating old ones... Thus...management is concerned with 'managing' both an internal system and an external environment.

1.4. STREAM II: 1970's

The topic of organization structure dominated the field of organizational analysis until the early 1970's when interest shifted from organization structural aspects to internal power, control, decision-making processes, strategies, interorganizational relationships, and organization change. (cf Hickson, Hinings, Lee, Schneck & Pennings, 1971; Perrow, 1972; Jacobson, 1972; Salancik & Pfeffer, 1974; McMahon & Perritt, 1973, Tannenbaum, 1968; Zald, 1970) Several new models of the organization were proposed: the political-economy model, (Wamsly & Zald, 1973; Benson, 1975); the dependence-exchange approach, (Hasenfeld 1972; Jacobs, 1974); and the resource-dependence model, (Pfeffer & Salancik). All of these authors were interested in the internal processes and behaviour of the organization rather than its structure. Although the

environment was presumed to be a critical source of resource and influence the study of the environment was largely incidental to this research. Two theories, the resource dependency perspective and population ecology model were particularly influential.

The resource-dependency model deals specifically with the relationship between the organization and its environment. The basic premise of this approach is that organizations make decisions to deal with the interdependence which exists between itself and the organizations with which it interacts. These decisions are made within the political context of the organization but reflect the demands of external groups. Aldrich & Pfeffer (1971:83), argue that organizations "manage their environments as well as their organizations". Their theories, however, suggest that organizations manage interdependency rather than the environment. They attempt to absorb interdependence and uncertainty through merger, (Pfeffer, 1972); cooperation, (Pfeffer, 1972; Allen, 1974); movement of personnel among organizations, (Pfeffer & Lebliviec, 1973; Aldrich & Pfeffer, 1976). The organization has strategic choice and attempts to manipulate the environment to its own advantage.

Unlike researchers in the first stream who conceptualized the task environment as a set of external conditions to which organizations must adapt, researchers

in the second stream viewed the environment as sources of resources - resources available not through direct interaction with suppliers and customers but those generally available in the marketplace. Implicit in this conceptualization is the existence of competition between similar firms for scarce resources.

While resource-dependency theory examined the problems of dependency and identified strategies which organizations could adopt, the natural-selection model sought to identify the environmental conditions which led to organization population change. Like the resource-dependency model, the environment is conceptualized as the source of resources. The natural-selection or population-ecology model posited that "environmental factors select those organizational characteristics that best fit the environment". (Aldrich & Pfeffer, p.79; Hannan & Freeman, 1977; Aldrich, 1979; Kasard & Bedwell, 1979) This perspective is concerned with the change in the organizational form of populations over time. Organizations that have the appropriate fit with the environment are selected over those that do not fit or fit less appropriately. The selection model assumes perfect competition. Managerial processes within organizations are largely ignored. Early formulations of this theory did not identify the criteria for selection. Adaptation is hindered by organization inertia; the demise of populations is considered inevitable. No attention is paid to the fact that organizational environments frequently support the

organization, buffering it from the changes which are occurring in other parts of the environment.

Considering the strong emphasis on the environment in the population-ecology model one might expect some elaboration on the environment itself. This theory, however, focuses on the variation, selection, retention evolution process rather than the environment itself. The criteria upon which organizations are selected is not specified. The process is considered inevitable. (Campbell, 1965)

Along with the emergence of a new stream of research, investigation continued on the issues identified in the 1960's. Researchers relied heavily on the dimensions of the environment already specified in the literature, using volatility, heterogeneity, and complexity to characterize the environment in general terms. The definition of, and character of, the environment was not viewed as problematic. The central debates focused on the relative importance of objective versus subjective measurement of the environment.

Duncan (1972) asserted that the relevant environment was that perceived by organization members. The environment was acted upon by organizational decision-makers on the basis of their perceptions, interpretations, and evaluations. A number of researchers began to assume

that perception becomes reality and environmental conditions are only important as they are perceived by organization decision-makers.

Research during the period from mid - 1970 to mid - 1980, emphasized the importance of environmental factors in the strategies, structures, and survival of organization. More than ever however, the environment was brought into the realm of the organization and was not viewed as a phenomenon which stood outside the activities of the organization. The relevant environment was defined as the perceived or enacted environment and an invisible hand.

There was considerable confusion in the literature as to whether the organizations with which the organization interacts directly are to be treated as 'environment' or as means by which the organization deals with its environment. Interorganizational linkages were viewed as a way in which the organization could cope with environmental uncertainty and dependence.

Although the environment is identified as the critical factor to which the organization responds, very little attention is paid to the environment per se. The theories identified actions which organizations might take to cope with the environment in which they found themselves. The environment is posited as the reason for specific organization behaviour; the critical variable

being the degree of interdependence which the organization experiences.

1.5. STREAM III: 1980's

The laws connecting parts of the environment to each other are often incommensurate with those connecting parts of the organization to each other or even those which govern exchanges.

-Emery & Trist, 1965

By the mid - 1980's the research focus of environment studies had again changed. In the decade that had passed a large number of organizations had faced increasingly hostile environments and many small and large businesses had failed or were having difficulties. Concern for internal efficiency was renewed as foreign products (many of which were produced in countries with low cost advantages) undermined the market share of firms in industry after industry. Along with the concern for efficiency, theorists also emphasized the need for organizations to innovate. Several research projects were undertaken to study the process by which technology is diffused and innovation developed.

Research in this stream is just emerging so the characteristics are not as clearly defined as they were in Stream I and Stream II. As with the previous research, the themes and questions had been raised previously, but were not identified as central issues. Researchers were becoming increasingly concerned with the changes which were occurring in the environment. Lack of competitiveness was

identified as a problem faced by organizations in the marketplace. Lawrence & Dyer (1983:3) ask "Why do so many American firms and industries fail, in their maturity, to maintain their competitive vitality?"

Adaption was identified as a critical factor in organization survival. Pettigrew (1985) suggested that given the substantial changes in the economic, political, and business environment of large firms over the past two decades, a critical factor affecting the relative competitive position of British firms must be the capacity of firms to adjust and adapt to major changes in their environments and thereby improve their competitive performance. Theorists recognized that several organizations had not adjusted their structure, strategies, technologies or behaviour to changing circumstances and thus had not adapted to the environment. Process analysis replaced structural analysis. Detailed case studies were examined in an attempt to determine why the organization had not adapted to environmental change. Organization decline has emerged as a topic worthy of discussion. (Whipp & Clark, 1986; Pettigrew, 1985)

Organization failure and lack of competitiveness was attributed to internal inertia problems. That organizations are often slow to adapt to changes in their environments had been a recurrent theme in the literature. Several causes had been identified for an organization's sluggish

adaption and resistance to change. Carter (1971), Cyert & March (1963), and Pfeffer (1978) noted the adaptive rigidities caused by the avoidance of uncertainty and the fragmentation of the political coalition and its goals. March & Simon (1958) described how slack resources can cushion the organization from the need for rapid responses while their programmed natures make operations resistant to modifications. Wildavsky (1972) and Wilensky (1967) pointed out that information-processing systems in organizations may tend to perpetuate narrow, self-affirming models of reality so that there is a lack of awareness of the need to adapt. The work of Mitroff and Kilmann (1976) and Clark (1972) suggested that organizational ideologies caused resistance to change. Finally, Miller and Friesen (1980) pointed to the role of emotional, cognitive, and power factors as inhibitors of prompt organizational responsiveness.

The cause of slow organization adaption to environmental change is generally attributed to internal organizational features. The possibility that the environment itself may be a contributory factor in organization failure to adapt has not been considered.

Although theorists presume that the organization adapts to changes in the environment, no investigation of this premise has been undertaken. That the organization should adapt is beyond question. What the organization

does adapt to, and how it should go about adapting are more problematic. Lawrence & Dyer and Pettigrew suggest that adjustments can be made internally to cope with the external environment. They suggest that the organization must increase its efficiency and innovation, and that this can be accomplished through changes in their organization structure and processes.

If the environment is indeed turbulent, however, the adjustment of internal features is not likely to achieve the desired objectives.

In these environments [turbulent] individual organizations cannot expect to adapt successfully simply through their own direct actions.- Emery & Trist, 1965)

1.6. COMMENTS ON THE PREVIOUS ENVIRONMENT LITERATURE

The management literature provides a comprehensive empirical and theoretical account of the most efficient and effective way for organizations to manage their human, production, and capital resources. But, the achievement of internal efficiency and effectiveness is a necessary but not sufficient condition for organization survival. The characteristics and requirements of the task environment strongly influence the way in which an organization adapts to its surroundings and thus influences its survival and viability. Only when the organization understands the requirements of the environment can it attempt to adjust its behaviour and organization to suit these requirements.

Most studies of the relationship between the organization and the environment contain more discussion of organization characteristics than environment characteristics. Organization Theory has yet to take up issues pertaining to the relationship which exists between the organization and the environment or the issues surrounding organization behaviour, organization performance, organization survival and the environment.

The study of interorganizational relationships does not provide such analysis. The central focus of this research is the relationship itself. Much like research presented in the structure literature which preceded it, theorists have identified the "structural" features of these relationships (interaction, formalization, standardization and frequency, reciprocity, and coordination) and have attempted to identify the environmental and contextual factors which influence the formation, effectiveness, and activities of the relationships. Interorganizational studies rarely investigate the relationships which develop between commercial enterprises: with the exception of the study of interlocking directorships, analyses of interorganizational relationships have overwhelmingly been oriented to the delivery of social services. (cf Levine & White, 1961; Marret, 1971)

In 1965, Poggi (1965:290) observed that contemporary

sociological analysis was predominantly concerned with the way in which a System fits together and, in particular, the functions of the parts for the whole. The prevailing sociological theory was a theory of the maintenance of social systems and not of their action. Theorists focus on intra-unit problems such as efficiency, structure, control, and power and rarely consider the extra-unit problem of the relationship of one System to another or the motivations which govern their interaction. As a consequence, theorists have failed to ask questions concerning, 'the direction and content of social action...' (p 284). For all its accomplishments, Poggi concludes, this tradition has largely failed to give us a sociology of policy, to deal systematically and analytically with the directions of action actually pursued by its own units of discourse (p287). Poggi's assertion is as valid in 1988 as it was two decades ago.

Although contemporary theorists have proposed alternative perspectives, these too, address internal organizational problems rather than redefine the study of organizations to include organization problems which stem from external factors. The critiques of contingency theory and structural-functional analysis do not question the domain of organization theory as intra-organization problems. They point instead to the need to consider: the historical process by which the present management gained its power; differences in interests, conflicts, domination,

and subjugation within the organization; the nature and functions of ideologies which buttress, disguise, or justify organizational inequalities and hierarchies (Salaman, 1978; Blackburn, 1972; Benson, 1977); the aspirations, perceptions, and actions of lower-level organizational participants; and the interests and meanings that actors bring into interaction within organizations (Silverman, 1982; Manning 1977).

There is an assumption that the environment does not impinge on the direction of change. Organizations either change in relation to their environment or they fail. This does not take into consideration the fact that parts of the environment support the organization and frequently perpetuate methods of dealing with the environment which will result in the demise of the organization.

Theorists view the organization's environment as hostile, changing, and turbulent and the organization structure and strategies as the means through which the organization mediates this environment, but they have not undertaken to uncover the aspects of the environment which impinge on the organization nor have they assisted the organization in understanding those parts of the environment which remain obscure to them. They argue that the organization adapts to environmental contingencies in the pursuit of goals but do not identify the mechanisms or processes by which the organization identifies the critical

areas of the environment.

Weick (1969) argued that the environment is a phenomenon tied to processes of attention, and that unless something is attended to it does not exist. But perception mediates the adaption process, it does not necessarily prevent the interjection of objectivity. A man, hit by a car he does not see, is a dead man - the car an environmental reality. If organizations react to what they know rather than what exists, the accurate assessments of the environment and the separation of objective environmental features and subjective environmental features becomes important.

1.7. THESIS PREMISE AND INTRODUCTION

	KNOWN TO ORGANIZATION	NOT KNOWN BY ORGANIZATION
KNOWN BY OTHERS	CERTAIN	BLIND
NOT KNOWN BY OTHERS	HIDDEN	UNCERTAIN

Source: Adapted from model presented by Joseph Luft & Harry Ingham, 1969

Organizations, like individuals, peer through Johari windows. There are aspects of their environment and internal functioning which is known with certainty. There are other aspects about which the organization is uncertain because the information is unobtainable and the organization cannot, with confidence, assign probabilities to the outcome of events. The organization keeps some of the information it possesses hidden from others. In addition, there are areas of information which are available and known by others but which remain unknown to the organization. This is the blind area. It has the potential to create serious problems for the organization.

An organization's actions, strategies, and responses are governed by the information it possess. Most research begins with the premise that organizations need to cope with areas of uncertainty and dependency. (Thompson, 1967; Lawrence & Lorsch, 1967; Burns & Stalker, 1967; Galbraith,

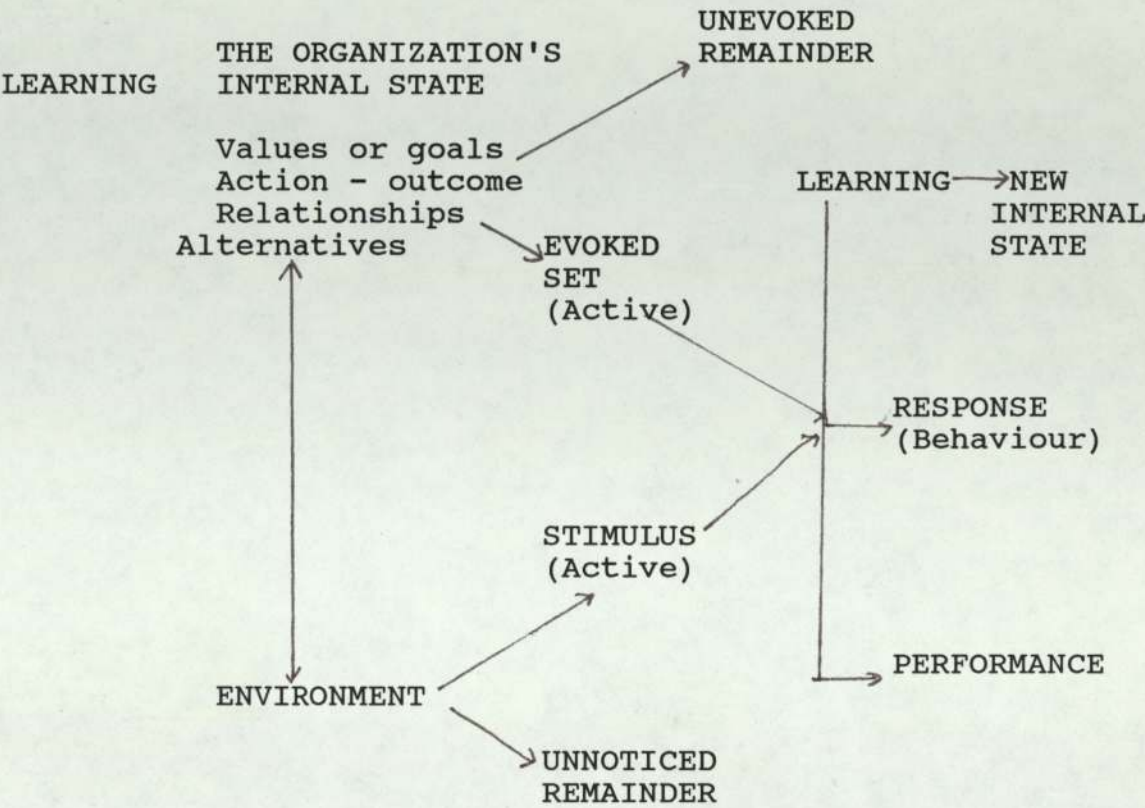
1973; Pfeffer, 1976; Aldrich, 1978; Lawrence & Dyer, 1983). Both problems are recognized and dealt with (albeit with varying degrees of success) by organizations.

While an understanding of the effects of uncertainty and the identification of methods for reducing uncertainty are important, in order to survive in the long-term organizations must be sensitive to the internal behaviour and processes which characterize the organization and must also be aware of external changes, demands, needs, requirements, and interaction patterns. Lack of sensitivity to both areas can lead to the development of inappropriate strategies, innovation failure, increased costs, inefficiency, lower profitability, and even organization failure.

Although March and Simon's (1958) discussion of information processing related specifically to individuals it is equally applicable to organizations (as a collectivity of individuals). These theorists argue that behaviour, through a short interval of time, is determined by the interaction between the internal state (consisting in part of: i) values or goals, ii) criteria that are applied to determine which courses of action are preferred among those considered, and iii) beliefs, perceptions, and expectations as to the consequences that will follow from one course of action or consequences) and the environment. (See Figure 1 - 3 below)

FIGURE 1 - 3

INTERACTION BETWEEN THE INTERNAL STATE AND THE ENVIRONMENT



In a given circumstance only a small part of the internal state and a small part of the environment will be active (that is, will significantly influence behaviour during the interval). Selection is inevitable. Which parts of the internal state and the environment become active depend upon the interaction of the internal state and the environment at the beginning of the time interval. Human cognition, however, is less sensitive to gradual changes in the environment than to pointed discontinuities. (Turner, 1976)

The individual or organization is predisposed to respond to a given situation in a particular way. It is this part of the internal state which is evoked by an aspect of the environment. The unevoked remainder plays no significant role in affecting behaviour at that time. Those parts of the environment selected become active (perceived) and serve as the stimulus for action. The residual, all other aspects of the environment, go unnoticed (the unnoticed remainder).

Given the same environment there is no guarantee that the response of different organizations will be influenced by the same stimuli. Their respective evoked sets will have a considerable bearing on which parts of the environment become stimuli. Weick (1969, 1976) provides a rich discussion of the environment to which the organization responds - the enacted environment.

The result of the interplay of the evoked internal set and the environment stimulus is a response (behaviour) and a new internal state. The internal state is modified by the experience and knowledge of the previous interval.

Although March & Simon's analysis does not extend beyond the responses of individuals, there is one other link in this process which should be considered. Responses have intended and unintended consequences. These consequences arise as a result of the interaction between

organization responses and objective aspects of the environment (many of which may go unnoticed by the organization) and they too are incorporated in the internal state. This does not mean, however, that knowledge of these consequences necessarily become part of the new evoked set. Starbuck, Greve & Hedberg (1978) point out that "the force of internal ideology tends to impute a mythical quality to its structure and processes, evoking an attitude of conformity that can block not just change but even the perception of the need for it".

Contingency and resource-dependency models attempt to identify action-outcome relationships in order to alter the evoked set and responses and therefore influence organization behaviour. Population-ecology models treat as inevitable environmental consequences but do not identify the criteria which influences selection. Very little attention has been paid to the unnoticed environment.

Theorists have taken up the problems identified by the organization members as the central topic of investigation. They have not attempted to locate the organization in its wider environment nor identified problems which arise in the environment which affect the organization.

Hirsh (1975:9) points out that failure to go beyond the perceptions of managers and executives means that investigators often miss major environmental forces that

shape the structures and activities of organizations studied.

To the extent that respondents at the level of the single firm focus primarily on issues relating to their particular company and pass over problems confronting the entire industry {which also affect other organizations as well}, this latter class of issues in the general environment must be sought out independently by the detached investigator, whether or not respondents explicitly point out their existence.

This thesis is an attempt to begin such an investigation. It begins with the premise that there are areas of the environment which the organization cannot see because of its internal focus but which directly affect the economic viability of the organization. Unlike population-ecology models, it does not presume that environmental selection is inevitable. If organizations become aware of the selection criteria they have the opportunity to consider alternative ways of responding. At present there is no analytical framework which can be used to identify keys areas of the environment which affect the organization. Organization analysis has valuable contributions to make in this area.

Managers constantly respond to elements in their environment. The effectiveness of their response depends upon their understanding of the characteristics and influences of that environment. As long as research continues to treat the environment as an ubiquitous whole the understanding of the relationship between the

organization and the environment will be limited. By examining the influence of different segments of the environment our understanding of this relationship will be enhanced. Chapter 2 examines three primary segments of the organization's task environment - the transaction environment, the industrial environment and the ecotone.

Perhaps the most problematic aspect of existing conceptions of the environment is the failure of existing models to explain the serious disruptions experienced by firms in industries which are by most assessments stable. There is growing awareness that firms in mature industries have been caught off guard, have not been innovating or developing but they have for the most part been following strategies which until recently have led to high levels of performance and profitability. Existing theories can not explain either why these firms have experienced problems or why other organizations (particularly foreign firms) have developed competencies which confer relative advantage. The explanations require examination of the task environment, not as residual which explains organization structure but as a factor which impacts on the organization and leads the organization to develop particular behaviour patterns. Chapter 3 reviews several reasons put forth to explain organization and industry failure and proposes that the environment itself plays an important role in organization and industry success and failure.

Changes in the task environment affect organization performance and viability and consequently the structure and behaviour of the industry. Segments of the environment however, tend to buffer the organization from experiencing these changes and thus prevent the organization from responding to environmental change. In Chapter 4 various types of environmental types of change are identified and the relationship between the level of stability, volatility and turbulence in the environmental segments and organization behaviour and viability.

In Part Two the framework and theory presented in Part One is applied to the UK footwear manufacturing industry. Like many mature industries in the Western countries, the industry has been declining over the past ten years.

CHAPTER 2

THE TASK ENVIRONMENT: THE PRIMARY DELINEATIONS

A comprehensive understanding of organizational behaviour requires some knowledge of the potentially lawful connections between the internal processes of the organization; the transactions between the organization and the environment itself. - Emery & Trist, 1965

In this chapter three primary segments of the task environment - the transaction environment, the industrial environment, and the ecotone - are identified and the inter-relationships between these segments and the organization and industry examined. These delineations provide a framework which may be used when analyzing and predicting organization behaviour and viability. A distinction is made between the task environment and the product and factor markets. The task environment influences the behaviour, performance and viability of both the focal organization and the industry of which it is a part. The market is the arena within which this behaviour takes place. It is argued that organizations do not compete in the market, their products do.

Organizations are not isolate entities; they are subsystems of a suprasystem which consists of a network of organizations acting in the role of customer, supplier, competitor, associate, or regulatory agency within a market context whose behaviour produces an interrelated set of practices, procedures, actions, resources, norms, events, rules, intentions, and expectations which have the potential to affect organization functioning. This suprasystem constitutes the organization's task environment.

Researchers, however, have treated the task environment as if it were an ubiquitous residual surrounding the organization rather than an organized system within which the organization is embedded. When characterizing and analyzing the task environment they do not examine: i) how the organizations which make up the environment are related, ii) how the behaviour, expectations, and accepted practices of these firms constrain or promote organization functioning, or iii) the context within which this behaviour takes place. They do not differentiate between the various elements or spheres of external activity which occur in the environment. Nor do they consider the differences between: i) suppliers, competitors, and customers; ii) market and technological conditions; iii) buyer and seller relationships; and iv) intra-industry behaviour and inter-industry behaviour. Perhaps because, by some definitions, these elements lie

outside of the task environment, researchers rarely take into consideration the economic, educational, legal-political, and social-cultural aspects of the geographical area in which organizations are located or the behaviour of associations, interest groups, and constituencies. [1]

Child (1969) included some of these elements in his discussion of the spheres of activities and influence which affect business enterprise. He suggested that a business environment was comprised of: i) product markets; ii) factor markets; iii) technical knowledge; iv) political environments; and v) socio-cultural environment and argued that two features of the market - market structure and market context - affect the activities of a business enterprise. [7] [8] [9] [10] [11] [12] [13] [14] But this view of the environment was not taken up by other researchers and Child himself did not expand or utilize his insights in later work. By 1969, researchers in the field had already embarked upon a different theoretical tract which remains the dominant paradigm today (the examination of the direct and indirect relationship between environmental states and organization structure, behaviour, and performance).

Dill's (1958) conception of the environment as a climate which surrounds the organization reflects most aptly the way in which the environment has been conceptualized in the Organization Theory literature. This

"climate" is created by a set of external conditions (the quantity and quality of information, amount of technological and market change, level of competition, and the availability of resources) and is described as a set of environmental states (scarcity, heterogeneity, complexity, turbulence, change, dispersion, and domain consensus). These states are believed to be antecedent conditions affecting the level of uncertainty and dependency an organization experiences.

The assessment of environmental states is generally used as a diagnostic tool to identify situations in which the organization is likely to experience uncertainty or dependence. Levels of uncertainty and dependence and thus the prescription of appropriate structures and prediction of organization behaviour can, however, be accomplished without examining in any detail, the environment within which the organization is embedded. [15] [16]

Focus on environmental states rather than on the form (structure) and context (behaviour) of the task environment (concretely a network of interacting organizations) has precluded examination of the way in which the task environment:

- i) defines the nature of the task confronting the organization and the economic, political, and social position of the organization within this network;
- ii) influences the way in which organizations and industries are organized; the way they behave; the

practices they adopt; the strategies they employ; their performance; and their short and long-term viability;

- iii) prevents recognition of the need for adaptation and change; and
- iv) limits the alternatives available to the organization should changes in the environment render existing technology, behaviour, and structures obsolete.

Treating the environment as a climate alleviates the necessity of locating the organization within a concrete context. The environment is amorphous, lacking boundaries, identifiable elements and specific events, relationships, and characteristics. One merely must identify the existence of a particular state in order to make predictions and prescriptions of organization behaviour, structure, and performance. At its extreme, this perspective is evidenced in Weick's assertion that the environment exists in the minds of the organization members.

An alternative perspective (one adopted in this thesis) is to view the organization as a subsystem of a suprasystem which is located in a specific arena - the product and factor market. Arenas have boundaries, parameters within which specific behaviour and events occur (e.g. the political arena). Vatter's (1964:407) definition of a market as "an institution that brings all sellers and buyers into communication with one another for the purpose of exchanging economic goods and money for current or

future delivery", explicitly located the forum within which transactions occur and distinguished the actors who participate in the transaction from the arena in which these transactions take place. Organizations take up particular roles, enact certain strategies, and adopt specific postures when operating within the market. Their behaviour may be competitive in nature, but can just as readily be conciliatory, co-operative, anticipatory, or idiosyncratic. They are affected by the events which occur within the market and often are affected by those which occur in another arena. But, through their actions, organizations and industries may influence the practices and strategies which are taken up and consequently affect the outcomes - intended and unintended - of both their own and other organizations' behaviour. (Child, 1972; Miles & Snow, 1978; Weick, 1969)

The distinction between the task environment (the network of organizations) and the product and factor market (the arena) is becoming increasingly important as national markets become international markets with the advent of increasing international trade. The shift from primarily national markets to global markets has not changed the basis of competition which occurs within the market, this still revolves around product, price, and quality, but it has altered the composition of the task environment and perhaps more importantly has shifted the nature of competition from firm versus firm to environment versus

environment. Until 1960 trade barriers, transportation costs, and impacted communication channels restricted international trade. Most firms competed in national markets with competitors who had the same resource base and historical evolution. The expansion of international trade, has meant that focal organizations and domestic industries are increasingly faced with competition from products produced by foreign manufacturers. In many industries, imported products dominate the market, the producers of which are located in industrial environments which provide substantially different resources, at different costs, and may encourage the development of different skills and specialization.

Economists have examined in detail the behaviour of firms within a domestic industry and the effect that domestic market structure has on these organizations. But this analysis presumes competition between organizations which have similar resources and similar means of production. It does not include those organizations which are located outside of national boundaries but whose products compete within the market. The industry statistics (Census of Production Statistics) upon which Economists draw to assess industry structure, and organization theorists use to assess the environment provide detailed information pertaining to the domestic industry (size, output, and costs) but only aggregate statistics on the value of imported products (the total

amount of imports during a given period). International trade has increased thirty-four fold which means that often the majority of products sold in the marketplace are not produced by firms within the domestic industry. If only 30% of the products exchanged in the market are made by domestic producers, analysis of a market structure which does not provide an accurate account of the characteristic of foreign producers misses 70% of the competition which takes place in the market. Where foreign products do not cannibalize the domestic share of production, lack of information may not be a major problem. In many cases, however, foreign products are competing with domestic products and such information is vital.

The capacity for the task environment to act on (influence, constrain, provide, and nurture) the focal organization sets it apart from the organization spatially, and temporally.

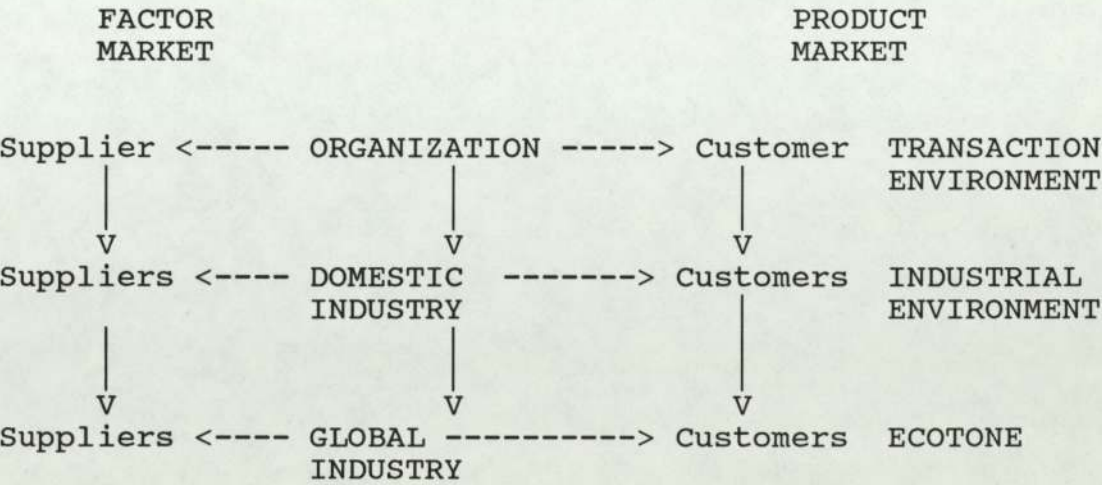
2.1. THE STRUCTURE OF THE TASK ENVIRONMENT

The task environment, consisting as it does of a network of organizations, has a definable structure. The organizations in this network are vertically and horizontally related. The focal organization is a member of a domestic industry which in turn is a part of an international industry. (e.g. a British footwear manufacture is a member of the British footwear industry and the global footwear industry). The organization which

supplies resources to the focal organization is itself a member of an industry, competing with the members of that industry and dependent upon other suppliers for its resources. The relationship between the supplier, the industry which it is a part, and the global industry will affect the way in which the supplier behaves and interacts with the focal organization. Since the customer to which the focal organization sells its products or offers its services is likewise a member of a domestic industry and an international industry, changes in aspects of the supplier's and customer's task environment are likely to affect the focal organization. Figure 2 - 1 depicts the structure of the task environment.

FIGURE 2 - 1

THE RELATIONSHIP BETWEEN THE TRANSACTION,
INDUSTRIAL AND ECOTONE



The relationships which exist between the focal

organization and its organization-set (its customers, suppliers, competitors, regulatory agencies); the relationship between the domestic industry and those industries upon which it depends; and the relationship between the global industry and the global product and factor market provide a basis for differentiating three primary segments of the task environment - the transaction environment, the industrial environment, and the ecotone respectively.

The focal organization interacts with the organization-set on an ongoing basis. Its behaviour is oriented towards the cultivation of supplier and customer relationships; maintaining or expanding its market position; and conforming to or changing existing regulation. The behaviours, relationships, practices, and events which develop as result of the interaction between the focal organization and its organization-set constitute the organization's transaction environment. [18]

The character of these transactions is shaped by the behaviours and characteristics of the industry of which it is a part. The domestic industry includes all businesses which operate processes of a sufficiently similar kind (which implies the possession of substantially similar technical resources) and possessing sufficiently similar backgrounds of experience and knowledge so that each of them could produce the particular commodity under

consideration, and would do so if it were sufficiently attractive. (Andrew, 1951) The domestic industry as a unit is influenced by and influences the relationships which develop between the focal industry and those industries upon which it depends. Since these industries are located within a national boundary their behaviour reflects the nature of the social, economic, and political milieu which surrounds them. The behaviours, relationships, practices, and events which arise as a result of the interaction between the focal industry and those industries within national boundaries upon which they depend, constitute the organization's industrial environment. [19]

The domestic industry relations, while highly influential, are themselves subject to the influence of the activities of organizations located outside of the domestic industry (eg. other types of industries, or foreign competitors in a similar industry). The behaviour of these firms and developments within the international markets affect behaviour and performance. These constitute the Ecotone. [20]

The distinction between the transaction environment, the industrial environment, and the ecotone is central to the arguments presented in this thesis. The relationship between the organization and these three environmental spheres at a given point in time affects organization behaviour, the strategies and structures which are most

likely to be effective, and organization and industry viability.

Each of the environmental sectors affect the organization in a different way. Organizations in the transaction environment make demands upon the focal organization, have the capacity to provide or withhold resources, impose constraints on organization behaviour, provide information, and through their strategies actively affect organization functioning. The industrial environment affects the organization and industry less directly. The activities of a collection of organizations create conditions which the organization adapts to. Certain behaviours are reinforced and become "accepted practice"; deviations are generally penalized. Resource bases become organized around the activities of the focal industry and subsequently limit the alternatives available to the industry should they need to alter their behaviour. The focal industry's behaviour becomes oriented to the demands of the customer industries. The nature of the task confronting the organization is defined as the focal industry, the supply industry, and the customer industry evolve. Much of the technology, information, innovation, strategies, and issues which affect the organization and the focal industry, however, develop - outside of the industrial environment - in the Ecotone. Utterback points out that the really major innovations - representing a technological breakthrough, or with the potential for

changing the character of an entire industry - tend "to come from sources other than firms within that particular industry" (Utterback, 1971:80). These elements (technology, information, innovation, strategies, and issues) develop from ideas and resources in environments outside of the focal organization and industry's sphere of activity. Only after the products and actions enter the market do they affect activities of the industry or organization. They, then, have the potential to disrupt established patterns of behaviour and render existing technology and products obsolete. These developments have a different effect on the organization and industry than those occurring in the industrial environment because they remain largely outside of "view", arise from different resource bases and can not readily be imitated.

In the section which follows the three major segments of the task environment, are discussed in detail. The organization's relationship to each segment of the task environment differs in terms of both the degree of direct interaction that the organization has with each segment and the extent to which the organization can influence or control the activities which occur in the environment segment or its consequences. [21]

The activities of the supply and customer industries serve to link the three segments of the environment. Customers may choose to purchase a product from the focal

organization, a domestic competitor, or a foreign competitor. By virtue of the choices they make, the relevance of the transaction environment, industrial environment, and ecotone to the focal organization is determined. By the same token, the organization in its role as customer may obtain resources from a supplier in its organization-set, the industrial environment or the ecotone. Japan is an example of a country in which focal organizations consistently look to the ecotone for required resources.

2.2. THE TRANSACTION ENVIRONMENT

The transaction environment is the organization's most immediate environment. The requirements and expectations of customers, suppliers, and regulators and the behaviour of its competitors largely dictate the organization's behaviour in the market.

It is to these direct relationships with suppliers, customers, competitors, and regulatory agencies that the organization is most oriented, because the resources (capital, personnel, information, technology, legitimacy) which these organizations provide are primary requisites for internal functioning. It is through these immediate transaction relationships that the organization experiences its environment. Changes in other segments of the task environment, if they are to have an impact on the organization must be relayed through customers, suppliers,

regulatory agencies or observed competitive behaviour. In order to attain the resources necessary for survival the focal organization must attend to the demands of those in the environment that provide them. (Pfeffer & Salancik, 1978). These relationships can sometimes be maintained with little or no effort on the focal organization's part, but usually they require considerable time, effort, expertise, and manpower. They also require the development of structures and behaviour which facilitate the organization's ability to meet the demands of their organization-set.

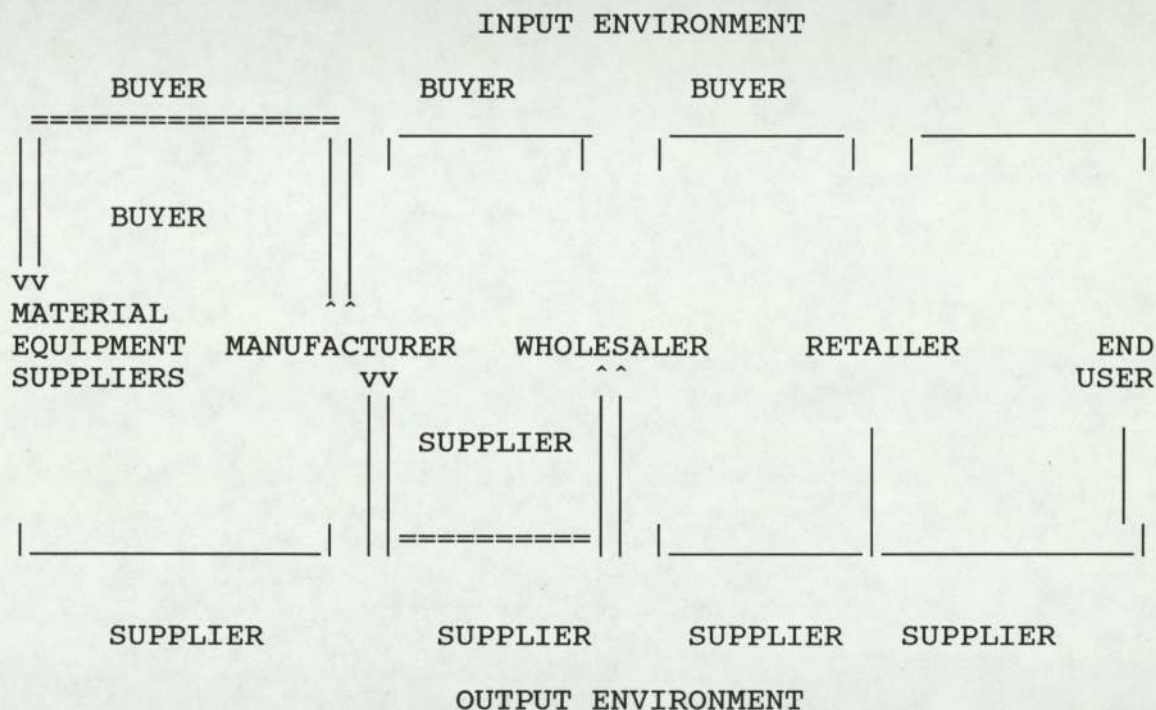
Surprisingly, these relationships have received little attention until the past decade when interest in the study of interorganization relations increased substantially. Marrett (1971) identifies five principal interests reflected in the literature on interorganizational relations: the identification and investigation of variables which affect or are affected by interactions with other organizations; determination of the degree of similarity or difference between organization-set members; identification of the characteristics of the relationship which develops between the organization and the other members of the organization-set; contextual factors surrounding the organization such as history, size, and structure; and demographic structure, economic conditions, concentration of resources, and community support, each of which relates to aspects of the transaction environment.

This research, however, has remained adjunct to the study of the organization's environment. Inter-organizational relationships are not generally considered to be aspects of the organization's environment, but rather, the means by which the organization manages what can be identified as industrial environment conditions (volatility, scarcity, complexity). (Aldrich, 1978) The neglect of the transaction environment stems in part from researchers' desire to clearly delineate the boundaries between the organization and the environment. The environment has been defined as a collection of entities which appear to be clearly distinct from the organization itself. The distinction has been more apparent than real. Starbuck's discussion of the boundaries between the organization and its environment demonstrates the difficulties inherent in such an assumption. The focal organization's characteristics and behaviour are important determinants of the interrelationships which develop. The focal organization is a competitor, supplier, and customer. Given that the environment is created by the behaviour of interacting competitors, suppliers, and customers, then the focal organization, in these roles, must be viewed as an important constituent part of the environment.

The organization regularly interacts with two distinct organization-sets; the input organization-set comprised of organizations which provide resources such as personnel, material, capital, technology, legality and legitimacy, and

the output organization-set comprised of customers for which the organization produces a product or provides a service and organizations with which it cooperates or competes. (Evan, 1966) Figure 2 - 2 depicts the transaction chain. [22] [23]

FIGURE 2 - 2
THE TRANSACTION CHAIN



Organizations selling products or delivering services interact with organizations which are downstream; they acquire resources from organizations which are located upstream. These transactions take place in different markets. The organizations in each market will have different behaviour patterns, adopt distinct roles, and expect specific behaviour and role adoption from the

organization. The organization's role in the Product market is that of a seller. It enters exchange relationships with suppliers in the Factor market as a buyer. [24]

Organizational-set members make demands on the organization which necessitate compliance if the organization is to succeed. (Katz & Kahn, 1964) In a situation where the organization produces the majority of its products for a single customer who is relatively much larger than the manufacturer, the organization's rate of innovation and efficiency and the price requirements may be completely determined by this relationship.

The demands of the input organization-set, however, may differ significantly from those of the output organization-set. Compliance with the demands of one organization-set may be more critical to organization survival than compliance with the demands of the other organization-set. In the car rental industry, for example, firm performance and survival depends upon the firm's willingness and ability to meet the demands of the input organization-set. [25] Management in unsuccessful car rental firms tends to focus on the output environment, installing systems to monitor the competition, collecting market information, choosing staff who establish an easy rapport with the customers, and spending large amounts on advertising and promotion. They often do not have proper

control systems to monitor vehicles and give few directives to the staff. Management in the successful firms tends to focus on the input environment - the finance company, the insurance company, the bank, and the vehicle maintenance shops. They set up control sheets to monitor the whereabouts of each of their vehicles, distribute company regulations to all staff restricting rentals to only customers who qualify, and monitor charges on vehicles requiring service.

By implementing controls and regulations these firms escape most of the problems faced by the unsuccessful firms. The insurance company does not withdraw the insurance from the company nor raise the premium because of high damage claims. The finance company does not demand immediate payment of an outstanding loan on a vehicle because the management can provide a detailed account of the whereabouts of each vehicle. The maintenance costs for vehicles do not escalate because the control sheets monitor price changes and management has some basis to assess whether the maintenance shops are increasing prices or slowing the turnaround time.

Most manufacturing organizations attempt in some way to meet both the demands of their input and their output organization-sets, but there is a marked tendency for these organizations to meet the demands of the output organization-set unless there is either an extenuating

circumstance or historical tradition which has forced attention to the input organization-set. Organization activities are organized to meet customer and product requirements rather than to co-ordinate, control, or ensure availability of the flow of diverse resource inputs the organization requires. Costs associated with resource expenses (e.g. supplier inefficiency and holding inventories) have generally been passed on to the customer, thus not affecting the organization. Such inefficiencies usually continue as long as competitors employ the same practices.

Whether the organization adopts an orientation toward the input or output transaction set appears to be a function of the source of economic resources. In manufacturing firms, where resources are obtained through the sale of products, the orientation is generally to the output transaction set. Social service organizations, in contrast, which depend on funding bodies for their operating revenue are far more oriented to the demands of the input transaction environment.

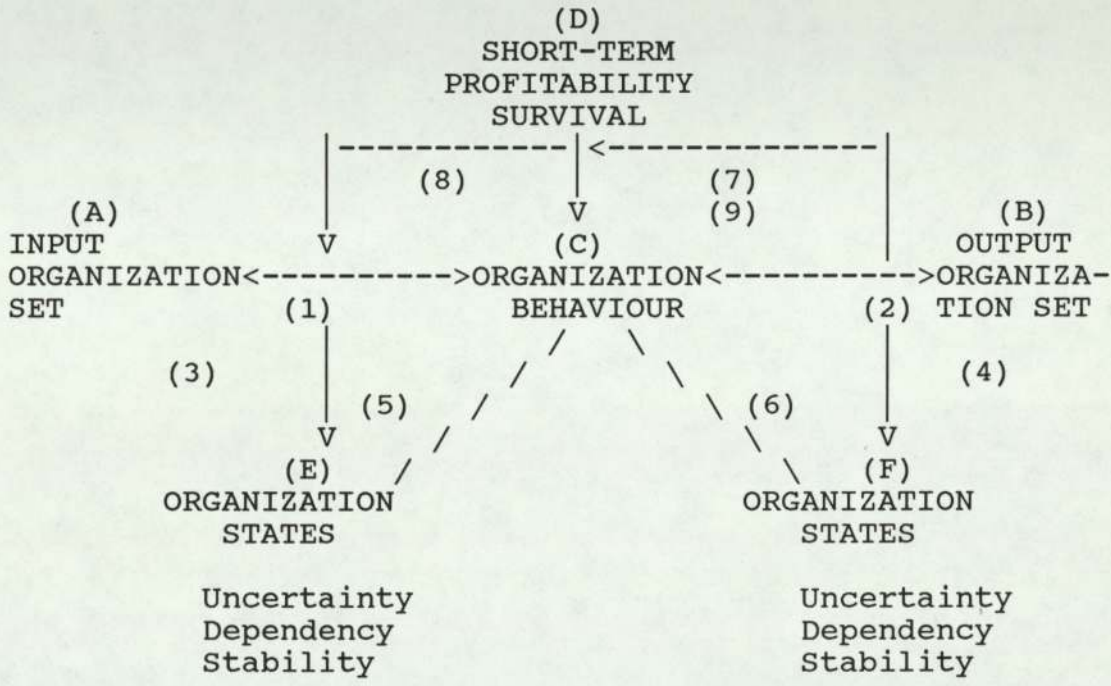
2.2.1. THE RELATIONSHIP BETWEEN THE ORGANIZATION AND TRANSACTION ENVIRONMENT

The model presented in Figure 2 - 3 depicts the relationship which exists between focal organization behaviour, members of the organization-set, short-term profitability, and organization states. It is a recursive

closed system in which elements adjust their behaviour in relation to other elements within the system. The system as a whole, however may be disrupted by external elements which force realignment of the system elements.

FIGURE 2 - 3

MODEL OF THE RELATIONSHIP BETWEEN THE ORGANIZATION AND TRANSACTION ENVIRONMENT

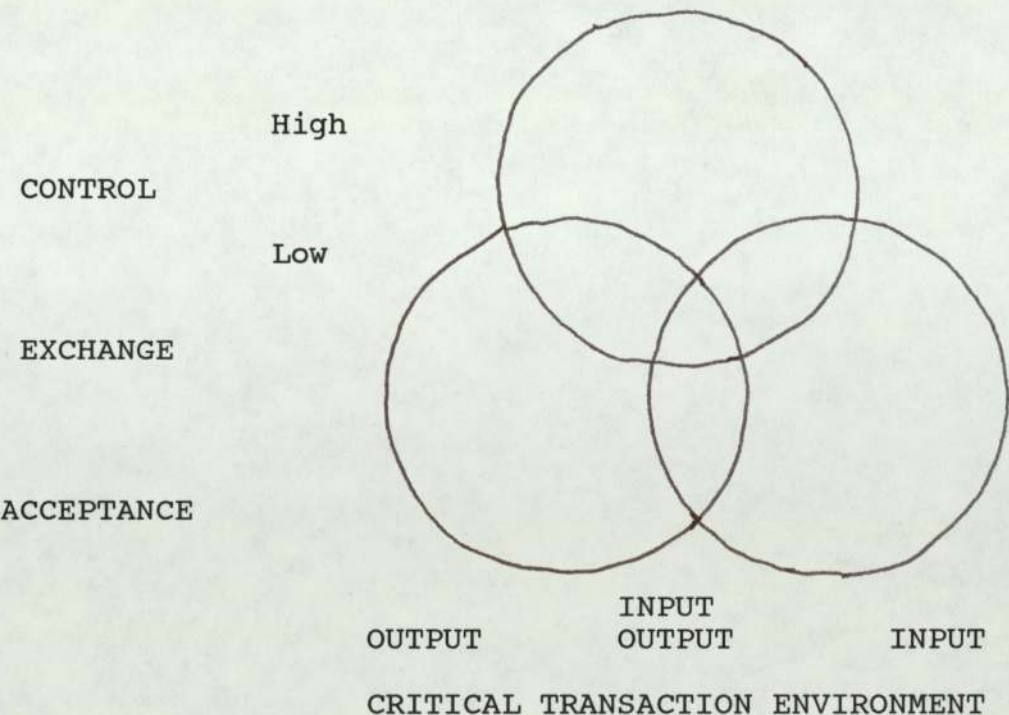


While the organization is not a passive reactor to the environment, because it does make strategic decisions in a transaction environment and actively negotiates its survival within it, the organization may not have the capacity to influence this environment or may influence the environment only indirectly. (Child, 1972; Miles & Snow, 1978; Weick, 1967) These theorists argue that the organization's decision to enter a particular domain may

change the nature of competition within the environment. The introduction of a new product or process is likely to be imitated by several other competitors in the industrial environment thus changing the nature of the task of all organizations in the environment. But, the capacity to affect the transaction environment and indirectly the industrial environment depends upon the characteristics of both the focal organization and its organization-set. Figure 2 - 4 depicts a model of the relationship between the organization, its transaction and other parts of the task environment.

FIGURE 2 - 4

MODEL OF THE RELATIONSHIP BETWEEN THE ORGANIZATION AND ITS
INPUT AND OUTPUT TRANSACTION ENVIRONMENT



- Key:
- 1. Focal Organization
 - 2. Transaction Output Environment
 - 3. Transaction Input Environment

Every organization must manage three groups of factors i) those factors internal to the organization over which it has control; those related to the transaction environment from which it gains resources and to which it offers output and those factors in the task environment which are beyond the organization's influence but with which it must contend. Much of an organization's attention is directed at maintaining internal functioning - ensuring tasks are carried out, equipment and resources are available, information reaches those who require it, and sufficient capital is available.

In general, the less control the organization has over its transaction environment the more the organization's performance is directly affected by environmental factors rather than internal factors. The degree of control differs depending on the characteristics of the organization and the characteristics of the members of its organization-set. The type of industry the organization belongs to and the nature of the task confronting the organization will affect the relative importance of input and output transaction environments and their influence on organization performance and behaviour.

A small organization has very little basis from which to negotiate a favorable exchange with its suppliers and its market. Suppliers tend to be larger, the organization frequently cannot take advantage of bulk discounts and

credit terms tend to be stricter. Smaller organizations often have limited resources to influence consumers, their advertising budgets are small and their exposure limited. The organization is therefore placed in a position of following the demands of the market and suppliers. Any changes in the transaction environment will directly affect the performance of the organization unless these changes have been anticipated and counteractive strategies have been employed to minimize detrimental effects.

Large organizations have a greater ability to dominate exchange relationships. They have established reputations; large advertising budgets, the capacity to take advantage of economies of scale, and they tend to lead rather than follow market trends. An organization's performance is determined more by internal factors than by factors arising from the task input environment or the transaction output environment.

The market leader has more control over its transaction environments than do any of its competitors. Once it develops a loyal market following it can pass disturbances in input exchanges on to the consumer, thereby reducing the control that the input transaction environment exerts. The market leader may also have the advantage of high volume and be able to achieve economies of scale. In the short term, as long as the organization remains the market leader, overall performance is influenced to a

greater extent by internal organizational factors than by factors related to the two input environments. In the long term, however, the market leader may become increasingly vulnerable to change in the output environment. Action on the part of competitors, such as, the introduction of new products and processes or aggressive marketing strategies reduce the market advantage held by the market leader. During the period of market domination, the organization may become complacent. Given their ability to pass disturbances in the transaction input environment on to their customers, cost control may be slack. As their volume increases, the organization incorporates more specialized technology thus reducing the flexibility of their technical core.

The performance of organizations operating in high technology industries, such as robotics and computer industries tends to be influenced more by the transaction output environment than by the transaction input environment. High technology organizations operate in new fields where product innovation is the norm. Investors are often willing to provide capital, supply relationships are not fixed and suppliers tend to develop in response to demands created by the high technology organizations, thus providing a setting in which the focal organization retains control over the input environment. The output environment, however, tends to be very volatile. Increasing competition, rapid change in product design and processes

and technological obsolescence serve to make market exchange relationships precarious.

The performance of organizations operating in low technology industries, such as those in primary manufacturing, is influenced to a large extent by the transaction input environment. In these industries, the technology is firmly established and organizations rely heavily on suppliers for their resources. Organizations in low technology industries usually produce products for an established market where contracts are secured in advance of production. This makes their output task environment relatively stable.

An organization which relies heavily on one source of supply has less control over its input transaction environment than an organization which has many suppliers. This effect is mediated by the extent to which the resource is required by the organization. The greater the percentage of the particular resource incorporated in the final output, the less control the organization retains. In a primary industry, for example, where an ore represents 80% of the finished product, changes in the supply of this ore will greatly affect overall performance. If, instead, the ore is required by an organization which produces finished products in which the ore content is 5%, the net effect of supplier behaviour on the organization's overall performance is much less.

Although this reliance on the input transaction environment may affect the organization's behaviour, a change in resource availability and cost will not necessarily affect organization performance. If the organization is able to pass on the costs and inconveniences to the output transaction set they will not affect organization performance. Attempts to pass on increasing costs and delays in some industries however, may drive the consumer to look elsewhere for the product or a substitute product.

2.2.2. ORGANIZATION STATES

The relationships which the organization develops with members of their organization-sets create conditions (uncertainty, and dependency) which in turn affect the functioning of the organization. Empirical findings suggest that as interorganizational dependence increases, organizations tend to display a more flexible and open structure, characterized by less formal and standardized procedures, greater decentralization of decision making, and decreased impersonality of relationships. (Burns and Stalker (1961); Hage and Aiken (1970); Haas and Drabek (1973); Sadler and Barry (1970); Hasenfeld (1972)) Dependence has also been found to be associated with such interorganizational activities as mergers, joint ventures, interlocking directorates, and cooperation. (Pfeffer and Nowak, 1976; Dooley, 1969; Stanworth and Giddens, 1975; Selznick, 1949).

Parsons (1960) and Schein (1965) argued that increased dependency among organizations facilitate specialization of tasks and goals. Thus higher levels of dependency lead to or indicate more extensive integration and/or differentiation. (Lawrence & Lorsch, 1967) Warren (1967), in an analysis of the interorganizational field, argued that increased interaction which is based on goal and transformation dependency increases the probability of output by all members. High dependency levels lead to extensive cooperation and coordination among related organizations for the benefit of all. (Litwak and Hylton, 1962)

Aldrich (1971) points out that as dependency increases, interactions between a dominant and subordinate organization become more one-sided. Risk to the subordinate organization increases and the benefits from interaction decrease.

The conceptual work of Downey and Slocum (1975) and Galbraith (1973) suggests that the organizational design actions an organization takes in responding to its environment may well be more consistent with perceptions of the environment than with more objective indicators of environmental conditions. The extent to which organizations respond to 'objective' environmental uncertainties or to the cognitive environment that decision makers spin for themselves out of information brought into

the organization, has been a long standing debate in the field.

Early studies of the relationship between the environment and the organization relied almost exclusively on subjective measures. (Lawrence & Lorsch, 1967; Duncan, 1972, 1973; Khandwalla, 1972) In 1973, however, Tosi, Aldag, and Storey developed three objective measures of environmental volatility which brought into question the assumption that measures of top managers' perception could be used as a surrogate measure for environmental volatility. They found that the scale scores of perceived environmental uncertainty were negatively or nonsignificantly correlated with industry and firm volatility measures.

Lending support to Tosi et al's findings, Miles & Snow (1978), and Pfeffer (1974) found that, within the same objective environment, there were organizations (textbook publishers) whose top managers perceived little or no change and uncertainty in the environment, as well as organizations whose top managers perceived continuous change and uncertainty in the environment. They noted that these two types of perceptions, and hence the organizational structures that were associated with them, can survive together and even flourish.

If the model presented on page 71 is an appropriate

representation of the way in which the organization and its transaction environment interrelate, it would suggest that the organization responds to both objective features of the transaction environment (customer demands, resource availability, competitor strategy, and regulatory injunctions) and to subjective features (perceived uncertainty, dependence and stability) which are an outcome of the relationships which are formed. This network of factors not only determines the transaction environment within which the organization operates and consequently responds, it buffers the organization from factors occurring in other segments of the task environment.

Tosi et al.'s volatility measures were measures of the industrial environment rather than the transaction environment. Since the industrial environment is not directly experienced by the organization it is difficult to identify the reasons why an organization might be expected to cognitively appreciate this environment.

Galbraith (1973) offered a similar argument which although presented as a Contingency Theory differs in important ways from other Contingency theories which stress the need for an organization to match its structure to the environment and predict lower performance if the two are not matched. Galbraith argues that the organization and the environment will always be matched because the organization will adjust its behaviour to the environmental

uncertainty and thus achieve a balance. Lawrence & Lorsch did not postulate lower performance as a state of equilibria. Galbraith suggests that organizations must decide the desired outcome and weigh the various alternative forms which enhance information processing ability.

The greater the task uncertainty, the greater the amount of information that must be processed by decision-makers during task execution in order to achieve a given level of performance. The basic effect of uncertainty is to limit the ability of the organization to preplan or to make decisions about activities in advance of their execution. Galbraith hypothesized that variations in organizational forms are actually variation in the strategies of the organization to i) increase their ability to preplan, ii) increase their flexibility to adapt to their environment or, iii) to decrease the level of performance required for continued viability. Which strategy is chosen depends on the amount of uncertainty and the relative costs of the strategies.

It is important to note that the four strategies are hypothesized to be an exhaustive set of alternatives. That is, if the organization is faced with great uncertainty, due to technological change, higher performance standards, increased amount of information processing is increased. The organization must adopt at least one of the four strategies when faced with greater uncertainty. If it does not consciously choose one of the four, then the first, reduced performance standards, will happen automatically. The task information requirements and the capacity of the organization to process

information are always matched. If the organization does not consciously match them, reduced performance through budget overruns or schedule overruns will occur in order to bring about equality. Not to decide is to decide, and it is to decide upon slack resources as the only strategy for removing hierarchical overload. - Galbraith, 1973

Galbraith's argument is interesting in that it suggests that the organization will adjust to the transaction environment in which it finds itself and this adjustment may be lower performance. If the organization reaches an equilibrium state through lower performance and the reduction of uncertainty, there is then no internal impetus to seek new information.

If an organization is to survive in the short-term it must achieve some stability in its transaction environment. Customer withdrawal, competitive pressure

nd resource

scarcity serve as impetus for the organization to adjust its behaviour to external factors. If the organization does not achieve this stability it will leave the market.

2.3. THE INDUSTRIAL ENVIRONMENT

Although detailed competitive behaviour depends upon the motivations and decisions of individual firms acting in the transaction environment, the general pattern of organizational behaviour and the organization's long-term survival will be strongly influenced by the industrial environment in which it operates. The industrial environment is comprised of the domestic industry and the

domestic supply and customer industries with which the domestic industry interacts, whose activities act on, constrain, and influence the organization and the industry embedded in it. [27] The transaction environment, therefore, is bounded by the industrial environment.

Analysis of the industrial environment provides information on: the nature of the tasks confronting the organization, the way in which production is organized by the industry, the accepted industry practices, and the external conditions which prevail (resources available, competitive issue, and customer requirements). Since the industrial environment is affected by the behaviour of the focal industry, the supply industry, and the customer industry, the relevant features of each of these industry groups must be examined. The opportunities and constraints which firms in an industry face cannot be discovered solely through examination of the focal industry. [28]

Like the transaction environment, the behaviour and performance of the focal industry and the supply industries and the customer industries are inter-related. Changes in the characteristics and requirements of the customer industries will be reflected by changes in the characteristics and activities of the focal industry and vice versa.

2.3.1. RELEVANT FEATURES OF INDUSTRY

Three interrelated aspects of an industry affect its behaviour, performance, and viability. The industrial paradigm (a shared understanding of the tasks confronting the organization, the means by which these tasks can be accomplished and the nature of industrial competition) is reflected in the industry's characteristics (type of industry, market structure, market context, nature of the task, industry life-cycle stage, rate of change, availability of resources, state of technology, political realities, and culture) which in turn establish the industry's requirements for innovation, efficiency, and contact with suppliers, regulatory agencies, competitors, and customers both of itself and those industries which supply it.

2.3.2. INDUSTRIAL PARADIGM

There are two ways to examine the industrial paradigm of an industry: in relation to other industry sectors and in relation to similar industries in other geographical locations. To date, most researchers have focused on the differences which exist between dissimilar industrial sectors. Environmental classifications (degree of volatility, scarcity, and complexity) reflect differences between industrial sectors. With the advent of international competition, however, it is becoming increasingly important to compare the way in which the focal industry defines its tasks with that of international competitors.

Each industrial sector develops a distinct set of practices which distinguish it from other sectors. Similarities in the types of production methods and techniques that are employed; the types of resources which are required; the scripts which are followed when buying and selling; the skills and knowledge which are used; and the structures which facilitate both production and interaction with the environment are evident when firms within a particular sector are compared. Whipp & Clark (1986:27) point out that:

"sectors may be characterized by distinctive corporate languages, constructs and frameworks, all of which are pre-theoretical and local to the sector, yet all of which have an important influence on the evolvement of learning paths in the sector."

The distinctive sector languages, constructs, and frameworks evident when an industry is examined evolve over time, becoming more developed as the sector becomes established. Only in the initial stages of sector development are the frameworks undefined and fluid. Once established, the shared understanding which collections of firms have regarding how events, tasks, and phenomenon should be interpreted, accomplished, and responded to forms a coherent industrial paradigm. (Pfeffer, 1982; Brown, 1978; Sheldon, 1980; Jonsson & Ludin, 1977; Rounds, 1979)

Unlike science paradigms, which Kuhn (1970) argued

seldom evolve over time, industrial paradigms develop or evolve. They emerge relatively unformed and gradually become more consistent, developed, and organized as the industry moves through three phases of development: the development of products and processes (formation); the development of market relations (development); and the development of internal efficiencies (consolidation).

Utterback & Abernathy (1975) argued that as products evolve from low-volume, unstandardized, one-of-a-kind items, their associated production systems evolve from open-ended and unstructured processes toward rigid and elaborately structured processes. Initially a product configuration is relatively inefficient, flexible, and open to radical change, then gradually the configuration becomes stable, relatively efficient, inflexible, and open only to incremental change. (Hayes, 1979; Wheelwright, 1979)

Utterback & Abernathy argue that this evolution occurs as firms within an industry make technological choices about a particular design concept. In the early stages of product evolution the basic functional requirements are undefined and may be subject to radical change as new technology is introduced and market preferences change. Over time this fluidity is reduced as 'core concepts' establish the agenda for a product's technical development along one major functional axis and assumes a distinctive priority in the product's overall evolution. From this set

of 'core-concepts' a dominant design for the product as a whole evolves in which some functional core concepts are more important than others. Core design concepts 'lock in' or stabilize the domain of relevant technical effort.

When the sector is in the initial stages of development not only are production systems in flux, the product market and factor markets are undefined. Organizations within the sector must develop a market for the product and sources of required resources.

Standardization of product design changes the task of manufacturers from defining appropriate design concepts to achieving efficiencies and economies in production. Once manufacturers have achieved these efficiencies and economics of production, however, they are vulnerable to changes in technology, market preferences, and relative prices.

Utterback & Abernathy's argument largely ignores the influence the industrial environment has on the industrial paradigm which develops. Manufacturers may initially define the design concepts of the product but once defined, if the customer dominates the exchange relationship, it is the customer industry which influences the type of product which is produced.

Stinchcombe (1965) suggested that organizations are

"imprinted" by the conditions existing in the industry to which they belong at the time the industry is "born" and noted that this "imprint" process appears to affect not only "first-born" firms but also those created as the industry expands - newer organizations imitate those already in existence. Organizational structures, processes, and norms of behaviour imprinted in a given era tend to persist even though environmental conditions, including perhaps both the demands for different types of goods and services and the capacities for different forms of organization to meet these, may have changed dramatically.

The nature of the task determines the type of activities in which firms in the sector will engage (i.e., the type of production process they will adopt or the amount of research and development, and the basis on which firms compete). The tasks facing firms in mass-production sectors, for example, are very different from those in research-intensive sectors. Mass-production firms require the development of large markets, economies of scale, and product standardization. Research intensive organizations develop Research & Development departments; the emphasis is on innovation rather than efficiency.

Pavitt (1984) identified four types of manufacturing firms, each of which operates with a different general paradigm. He classified industries on the basis of the

behaviour which firms exhibit with regard to innovation, markets, and suppliers and found significant differences between supplier-dominated firms, research intensive firms, production intensive firms, and specialist suppliers.

Supplier-dominated firms can be found mainly in traditional sectors of manufacturing - textiles, footwear, lumber, wood and paper mill products, printing and publishing, and construction - and in agriculture, housebuilding, informal household production, and many professional, financial, and commercial services. They are generally small, and their in-house R & D and engineering capabilities are weak. They appropriate less on the basis of a technological advantage, than on professional skills, aesthetic design, trademarks, and advertising. Technological trajectories are therefore defined in terms of cutting costs.

Supplier-dominated firms make only a minor contribution to their process or product technology. Most innovations come from suppliers of equipment and materials, although in some cases large customers and government-financed research and extension services also make a contribution. Technical choices are made on the basis of level of wages, and the price and performance of exogenously developed capital goods. A relatively high proportion of the process innovations used in these sectors are produced by other sectors, even though a relatively

high proportion of innovative activities in the sectors are directed to process innovations.

Research intensive firms are found in the chemical and the electronic/electrical sectors. In these sectors the main sources of technology are the R & D activities of firms within the sectors, based on the rapid development of the underlying sciences in the universities and elsewhere. Competition mainly takes the form of technical innovation and technical services to customers. Entry is restricted by R & D capacity and by the need to provide marketing and technical service facilities. Each firm which hopes to stay in the business must be capable, if not of making a major innovation itself, at least of imitating those made by its more advanced competitors in a short-time.

Production intensive firms such as those found in the steel, glass, and automobile industries are large and compete by attaining economies of scale and scope and through process innovation. Their customers are extremely price sensitive and their organizational efforts are directed towards maximizing efficiency by cutting costs and vertical integration. Much of the process technology which is used by these firms is developed in-house. They may, however, turn to suppliers or institute R & D departments to develop or borrow this technology. Few new products are introduced and those which are produced are highly homogeneous.

Specialist suppliers produce the machinery, instruments, and packaging used by the three other types of industries. Firms in these industries tend to be small and focus on a very narrow range of products. They are, however, innovators. Their competitive advantage stems from their ability to develop and design specialized products to customer specifications. They work closely with their customers to ensure that the product they produce meets the performance criteria of their customer.

The competitive issue associated with each type of industry will determine the emphasis placed on efficiency, marketing, and innovation by firms in the industry. This emphasis may, however, be moderated by the demands of customer industries and the availability of resources.

The characteristics identified by Pavitt are listed in the chart presented in Figure 2 - 5.

FIGURE 2 - 5

INDUSTRIAL PARADIGMS OF FOUR TYPES OF FIRMS

CHARACTERISTIC	SUPPLIER DOMINATED	RESEARCH INTENSIVE	PRODUCTION INTENSIVE	SPECIALIST SUPPLIER
Typical sector	Footwear Textiles Lumber	Electronics Electrical Chemicals	Steel Glass Autos	Machinery Instruments Packaging
Source of Technology	Suppliers Research extension services; Big users	R & D Science PE	PE Suppliers R & D	Design/Dev Users
Type of User	Price sensitive	Mixed	Price sensitive	Performance sensitive
Source of Competitive Advantage	Trademarks Marketing Advertising Aesthetic design learning economies	R & D Patents Process secrecy; Dynamic Economies of scale	Process secrecy Technical lags Patents	Design know how; Knowledge of users Patents
Technological Trajectory	Cost Cutting	Mixed	Cost Cutting (Product Design)	Product Design
Source of Process	Suppliers	In-house; Suppliers	In-house; Suppliers	In-house; Customers
Product/ Process Emphasis	Process	Mixed	Process	Product
Relative Size of Innovating Firm	Small	Large	Large	Small
Extent of Integration	Low Vertical	Low/High Vertical	High Vertical	Low Concentric
Average Size of Firm	Small	Large	Large	Small
Product Homogeneity	High	Low	High	Low

FIGURE 2-5

INDUSTRIAL PARADIGMS OF FOUR TYPES OF FIRMS - CONTINUED

CHARACTERISTIC	SUPPLIER DOMINATED	RESEARCH INTENSIVE	PRODUCTION INTENSIVE	SPECIALIST SUPPLIER
Rate of New Product Introduction	Low	High	Low	High
Environment	Stable Complex	Volatile Complex	Stable Simple	Stable Complex

Key: PE = Production Engineering Department

Concentric = Integration in unrelated sectors

Vertical = Integration with firms in related sectors

2.3.3. INDUSTRY REQUIREMENTS

Industry requirements differ from characteristics in that they are determined primarily by the competitive imperatives of the customer industry and market preference. They cannot necessarily be determined by examining existing relationships between the industry and its customer and supplier industries for these relationships are formed as a result of the competition between firms within the industry and depending on the relative power of the customer industry the demands made by the customer on the industry. Organizations respond to these competitive imperatives and external demands rather than to the needs of the market. This is why gaps emerge between market preference and requirements and existing organization behaviour. Unless there is a competitive impetus which pushed the organization to meet the requirements, the organization will not respond. Products are chosen by the market on the

basis of comparative advantage.

Industry sectors differ in the extent to which firms within the industry need to be innovative, efficient, productive, creative, receptive to customer complaint and suggestion, and establish contact with suppliers and customers. Research intensive firms are expected to be innovative and creative, while production intensive organizations strive for efficiency and productivity rather than innovation and creativity. Supplier-dominated firms, like production intensive firms, must be efficient and generally are not innovators. They do, however, have to entice their customers to purchase their products and they tend to exhibit creativity in marketing, advertising, and aesthetic design of the product. Unlike production intensive firms, which can through company-owned distribution outlets push their products to market, supplier-dominated firms depend heavily on their customers for distribution. They must therefore stay close to the market and maintain regular contact with these firms. Specialist suppliers also need to maintain regular contact with their customers. The purpose of this contact, however, is different. The specialist supplier works closely with the customer throughout the design, development, and production phases of the product. The customer depends on the organization to provide the design knowhow. Emphasis is placed on innovation, problem solving, and meeting performance criteria. The structural

characteristics of the industry will also dictate the requirements for innovation, efficiency, and contact.

Given that these are unique groups of organizations within an industry the need to be efficient, stress marketing, or be innovative the competitive imperatives may be different for each group.

Industries also develop ideologies and philosophies which govern the definition of the tasks confronting organizations and the way in which these tasks are carried out. These may differ significantly from similar industries in other countries. It is a collective interpretation of the role of firms in the industry in the broader activities of the national economy. In some countries this definition has been encouraged or at the extreme imposed on the industry through state policies and practices, in other countries (particularly those countries which have been founded on the autonomy of commercial enterprise) the definitions have been developed at the firm and industry level.

These ideologies are reflected in the level of export activity, the characteristics of the products produced, the production systems which are used, the organization of external resources, the availability of resources, the fragmentation of the industry, and the number of support systems in place.

In describing an industrial paradigm factors such as: the national or international focus of the industry, the definition of product characteristics, the organization of the production system (whether mass production or flexible specialization), the degree of unity or autonomy exhibited by firms in the industry, and the extent to which the industry operates a dominant or subordinate role vis a vis its customer industries should be considered.

2.3.4. INDUSTRY CHARACTERISTICS

When examining organization environments, Organization Theorists usually identify the characteristics of the industrial environment, but, the normative character of much of their research has had the unfortunate effect of obscuring the descriptive information collected on these characteristics. Researchers omit discussion of the specific characteristics of the industrial environment they observe and instead classify the environment in terms of the degree of munificence, volatility, complexity, and heterogeneity.

Figure 2 - 6 provides a partial list of aspects of the industrial environment which might assist us in defining the characteristics of the industrial environment.

FIGURE 2 - 6

CHARACTERISTICS OF THE INDUSTRY WHICH INFLUENCE
THE NATURE OF THE TASK CONFRONTING ORGANIZATIONS

NATURE OF THE PRODUCT	THE PRODUCTION PROCESS
Type of Product	Penalties for diseconomies of Scale
Frequency of Product changes	
Degree of Product standardization	
Product Life Cycle stage	
Industry expenditure of R & D	SUPPLY OPTIONS
% of Scientists/engineers: total employed	Availability of resources
	# of resource sources
	Relative importance of resource
INDUSTRY COMPETITION	
Real Market Growth	
Industry Value Added	
Industry Growth	
# of Competitors	REGULATIONS
Industrial Concentration	
Competitive Issue: Price, Quality, Delivery	Legislation
Geographic Scope	Regulations
THE CUSTOMER	SUPPORT SERVICES
Frequency of Purchase by User	Industry Association
Frequency of Purchase by Immediate user	Behaviour
Customer Switching Costs	

The technological, scientific and market characteristics of the industry define: i) the context within which relationships between the organization and its consumers, suppliers, regulatory agencies, and consumers develop; ii) the structures, managerial practices, and strategies which the organization adopts or should adopt; and iii) the nature of the tasks confronting the organization given the decision to operate in a particular industry. (Lawrence & Lorsch, 1967; Burns & Stalker, 1962; Woodward, 1965;

Chandler, 1962, 1977; and Emery & Trist, 1965).

Research studies conducted by Organization Theorists have found correlations between industry characteristics and organization structure and behaviour variables. Higher levels of competition are associated with increased structure, differentiation, decentralization, use of management controls, and decreased structural elaboration (Pfeffer & Leblibiei 1973; Khandwalla, 1972); increased environmental uncertainty correlated with increased decentralization, organic management styles, less structural hierarchy, more participation, fewer rules, lower division of labour, and differentiation (Negandhi & Reiman, 1973; Khandwalla, 1973, 1974; Burns & Stalker, 1966; Lawrence & Lorsch, 1967); and resource scarcity correlated with the propensity to commit illegal acts, higher internal conflict, and interdependence. (Pfeffer & Salancik (1978)

The structural features of an industry which have been studied extensively by Economists determine the nature and intensity of the competition between firms within an industry and thus represent important economic and technical characteristics of an industry. Firms within an industry compete with one another to serve a particular product market for the goods they produce and for resources available in the factor market. Caves (1967) has suggested that "market structure is important because the structure

determines the behaviour of firms...and that behaviour in turn determines the quality of the industry's performance".
[29]

Industry characteristics change over the product-life cycle. Hirsch (1965) summarized several characteristics which are typical of mass production organization during the early, growth, and mature phases of the product-cycle (see Figure 2 - 7)

FIGURE 2 - 7

INDUSTRY CHARACTERISTICS DURING THREE PHASES OF THE
PRODUCT LIFE - CYCLE

CHARACTERISTICS	CYCLE PHASE		
	EARLY	GROWTH	MATURE
Technology	Short runs Rapidly changing techniques Dependence on external	Mass production methods introduced Variations frequent	Long runs Stable technology Few innovations
Capital Intensity	Low	High (High obsolescence rate)	High (large quantity of equipment)
Industry Structure	Entry based on Know-How	Growing Number of firms	Entry based on Financial resources
Critical Human Inputs	Scientific Engineering	Management	Unskilled Semi-skilled
Demand Structure	Sellers' Market	Growing price elasticity	Buyers' Market

Industry characteristics also change in response to changes in the characteristics of their customer industries. This is a function of the relationship between the focal organization and its customers. If the structure of the customer changes it is likely that these changes will be mirrored by changes in the structure of the focal industry.

The industrial environment is not homogeneous. Within an industry, be it the focal industry, the customer industry or the supply industry there are clusters of organizations which consist of firms following similar strategies, competing in particular market niches, with similar organization structures and behaviours. (Porter, 1979) Because of the interdependence of customer, supplier, and producer, once a group of organizations are identified, the associated cluster can also be readily identified.

Caves & Porter (1977) suggested that it is mobility barriers which induce intra-industry grouping. These barriers, however, are more likely to be consequences of, rather than an impetus for, intra-industry grouping. The characteristics which firms adopt in response to customer demands and available resources serve as a constraint which prevents firms from moving into another group since by definition these groups have quite different characteristics.

It seems more likely that intra-industry clusters emerge as a result of the decisions and strategies which organizations pursue when forming and stabilizing relationships in their transaction environment. Once these relationships are formalized the organization is unlikely to deviate significantly from the activities and behaviour they adopt. Disruptions in the transaction environment brought about by change in the industrial environment may cause the organization to shift and alter its activities but the changes will be in keeping with the capabilities and capacity it has already developed rather than an adoption of completely new behaviours and strategies.

In most market segments there is room for several organizations to fill the demand of the market. Organizations will enter the market to take advantage of opportunities available. Competitive processes will inevitably lead those organizations serving the market to adopt similar behaviour. The number of organization clusters in the focal industry will reflect the diversity of the customer industry. The diversity of the requirements and behaviour of the customer industry, therefore is an important indicator of the degree of fragmentation and differentiation among the producing industry.

The greater the fragmentation of the industry the more difficult it becomes to develop universal policies, practices and guidelines. Each group of firms will face

different problems and experience the environment in a different way. It may be difficult to identify common problems. This frequently means that problems which are not firm specific and not affecting the whole industry are ignored. If one group predominates, the industry's problems may be defined in terms of this group.

When researchers have discussed industrial environment dimensions, they have focused on single aspects of the environment. Burns & Stalker focused on the technological characteristics, Lawrence & Lorsch, Woodward, and Emery & Trist focus on the product market aspects, Thompson, examined the market, drawing their inferences from a single aspect of the environment. They have not considered those industries with which the organization must interact nor examined the effect change in the customer and supply industry has on the organization.

Analysis of the industrial environment provides information on the paradigm which governs the behaviour of the organization as a member of a particular sector; analysis of the transaction environment provides information on the state which governs the particular character of the organization's behaviour. Analysis of these environmental sectors, however, provide little information on those environmental factors which lie outside of the industrial environment, that have the potential to affect the behaviour, performance, and

viability of the organization and focal industry.

2.4. THE ECOTONE

ECOTONE: An ecological community of mixed vegetation formed by the overlapping of adjoining communities. [ECO{OLOGY + Greek tonos, tension, TONE]

The Ecotone consists of those factors which lie outside the industrial environment which have the potential to influence the organization's and domestic industry's functioning and performance. [30] The term Ecotone was chosen to describe this environment because it captures two critical aspects of this segment: i) the distinct and diverse nature of the elements which make up the segment (i.e., foreign competitors, technological developments in other industries, substitute products) and ii) the interactive potential of this sector to meld into the existing environment and virtually create a new field (or environment).

Emery & Trist point out that:

A greater degree of system connectedness, of crucial relevance to the organization, may develop in the environment, which is yet not directly a function either of the organization's own characteristics or of its immediate relations. Both of these, of course, once again become crucial when the response of the organization to what has been happening is considered. - Emery & Trist, 1967

The ecotone is a "vortical environment" - an

environment shaped by forces totally beyond management. It is rooted, however, in the paradigms, characteristics and requirements of an industrial environment; one which has formed outside of the focal industry's environment. This external industrial environment has different paradigms, characteristics, and requirements from that of the focal industry's industrial environment. The focal industry's behaviour has had no influence on the characteristics and paradigms which have developed. Organizations within the focal industry have had no opportunity to align their practices with those organizations in an alternative industrial environment. They do not compete with these firms for input resources, capital, raw materials, technology, information, legitimacy or personnel. It is frequently only when the product or service produced in these external industrial environments enters the market and competes with the domestic industry's products, that the organization or industry realizes the existence of an alternative paradigm. By this time, however, the alternative paradigm has frequently eroded the market share of the domestic industry, disrupted the existing industrial paradigm and is, in fact, the dominant industrial paradigm.

This is particularly problematic for the organizations operating within the existing industrial paradigm, for they find that the competitive strategies which were appropriate when competing with other firms in the industrial environment, which have similar resources, skills and are

organized in some manner as themselves, simply do not help them compete with those produced in another industrial environment.

In most of the Western countries which are experiencing sharp industrial decline, the organization resources in the industrial environment have been dedicated to the supply of goods to the domestic market.

Classical economic theory and Industrial Organization Theory is based on the assumption that firms who compete in the market have similar resource basis and that market structure influences firm behaviour and thus industry performance (Bain, 1959, 1968)

In their article "The Causal Texture of Organizational Environments", Emery & Trist, (1965) provide an example of how changes occurring in an ecotone lead to disruptions in the functioning of an organization. Their canning industry example highlights several salient features of the ecotone: i) change occurred in industries indirectly related to the canning industry (small fruit canning firms entered the market as direct competitors and frozen foods were introduced, the price of the focal organization's product fell, and they too became direct competition); ii) customers are the critical link between the focal organization and the ecotone (the demands of the focal organization's customers changed to the new products and

away from canned products); iii) the technological developments which eventually had an impact on the organization were competitive responses on the part of firms in these other industries to changes in their Industrial Environment and iii) the management was caught unaware of these changes.

Ecotone factors which affect the organization or industry are not confined to those factors related to the activities of firms in other industries. Examples of the dramatic effects of changes in availability, regulation, and price of resources are readily available. The milk and dairy industry - to take but one - is now generally agreed to be undergoing its greatest upheaval since the 1930's. The industry faces three major challenges posed by factors emerging in the Ecotone: (1) the introduction of milk quotas; (2) the abolition of the Minister's responsibility for setting a maximum retail price; and (3) the health fears associated with excess animal fats and the increased threat to dairy products sales resulting from the recent NACNE and COMA reports.

Haines (1985) (in an address to members of the industry) anticipated that the following effects will be felt by manufacturers in the industry: the rigid price structure will start to disintegrate, and a whole range of prices will be charged for liquid milk; the move away from a cost-plus system will create an environment in which

poorly managed firms are no longer protected; firms will have to engage in very thorough cost examination and cost cutting to remain competitive; and rapid introduction of new types of packaging, energy saving, and labour retrenchment will be required. He concludes:

The dairy trade must change its whole attitude, and instead of seeing itself as a supply-driven milk distribution industry must become demand-led, concentrating on profitability through innovation.

This industry has recognized the factors in the Ecotone which will affect it and the need for change. How responsive individual firms will be to the changes is yet to be determined.

2.5. SUMMARY

The emphasis on the resolution of managerial issues and particularly the prime emphasis on structural issues has lead researchers to draw boundaries between the organization and the environment and ignore the relationships between the focal organization and other organizations which form the network of organizations we refer to as the task environment. In this chapter the importance of distinguishing between the three primary segments of the task environment - the transaction, industrial and ecotone - and differentiating between the market and the task environment has been stressed.

At the beginning of this chapter the emphasis on

environmental states was criticized for it left two relevant aspects of the task environment - its form and content unexplored. Scarcity, munificence, volatility, stability, and turbulence do, however, play an influential role in organization behaviour and viability. Changes in market and technological conditions which result in environmental volatility renders the organization or industry vulnerable if it does not change its behaviour. These changes occur exogenously and may develop without the organization's awareness. Environmental stability in one sector of the task environment (in the transaction environment) may obscure vulnerability arising in another sector (in the industrial environment). Environmental scarcity serves as an important cue to an organization or industry that changes must be made. Scarcity or the threat of scarcity motivates the organization to alter its behaviour. Transaction environment munificence creates complacency and a feeling of security. Finally, turbulence renders existing industrial paradigms and organization practices obsolete.

An organization unsure of how it should react to the changes occurring in the task environment or unable to predict the outcomes of its behaviour, is uncertain; an organization unaware of the changes which have occurred is vulnerable. Both states present problems for the organization. The arguments presented in the next chapter begin with the premise that organizations are vulnerable to

environmental change but because of the nature of the relationship between the organization and its transaction and industrial environment, the organization generally will not be aware of changes in the ecotone which eventually will have a direct impact on their viability.

CHAPTER 3

ORGANIZATION FAILURE AND INDUSTRY DECLINE

The perspective presented in Chapter 2 raises several questions about the interdependence of an organization and its task environment. This thesis examines one of these questions. Given the existence of three interrelated segments of the task environment, how does the organization's relationship to each of these segments confound, limit, influence, and forestall, both the awareness of problems or opportunities arising in the task environment, and the actions which might be taken to cope with these environmental circumstances? It is argued that these relationships prevent organizations and industries from recognizing problems and opportunities and responding appropriately. This has lead to organization failure and industry decline.

Lawrence & Lorsch (1983) asked "Why do so many firms and industries fail, in their maturity, to maintain their competitive vitality?" This chapter reviews the various explanations which have been proposed, by these theorists and others, to explain organization failure and industrial

decline. Organization failure is generally attributed to either internally functioning problems, a lack of environmental resources, or the organization's failure to adapt to change. Macro perspectives suggest that the lack of resources in the industrial environment constrain the organization, while micro explanations suggest that the organization's failure to achieve appropriate levels of efficiency, productivity, and innovation is the primary cause of organization and industry decline. Although there have been recent exceptions, the environment itself has not been considered a contributing factor. (cf Hannan & Freeman, 1981)

Every year businesses fail, merge with other companies, or are dissolved. Many of these failures occur as a matter of course and represent the efficient working of the market. When the world economy is depressed or there is a sharp increase in raw material costs, such as the rise in oil prices, the number of failures in an industry may increase slightly overall. Over the last twenty years, however, there has been widespread industry decline in many Western countries and a large number of British, American, and European firms have failed. Many of these have been in business for eighty or ninety years.

[31] [32]

Both the United Kingdom and the United States have experienced sharp industrial decline. The number of people

employed in the UK manufacturing sector has been declining since the mid-1960's and was, at the end of 1977, some 15% lower than the peak reached at the end of 1965. The United Kingdom's share in world trade manufacturing declined from 19.8% in 1955 to 9.4% in 1973; import penetration increased from 8% in 1961 to 21% by 1974; and gross profit margins of United Kingdom manufacturing fell from 26.4% in 1966 to 13.6% by 1976.

The same trends are occurring in the United States. In 1950, the United States accounted for about 6% of the world's population, 40% of its GNP and 20% of its world trade. By 1980, the U.S. population represented 5% of the world population, but only 21.5% of its GNP and 11% of its trade. Industrial decline has also been noted in France, the Netherlands, and Canada, but the decline has not been as extensive.

Examination of employment figures and trade balances in other countries indicate, however, that de-industrialization and industrial decline are not universal. While the United Kingdom and the United States are clearly facing an extended period of industrial decline, countries such as Japan, Italy, and Germany are experiencing just the opposite. From 1950 to 1975 industrial employment declined in the Netherlands, Sweden, the United Kingdom, and the United States, remained relatively constant in France and Belgium and increased in Japan, Italy, and Germany. During

the same period the ratio of manufacturing to GDP declined in the United Kingdom, France, the Netherlands, Canada, and the United States, remained stable in Germany, Italy, and Sweden, but increased appreciably in Japan. France, Germany, Italy, and Japan have increased their share of world exports. The United Kingdom, Canada, Sweden, and Switzerland have lost share and the United States, although maintaining their share of world markets until 1980, began to lose share after that time.

Although attributed to different root causes, organization and industry failure has ultimately been defined in terms of firm specific behaviour which is judged inadequate or inappropriate. Six reasons are most often cited for organization and industry failure: the failure to achieve and maintain economic efficiency, technical competence, innovation, acquire resources from the product and factor market, or understand the product and factor market. (See Figure 3 - 1)

The explanations usually put forth to explain organization failure and industrial decline: i) poor management, ii) failure to adapt to the environment, and iii) national economic, political, and social factors are examined in the following section. It is argued that these explanations do not adequately explain the failure of large numbers of firms in specific industries in some Western countries.

FIGURE 3 - 1

TYPOLOGY OF ACTIVITIES ASSOCIATED WITH
ORGANIZATIONAL FAILURES

PRODUCTIVITY	The inability to achieve and maintain economic efficiency in required transactions
TECHNICAL COMPETENCE	The inability to maintain technical competence through quality, production, and design
INNOVATION	The inability to achieve and maintain innovation
RESOURCE ACQUISITION SALES	The inability to generate resources in the product market
PROCUREMENT	The inability to generate resources in the factor market
INFORMATION	The inability to read and understand the product and factor markets.

3.1. POOR MANAGEMENT

"Poor management" is generally the first explanation offered for organization failure. The majority of the over 400 articles, books, and book chapters on corporate decline which have been published in the Strategic Management, Organization Theory, Public Administration, and Higher Education literatures (three quarters of which have appeared since 1977) attribute failure, directly or indirectly, to poor management. (Zammuto, 1983) Analysts of corporate decline consider inadequate financial control, competition, high cost structure, changes in market demand,

adverse movements in commodity prices, big projects, acquisitions, financial policy, and overtrading to be the primary causes of corporate decline, most of which they attribute to poor management. (Slatter, 1984; Argenti, 1976; Schendel, Patten and Riggs, 1976; Sigoloff, 1981) Although competition, change in market demand, and interest rate change are environmental factors, failure is attributed to poor management because as these theorists argue, it is the firm's failure to respond to the changes which lead to corporate decline.

Most accounts of organization failure identify particular internal organization problems which have led to the failure. Marketing and growth strategies have been found inappropriate, investment decisions questioned, efficiency and productivity levels considered low, or skills and expertise found to be lacking. Such explanations presume that, given a change in management, the organization would not have failed.

While these explanations appropriately point to those who ultimately take responsibility for the failure, they do not take into consideration the fact that the transaction environment, which the organization depends upon and responds to, may serve to restrict or limit the alternative behaviour available to the organization. The relationships which organizations form with their suppliers and customers are negotiated outcomes the result of which depend upon the

relative power of each participant and the alternatives available to them. Organizations do not, therefore, have complete control over their transaction environment.

Not only do these explanations fail to consider the degree of control the organization has over its transaction, environment they presume that management has the capacity to ensure the internal functioning of the organization runs smoothly, that they are dealing appropriately with their customers and suppliers, they are responding to competitor activities, and keeping abreast of all of the other external factors which may in the medium and long term affect the organization. Some organizations come closer to achieving this objective than others but all organizations are limited in their ability to comprehend and anticipate environmental changes.

These explanations do not explain why several organizations in one industry fail while firms in another industry flourish. It seems unlikely that some industries have a propensity to attract good management while others attract poor management.

3.2. NATIONAL FACTORS

Numerous "national characteristic" arguments, which focus on the social, political, and economic characteristics of the economy, have been put forth to explain the widespread failure of manufacturing firms in

the United Kingdom and the United States. These arguments include: in the case of the United Kingdom i) Britain's class-bound institutions and educational system (Balough & Thatcher, 1981); ii) the systematic misdirection of talent in Britain into public sector administration, the City, and the universities and away from industry and engineering (Wiener, 1981); iii) the short-term focus of British economic policy-making (Pollard, 1982); iv) the failure to invest in the modernization of capital equipment; v) the structural rigidities in its economic institutions that developed in the nineteenth century era of relatively free competition (Lazonick, 1983); vi) the pre-emption of resources through a rapid increase in government spending (Bacon & Eltis, 1972); and in the United States; vii) the inappropriate allocation of government and industrial R & D resources (Freeman, 1979); viii) poor control over the labour process (Kilpatrick & Lawson, 1980); ix) an overvalued dollar (Council of Economic Advisors); x) an industrial mismanagement which is complacent and has paid inadequate attention to short-term earnings (Abernathy, 1975); xi) government failure to reduce the frequency and cause of market failure and take a constructive role in stimulating growth; xii) declining trade barriers, shrinking transport costs, and improved communications which encourage global trade; and xiii) industrial targeting by foreign countries (Scott, 1984).

The social, political, and economic characteristics of

the domestic economy influence the way in which an organization adapts to its task environment. National characteristic arguments, however, focus primarily on the flow of capital and human resources from the state and supporting institutions to organizations rather than on the way in which the social, political, and economic forces shape industrial behaviour and perpetuate particular organization behaviour. The arguments proceed from the premise that if organizations in the country had more abundant or different types of resources, they would not fail.

Macro explanations of organization failure and industrial decline largely ignore the fact that within a given industry, or across industries, some organizations perform much better than others. Since all of the organizations within the industry sector face the same national constraints and opportunities it is difficult to see how a macro explanation of organization failure and industrial decline can be offered as the definitive factor in either organizational failure or industrial decline.

By the same token, however, industries as well as organizations disappear. Thus organization explanations which do not take into consideration macro factors miss important factors contributing to organization failure.

3.3. FAILURE TO ADAPT TO THE ENVIRONMENT

The problem of industrial decline has recently been taken up by several organization theorists. (Lawrence & Dyer, 1983; Pettigrew, 1985) They dismiss national characteristic arguments suggesting that the responsibility for failure lies primarily with the organization. Unlike "poor management" explanations, failure is not attributed to a firm's inability to manage its internal functioning, but rather, to the failure of a firm to adjust its internal characteristics and behaviour to meet the requirements of external circumstances. Failure occurs because the organization did not try to adapt to its environment, has adapted inappropriately, or could not adapt because of organizational inertia. Like those who have put forth national characteristic arguments, these theorists believe that the problem extends well beyond the individual firm.

In the preface of his book 'The Awakening Giant', Pettigrew (1985) suggests that it is not economic, political, and social factors which lead to industrial decline but, the 'capacity of firms to adjust and adapt to major changes in their environments'. He suggests that the nature of management itself is a crucial input into the competitive issue.

Similarly, Lawrence & Dyer (1983), following a review of several American industries, concluded that while

numerous causes of industrial decline have been put forth, analysis have ignored the organization's role in this decline. Lawrence and Dyer suggest that it is the organization's failure to respond to fundamental changes in the environment which has led to industrial decline and that the organization must be both efficient and innovative if they are to remain on the leading edge.

Abernathy, Clark & Kantrow (1983) agree that macro factors such as government fiscal and monetary policies (taxation, capital markets, and savings) and the socioeconomic environment (work ethic, regulation, and education), and micro factors such as production capability in the form of plant and equipment are important. They argue, however, that the most important factors affecting industrial decline are the corporate management practices concerning the organization, administration, and production systems of organizations. Altering these corporate management practices, they suggest, is essential to the renaissance of a beleaguered industry. They attribute the United States' "lackluster industrial performance" in recent years to the failure of many of its traditional manufacturing industries to adjust to a troubling new set of competitive realities.

Each of the authors discussed above attribute industrial decline to the organizations' failure to adjust their behaviour to, what the authors feel is, the dominant

competitive issue in the marketplace. Organizations, they argue, must be efficient, productive, and innovative if they are to survive. They imply that the resolution of these organizational problems will stop organizational failure and industrial decline. At first glance this appears to be a valid assumption. Certainly the Western nations have, in the last decade, placed increasing emphasis on the improvement of corporate productivity and innovation as they struggle to stop the decline of their core manufacturing sectors. But, such arguments ignore the fact that the organizations which are now failing have for many years been as efficient, productive, and innovative as their transaction and industrial environments have required (and in some cases imposed). In many industries the required levels of efficiency, productivity, and innovation have changed in recent years as products produced in different resource bases have entered the market, and this has made it difficult for existing production systems to compete.

3.3.1 PRODUCTIVITY

Perhaps no topic has captured the imagination of the American business community in recent years as much as the need to boost the nation's productivity

Sparked by Japan's success in penetrating the American motor industry market and by the emphasis placed on differences between the productivity in the United States

and other countries, productivity was identified in the mid-1970's, by United States analysts, as the key factor contributing to comparative advantage. [33] This led to a massive educational program designed to increase awareness of the "productivity problem" and the reassessment of government policies and organization practices with the aim of improving productivity. An abundance of books, articles, conferences, seminars, training programs, and organizations dedicated to improving United States productivity emerged. Figure 3 - 2 presents a sample of the articles and books published between 1978 and 1981.

The United States is not the only developed country which considers low productivity to be a major factor in industry decline and which has implemented programs to improve productivity. Most other Western countries have instituted similar programs designed to improve productivity. The premise appears to be that other countries, particularly New Industrializing Countries (NIC) countries, have reached optimal productivity levels, and that by improving their own productivity developed countries can close the productivity gap between themselves and other countries. This presumes that the NIC and other foreign countries will not also gradually increase their productivity by the same means as the Western countries (through the adoption of computer technology, reorganization of their production systems, and institution of up-to-date, effective management systems.)

FIGURE 3 - 2

PUBLICATIONS ON PRODUCTIVITY

TITLE	SOURCE/AUTHOR
1. Behind the Productivity Slowdown	Industrial Management
2. Understanding Productivity	Industrial Management
3. The Productivity Problem	Technology Review
4. Why is Productivity Slowing Down	Lester Thurow Harvard Business Review
5. Productivity - The Problem behind the Headlines	Campbell McConnell Harvard Business Review
6. American Productivity Crisis	Burton Malkiel Newsweek
7. The Decline of Productivity Growth	The Wall Street Journal
8. Productivity: Key to Revitalizing American Industry	Industry Week
9. Working Smarter: The New Path to Productivity	Fortune
10. Improving Total Productivity: MBO Strategies for Business, Government and Not-for-Profit Organizations	Paul Mali
11. Practical Management for Productivity	John Hinrichs
12. Productivity in the United States: Trends and Cycles	Elliot Grossman
13. Measurement and Interpretation of Productivity	National Research Council
14. Productivity, Technology and Capital	Bela Gold
15. The Productivity Dilemma: Roadblocks to Innovation in the Automobile Industry	William Abernathy

3.3.2. TECHNICAL COMPETENCE

It is only recently that theorists have examined the implications of technical failure for long-term survival. Rather than examining the ways in which efficiency can be improved, several researchers, following Abernathy's lead, have examined the ways in which productivity prevents the

development and achievement of technological superiority.

Abernathy, Clark and Kantrow (1983) assert that American manufacturers are in trouble, not because of general economic conditions or unfair trade practices but, because they have lost their determination to "manufacture well".

In his book "Industrial Renaissance", Abernathy (1983) contends that high quality, reliable performance, and relatively low cost based on real manufacturing efficiencies have been at the heart of the competitive strategy that has enabled foreign producers to "outflank, outfox, and outperform" their American counterparts. He argued that American competitors are not experiencing a temporary loss of their share of established markets. The industries in which these firms compete have undergone profound technological and structural upheavals which render their current modes of operation inappropriate. Abernathy asserts, that managers must recognize that they have entered a period of competition that requires a mastery of technology-driven strategy, efficient and high-quality production, and competent workforce management.

3.3.3. INNOVATION

While improving productivity remains the mainstay of economic development attempts, another issue - innovation -

has recently been taken up and pursued with almost the same zeal as the productivity effort. The capacity to develop and facilitate innovation is regarded as a central requirement in order to compete (Caves, 1980). Economists point to industry wide inability to introduce major, strategic innovations on a periodic basis, and/or failure to maintain a steady amount of incremental innovation as primary factors in organization failure and industry decline. Researchers at the Science Policy Research Unit at Sussex University point to the shortcomings in the way certain sectors of British industry develop and improve products and production processes as a cause of British industrial decline.

Millions of pounds are now being invested in the research and development of new products, product modification, and the study of the diffusion of innovation. These innovation efforts are directed toward two main areas, the development of new products which will capture market share and the development of products and processes which will enhance productivity.

Like the enhancement of productivity, increasing innovation rates require substantial capital funding and the employment of a large number of support services and personnel. The cost of innovation may, however, be diffused throughout the industrial environment and resources drawn from those already existing. For instance

universities and research institutes may take the innovations from idea stage to final product so that it does not initially disrupt the existing production system; new technology can be adopted gradually as funds and resources become available; and supply specialists already engaged in innovative activity may take up the role of modifying and designing new process technology. If costs are to be minimized and the benefits realized, however, the resources in the industrial environment must be organized and mobilized appropriately. Abernathy points out, however, that innovative design existing labour skills, management systems, technological processes, or capital equipment. It tends to make existing investments in both marketing and manufacturing organization obsolete. If innovative design capability is developed, managers choose uncertainty (about economic returns, timing, etc.) over relative predictability; and exchange the reasonable expectation of current income for the promise of high future value. (Schumpeter, 1934)

3.3.4. RESOURCE ACQUISITION

Cyert & March (1963) argue that the availability of resources in the environment interacts with the accumulation of slack resources to ensure organization stability and survival. Seashore & Yuchtman (1967) suggest that organizational performance can be assessed and described in terms of generalized resource-getting capabilities under conditions of competition for scarce and

valued resources. They defined effectiveness of an organization as its ability to exploit its environments in the acquisition of scarce and valued resources to sustain its functioning. The significant outcomes of organizational behaviour, whether anticipated or not, whether voluntary or constrained, are always influenced by, and lead to, changes in the ability of the organization to mobilize resources from the environment. Effectiveness in organizations can thus be viewed as the relative bargaining position of organizations in relation to resources over which there is competition. They make two qualifications i) effectiveness must be assessed in relation to environmental potential and ii) the ability to exploit the organization's environment cannot be equated with maximum use of this ability in the short run, for an organization might then destroy its environment and reduce its long-run potential for favorable transactions.

3.3.4.1. RESOURCE ACQUISITION FROM THE PRODUCT MARKET

The ineffectiveness of the organization's marketing strategies, its failure to seek or develop new market segments, and its inability to retain existing customers are frequently identified as primary reasons for organization failure. Firms in the United Kingdom in particular have often been criticized for their inattention to marketing. The Boston Group (1975) report on the British motor-cycle industry, for example, placed much emphasis on the difference between British and Japanese

"market philosophies". The Japanese pursued long-run market share and sales volume, while the British were concerned with short-term model-by-model profitability. These differences in market objective produced different enterprise strategies. The Japanese firms developed ranges of motorcycles with a model in every displacement class, while the British firms all withdrew small displacement motorcycles in the face of Japanese competition and ended up producing only "super bikes" of over 700 cc. On Boston's account, the British firms chose the wrong time scale and the wrong market objectives.

3.3.4.2. RESOURCE ACQUISITION FROM THE FACTOR MARKET

The area which has received the least attention has been the organization's inability to achieve and sustain required relationships with resource suppliers. Perhaps because Western production systems have tended to be organized around available resources, and most raw natural resources have been readily available, managers have taken for granted the supply side of their environment.

Resource Dependency Theorists argue that organization behaviour becomes externally influenced and that organizations must attend to the demands of those in the environment that provide resources necessary and important for its survival and have examined the strategies which firms adopt to reduce uncertainty and dependency. These include: mergers (Pfeffer, 1972; Hawley, 1950); cooptation

(Selznick, 1949); composition of board (Zald, 1967); long-term contracts (Geutzkow, 1963); norms and values (Perrow, 1970); illegal collaboration (Avoy, 1965); co-ordination agencies; joint venture (Aiken & Hage, 1968); state intervention (Stigler, 1971; Bauer et al, 1963; Hall, 1969). The underlying premise is that organizational activities and outcomes are accounted for by the context (the relationships formed with actors in the transaction environment) in which the organization is embedded. But, the ramifications of these transactions in relation to the broader task environment context have not been explored.

3.3.5. INFORMATION

In order to respond to the environment the organization must not only collect sufficient information about its environment, they must have internal mechanism in place to ensure that this information reaches those individuals or groups within the organization who can utilize the information. (Thomas, 1980; Wilensky, 1967; Keegan, 1974; Fabey and King, 1977)

As part of the project Sappho, carried out by the Science Policy Research Unit during the 1970's, researchers studied the reason why 58 attempted innovations in chemicals (process innovations) and scientific instruments (product innovations) failed to establish significant market penetration and/or profit. They found that successful attempts were distinguished frequently from

failures by greater attention to the education of users, publicity, market forecasting and selling, and the understanding of user requirements. The single measure which discriminated most clearly between success and failure was "user-needs understood". They suggest that this should not be interpreted simply, or even mainly, as an indicator of efficient market research. It reflects just as much on R & D and design as it does on the management of the innovation. The product or process had to be designed, developed, and 'freed of bugs' to meet the specific requirements of the future users, thus an "understanding" of the market had to be present at a very early stage. (von Hippel, 1976; Teubal, 1976; Mansfield, 1977)

3.3.6. COMMENTS ON FAILURE TO ADAPT ARGUMENTS

Although it is generally agreed that the organization must adapt to its environment, the features of the environment which the organizations should adapt to are rarely specified. Rather than examining the environment, theorists have sought to identify ways of improving internal functioning. Organizations which are considered to have adapted are those which have:

- i) adopted the latest available technology;
- ii) responded to changes in customer preferences;
- iii) gathered sufficient information;
- iv) adhered to industry standards of efficiency and productivity;
- v) developed new products;
- and vi) cultivated appropriate links with suppliers

Failure to achieve efficiency, technological superiority, innovation, information, and product and factor market contact will not necessarily lead to organization failure in the short-term. The absence of these features only becomes detrimental to the organization if customer and supplier requirements dictate that they be present. The ability to maintain high efficiency, for example, is only necessary if the market has a choice between products where efficiency is reflected in price; if competitors can produce a product with greater and thus sell it at a cheaper price. Imperfect competition in the industrial environment may provide an opportunity for organization survival despite inefficiency. Thus, if it is unimportant that the organization maintain innovation, then the absence of innovative activity is unlikely to be the reason for organizational failure.

While there is no doubt that improvements in efficiency, productivity, innovation, market awareness, and information flow would improve organization behaviour and performance, it is questionable whether these improvements will ensure the organization's or industry's survival. These activities tend to be oriented to the transaction environment and do not address problems arising in other segments of the task environment.

The requirement for innovation and efficiency will differ depending on the industry and market segment.

Theories which attribute industrial decline to a single factor may be right for the industry in question but wrong for several other types of industries or markets. Miles & Snow (1978) point out that several different types of strategies can be successful in the same type of industry. The strategies they identify - proctor, analyzer, and defender, each depend on the development of a specific area of expertise which coincides with the areas identified as potential sources of failure, namely, innovation, information, and efficiency.

Improvements in efficiency frequently come at the expense of decreased design content as levels of standardization. The benefits afforded by implementation of improved computer technology accrue to all firms which adapt them. Firms in other countries are likely to be as progressive as the focal industry thus their competitive advantage is likely to be minimal although failure to institute the available technology would be a liability. The predominant interest in improving productivity is not surprising, however, if you consider its character.

Productivity can be measured and monitored, therefore, standards can be set, comparisons can be made between organizations within an industry and between countries, and progress can be assessed. Productivity can be increased through investment and capital expenditure and incorporates the new computer technology which has enamoured the

business community. The improvement, monitoring, and assessment of productivity employs a cadre of experts, consultants, financial agencies, government monitoring departments, development agencies, industry associations, and computer specialists; ultimately, however, the responsibility for low productivity rests on the shoulders of the management of individual companies. This is Scientific Management on a grand scale. It does not require the integration of several disparate organizations thereby preserving the autonomy of individual organizations; nor does it require the restructuring of existing external resources. Most importantly, it fits superbly into the existing industrial paradigm.

Vernon (1985), reporting statistics (collected by Davidson, 1976), points out that the United States, Britain, and the Europeans have been actively introducing innovative products, throughout the past thirty years, however, the character of the innovations produced by each country has been different. Forty percent of United States innovations between 1945 and 1974 have been labour-saving innovations compared with 12.7 percent of European and British innovations. Forty-seven percent of the European and British innovations provided material-saving while only 21 percent of American innovations did so.

The majority of products which are now cannibalizing domestic industry products are those which are not new

products and processes, but those which have been developed in different resource bases which encouraged particular product attributes. European firms operating in an industrial environment where capital and raw material resources were scarce and selling to a market with the same constraints developed products that would conserve capital and raw materials. Oxygen driven blast furnaces, fuel injection motors, smaller, cheaper, more durable dishwashers and television sets are cases in point.

It is not always necessary for firms and industries to create new products and processes. The Japanese have excelled, not through innovative activity, but through the adoption and refinement of innovations which have been developed elsewhere. Several of their practices (just-in-time and quality circles, for example) are now being adopted by other countries.

Economic theory of the firm and paradigm arguments suggest that organizations within a particular industrial environment become increasingly similar as they adapt to the requirements of their customer industries. Organizations in all industries appear to be adapting. Indeed, if we compare those industries which are declining with those which are not, we will find no difference in the extent to which firms within each industry have adapted. There will always be firms within the industry which fail because of internal problems such as poor management,

inappropriate decisions, strategies, and structures. If these problems prevent the organization from achieving efficiency and innovation, while other firms in the industry have achieved this, it can be presumed that the organization has not adapted to its transaction environment. If, however, difficulties are being experienced by most or all of the firms in the industry, firm-specific arguments may be inappropriate. In either case, rather than viewing the lack of efficiency, productivity and innovation as the reasons for organization failure, these should be treated as outcomes of a process which underpins and leads to organization failure.

3.4. REASONS GIVEN FOR THE ORGANIZATION'S FAILURE TO ADAPT

3.4.1. ORGANIZATION INERTIA

Several theorists have pointed out that the organization's ability to adapt to the environment is hindered by internal inertia. Pettigrew (1985) points out that

...once a large organization develops a coherent strategy on how it is going to deal with its external environment, and that strategy is reinforced by the structures, systems, cultures and political constraints of the organization, the dominating ideas and assumptions which are implicit and explicit in the strategy it behaves are extraordinarily difficult to break down. [p.xix])

Chandler's (1962) work suggests that many managements fail to anticipate environmental changes which call for a modification in strategy, and even when the need for change

is recognized they exhibit what Ansoff calls a "lag response" to strategic change. When deterioration of strategy results in a decline or loss of profit, the firm typically seeks remedies, first through changes in operations, secondly through reorganization, and only then is the true cause of trouble diagnosed and management focus shifts to strategy.

Ansoff (1975) suggests that the slow response to strategic change can be explained by the fact that the responsibility for attending to three classes of decisions - strategic, operating, and administrative - resides in the level of top management. Thus the three classes must compete for the resources of the firm as well as for top management time and attention. Of the three, operating decisions tend to receive priority for several reasons: first, because they are routine and repetitive; second, because they are automatically brought to top managements attention by lower level managers; third, because they are frequent and large in volume; and fourth, because many top managers find them familiar by virtue of their previous training at lower levels in the firm at which operating decisions are the sole management responsibility.

Even if the need to alter their structure and behaviour is recognized by the organization, research on organization decline and crisis suggests that organization structure may influence the extent to which

organizations alter either their structures or strategies, or attempt to alter the environment. (Ford, 1980; Hedberg, Nystrom, and Starbuck, 1976; Smart and Vertinsky, 1977; Turner, 1976; Whetton, 1980) The structure serves to isolate the organization from its environment. This occurs through uncertainty absorption (March and Simon, 1958) and through commitments established previously. (Benson, 1977; Zeitz, 1980)

Before altering their behaviour and structures, organizations take into consideration their present circumstance. Factors such as legal and other barriers to entry or exit, the exchange relationships developed with other organizations which constitute an investment that cannot be written off lightly, and the threat of losing legitimacy exert inertia pressures. (Hannan and Freeman, 1984) The organization obtains legitimacy, and thus support, from its environment by incorporating institutional beliefs in its formal structure even if they have no impact on, or are inconsistent with, actual operating requirements. (Meyer and Rowan, 1977) Once these beliefs have been incorporated they are not easily given up.

3.4.2. INSUFFICIENT RESOURCES AND GOVERNMENT SPENDING

Andrews (1971) suggests that adaptation is also determined by the extent and nature of the firm's material resources. Where slack is abundant, decision-makers may

choose not to modify either context, strategy, or structure. (Cyert and March, 1963; Likscher and Bonhann, 1978) This occurs because with organization slack the organization can absorb environmental changes until such time as their resources reach a critical level and precipitate a crisis. (Smart and Vertinsky, 1977; Turner, 1976) When resources are readily available to the organization the organization tends to become less efficient and complacent. This complacency arises in part because of the stability it generates within the organization. The decline in organizational efficiency does not immediately jeopardize organizational viability and may provide a cushion which the organization can draw upon should the organization require resources in the future. A more serious problem with the generation of munificence is the tendency for these slack resources to buffer the organization from changes in the environment. The task environment of the automobile industry, for example, began to change in the 1950's yet it was not until the late 1970's that the largest three American automakers began to lose profitability. It was only then that the organizations began to alter their behaviour.

When resources become scarce the organization will begin to rationalize operations and become more efficient. (Levine, 1978, 1979; Whetten, 1981) There may, however, be substantial fluctuation in resource levels (sales revenues and profit margins) before the organization

attempts to change its behaviour.

Once the organization does experience scarcity it often reacts in ways contrary to its own best interest. (Holsti, 1978; Whetton, 1980; Starbuck, Greve, Hedberg, 1978) Hermann (1963) suggests that in such crisis there is a tendency for organization members and groups to withdraw; the intensification of internal conflict; the reduction of information channels used for the collection and distribution of information; contraction of authority in the organization; increased stress upon existing authority units and the modification of organization standards. If change requires an organization to be flexible, decentralized and organic as the work of Lawrence & Lorsch, Burns & Stalker and Emery & Trist would suggest, clearly such response are inappropriate.

Well's examination of the British motorcycle industry indicates that such reactions are not confined to intraorganizational responses. Faced with increasing Japanese competition the British firms in the industry withdrew market by market. There is some evidence to suggest that had they remained in the market the industry demise might not have occurred or at least might have been delayed.

3.4.3. MARKET VERSUS TECHNOLOGICAL ORIENTATION

Abernathy and Hayes (1980) argue that the

responsibility for organization failure lies with the American managers whose attitudes, preoccupations, and practices have led to industrial decline. Rather than competing over the long run by offering superior products - which the authors refer to as competing on technological grounds - American managers have increasingly directed their attention to: i) analytic detachment rather than the insight that comes from "hands on" experience and ii) short-term cost reduction rather than long-term development of technological competitiveness.

Over the years American managers have grown so used to thinking of their major task as that of marketing, under strict and analytic financial controls, of what their factories effortlessly brought forth, that they had lost touch with the actual work of production. By their preference for servicing existing markets rather than creating new ones and by their devotion to short-term returns and management by the numbers many of them have effectively forsworn long-term technological superiority as a competitive weapon. "In consequence, they have abdicated their strategic responsibilities". They have lost touch with the notion that skill in production, not just in marketing or finance, could offer a real competitive advantage and overlooked the strategic importance of manufacturing and had, in effect managed their way to economic decline. - Abernathy & Utterback, 1980)

3.5. IMPORTANCE OF THE ENVIRONMENT

Poor management, national characteristics, and failure to adapt arguments, while pointing to salient factors contributing to organization failure and industrial decline, focus attention primarily on organization behaviour and the availability of resources. They miss a

critical factor in organization failure and industry decline - the nature of the environment and the relationship between organization and industry behaviour and the three segments of the task environment (the transaction, industrial, and ecotone).

Firm behaviour is oriented towards the requirements of their immediate customers and establishing some competitive advantage in the transaction environment. They adjust their behaviour to the needs of their customers and the behaviour and strategies of their competitors (those which have similar resource bases). Organization behaviour and performance must, therefore be examined in light of the context in which it arises.

Depending on the degree of control the organization exercises in its exchange relationship, the focal organization's behaviour may be completely dominated by their customers. If the customer does have significant power in the relationship the organization may not have an option but to continue to operate in a particular fashion even if this makes them vulnerable to change occurring in other parts of the environment.

Abernathy & Utterback, (1980) suggest that the emphasis placed on strategic fit between the organization and its transaction environment has meant that managers have placed increasing importance on matching their

activities to the needs of their customers. Abernathy & Hayes define this as a deference to a market-driven strategy as opposed to a technological driven strategy and suggest that deferring to a market-driven strategy without paying attention to its limitations is, "quite possibly, opting for customer satisfaction and lower risk in the short run at the expense of superior products in the future". In striving for a fit between the organization and the transaction environment managers are predisposed toward developing products for existing markets and toward product designs of an imitative nature. A strategic fit suggests that the product introduced should be an imitation rather than an innovation since market demand is relatively well known and predictable; market recognition and acceptance are rapid; the products tend to be readily adaptable to existing market, sales, and distribution policies; and fit with existing market segmentation and product policies.

Organizations may be able to influence customers through advertising, customer inducements, minor product changes, and development of customer loyalty but ultimately their products and services must meet the customers requirements if they are to be accepted.

Hannan & Freeman (1984) argue that "the modern world favours collective actors that can demonstrate or at least reasonably claim a capacity for reliable performance and

can account rationally for their actions". Unreliability and failures of accountability at any stage in the organizations lifetime threatens an organization's ability to maintain commitment of members and clients and its ability to acquire additional resources. Selection within organizational populations tend to eliminate organizations with low reliability and accountability; it favour organizations whose structures are resistant to change, those with high organizational inertia. Organizations become more reliable and accountable with age simply because it is easier for organizations to continue existing routines than to create new ones or borrow old ones.

Organizations strive to achieve a fit between their behaviour and the transaction environment. Those which do not fail in the short term. Those which manage to achieve a fit remain vulnerable to changes in the industrial environment. Existing relationships with their customers and suppliers may prevent the organization from recognizing the need to change or if recognized, prevent the organization from altering its behaviour. The orientation to the transaction environment may, therefore, preclude adaptation to industrial environment requirements.

The customer while being a member of the organizations' organization-set is also a member of a different industry. Firms in the customer industry compete with one another for resources. It is the competition

between customer firms which determine their requirements. As the competitive imperatives change so do the customers requirements of the focal organization and industry. The industrial environment changes. Where there are no alternatives the customer firms may take the initiative to get the supplying firms to alter their behaviour through demands, recommendations and sometimes financial and management support. If there are alternatives, however, the supplying firm must recognize and respond to the changes on its own. Customers may continue the relationship with the supplying firm while searching for and establishing alternative sources of supply. This allows them to ensure that production will not be disrupted through the transition from one supplier to another. This makes it difficult for the focal organization to recognize the need to change. Although the customer may now have different requirements, they depend on the focal organization to behave in a predictable fashion. The stability of the transaction environment may obscure impending volatility.

The industrial paradigm which develops also serves to prevent organizations within an industry from recognizing that changes have occurred. Through their behaviour they have supported some supplying industries while neglecting the development of others. When change is required the industry finds that the skills, expertise, materials and equipment which they require to be competitive may not be available in the task environment.

It is not the allocation of resources within the industrial environment which affects organization and industry behaviour and viability, it is the organization of these resources. Labels which read "made in Japan, Taiwan, Brazil, China, Italy, West Germany, France, Spain, or Mexico" connote not only the place of origin but an industrial environment in which a particular industrial paradigm is operating and in which there is a unique organization of industrial resources. The prevalence of these labels suggests that it is no longer sufficient to examine the nature of competition between firms within the industrial environment. One must also consider the competition which arises between one industrial environment and another. An important feature of an industrial environment is the way in which resources are organized for this affects the way in which production is organized within the firm. Piore & Sobel (1984) argue that the present deterioration in economic performance results from the limits of the model of industrial development that is founded on mass production; the use of special-purpose (product-specific) machines and of semiskilled workers to produce standardized goods. They argue that the technologies and operating procedures of most modern corporations, the forms of labour-market control defended by many labour movements, the instruments of macroeconomic control developed by bureaucrats and economists in the welfare states, and the rules of the international monetary

and trading systems established immediately after World War Two no longer secure a workable match between the production and the consumption of goods.

The authors trace the historical development of philosophies, production methods, and ideologies. Mass production, they suggest, offered enormous gains in productivity to industries in which it was developed and applied - gains that increased in step with the growth of these industries. Progress along this technological trajectory brought higher profits, higher wages, lower consumer prices, and a whole range of new products. But these gains were achieved at a price. Mass production required large investments in highly specialized equipment and trained workers. In the language of manufacturing, these resources were "dedicated"; suited to the manufacture of a particular product - often to just one make or model. When the market for that product declined the resources had no place to go. Mass production was, therefore, profitable only with a standardized commodity, which was stable enough to keep the resources involved in the production of that commodity continuously employed.

When products produced by in other types of production system enter the market therefore, the inflexibility of the mass production system oriented to produce a highly specific type of product becomes a liability.

Improvements in efficiency are generally attributed solely to managerial insight and organizational efforts. This ignores the influence that the industrial environment has on the development of production systems. Several authors, for example, have noted that Japanese firms have developed numerous systems to improve efficiency. These authors do not explain, however, why the Japanese have discovered these efficiencies while other countries have not. Why did the Japanese, for instance, develop a just-in-time system, when the American adopted a practice of holding stock in inventory to ensure that it is available when the production system requires it?

The resource base differences between the United States and Japan have been an influencing factor which is generally not considered. The American economy has been built on the wealth of its resource base. As a resource is transformed from raw material to final product, at each stage the resource pays money into the economy. Steel, for example, is sold to manufacturing suppliers and the resource is transformed into material wealth, these suppliers then sell the product to manufacturers and require more raw materials which they acquire from the national resource. There is no need to move resources through the transaction chain quickly.

Japan, on the other hand has very few natural resources and imports the majority of its raw materials.

It imports these raw materials at a cost to the economy. The resources enter the country as a liability and their benefit is not realized until the final product is sold. The longer the raw materials are in the system the more debt accumulated. It is, therefore, imperative for the economy as a whole that resources move through the manufacturing chain quickly. There are carrying cost of inventory beyond those normally absorbed by the firm. In a small country such as Japan, there are also space limitations. A just-in-time system is one way of minimizing the costs of resources.

The industrial environment has, therefore, been an influencing factor in the way in which production is organized within the firm. The industrial paradigm which has developed in Japan confers competitive advantage to the Japanese firms.

3.6. ORGANIZATION AND INDUSTRY FAILURE

It is clear that several factors affect organization failure and industrial decline and that the analysis of factors in isolation is unlikely to prove the means for solving the problem. The national character of the problem and the absence of a model of industrial decline leads theorists to search for macro level explanations based on the political, financial, and educational systems. Their analysis has not led to the re-examination of the way in which the industrial environment is put together, and the social, economic, and political factors which serve to

perpetuate a failing or disrupted industrial paradigm, or the identification of alternative systems of organization which might facilitate competitive performance in the marketplace.

This analysis is also hindered by the absence of a model of organization failure. Policy makers and industrial analysts, if they are to help beleaguered industries, must be able to distinguish between those failures which occur as a result of poor management or "the liability of newness" (Stinchcombe, 1959); those which occur because of an unexpected turn of events, such as rising interest or exchange rates; those which occur because firms in an industry have failed to match their behaviour and practices to the industrial environment; and finally, those failures which occur because there has been a fundamental shift in the dominant industrial paradigm.

Those organization failures which are the result of isolated factors which arise in the environment (changes in interest rates; natural disasters) or can be attributed to the organization itself (poor management factors) are herein referred to as random variable failure. If environmental characteristics change or the organization improves the defective aspects of its behaviour it is presumed the organization will not fail.

When several organizations in the same industry or

type of industrial environment fail, and a specific underlying cause can be identified, the failure will be referred to as patterned isomorphic failure. The failure to match organization characteristics and behaviour to industrial environment requirements is an example of such failure as are those failures which occur when the industrial paradigm is disrupted.

The character of the failure (random/variable versus patterned isomorphic) and the degree of control the focal organization has over the failure provides a basis for distinguishing four types of organization failure. (see Figure 3 - 3)

FIGURE 3 - 3

FOUR TYPES OF ORGANIZATION FAILURE

	CHARACTER OF FAILURE	
	Random/ Variable	Patterned Isomorphism
Within Organization Control	TYPE I	TYPE III
Outside of Organization Control	TYPE II	TYPE IV

Organizations tend to be most vulnerable to Type I failure in the first three years of operation. A review of the statistics on organization failure suggests that the

probability of organization failure decreases at an ever increasing rate as years of operation increase. Chances of survival increase significantly after the organization has been in operation for more than three years. During the first three years the organization must establish on-going relationships with their immediate organization-set. The failure to secure a stable transaction environment inevitably leads to failure. Type I failure may also occur when an organization is inefficient, makes poor investment decisions, lacks appropriate production or design skills, or management expertise - factors typically attributed to poor management.

Type II failure occurs when there is sporadic change in the environment. Because such failure is unpredictable, outside of the organization's control (sometimes merely the organization's bad luck, and there is very little that can be done to prevent such failure it has received little theoretical attention. Information about this type of failure is important to policy makers who have the power, through the policies they introduce, to effect many of these failures.

Type III failure occurs when there is a mismatch between organization behaviour and structure and the requirements of the industrial environment. Contingency theories in all of their forms attempt to forestall this type of failure. Analysts differ, however, in their

assessment of the root cause of Type III failure. They variously attribute failure to lack of technical, innovative, market, procurement, or information capabilities. Analysts have a tendency to focus on one aspect of organization functioning to the exclusion of others. Their prescriptions for renewed organizational health reflect their assessment of the root cause.

Improvements in the level of productivity and innovation, relationships with suppliers and customers, and in the matching of structures and strategies to the requirements of the industrial environment are likely to prevent Type III failure. External support in the form of funding, advice, and information are likely to be welcomed and to prevent Type III failure. Competitive position can be improved from these efforts. The organization may, however, because of internal or external factors, be unable to adjust its behaviour to the requirements of its transaction and industrial environment.

Type IV failure occurs when changes developing in the ecotone appear in the market in the form of products and services. In this case the industrial paradigm is disrupted and the industrial environment becomes turbulent. The remedies which work well to solve Type III failure will not work because they do not address the root of the problem. Firms in the focal industry are competing with firms in completely different industrial environments. The

industrial environment, not individual firms must be examined to determine how its characteristics hinder or facilitate the production of industry's product or service. Firms within the industry and the supporting institutions in the industrial environment need to cooperate in order to survive. The organization of the industrial environment must be re-examined and a new structure put in its place.

CHAPTER 4

ENVIRONMENTAL CHANGE: STABILITY, VOLATILITY AND TURBULENCE

Change is the "catch word" of the 80's. Theorists argue that the environment has become increasingly volatile over the past two decades and cite the rising rate of imports, the increasing numbers of business failures, the introduction of computer technology as evidence of this increasing volatility. (Druker, 1986;) Strictly speaking, however, the rate of technological change, innovation, and the relationship between the market and the firms involved have not changed very much. Import firms which were gaining market share have not introduced new products into the marketplace - they have simply sold more of the products they had already developed and introduced.

When you examine the industries where disruption is occurring, many of these are mature industries where relationships between the organizations and their organization-sets are long-standing and on-going, firms in

the industry are gradually incorporating new computer technology in their production systems, and process innovation has replaced product innovation. Firms in these industries have successfully adapted to several changes in their industrial environment over the past thirty years without major failure rates. For most firms in the industry the transaction environment is stable and although some firms are leaving the industry, the industrial environment appears to be stable.

Yet, it is these firms which operate in stable industrial environments and have adopted an appropriate structure which are experiencing the highest failure rates and declines in profitability. Numerous British and American firms in the textile, footwear and automotive industries, for example, are losing market share to foreign competitors but are not operating in industrial environments which would be characterized as volatile or uncertain. They operate in stable industrial environments in industries where innovations are incremental, rather than radical; technological change is related primarily to "manufacturing innovation" (the type of innovation which changes neither the product nor the basic process but only some elements of the process); and minimal process change occurs; product innovation consists primarily of modifications to the product, the use of new material and changes in the function of a product rather than the introduction of products which have not previously been

offered for their specific technical application. The markets within which these firms compete are characterized by low steady growth.

Contingency Theorists in both the Policy and Organization Theory fields emphasize the need for firms operating in a volatile, uncertain industrial environment to develop strategies and structures which provide a maximum amount of flexibility, innovative activity and information. Firms operating in a stable industrial environment are presumed to require less flexibility, innovativeness, and information and if a mechanistic structure is implemented the theories suggest that the organization is likely to be effective and survive.

These firms generally adopt mechanistic type organization structures which are congruent with their need for efficiency and productivity and strategies in keeping with their direct domestic competitors. They remain well versed in the activities of their competitors. They do not invest heavily in research and development hence their structures are not highly differentiated. Their structures conform to the prescriptive ideal, yet many of the firms in these industries are quickly losing what competitive advantage they had.

Given that the structure and strategies adopted by these firms are appropriate for the industrial environment

within which they operate, why are these firms and industries declining? Clearly matching strategy and structure to fit the industrial environment does not ensure survival. Indeed, it has been argued (in Chapter 2) that this fit evolves as the industrial paradigm develops. The characteristics and strategies of firms within the industry become more alike and more congruent with the transaction and industrial environment as the firms struggle to meet the requirements of their customer industries and adjust to the resources available to them from their supply industries.

These stable industries are being affected by changes in the market which have allowed products developed in the ecotone to enter the market and alter the competitive imperatives. The environment is not volatile, it is turbulent. In the sections which follow the relationship between the degree of stability, volatility or turbulence in the three environmental segments, organization behaviour and failure are examined. It is argued that the organization must adapt to four types of environmental change and that each type of change affects organization behaviour and viability differently. The analysis begins with an examination of the way in which prior researchers have studied the relationship between environmental change and organization behaviour and a clarification of the meaning of the concepts stability, volatility and turbulence.

Prior researchers have been primarily interested in identifying the extent to which elements in the industrial environment, particularly market and technological conditions, change and prescribing structures and strategies which an organization should adopt to cope with uncertainty generated by environmental change. They have assessed the degree of change in an industrial environment, by considering three variables: the frequency of changes in relevant environmental activities; the degree of irregularity in the overall pattern of change; and the degree of difference involved at each change. (Child, 1972:3) When changes in environmental characteristics are minimal, occur regularly, and do not differ significantly from previous changes, the environment is considered to be stable. When the characteristics of the environment change frequently, are irregular, or differ substantially from prior characteristics the environment is volatile.

Abernathy & Clark (1985) point out, however, that change in technological or market factors can have a range of impacts on the organization and that the impact affects specific rather than general areas of the organization's activities. Innovations in production systems can at one extreme strengthen existing structures and at the other extreme make existing structures obsolete thereby requiring new systems, procedures, and organization. Innovations in capital equipment can be used to extend existing capital or

may require extensive replacement of existing capital with new types of equipment.

Changes in the relationship with the organization's customer base may serve to strengthen ties with established customers, attract new customer groups, or create new markets. If changes are made by competitors in the channels of distribution and service this may serve to enhance the effectiveness of established distribution networks or may necessitate the development of new channels of distribution and new services.

It is not the rate of change, then, which has the potential to affect the organization but rather the effect these shifts in market preference, technological or market factors have on the current mode of operation. The organization experiences or will experience the environment as stable, volatile or turbulent depending on how change in the environment affects its current operations.

Changes such as the introduction of computer technology, or the use of new raw materials, may initially be very disruptive and expensive to individual firms within the industry but these changes are gradually incorporated into the industrial paradigm. Firms in the industry which do not adapt to these changes may fail or suffer decreased performance (Contingency argument) but the basic industrial paradigm remains the same as it did prior to the change.

Research focus on the relationship between the rate of change in the industrial environment and organization structures and strategies has precluded the examination of several other features of environmental change which the organization and the industry. Environmental change is usually assessed for a single, relatively narrow time period. These static assessments of industry characteristics reflect the nature of the task confronting the organization and the stage of the industry life-cycle but ignore the temporal and evolutionary nature of the environment. Such analysis does not provide an indication of the emergence of fundamental change.

If we are to understand the relationship between environmental change and organization or industry failure we must examine the types of environmental change which an organization experiences, the effect these changes have on the organization or industry and the source of the change (whether it arises in the transaction, industrial or ecotone environment segment).

Rather than defining the degree of stability, volatility and turbulence in terms of the degree to which change is occurring in the environment, these states should be defined according to the type of change which occurs and the effect these changes have on the organization.

Organizations strive to achieve stability in their transaction environment. Stability occurs when organizations form on-going, predictable relationships with members of their organization-set.

Volatility occurs when there is a comprehensive shift in the nature of competition between firms within an industry, a fundamental change in the structure of the customer or supply industries, the introduction of new technology or sudden shifts in market preferences. These changes necessitate a re-evaluation of organization strategies and behaviours in order to realign the organization to its transaction and industrial environments. The changes necessary are, however, within the scope of the existing industrial paradigm.

Turbulence occurs when an interconnected set of circumstances, that are unrelated to inter-industry competition, alter the technological and market characteristics of the industrial environment and have the potential to render existing industrial paradigms obsolete. (Emery & Trist, 1965) The factors frequently associated with environmental turbulence include: the introduction of substitute products, a major change in market preferences, the introduction of foreign products with competitive advantages unmatched in the short-term, advances in technology which render existing plant, machinery, processes or products obsolete, changes in industry

regulation, increasing supplier or buyer concentration, and the exertion of control over the organization. The factors which produce these changes develop in the ecotone.

4.0.1. TYPOLOGY OF ENVIRONMENTAL CHANGE

The task environment is dynamic; it is continually changing. Some changes are evolutionary in nature, such as those occurring as an industry moves through the stages of the life-cycle, the organization develops on-going relationships with its organization-set, or technology is defined, modified and adopted. Other changes are revolutionary, having the potential to radically disrupt established industry and organization patterns of behaviour. Changes in interest rates or the allocation of special funding occur sporadically and abruptly but affect only isolate aspects of organization functioning. Some degree of change is also inherent in the nature of the tasks which an organization or industry carries out. Organizations and industries differ in the amount of change associated with their task. Mass production industries, for example, which provide a standardized product to a market with known expectations of the product tend to face less change than R & D industries which are continually developing and selling new products. Rarely, however do researchers differentiate the different types of environmental change.

The type of change an organization faces will

influence the behaviour it adopts to cope with the changes and the way in which the organization and industry should be investigated and analyzed.

4.0.1.1. ENDEMIC CHANGE

An inordinate amount of attention has been given to the degree of endemic change in the industrial environment. Endemic change refers to the degree of change which is inherent in the type of tasks, behaviour, or interactions which an organization or industry carries out. The nature of the task, and hence the degree of endemic change is determined by the competitive imperatives (efficiency, marketing and innovation) in effect in the transaction and industrial environment. In the pharmaceutical industry, for example, organizations compete on the basis of the introduction of new products. This requires an emphasis on R & D and thus a high level of innovation. This requirement for innovation should not be confused with instability. The nature of the task may be defined as uncertain but this does not mean that there is instability in the industrial environment. The regular, predictable character of endemic change leads an organization to interpret the transaction and industrial environment as stable regardless of number of changes in products or technology which occur. The necessity for coping with regular changes in products and designs has been incorporated into the existing industrial paradigm.

Industries in which product, process, and technology changes are regular occurrences (the chemical, pharmaceutical, and electronics industries for example) would, however, be assessed as volatile on scales typically used by Organization Theorists. These scales were developed to measure environmental change which affects, or potentially affects, the way in which an organization is structured. Appropriate internal structuring is inextricably linked to the nature of the task confronting organizations, for organization structure facilitates the accomplishment of these tasks. Organic and mechanistic management systems are alternative means of accomplishing tasks. Review of the research conducted by Contingency Theorists suggests that the degree of endemic environment change, being rooted in the nature of the task confronting the organization, should be considered when designing the organization structure. Endemic change is the only type of environmental change which is directly related to the type of structure an organization adopts.

4.0.1.2. SPORADIC CHANGE

Sporadic change in the environment refers to abrupt changes which occur in the character of the environment which could not be predicted before the event. Trade embargoes, fluctuations in the exchange rate, natural disaster, catastrophes, spontaneous changes in consumer preference, changes in the management of either suppliers or customer executive management which leads to new

philosophies all might be considered sporadic change. Many of these changes are precipitated by changes in national or foreign government policies and practices. The changes in oil prices as a result of the OPEC countries is an example of sporadic change.

Sporadic change also occurs when a new industry is forming. At this stage in the life cycle of the industry the basis on which industry is to be founded is in flux. Organizations have not established on-going supplier/customer relationships, the customers may not have a clear idea of the type of products they desire while the organization may still be refining the characteristics, materials, or production processes of the product.

4.0.1.3. RADICAL CHANGE

Radical change refers to changes in the environment which require a significant departure from existing organizational patterns of behaviour. The introduction of new technology or extensive shifts in market preference are examples of this type of change. The extent of the changes tends to stun the organization and industry. Although these changes have often been developing in the ecotone for some time before they begin to affect the organization and the domestic industry, stability in the transaction and industrial environments prevent the organization from fully appreciating the potential disruption.

The fundamental shift in the markets - from national to international - is the most radical change which organizations and industries have had to cope with in the past century. The transition to international markets, like the transition from local to regional markets at the end of the last century, has radically disrupted existing industrial paradigms and drastically altered the competitive environment.

There are marked similarities between the earlier transition from regional to national markets and the transition from national to international markets. Except in rare situations early markets were highly localized. Manufacturers often enjoyed spatial, but constrained, monopolies created by geographic isolation. Over time markets expanded from local to regional, and before the beginning of this century, to national. The predominant source of employment changed concurrently. Each period of transition to a more encompassing geographic market, or into a newly dominant employment sector, shocked the economic, political, and social structure. The evolution from local or regional markets toward national markets proved particularly trying for a people accustomed to their local autonomy and independence.

Like earlier market reorganizations, the move from national to international markets is forcing uncomfortable disruptions and adjustments among producers and consumers.

Businesses in particular are being challenged to rethink old ways and create new ones. There are, however, dominant industrial paradigms; some products are successfully competing in the marketplace.

Firms operating in stable industrial environments but which are experiencing large scale decline are located in a task environment where there has been a radical shift in the basis of competition.

Prior to the shift toward international markets, national firms competed from the same resource base, with similar technology, skills, and costs. Competitive advantage accrued to those firms which maximized efficiency and effectiveness. The organization adapted to changes in its environment by reorganizing and reorienting its existing resources and/or acquiring new resources. It was this configuration of internal resources which determined an organization's survival and viability. Today many of the products which compete in the market are produced by organizations located in resource bases which are organized quite differently from those in the national market. Organizations may not be able to achieve the levels of efficiency and productivity of their foreign counterparts without a reorganization of not only their own organizations but the industrial environment as well.

4.0.1.4. EVOLUTIONARY CHANGE

Evolutionary change refers to the systematic change in the characteristics of the environment over a period of time. The evolutionary nature of these changes offer the possibility of predicting both the extent and direction of the upcoming changes if the pattern is discerned. Trends and changes may, however, be relatively slight, or may occur outside of the organization's "field of vision" making it difficult for the organization to recognize this type of change. Such change has the potential to be disruptive if the organization does not change with the environment. The failure to adopt process technology when competitors are doing so or the inability to maintain the industry standards of efficiency or innovation, for example, are often reasons for organization failure.

As the industry moves through the life cycle the emphasis on product development, marketing, production, and innovation changes. In the start-up phase the emphasis is on developing a product. Once there is a general consensus as to the design and features of the product the development of efficient production in quantity becomes paramount. Focus then shifts to the development of markets for the product. Eventually the market may become tired of the existing products, their needs and wants may shift as their economic and social status changes; innovators may develop new products. This will necessitate industry and organization innovation. The cycle begins again. It could

be argued that Ford's strategy with the Model T during the period 1908 - 1930 failed because the organization failed to recognize this natural progression.

As the industry moves through its life-cycle, the relative importance of the transaction, industrial and ecotone environments to the organization changes. As a result of this evolution there is also a change in the degree of environmental stability and volatility. There is a progression in the degree of change from volatile to stable first in the transaction environment, then the industrial environment. If radical change occurs in the ecotone the task environment moves from stability to turbulence.

4.1. CHANGES IN THE RELATIVE IMPORTANCE OF ENVIRONMENT SEGMENTS AS THE INDUSTRY EVOLVES

As the industry evolves the relative importance to the organization of the transaction, industrial, and ecotone environments changes. The components of the task environment change as industries pass through four distinct phases in their life-cycle. (Figure 4 - 1 depicts these changes.) Historical accounts of industry development presented in the marketing, economic, and strategy literature (where product and industry life cycle models are well developed) and Abernathy's (1978) description the technological changes which occur as an industry moves through the phases of the life-cycle provide

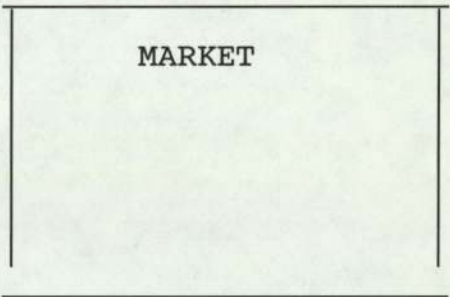
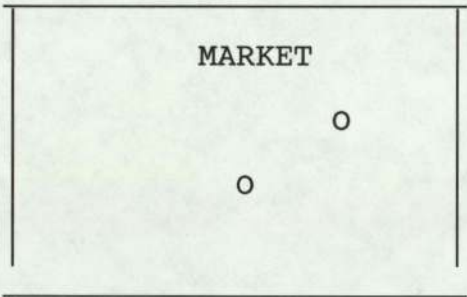
the basis for identifying the characteristics of these four phases. Inexisting life-cycle models industry maturity represents the fourth phase of development. In the life-cycle which is described below maturity is considered to be part of the third phase of development. The fourth phase is characterized by industry paradigm disruption.

FIGURE 4 - 1

CHANGES IN THE ENVIRONMENT THROUGH THE INDUSTRY LIFE CYCLE

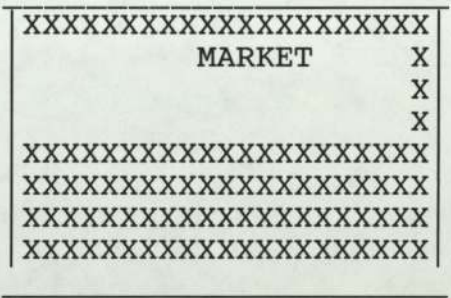
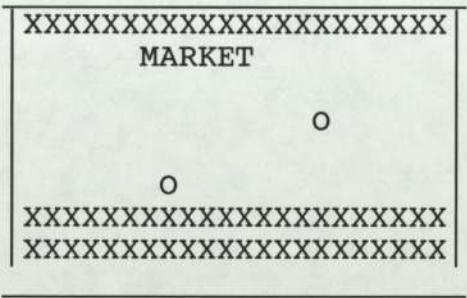
PHASE 1 - INDUSTRY EMERGENCE

PHASE 2 - GROWTH PHASE



PHASE 3 - STABILIZATION/CONSOLIDATION

PHASE 4 - DISRUPTION



Key: O = organization
X = Ecotone

In order for an industry to emerge, the market must

provide some opportunity for the development and sale of the product or service and resources must be available. Stinchcombe (1965) suggests that market characteristics at any point in time not only specify the needs for particular goods and services but also determine many of the characteristics of the organizations created to provide them. The market characteristics of the industrial environment determine to some extent the types and characteristics of the industries that emerge. He argued that the "railroad age" could occur only after society had developed the institutions, expertise, and means of legitimizing the organizational structures and processes necessary to develop and implement already existing technology.

In the start-up phase of the industry life-cycle the organization's first priority is to develop relationships between itself and potential suppliers and customers (the transaction environment). Product and processes are in flux, potential suppliers may not be readily identifiable and a market must be created. Organizations begin to produce their product even though the task may be undefined and the markets unorganized. Survival is highly precarious, often depending on the availability and behaviour of customers, suppliers, competitors, and regulatory agencies. The organization's survival through this first stage into the next depends upon the development of stability in the transaction environment.

As the industry begins to grow and more organizations enter the market a dominant design paradigm begins to emerge. Supply and customer industries which have grown along with the industry have developed sufficiently to provide the growing industry with the resources it requires. High, accelerating growth rates during this phase are due to mounting awareness of the ability of a particular product or service to fulfill a previously unfilled need or perform better than whatever it replaces. The growth rate, while still high, begins to decline in the later stages of the growth phase as more competitors, recognizing the potential, enter the market. Purchase patterns and distribution channels are fluid and market shares can be increased at "relatively" low cost by capturing a disproportionate share of incremental sales. In the initial stages of this phase there are often several competing design paradigms. These have enough similarity, however, that the organizations are identified as an industry. The transition from the growth phase to the consolidation phases is marked by surplus capacity, increased competitive pressures, and reduced margins.

Abernathy (1978) suggests that the need for organization efficiency changes as the product design matures. Once the market decides that it knows what the product is, the task of manufacturers gradually changes from defining appropriate design concepts to achieving

efficiencies and economies in production. Battles in the marketplace no longer are fought over the kind of thing a product is or even the kinds of things it should be able to do. The focus of competition shifts to what the product costs. What product innovation there is tends to be localized toward the bottom of established design hierarchies and, as a consequence, enjoys little market visibility. Established manufacturers do not entirely give up the search for improved product performance, but they do avoid those directions in which needed innovations require major upheavals in the productive unit.

By the end of the growth phase the industrial paradigm has consolidated. The consolidation phase is frequently the longest phase and is characterized by the stability in broad production technologies, recipes for business operation and niche concentration. There is general consensus on the technology which is used, acceptable industry practice, resource requirements and market segments. The earlier uncertainty has been replaced by a stability in core-concepts, a stability that permits process technology to be embodied in capital equipment or in engineering personnel and purchased in the marketplace.

There is stability and inertia in distribution and purchasing relationships and substantial growth in share by one competitor will come at the expense of another competitor's capacity utilization and will be resisted vigorously. By the time the industry reaches this phase,

the market position of most competitors is evident. Although there may be considerable competition between these competitors, but the "rules of the game" are clearly understood and the basis for competition has been resolved. Changes in products, technologies, production processes and distribution occur during this phase but they tend to be extensions and modifications of products or process innovations. Congruence between the industrial paradigm and the industrial environment becomes increasingly important. (Abernathy & Utterback, 1978)

Changes are more likely to originate in the industrial environment than they are within the industry itself. If firms in the industry are to survive they must respond to these industrial environment changes. External regulatory agencies may attempt to constrain the activities of the industry. There may be changes in distribution channels, requirements for products, composition of the supply and customer industries, and available technology. With each successive change in the industrial paradigms of the supply and customer industries there is a corresponding shift in the industrial paradigm of the focal industry.

If, however, there are dramatic shifts in consumer preferences or technological innovations - which Abernathy refers to as dematurity - the organizational arrangements well suited to the gradual refinement of old designs will prove a great competitive liability. Abernathy suggests

that reaction to changes in technology or the market will be slow; lead times will stretch out; the transfer of new ideas into production processes will happen only with difficulty. As a result, the informal communication, risk-taking behaviour, and openness to learning that characterized operations during the development phase once again become essential, but there can be no real return to the free-form structures of that earlier period. Managers cannot start, as they once did, from scratch.

The industry enters the disruption phase when changes in the ecotone afford some opportunity for a product or service to enter the market which has a distinctive feature, which hitherto has not been either required or recognized as beneficial by the customer industry. The nature of this product or service renders existing industrial paradigms obsolete and brings about radical change in both the structure of the industry and the industry recipes for survival. Discontinuities - changes in kind rather than degree - upset the assumption of linearity and sometimes even change the direction of causality. Industrial disruption may be created by technological and product change, the introduction of similar products produced in industries which have developed along different trajectories which confer competitive advantages, or market shifts.

Although these changes (the introduction of a new or

substitute product, substantially cheaper products, dramatic shifts in market preference, or changes in technology) seem to appear out of no-where, they have actually moved through the development phases before they reach the market and affect the industry and organization. These development phases are similar to those of the development phases an industry passes through.

In phase 1 of development the products, processes, markets, and resources are not clearly defined. Several different ideas, innovations, and issues may vie for recognition and acceptance. In phase 2 some order becomes apparent. Resources are marshalled, organizational and institutional infrastructures begin to emerge to support and direct activities, markets are identified and ideas or strategies are tested and revised. Phase 3 is marked by the unification of disparate elements towards a central goal or purpose. Organizations begin to look very similar, competition bases, products and processes become similar. Major tasks are identified, organized and delegated to various units in the industrial environment. Ettlie (1986) points out that innovations, especially those which result in truly radical change are rarely the product of one organization or even one industry. It is the outcome of many participating - sometimes competing, sometimes cooperating - people in a wide variety of organizations. These organizations include, suppliers, producers, trade associations, federal agencies, foreign governments, R & D

labs and consultants. By the time phase 3 occurs recipes for action are well developed and opinions and attitudes toward a particular issue begin to solidify. The industrial paradigm has matured.

Aggarwal (1987) points out the recipes which NIC's have followed when moving into external markets. He suggests that they i) invest overseas to protect the markets they have developed through exports and to seek new markets for growth ii) go overseas to reduce risk and overcome government restrictions in their home countries; iii) seek reliable and lower cost sources of raw materials and technology; iv) go overseas by means of joint venture; v) their foreign operations are not highly integrated or centrally controlled; vi) they start by focusing on simple, standardized products and foreign operations may be labour intensive compared to similar local operations of firms from developed countries; vii) usually start with a low-cost operation serving small markets, markets considered too small and uneconomical for firms of developing economies; viii) they do not engage in much product differentiation or nonprice competition and ix) usually operate with low levels of overhead expense.

The development of consumer issues and concerns or changes in legislation and regulation pass through the same three phases of development. Once consolidated, these issues have the potential to disrupt industry paradigms.

In phase 1 of development, the complaints of interest groups and the issues which they take up may not be clearly defined, they exist as general disgruntlement and dissatisfaction, and usually represent minority perspectives. There may be several competing ideologies and interests. In phase 2, certain issues and themes predominate and interest groups can be identified. Phase 3 is marked by the unification of disparate factions and concerted activity to bring about change. Laws may be passed restricting certain behaviour, management may begin to receive active requests to alter its behaviour to suit a particular position.

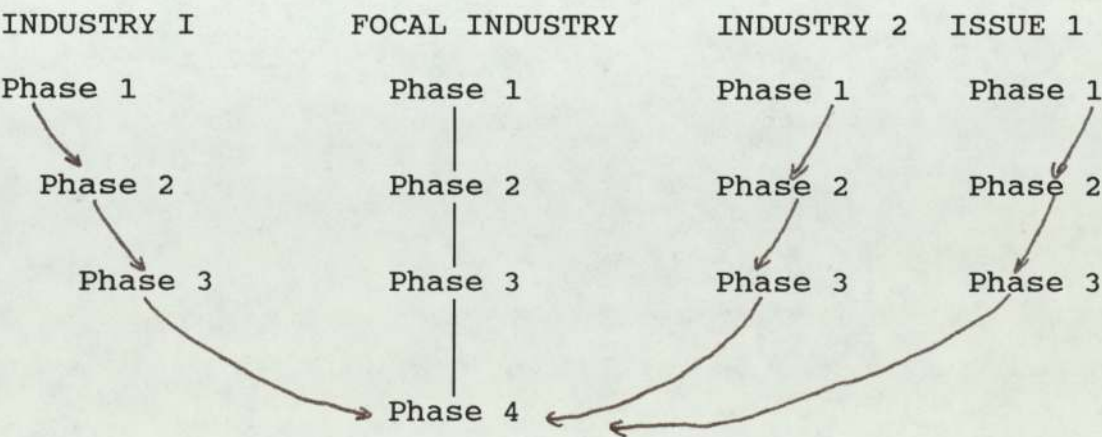
Nelson & Winters (1977) called these development paths trajectories and suggested that several different trajectories can occur in the same industry. The same type of industry in different countries may develop in very different ways. The resource bases and the conditions within an industrial environment may lead to completely different bases of competition and production methods. The German, British, and American pharmaceutical industries, for example, evolved quite differently.

Abernathy (1985) points out that faced with the same challenge of building automobiles, Japanese and American companies have responded differently. He argues that the latter, often beset with fluctuations in demand, chose to build a system dominated by scale economies and long

production runs and thus, by extension, lost the flexibility inherent in standardization. The former, operating in an environment of rapid and steady growth, built a system dominated by quality and the drive to eliminate waste, and they supported it by every means at their disposal. They established rigorously consistent practices for the management of equipment, materials, and people; they achieved high machine utilization through almost religious adherence to maintenance schedules and stable operating patterns; they used a policy of just-in-time production to keep inventories low; and they incorporated the work force as a fully integrated part of the whole production system.

Figure 4 - 2 depicts four different trajectories.

FIGURE 4 - 2
DEVELOPMENTS IN ELEMENTS OF THE ECOTONE WHICH MAY AFFECT
THE ORGANIZATION



Once an external trajectory reaches phase 3 of development it has the potential to disrupt the existing domestic industrial paradigm; organizations or individuals in the ecotone await only an opportunity to enter the market. It is only when two fully consolidated paradigms meet in the marketplace that revolution of an existing paradigm takes place. Change in the ecotone occurs long before the organization experiences the impact of such changes and therefore many years after the changes have begun.

4.2. THE DETECTION OF ENVIRONMENTAL CHANGE

Change which occurs in the Transaction Environment is likely to be the easiest for the organization to detect if the changes impinge directly on the organization. According to classical economic and management theory inefficient and declining firms will receive punishing signals from the market in the form of declining sales, cost increases or customer complaints and will respond by improving efficiency, selling out or going out of business.

When the organization is buffered from these types of environmental cues, however, the organization is less likely to be cognizant of the changes. There is substantial evidence to suggest that organizations frequently miss the cues and signals which would impel them to make necessary changes and for various reasons are incapable of reforming themselves, selling out or winding

up.

Boswell (1972) suggests that organizations do not receive or attend to market signals because of market imperfections such as high margins and persistent prosperity in the industry, the attainment of an oligopoly or near monopoly through high specialization, the success of past innovations which shelter the firm from competition and the development of a supplier/subcontract relationship with a large and successful customer.

Changes occurring outside of the transaction environment, in the industrial environment or the ecotone are less likely to be detected by the organization itself but information regarding such changes may be available from sources such as government publications which include weekly and monthly reports as well as periodic reviews of industry trends, and consulting firm reports monitoring the status of various industries.

The organization or industry seldom recognizes that it has entered the disruption phase. Peripheral firms, which are the most vulnerable, leave the market, their products replaced by those produced by firms located in the ecotone but central firms continue to maintain market share and profit levels. Throughout the course of their development firms attempt to achieve stability by adjusting their behaviour to the demands of their transaction environment.

Their immediate survival depends upon the achievement of this stability. The retention of past customers and suppliers reinforces the organization perception that the firm has been effective.

Not only do firms achieve stability over time, the industry of which it is a part also becomes increasingly stable over the course of the life cycle. The industry, tightly bounded by a stable transaction and industrial environment, appears to be in a relatively secure position. As the industry has evolved the industrial paradigm has matured and the industrial environment has become stable.

As an industry matures however, the organizations within it develop an increasingly internal focus which is punctuated only by a periodic assessment of their immediate domestic competitors' strategies and cost levels. Their behaviour is oriented towards that of these competitors. The needs and requirements of the customer have long since been all but forgotten. The organization is not, therefore, market-oriented, but rather, industry-oriented. The gap between customer requirements and the focal industry's characteristics and behaviour increasingly widens.

Figure 4 - 3 depicts the evolution of the industrial and ecotone environments. As external trajectories move in different directions from that of the focal industry the potential for the industrial environment to shift from

stable to turbulent increases. The stability of the industrial environment, however, buffers the industry from recognizing the potential for turbulence. Even if firms do recognize that a fundamental change in their behaviour must take place, existing relationships with their organization-set and the organization of their customer and supplier industries often prohibit the organization or industry from making the necessary changes.

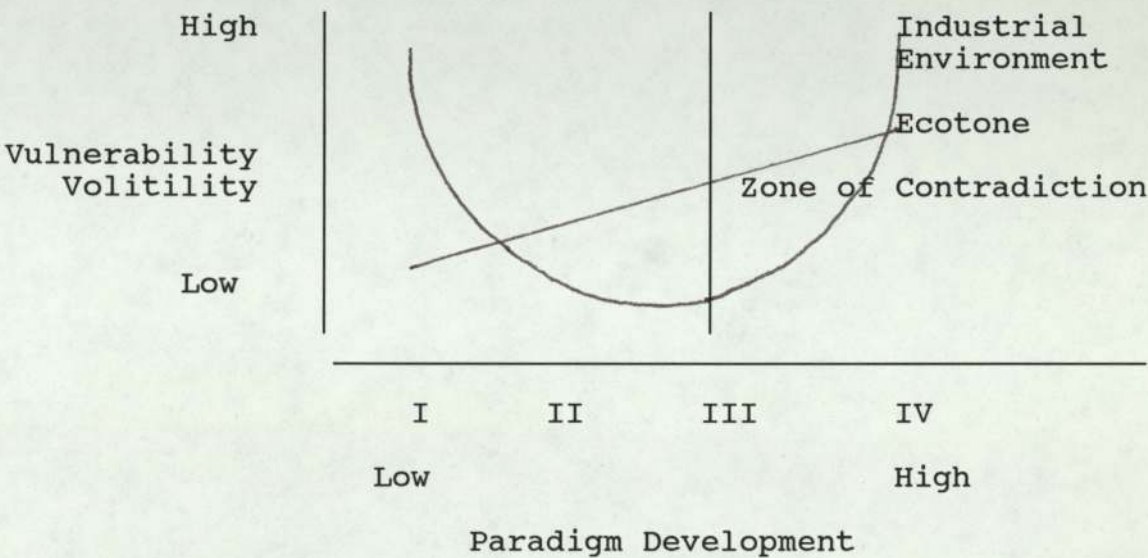
The supply industries upon which the focal industry depends have been organized according to the requirements of the focal industry. These then, represent the zone of contradiction between the stability of the industrial environment and the alternative paradigms developing in the ecotone. As external trajectories move to phase 3 and features of the industrial environment become such that they afford the opportunity for products produced in external industrial environments to enter the market, the industry moves into the disruption phase. The industrial environment becomes increasingly turbulent. This turbulence is reflected in the increasing numbers of firms which fail, go out of business, or merge with other firms. First, small vulnerable firms on the periphery of the industry disappear, then medium and large firms begin to falter and sometimes fail. As new products enter the market however, the gap between customer requirements and organization behaviour decreases as some firms begin to adopt new practices and survive. These organizations may be

located within the focal industry but most frequently lie outside of it.

4.3. APPROACHING TURBULENCE:THE RELATIONSHIP BETWEEN INDUSTRIAL ENVIRONMENT AND THE ECOTONE

FIGURE 4 - 3

APPROACHING TURBULENCE:THE RELATIONSHIP BETWEEN INDUSTRIAL ENVIRONMENT AND THE ECOTONE



The potential disruptive effects of alternative paradigms are often obscured by changes which give the illusion that the industrial paradigm has changed. Industrial paradigms are dynamic, they evolve and change as new technology and markets are found. The introduction of the computer and the development of the mass communication networks are two examples of such change. Although these changes may cause disruptions and changes in the way in which the organization operates they do not necessarily disrupt the existing paradigm. Organizations gradually

incorporate these changes in their activities. Such change generates a lot of excitement and often receives an inordinate amount of attention. Seen as progressive steps forward which allow organizations to obtain more efficiency, more information or increased productivity, the organization, the industry and external organizations become embroiled in the investigation, refinement, and institution of these opportunities.

Organizations become accustomed to responding to change with acknowledged recipes. They invest in new machinery, attempt to enhance productivity and efficiency, engage in more forecasting and planning based on industrial environment statistics, and seek out new markets. These activities are reinforced by industry and consultant reports, media attention, and successful adoption. As long as the changes which are occurring represent modifications of the existing industrial paradigm such strategies are likely to be successful.

If the industry has entered the disruption phase, however, these strategies can be a distinct liability. The gradual erosion of market share will eventually reach a point where the existing industrial paradigm can no longer be maintained and the existence of alternative paradigms can no longer be ignored. Recipes which worked previously will not work. Increasing organization efficiency does not rectify the problem. Innovation is not necessarily the

answer. The environment becomes increasingly turbulent. The industry, however, will attempt to apply the same remedies to the problem.

Changes which occur in the disruption phase represent a fundamental disruption of the existing paradigm. For a time two or more different, but fully developed paradigms compete for market dominance. Eventually one paradigm will emerge. Organizations, if they are to survive, must adopt the new paradigm. They must find ways of competing using the same criteria for success which the dominant paradigm utilizes. In this sense, the changes which they introduce may not in the strictest sense of the term be innovations. Several theorists have argued that the organizations facing turbulence must innovate. Yet, what they are actually doing is finding ways to adopt the new dominant industrial paradigm. Organizations have varying degrees of success with this.

CHAPTER 5

METHODOLOGICAL AND THEORETICAL CONSIDERATIONS

When presenting a thesis, students rarely recount the way in which their thesis evolved to its present form. The avenues which they explored and the dead-ends which led them to reconsider their assumptions are not usually included in the thesis document.

In some types of thesis such a discussion would not contribute more to the material presented. This is especially true if they are testing a theoretical model which has already been formulated or are providing more empirical support for a theory. But in other cases - where the theory is being developed - a review of the stages of the thesis development provides a backdrop for the final theory. Such a review also highlights the problems encountered when attempting to utilize concepts and theories which already exist and which should provide a means for understanding a phenomenon but require clarification, modification or reconsideration.

The theory presented in this thesis emerged at the end

of the study after considerable review of existing theories, testing of alternative assumptions and prepositions, attempts to use existing frameworks and research instruments and an indepth study of firms in the British footwear industry. The information and ideas which served as the basis for the final arguments were culled from four diverse fields of research: Organization Theory, Operations Research, Industrial Organization and Policy, all of which examine the relationship between the organization and its environment.

In this chapter i) several issues, concepts, and assumptions which were considered in formulating the theory; ii) the theoretical, empirical and methodological problems which were encountered and iii) the methodology used to study the British footwear industry, are reviewed.

5. 1. CHANGES IN THE RESEARCH PROBLEM

INITIAL INTEREST

Prior to beginning doctoral research, the author conducted a study of firms in the car rental industry to explore the relationship between a firm's organizational-set, its structure, policies and performance. It was from this study that the original research proposal was developed and several themes which run through the thesis emerged.

Although the task environment is generally presumed to be comprised of a homogeneous set of actors, it became apparent from this study that firms in the car rental industry regularly deal with two distinct sets of organizations; those which provide the resources required to operate a car rental business, and those which purchase or influence the purchase of the firm's service. A car rental firm cannot operate without the support of these external organizations and so must address the demands of each if it is to survive. These organization-sets, however, place different and sometimes conflicting demands on the organization. When faced with conflicting demands the firm must carefully weigh the consequences of not meeting an organization-set's demands.

In order to meet the demands of the organization-sets, organizations collect information, establish regular contact with customers and suppliers, institute policies to meet external demands, search for new sources of supply and market niches, develop strategies to influence the task environment, participate in collective action to alter the demands of the organization-set and alter their structure, plant, machinery or behaviour. These activities meet with varying degrees of success.

Examination of the car rental firms revealed that while all firms made some attempt to meet both the demands of their customers and their suppliers, many firms placed

more emphasis on meeting customer demands and competitor strategies than on meeting supplier requirements. Often the organization spends a great deal of time and effort setting up systems and structure which provide feedback and maximum adaption to its task output environment and gives little attention to the demands of the input organization-set. Effective performance and indeed survival, however, depended upon the organization meeting the demands of its input organization-set rather than meeting the demands of the output organization-set.

5.2 RESEARCH PROPOSAL

The initial objectives of the research were i) to examine the impact of the environment on the policies and structure of organizations and ii) to establish that the task environment consists of two distinct groups of elements which place different constraints on the structure, strategies and behaviour necessary for an organization's effective performance. I began with the following prepositions:

- i) The task environment is made up of two distinct groups of elements, one related to the input of resources into the organization and the other related to the output of the environment.
- ii) The task output environment and the task input environment place different demands on the organization.
- iii) An organization's reaction or proaction to its task environment depends upon management's perception and interpretation of the task environment.

- iv) An organization in which management recognizes the requirements of both the input and output environment will be more effective than those organizations in which management focuses on one task environment.
- v) Organizations which adopt a structure, monitoring system and control system which provide information on the more critical task environment will be more effective.

The first year of research was spent reviewing i) the literature on the relationship between the organization and its environment ii) the structure-size-technology literature and iii) the system theory literature and developing a model of the relationship between the organization and its task environment.

There is an extensive literature, dating from the early 1900's to the present day, which examines the ways in which an organization can structure itself to manage internal factors and a growing environment/structure literature which examines the ways an organization structure itself in relation to the degree of task uncertainty, but there are very few studies which consider the affect organization-set demands have on organization behaviour or the actions the organization takes to manage its task environment.

The task environment is generally conceptualized as external conditions such as technological change or market change; information; or resources which are believed to contribute to the level of uncertainty and dependence the

organization experiences. That the task environment may actively shape, influence and limit organization behaviour, structure and performance is generally not considered.

The intellectual pull towards the dominant paradigm in a field of research is very strong. It influences the way in which problems are formulated and investigated. The dominant theoretical paradigm in the Organization Theory field leads the researcher, who is examining the relationship between the organization and the environment, to relate environmental characteristics (such as complexity, heterogeneity and stability) to organization structure and to predict higher levels of organization effectiveness where a fit exists between environmental characteristics and organization structure. The predominant focus of this literature is on organization structure. The environment is considered only in relation to its effect on the organization's structure or as a reference variable for determining appropriate organization structure. As I read the existing literature on organization structure, the task environment, systems thinking and technology I was influenced by this formulation and lost sight of my original empirical findings and several of the objectives of the research, particularly prepositions 2, 3, and 4.

Influenced by the perspective adopted by the field the emphasis shifted away from an examination of the

relationship between organization-set demands, organization behaviour and performance. I focused instead on the differences in environmental characteristics (complexity, heterogeneity, and scarcity) between the task input environment and task output environment and their relation to organization structure and performance. It was only later, after having difficulty establishing clear relationships between organization structure, the two task environment segments and performance, that I again considered the relationship between organization performance and organization-set demands. The questions I explored and the issues I grappled with in the year I spent attempting to examine the relationship between the organization structure and the environment from this perspective, however, provided insight which was to prove valuable in later stages of the research.

Before an empirical study of the relationship between characteristics of the task input environment and task output environment, organization structure and organization performance could be conducted, several theoretical and methodological issues needed to be resolved. These are discussed as they were dealt with in the research process.

A measure of the organization structure had to be located. Although the Aston questionnaire (having been used by so many previous researchers, and accepted as both reliable and valid) was the logical instrument to use in

this study, an attempt to use the Aston questionnaire to examine the relationship between organization structure and the input and output environment brought to light several difficulties in the formulation of the scales and pointed to a closer examination of the criticisms which have been made in relation to these studies.

The Aston questions deal primarily with organization policies, behaviour and characteristics relating to the personnel function; that is the coordination and control of organization members. Few questions examine the structural characteristics an organization employs to manage other internal resources or the coordination and control of relationships which the organization forms with members of its organization-set. The scoring and scaling of many of the dimensions reflect organization size. (e.g. the more specialized departments, the higher the resultant specialization score)

The need for an instrument which measured organization structure disappeared before the instrument was developed. Should another researcher attempt such a study, however the development of a new structure instrument would be necessary.

5.3. REVISED RESEARCH PROBLEM

By the end of the first year of the investigation, the original objectives were modified as it became

increasingly clear that the relationship between the task environment and the organization is far more complex than had been anticipated. Not only was the distinction between the input and output task environment important, Osborn's distinction between the three segments of the environment (macro, aggregation and task) and Child's focus on the social, political, economic, technology spheres were also relevant. The relationship between these segments also affected organization behaviour and performance.

As I began to clarify the research problem I wished to investigate, it became apparent that my main interest lay in explaining why organizations fail and why industries decline. There are many theories which treat organization performance or effectiveness as a dependent variable and others which explain organization survival but few Organizational Behaviour theories which directly address the problem of organizational failure. Those which do address the problem of organization failure tend to focus on intraorganizational problems rather than on the environmental factors which influence organization failure. (Lawrence & Dyer, 1983). Previous studies focus primarily on organization structure.

CONTINGENCY THEORY QUESTIONED

Although I began the research intending to follow the tradition of the Contingency theorists and examine the effect of the task environment on organization structure

and performance, I was no longer satisfied that the Contingency model provided an appropriate basis from which to study organization viability. The relationship between structure and overall performance or organization viability appeared highly tenuous for the following reasons:

- 1) Although implicit in much of Organization Theory, there have been very few empirical studies which empirically test the hypothesis that the adoption of a particular organization structure enhances the effectiveness of the organization. (cf Dalton, Todor, Spendaline, Fielding & Porter, 1980) Research suggests that structure may not be a significant determinant of overall performance, although consistent findings indicate that organization structure does influence certain variables contributing to overall performance. Price (19xx), drawing from data reported in fifty studies of organization effectiveness found that measures of effectiveness were correlated with factors relating to the social, economic, political, technological and control systems in the organization as well as organization size. Several theorists have pointed out that performance is influenced by the degree to which organizations exhibit adaptability, a sense of identity, capacity to test reality, flexibility, reliability, maximization of bargaining position, optimization of resource procurement, stability,

integration and achievement. (Mahoney & Weitzel, 1969; Price, 1972; Seashore & Yuchtman, 1967)

- 2) Researchers have tended to combine information flow factors with structural factors assuming that the structural forms reflect specific patterns of information flow. This assumption, however, has not been empirically tested and therefore remains speculation. There are several reasons why structural variables should be distinguished from information flow variables: i) the fact that structure is believed to influence the information flow suggests that they are analytically distinct variables; ii) structural variables refer to relationships between members of the organization and the tasks which are carried out internally, while much of the information which must move through the organization relates to aspects external to the organization such as information on suppliers and market conditions; iii) the information required at the operational level differs from the information required at the institutional level. Task uncertainty, it has been suggested, indicates a need for a highly decentralized organization, yet the key decision-makers required extensive information pertaining to the operational level in order to make decisions relating to the overall organization. To achieve this they may decentralize decision-making at the operational level but maintain control through

increased information mechanisms and iv) the means of collecting information may exist apart from the structural features.

- 3) Organizations within an industry generally adopt the same technology and become increasingly similar in structure and policies. They become more dependent upon suppliers for it is they who are the source of new technology. Lawrence & Lorsch's (1967) data suggests that given the same environment firms which have a high level of integration are more likely to perform better than those which do not; thus level of integration appears to be independent of environmental factors.

Contingency Theory suggests that some types of structures are better suited to some tasks or environments than others and that failure to match structure to the environment leads to decreased performance. The research designed to test this hypothesis has produced inconsistent results. (Pennings, 1975; Mohr, 1971) Negandhi & Reimann (1973) found that decentralization was positively related to behavioral and economic indicators of effectiveness under both competitive and noncompetitive market conditions. Bosemand & Jones (1974) reported very similar results with respect to behavioral measures of effectiveness but not the economic measures. Decentralization was found to be strongly positively related to

economic measures under high market competition and slightly negatively related to economic effectiveness under low market competition, providing partial support for the Contingency model. Azma & Mansfield (1981) found no consistent relationship between centralization and several measures of organizational effectiveness and questioned the ability of the Contingency model to explain the diverse empirical evidence in the literature.

Whereas Weber confined his analysis of relationship between structure and efficiency, identifying the criteria he used to evaluate the efficiency of various types of structures no such explicit criteria has been identified for an effective structure. Organization behaviour and environmental constraints appeared to be important, but neither are addressed in the Contingency perspective.

As the research progressed I became increasingly reluctant to attribute organization survival to a fit between organization structure and industrial environment complexity, heterogeneity, volatility and scarcity. I did however, continue to examine the characteristics of the industrial environment looking specifically at the industrial environment of UK manufacturers. This analysis is discussed in a later section.

Researchers frequently combine aspects of the Industrial environment and the Transaction environment in

their analysis of environment states. The necessity of clearly establishing the parameters of the firm's environment and distinguishing between industrial environment and transactional environment states when examining the environmental factors which affect organization and performance can be demonstrated by re-examining Staw & Sz wajkowski's (1975) investigation of the relationship between the degree of munificence/scarcity in the environment and the occurrence of illegal corporate acts.

REEXAMINATION OF THE STAW & SZWAJKOWSKI STUDY

Staw & Sz wajkowski hypothesized that the greater the resource scarcity in the environment, the more likely it was that an organization would engage in activities which were considered unfair market practices or restraints of trade to obtain resources from its environment. Resource scarcity was operationalized as the performance levels which the organizations in the sample achieved; the lower the performance the greater the environmental resource scarcity.

The researchers compared the mean return on equity and the mean return of sales of 105 large companies listed in the Fortune 500, who were involved in trade litigation, with the performance levels of all the firms in the Fortune 500 list, and found that the performance levels of those companies involved in trade litigation were significantly

lower than the mean score of all firms in the Fortune 500.

This finding appears to lend support for their hypothesis - firms in the sample which committed illegal acts had lower return on equity and sales (high resource scarcity) than those firms which did not but the findings do not necessarily indicate that a particular firm experienced resource scarcity and responded to it by committing illegal acts.

Organization performance reflects the organization's internal behaviour, its interaction with the members which make up the transaction environment and the performance levels which are characteristic of the industry within which the organization operates. Unless the average performance levels of industry within which a firm operates (the industrial environment) is taken into consideration one cannot be sure whether the organization performance levels are a reflection of resource scarcity in the transaction environment or in the industrial environment.

If organizations engage in illegal acts when they experience resource scarcity in the transactional environment it should be possible to predict which firms in an industry will commit illegal acts on the basis of their performance relative to the industry average, those firms with low performance levels relative to the industry average being more likely to engage in illegal acts. If

the propensity to commit illegal acts reflects industrial environment resource scarcity, firms in industries which have lower average performance levels will be more likely to engage in illegal acts than those in other industries, but there may not be performance levels differences between those firms in the industry which commit illegal acts and those which do not.

The majority of firms in Staw & Szwajkowski's sample which committed illegal acts operated in industries which had lower average return on sales and equity. This suggests that the level of resource scarcity in the Industrial environment influenced the propensity of firms to commit illegal acts. These industries are not necessarily industries which are beset with problems such as poor demand, shortage of raw materials or widespread strikes as Staw & Szwajkowski suggest but those such as mature industries, mass production industries and supplier dominated industries which usually have significantly lower return on sales than new industries, research-intensive or specialist suppliers and which may have lower return on equity because they employ substantially more capital in production.

Industrial economic research suggests that the importance of price and cost factors, achieving economies of scale, and securing markets, differs among industries. In new industries, product innovation forms the basis of

competition; product processes are fluid and markets are highly uncertain, while in mature industries competition revolves around price, necessitating the achievement of economies of scale and secure markets. We might expect, therefore, that firms in mature industries would be more likely to engage in price-fixing; tying arrangements; price discrimination and the allocation of markets.

In light of existing economic theory which suggests that firms which operate in a monopoly situation earn subordinate profits, and the existence of subordinate profits suggests a situation of munificence rather than scarcity, the inclusion of this offense in Staw and Szwajolowshi's study is problematic. Although the performance levels of the firms cited for Monopoly offenses were found to be lower than the general performance levels this can be explained if the firms in question were operating in a mature industry as even subordinate returns in these industries may be lower than average or low returns in other industries.

Since the Fortune 500 list includes firms from all types of industries, it may be that firms in particular industries are more likely to commit illegal acts than firms in other types of industries. This observation was supported by Staw & Szwajkowski's comparison of the two groups using industry performance statistics rather than firm performance statistics.

Given that the results of their study indicate that the type of industry correlates with performance levels and the propensity to commit illegal acts, industry type must be held constant if their hypothesis - that the more scarce the business environment the more likely it is that an organization will engage in illegal acts - is to be properly tested. It must be demonstrated that the firms which are more likely to commit illegal acts are those firms whose performance is significantly lower than that of all the firms in their industry. Staw & Szwajkowski's results show no significant difference. The financial performance of the cited firms was neither better nor worse than the average performance of its industry.

This examination highlights the necessity of differentiating between the Transaction Environment and the Industrial Environment. While analysis of different resource levels of an industry sector provides an indication of the types of industries in which illegal acts are more likely to occur it does not explain why some firms in a particular industry commit illegal acts and others do not, given the same level of resource scarcity.

5.4 IDENTIFYING THE INDUSTRY TO STUDY

Prior to deciding which industry to study, a statistical analysis of 165 British industries was conducted. This analysis was undertaken to assess the environmental complexity, scarcity and volatility of the

various industries. Similar to the study conducted by Beard & Dess (19xx) the raw data for the analysis was extracted from the Census of Production. Unlike Beard & Dess's study however, factors relating to the organization's input environment and output environment were analyzed separately - the premise being that activity occurring in one environment could be very different from that of the other environment. The input environment could be, for example, highly stable while the output environment highly volatile.

Data was collected from the HMSO Census of Production and entered into three database files which were later used to determine variable values. The first database included information on UK manufacturing industries operating between 1907 and 1970. This was the most incomplete database since not industries started prior to 1907 and only some years were available. The database includes information on activity during 1907, 1924, 1930, 1948, 1958, 1963, 1968 and 1970. The second database included all information on the activity of UK manufacturing sectors between 1970 and 1979. The third data base included that activity occurring between 1979 and 1982.

The data files were constructed in this manner because of the structure of the existing information. Summary statistics are available for the period 1907 to 1970. Full statistics are available for periods after 1970. In 1980

all SIC codes were changed thus redefining industrial sectors. This made direct comparison difficult without extensive data manipulation. The structure of the data bases provided a basis for longitudinal study of an industry's environment. The degree of environmental change could be measured and some comparison of short-term (1979 - 1982) change and long-term (1907 - 1970) change could be examined.

Variables Used to Define the Factor and Product Industrial Environment

Factor Market	Product Market
Munificence/Scarcity	
Growth in Total Employment	Growth in Sales
Growth in Purchase	Growth in number of Enterprises and Establishments
Growth in Labour Costs	Growth in Value-Added
Growth in Capital Costs	Market Concentration
Stability/Volatility	
Dispersion of Total Employment	Proportion of Total Output Imported
Dispersion of Purchases	Dispersion of Sales
Dispersion of Non-industrial costs	Dispersion of number of Enterprises and Establishments
Dispersion of Labour costs	Dispersion of Value-Added
Proportion of Purchases Imported	
Complexity	
Proportion of Input supplied by relatively few industries	Proportion of an industry's output sold to a few industries
Proportion of the value of shipments Imported for the primary product	Specialization
	Proportion sold to
	a) intermediate market
	b) end users
	c) for investment

Regressions were run for each variable in each industry. Of particular interest to this study were the results of the volatility scales. Two types of industries showed very high levels of environmental volatility (particularly output environment volatility); new industries in Stage 1 in which considerable product development was occurring and mature industries generally considered to be in decline. While the volatility scores did not differ significantly between the two groups, scores on individual variables were different. Revenue, net income, size of establishment, number of employees in the first group markedly increased in the new industries, while they decreased in the declining industries. It is from the second group of industries that the footwear industry was chosen for study. Other industries which were becoming increasingly volatile between 1970 and 1982 but which had previously been stable included the copper & brass, textile machinery, electric lamps, locomotives, bolts and nuts, wire & wire manufacturing, cans and metal boxes, asbestos, leather, hats & caps, gloves, wooden containers, spinning and weaving, woolen & worsted, jute, rope, twine & net, lace, narrow fabrics, paper & board, brushes & brooms industries.

5.5 STUDYING THE BRITISH FOOTWEAR INDUSTRY

Having identified the industrial environment of the footwear industry as highly turbulent the next step was to examine this industry in detail. The following section

outlines the material and sources used to gain an understanding of the environment within which footwear firms operated.

Although this study is qualitative in nature, a considerable amount of quantitative analysis was required in order to gain an understanding of the British Footwear industry. This quantitative analysis did not take the form of statistical analysis, but rather financial analysis and categorization.

INFORMATION SOURCES

BFMF - BRITISH FOOTWEAR MANUFACTURING FEDERATION

One of the first sources approached in the study was the British Footwear Manufacturing Federation headquarters. Unfortunately on first approach members of the Federation were reluctant to assist in the research. Members of regional branches of the Federation, however, were more helpful and through interviews pertinent information was collected.

SHOE & LEATHER NEWS

The trade magazine Shoe & Leather News was an extremely valuable source of information. Issued weekly, it provided a running commentary of the major events, issues, and fashion trends occurring; notification of business failures, mergers, plant shut-downs and start-ups,

and price and cost changes; detailed information on manufacturing firm activities and retail trade opinions, attitudes and the problems the retailers had dealing with the manufacturing sector and the technology employed in the shoe making process; an introduction to key personnel in the footwear industry; and participation rates in foreign trade fairs.

The articles, advertisements, and statistics contained in each issue of the magazine were catalogued providing an easy reference file on active companies in the industry, events, price fluctuations.

SHOE TRADES DIRECTORY

The Shoe and Leather News publishes a Shoe Trades Directory annually which contains information on footwear manufacturers, manufacturers agents, wholesalers and importers and the type of retailer to which these organizations sell their product. This information provided an initial basis for classifying the manufacturing firms.

THE NATIONAL ECONOMIC DEVELOPMENT OFFICE - NEDO

The National Economic Development Office has published several reports of the UK footwear industry on behalf of the Footwear Economic Development Committee. All available reports were obtained.

The Footwear EDC held several seminars for the industry. Reports on these seminars included a list of participants. These lists of participants provided an indication of the firms involved in the EDC efforts.

SATRA

SATRA Footwear Technology Centre, based in Kettering, England, is the largest research and development organization of its kind in the world. With a membership of over 1,000 firms including footwear manufacturers, retailers and repairs, and suppliers of materials, components and machinery from those countries which have high labour costs the organization has access to a substantial amount of industry and firm information. Its more than 150 highly qualified scientists, technologists, shoemakers and support staff offer advice, expertise, and analysis to members. The Centre conducts research aimed at reducing production costs and improving the product by reducing material, labour and overhead costs particularly by using low cost applications of high technology. Their research includes the study of upper materials, soling and adhesion, to shoe engineering, productivity, training and microcomputer applications.

OBSERVATIONS - MARKET RESEARCH

Direct observation of the retail outlets, footwear departments in department stores, food chains, and the market in several towns and cities in the UK, and

conversations with the staff in these outlets provided information on the type of footwear available, purchasing practices, organization structure, customer purchasing practices and footwear changes over time. It also provided an opportunity to compare footwear manufactured in the UK with that imported, identify the market segment particular footwear appealed to.

FINANCIAL ANALYSIS

In order to study the performance of individual firms financial information was obtained from Company House, Key Note and the Business Ratio Reports. Grouped by size of firm, capacity levels, performance levels, type of product, type of customer, the performance levels of the various groups were compared.

COMPANY EXECUTIVES

In order to understand the transaction environment and management's perception of its task environment structured interviews were conducted with top executives from firms in each of the five manufacturing types: Branded Manufacturers, Large MTO manufacturers, Forward Integrated Firms, Backward Integrated Firms, Small MTO manufacturers and Integrally-Linked manufacturers. Firms, selected from the Directory of Membership of the British Footwear Manufacturers Federation and the Shoe Trades Directory, were contacted by phone and asked to participate in the study. Several firms, particularly integrally-linked firms declined to participate, suggesting that they were atypical manufacturers. Most, however, were interested and willing to participate.

Prior to the interview with the executives a financial profile of the company was compiled, the firm's products were examined, and all available published material on the firm was reviewed. An open-ended questionnaire designed to elicit information concerning:

- the demands placed on the organization by retailers,
- the terms of their relationship with customers and suppliers,
- the length of time the company had been dealing with the customer,
- company policies and strategies,
- power and control relationships between the

- manufacturer and customers and suppliers,
- the flow of information between the manufacturer and external organizations,
 - the degree of contact between manufacturer and retailer,
 - the manufacturers design capacity,
 - the degree to which efficiency was emphasized,
 - their financial position,
 - size changes over the past ten years,
 - source of supplies,
 - machinery and fashion styles,
 - major competitors and suppliers,
 - management style and philosophy,
 - awareness of external events,
 - attitude toward foreign imports,
 - marketing techniques,
 - export development,
 - technology employed,
 - the degree to which these companies used secondary sources of information.

FOREIGN SOURCES

As it became evident that foreign manufacturers played an important role in the environment, Census of Production statistics on the footwear industry of several of these countries was collected. Additional information was collected from reports solicited directly from the national footwear associations. Reports were obtained from Italy,

Germany, Canada, and the United States. National footwear magazines, Modapiel from Spain, FNM from United States, Skin, il Monde and Italia Vogue Pelle from Italy also provided information on the foreign industries. Historical information on footwear industries in the OEDC was obtained from "The Footwear Industry: Structure and Governmental Policies", published by the Organization for Economic Co-Operation and Development, Paris, 1977.

SUMMARY

The above sources provided the raw data used in the analysis but a substantial amount of reorganization, interpretation, translation, evaluation and in some cases numerical manipulation had to be done in order to gain an understanding of the industry. Several different methodologies were used, some quantitative, others qualitative. Essentially exploratory in nature, the research required a continual search for alternative sources of information. Information from one source sometimes contradicted information from another source and required a third source for clarification. Although each source presented a unique perspective on the events, activities, and performance of the organizations within the industry and the industry itself, running through these diverse perspectives were uniform themes and ideologies. The industrial paradigm became readily apparent.

In order to understand the task environment within

which the organization is embedded a substantial amount of qualitative investigation is necessary. What this methodology lacks in scientific rigour it more than makes up for in the wealth of information that can be obtained. The quantitative analysis of financial and statistical data provided a basis for classification, interpretation and clarification of information gained through the interviews and secondary sources. I found that in order to gain the information I was seeking I had to be well versed in the activities and events of the organization and industry and aware of their interpretations and perspectives.

When I began the investigation of the footwear industry I approached one organization hoping to collect information which would give me an overall perspective of the industry from which I might determine what questions to ask and what sources to tap. This seemed a logical first step however, I was told, somewhat rudely, by the executive I contacted, that he was not going to write my thesis for me. This proved to be truer than either of us recognized at the time. My interpretation of what is happening to the industry is significantly different from that of those within the industry. But, it is an interpretation which emerged after a substantial amount of statistical, financial, and operational data was collected and the viewpoints of several different people within the industry considered. The theoretical perspective presented in this thesis, although vaguely formulated prior to the

investigation of the footwear industry owes much to the knowledge I gained from studying the activities of footwear manufacturers struggling to survive in the complex task environment in which they are embedded.

CHAPTER 6

THE BRITISH FOOTWEAR INDUSTRY

6.1. OVERVIEW

In Part One it was argued that three segments of the task environment - the transaction environment, the industrial environment and the ecotone - influence organization behaviour and affect the viability of both the focal organization and the industry of which it is a part. In the chapters which form Part Two, an examination of the task environment of the British footwear industry serves to illustrate how each of these task environment segments influences organization behaviour, performance and viability. This industry offers an interesting study of the way in which organizations adapt to their transaction environment, shape features of their industrial environment and ultimately face decline when factors outside of this 'cozy' network (in the ecotone) mitigate to change the rules of the game. An analysis of the environment within which the firms in the footwear industry operate highlights the role of external factors in the industry's decline and provides a basis for developing future policies and strategies which go beyond intra-organizational remedies.

The British footwear industry is one of several industrial sectors which have experienced a sharp decline in the number of enterprises operating in the industry during the past fifteen years. While organizational factors undoubtedly have contributed to the problems faced by the firms in this industry, environmental factors (particularly changes occurring in the industrial environment and the ecotone) also have clearly affected the viability of footwear firms. It is these environmental factors which are of primary interest in this thesis. The issues which will be addressed in the following chapters include: how the task environment has and is changing, how the footwear industry interprets and understands its environment, the remedies which have been proposed, the contradictions which arise in the environment to constrain organizations from responding in a manner which would lead to their survival, and why firms in the industry are not surviving.

6.2. ECONOMIC INDICATORS OF THE PROBLEM

The British footwear industry has been contracting for several years. In 1971 the industry employed 91,403 people and produced 194.3 million pairs of footwear, but as sales by UK footwear manufacturers declined between 1970 and 1980 (reaching a low of 132 million pairs in 1980) so too did the number of enterprises and personnel employed. (see Table 10 - 1) Although U.K. production levels stabilized after 1980, and the market (which had been stagnant

throughout the 1970's) grew by 4% annually between 1980 and 1986, the number of enterprises continued to decline as small and medium size companies left the market.¹ By 1986, the number of domestic manufacturers had fallen. Domestic manufacturers then employed 47,600 employees and produced 137.4 million pairs of footwear, 18.3 million pairs of which were exported.

As international trade barriers diminished and retailers increasingly sourced footwear from foreign suppliers, the level of import penetration increased. From negligible levels in 1950, import penetration rose to 27.7% in 1970, exceeded UK manufacturers' sales in the domestic market in volume terms for the first time in 1981 and continued to rise to 56.1% by 1986. (See Figure 6 - 1)

FIGURE 6 - 1

DEMAND, DOMESTIC PRODUCTION, IMPORTS, EXPORTS

Volume (m prs)	1970	1972	1974	1976	1978	1980	1986
UK mfg sales	190.5	184.4	173.3	157.2	154.3	132.2	137.4
Exports	20.8	17.4	18.3	18.6	18.4	16.7	18.3
Export % sales	10.8	9.4	10.6	11.6	12.1	13.9	13.3
Imports	65.1	81.1	80.2	97.5	100.5	105.6	152.3
Import % UK sales	27.7	32.7	34.1	41.2	42.5	48.1	56.1
TOTAL UK SALES	234.8	248.1	235.2	236.5	236.2	219.4	271.4

1. This growth is mainly attributable to the development of the new sports/leisure footwear market segment. The segment has been supplied primarily by foreign footwear manufacturers and has resulted in the further erosion of domestic manufacturers' share of the domestic market.

The situation for the domestic industry is not improving. The number of enterprises, establishments and persons employed in the British footwear industry continued to decline through 1986 and the first half of 1987. The contraction of the industry is no longer confined to the smaller, inefficient factories. Many of the footwear firms which are leaving the industry or closing establishments are medium or large scale factories with well known names in the industry. For example, BSC closed its Rayleigh factory resulting in the loss of 150 jobs and a reduction of 10,000 pairs/week production. R. Griggs closed its Irchester plant. Belmont, M & J Jinks, and Headlam, Coggins were acquired by other footwear manufacturers. Aronia Footwear Ltd, Weyenberg Shoe Mfg Co. Ltd and T & C. Partridge & Co. closed completely. Ward White closed its shoe factory in Killarney resulting in the loss of 130 jobs. These examples typify the decline in the industry.

If no attempt is made to alter the direction of change and assist footwear manufacturers 77% of the existing manufacturers, four hundred and twenty-three organizations, many of which have been in business for over fifty years, may conceivably disappear. Their demise, however, will initially have little effect on the market or the footwear industry itself, since their combined output represents

less than 15% of total UK footwear output. (see Figure 6 - 2) ²

FIGURE 6 - 2

BFMF AND HMSO STATISTICS: NUMBER OF ENTERPRISES
AND SALES 1979

SIZE	NUMBER			SALES		SALES	
	BFMF	HMSO	%	BFMF	%	HMSO	%
1 - 99	423	395	77	131.6	14.6%	115.6	13.0
100 - 199	59	46	9	89.4	10.0	68.7	8.0
200 - 499	59	44	9	244.3	27.2	160.9	18.0
500 - 999	15	16	3	121.6	13.5	123.4	14.0
1,000-1,999]	9	8	2	311.4	34.7	122.5	14.0
2,000 +		5	1			307.2	34.0
TOTAL	514	514		898.3		898.3	

The small UK manufacturers are the most vulnerable organizations in the industry. They have been the most affected by the changes in industrial environment and are most likely to be affected by the changes in the ecotone. They will fail or disappear because of an inability to establish on-going ties with retailers. The skills and craftsmanship upon which their business was built and which retailers are increasingly searching for will disappear also.

At the other end of the spectrum are the largest UK manufacturing firms (thirteen companies employing over

². There is a slight discrepancy between these two sets of figures. It is unclear why the BFMF should underestimate the number of large footwear manufacturers in the industry when several sources confirm that there are in fact 13 large manufacturers that produce 48% of the total output of the industry.

1,000 people each) which produce approximately half of the footwear manufactured in the UK. Three of these firms (BSC, Clarks and Ward White) produce approximately 34% of total domestic production. Clarks produce 8 - 9% of the footwear sold in the UK market; BSC produce 4% and Ward White produce 3%.

The average growth in pairage and sales of these manufacturing firms has paralleled or exceeded the growth in imports. These firms are steadily increasing their market share, largely because of the market power of their retail organization, at the expense of the smaller domestic manufacturers. They have, therefore, as much impact on the survival of the small firms as the imports do.

Most of these large firms are vertically integrated and produce footwear for the down-stream retail or wholesale arms of their enterprise. It has been estimated that the major manufacturers control over 23% of retail sales through company - owned outlets. The British Shoe Corporation (BSC), Clarks and their subsidiary K Shoes, the UDS Group and Ward White together controlled more than 4,000 retail outlets in 1982, and thereby are responsible for an important proportion of retail sales. This control over the retail market has increased substantially by 1986; the BSC retailing arm alone now controls directly or indirectly 6,600 outlets. Figure 6 - 3 provides a list of the retail arms of the major manufacturers and the

estimated number of manufacturer owned outlets.

FIGURE 6 - 3

MANUFACTURER OWNED OUTLETS

BSC	Saxone, Lilley & Skinner, Dolcis, Manfield, Freeman, Hardy & Willis, True Form, Curtess, Ronald Cartier	Tiptoe 2200+
C & J Clark	Peter Lord, Ravel, Bayne & Duckett, Jones Baker & Sons, K Shoes	700
UDS	William Timson, John Farmer	300+
GUS	Greenless Lennard, Stead & Simpson Great Universal Stores	300+
BATA	Bata	100+
WARD WHITE	Focus	400
STYLO BARRATT	Barratts	234

Source: Key Note, 1982

Other important retail operations include the Ward White Group with 89 Wyles shops, the Stylo-Barratt retail group, Russell & Bromley, Elliott & Sons, Sacha, Van Dahl and the rapidly growing French concern Kickers.

Many of these large production units are also vulnerable to changes occurring in the industrial environment and ecotone. This is particularly true of those manufacturing units which are manufacturing arms of a strong retail organization since they exist solely to service the requirements of their retail chain. As the

requirements of the large retailers change in response to increased competition and market preferences the large, efficient productive units, set up to produce highly standardized, low design content footwear will gradually be closed. It is easier for the retail chains to source footwear from foreign producers who have developed design capacities and cheaper to source from other foreign producers who can produce the standardized products less expensively. The closure of these larger manufacturing units will have a far greater impact on the UK economy. It will put more people out of jobs and will significantly alter the balance of trade in footwear goods.

The UK footwear industry is not the only footwear industry facing substantial problems. The intensification of international competition; changes in sources of supply; the development of synthetic materials, the reduction of sources of raw materials, principally raw hides and skins; changes in consumer preferences; and the increased importance of fashion in consumer choice has lead to a substantial reduction in the number of enterprises and jobs in several OECD countries.

While total OECD footwear production increased annually by 1.1 per cent between 1962 and 1982, footwear production in many of the OECD countries declined steadily during this period. Over half of the footwear manufacturers in France and Greece ceased operation between 1962 and 1976

and in most other OECD countries, the number of enterprises decreased by 30 percent during the 1960's and 40 percent in the first half of the 1970's. The registration of new enterprises or establishments has exceeded the number of closures only in Italy, Spain and Portugal where production has increased substantially. Elsewhere closures have outnumbered new ventures. Mergers are rare; most enterprises close their doors permanently. Only Italy, Spain and Portugal substantially increased their production between 1962 and 1972. The annual growth in Italy and Spain, however, decreased during the period 1972 to 1982. Italy, Spain and Portugal now provide a considerable proportion of the footwear sold in other OECD countries.

6.3. EXISTING DEFINITIONS OF THE PROBLEM

Members of the British footwear industry and concerned external bodies have sought to identify the causal factors of the industry's decline and to rectify the problems. The decline of the UK footwear industry is generally attributed to the rise in foreign competition, in particular to the rise in low cost products. Import penetration, however, is in part a consequence, rather than a cause, of organization and industry behaviour and should be viewed as a dependent rather than an independent variable. The characteristics of the industrial environment, until recently have shielded United Kingdom manufacturers from the full brunt of import penetration. The rise in imports is an all too ready explanation for organization failure and the decline of an

industry and prevent the examination of other problems in the industry. Increasing import levels is symptomatic of numerous underlying problems which, if left unspecified and thus not rectified, can lead to the ultimate demise of the industry.

The industry's assessment of the problems which it faces and the views of these outside bodies are examined in the following section. These assessments are reflected in the reports published following two major studies conducted on the footwear industry; one commissioned by the Department of Industry, the other by the Footwear Economic Development Corporation (Footwear EDC). In keeping with prior studies which focused on comparative productivity, these investigations begin with the premise that the lack of competitiveness in the footwear industry is the result of organizational inefficiency. In addition to these studies, there have been over 20 studies covering 180 companies in four countries and many more studies of individual companies at their own request.

6.3.1. THE DEPARTMENT OF INDUSTRY REPORT

In 1975, a Footwear Industry Study Steering Group was formed by the Department of Industry "to consider ways of improving the efficiency and international competitiveness of the UK Footwear Manufacturing Industry, and of ensuring its viability, and to make recommendations". The principal reason for the formation of the Steering Group

was the disquiet, shared by Government, manufacturers and trade unions alike, at the sharply deteriorating trade balance in footwear and the increasing unemployment in the industry. This Steering Committee was comprised of officials of the Department of Industry, footwear manufacturers and footwear trade unions, the industry's research association and Members of Parliament for footwear manufacturing constituencies representing both major political parties.

The Steering Committee identified several external factors which had contributed to the industry's decline: the imbalance in market strength between domestic footwear manufacturers and footwear distributors; dumped and subsidized imports from Poland, Czechoslovakia, Romania, Spain, and Brazil; the existence of low labour-cost footwear industries in Hong Kong, South Korea, and Taiwan which were highly developed and well capitalized; and the existence of high tariffs which serve as barriers to trade with other countries. These problems, however, were believed to be wholly or mainly beyond the footwear industry's control and were not, therefore, dealt with in detail.

More problematic, from the Steering Committee's perspective, were the organizational weaknesses which, it was argued, if corrected, would lead to the continued success of the footwear industry. The Committee's main

criticism of firms in the industry was their lack of product strategy and marketing. Footwear manufacturers, they suggested, fail to appraise the changing nature of their market and alter their policies accordingly. Instead manufacturers have clung to traditional and unquestioned assumptions as to what products they are able (and need) to produce and what outlets they should be selling to. The Committee suggested that the current lack of product appeal in the womens' middle and low-priced fashion footwear markets was an important reason for increased imports and lost exports. They also pointed out that design talent was not properly developed and encouraged and very few resources are allocated to design.

The Steering Committee noted that although there are a number of highly successful companies which do export, the export record of the footwear industry is poor. The factors required to increase exports were considered to be management commitment, a design philosophy that is neither insular nor aimed purely at imitating designs and a greater degree of professionalism in export marketing.

It was also noted that while there has been a marked improvement in monitoring and control procedures over the past several years, financial management in the industry frequently does not adequately meet the demands placed upon it by recent adverse trading conditions. The Committee suggests that companies need to ensure that inflation is

fully taken into account in arriving at their pricing decisions. Consistent with the focus on organizational factors, the Committee attributed the pricing problems experienced by firms to internal control problems rather than external pressures. There is substantial evidence, however, to suggest that most manufacturers do not have the latitude to increase prices and are continually adjusting their internal organization to match externally set prices. As the report indirectly suggests, this has not always been possible.

The organization and management of production was viewed as an area where substantial improvements in performance could be achieved. The Committee argued that better control of overhead costs, labour productivity and unit labour costs, material costs, work in progress and quality control procedures and the investment in new closing room machinery would substantially increase efficiency.

The report concludes with several recommendations to the footwear industry, component and material suppliers, footwear distributors, and government specifically designed to tackle the problems identified. Among the recommendations was the suggestion that government spend 11 million pounds to initiate a new entrepreneur scheme, new export company scheme, audit scheme, closing room scheme, new managers' scheme, marketing managers scheme, an import

study, a closing room bureau, and a design staff scheme.

6.3.2. THE FOOTWEAR EDC REPORTS

In 1982 another study was commissioned, by the Footwear EDC (Economic Development Office), to identify the potential for increasing the productivity of UK footwear manufacturers. The study was conducted by SATRA (Science and Technology Association). The propagation of the findings and conclusions of this study has been the industry's major response to increasing import penetration.³

The Footwear EDC productivity report argues that very real gains can be made in market share, and hence profits, by making relatively modest cost savings. High production costs were identified as the central problem and the report suggested that increases in efficiency must be achieved if import penetration is to be stemmed. The study concluded that a 7 1/2 per cent reduction in total costs could be achieved by implementing the efficiency measures recommended in the reports. They argued that 33p could be saved on an average ex-factory price of \$6.24 for a women's shoe by scavenging the multitude of small inefficiencies in the factory and that this would be sufficient to prevent retailers from sourcing from other countries such as Italy. They point out that in terms of

3. The Footwear EDC was founded in January 1978 to seek ways of improving the industry's performance.

money generated in sales per person employed, the UK falls behind other advanced countries despite the UK 's relatively low wage costs.

6.4. COMMENTS ON THE INDUSTRY REPORTS

6.4.1. EMPHASIS ON PRODUCTIVITY & EFFICIENCY

All of the studies which have been conducted on the British footwear industry have stressed the importance of improving firm efficiency and increasing productivity. Lower priced footwear is sourced primarily from the Southern Asian countries, and the availability of new computer technology which does improve the level of efficiency has provided additional support for this position. Assessment of productivity levels are now easily conducted and bench mark industry standards to measure firm performance are available.

SATRA have taken the view for some time that the long-term survival and health of the footwear industry in the United Kingdom is dependent on the ability of the United Kingdom manufacturers to reduce costs to compete with imports. They argue that the United Kingdom footwear industry has improved its productivity over the last 25 years, largely through developments in technology. The average number of pairs produced per person employed in the footwear industry in 1984 was 2,539. This represented a 60 percent increase in productivity since 1960 or 20 percent

since 1980. (See table) But, the significant increase in productivity in the 1960's was due not to technology but to a greater use of synthetic soles and the use of vulcanizing and injection molding. Productivity increases greatly diminished in the 1970's once the transference the synthetic materials halted. The use of more automated and computerized equipment has led to a 5 percent increase in productivity per year. SATRA estimates that if the 5 percent increase in productivity is maintained to the year 2000, only 46 percent of the number of employees would be required to make the same number pairage of shoes. Fully utilizing the benefits of automation and computerization could increase by 7 or 8 percent per annum. This would mean that a firm employing 120 people today would employ only 40 people in the year 2000. But while improvements in efficiency are always beneficial and should be encouraged, it is doubtful that efficiency increases will have the desired effect on the retailers' sourcing practices.

There are both technical and environmental reasons why improvements in efficiency are unlikely to stem the decline of the footwear industry. Firstly, British manufacturers cannot achieve the efficiency levels of the Southeast Asian countries. Efficiency gains will not ameliorate the wage differential. Any efficiency gains from capital investment in computer technology will also be imitated in Southeast Asia. This is particularly true as North American and European companies increasingly enter joint venture and

investment relationships with these countries.

Secondly, a high percentage of the competitive pressure comes from Italy, and recently Spain, Portugal, and Brazil whose costs are similar or higher than British manufacturers'. Retailers source from these countries for reasons other than price. The Italian and Spanish footwear industry has achieved phenomenal increases in productivity and efficiency in the past decade largely because of the way in which production is organized. Unless the British footwear industry is willing to reconsider the way in which footwear production is organized between firms as well as within firms, they will not be able to attain the levels of productivity, and perhaps more notably the flexibility of these competitors. Thirdly, Italian firms are, however, currently facing increasing competition from countries which offer similar products at a slightly lower cost. To remain competitive they will, therefore, in the next several years be attempting to increase their efficiency and productivity substantially. There is a market impetus to encourage an increase in efficiency. As will become evident from the discussions presented in the following chapters, there is no such market impetus in the UK footwear industry.

The Footwear EDC productivity report recommends changes in production which would lead to the reduction in the price of the product. Many of these cost reductions,

however, can only be achieved by lowering the work content in the footwear. Lowering the work content of footwear results in a lowering of the design content. Given the recent changes in the requirements of retailers, a reduction in design content is patently unwise.

6.4.2. LACK OF PRODUCT STRATEGY AND MARKETING

The Department of Industry report argues that United Kingdom manufacturing firms have failed to appraise the changing nature of their market and alter their policies accordingly. That is, footwear firms have failed to adapt to a changing environment. In the chapters which follow this argument is examined in detail. It is argued that firms have adapted to their transaction and industrial environments in order to survive. But this adaptation has limited their capacity to adjust to competitive pressures arising from changes in the ecotone. Smaller manufacturers, for example, the majority of which in the past 10 years have been shifting their production from court shoe to slippers in an effort to increase efficiency and to find a viable market, have adapted their policies and production to fit the transaction and industrial environment within which they operate. Certain segments of the footwear industry compete through marketing efforts and have largely been successful.

6.4.3. LACK OF PRODUCT DESIGN

The development and production of innovative products

is becoming an increasingly important aspect of footwear production. Changes in the environment have meant that in order to compete the design content of footwear must be considered. The footwear industry and those evaluating it seem particularly reluctant to address this issue. Although the Footwear EDC submitted a request for Government assistance to improve design and, more particularly, the management of design, the Committee does not appear to be committed to the encouragement of design in the footwear industry. In a report of the activities carried out by the Footwear EDC to assist the footwear industry, the problem of design and low export participation are addressed. An independent assessment of the requirements for innovation and design was not conducted by the Committee. They relied primarily on the opinions expressed in interviews with the retailers.

Large multiple retailers frequently identified the lack of design capability as one of the principal reasons for sourcing from foreign sources. I shall argue, in later chapters, that this definition of the problem is inconsistent with the structure of the industry and the relationship which firms in the industry have with these distributors. Many multiple retailers actively discourage the development of design by those domestic manufacturers with which they have developed a relationship. The distributors requirements and interpretation of their needs were given precedence over those of the manufacturing

sector. The report argues that the variety of approaches to design rendered it difficult for the Footwear EDC to formulate proposals of broad application. Manufacturers in the industry have varying responsibilities for design. Those firms in the MTO sector often leave design to their retail customers who expect manufacturers to comply with their requirements. Retail buyers regard it as wasteful to have to select from an incoherent range of designs and instead indicate to manufacturers what ranges they are seeking. The close liaison between the buyer and the manufacturer is therefore paramount. Thus, while the manufacturer and retailer have to be on the same wavelength, the manufacturers' designers must be interpretive rather than creative. Branded manufacturers on the other hand, need creative designers. It was suggested that while there was a place for manufacturers and their key customers to visit shoe fairs together and jointly to develop ideas; and the Committee recognized that designers needed more status and overseas inspiration although exporting was commercially valuable, training in design management was not easy. Experienced design managers were available to conduct courses, but these courses were unlikely to be fruitful because design management style was personal and individual attention was really needed.

6.4.4. SUMMARY COMMENTS

While most of the problems identified in the

Department of Industry and the Footwear EDC reports are areas which do require improvement, investment in development schemes and moderate increases in efficiency are not likely to improve the viability of most footwear manufacturers. No attempt was made in these reports, nor in any other studies which have been issued, to uncover the reasons why the footwear manufacturers have failed to develop design capacities, why they continually priced products below inflation, why few companies export, or why they lack marketing and design capacities. As will be demonstrated in subsequent chapters. Many of these problems stem from the relationship between the organization and its transaction environment and the current structure of the industrial environment. If changes are to be made, these relationships must be taken into consideration. Without such an analysis it is difficult to make effective recommendations.

6.5. FAILURE TO ADDRESS EXISTING CONFLICT OF INTEREST

Apart from the failure to assess the effect of environmental factors on the organization, assessments of the state of the footwear industry, another factor has played an important role in affecting interpretations of the problems facing the footwear industry - the relationship between footwear manufacturers and distributors.

The Steering Group Committee in a carefully worded

introduction to their report identify a potential conflict of interest between distributors and manufacturers:

The Steering Group has always recognized that the problems of footwear manufacturers must be considered in relation to the operations and problems of the Footwear distributors and of suppliers of components, materials and equipment. It was, therefore a matter for early consideration whether representatives of the latter sectors should be invited to sit on the Steering Group. The view of the majority of members was that the possible conflict of interest between the latter and the nature of their commercial relationship might inhibit free discussion and the ability to investigate the industry's problems frankly and thoroughly. It was therefore decided that it would be in the best interests of the parties if membership of the Steering Group were confined to representatives of the various sides of the manufacturing sector only....It was nonetheless agreed that distributors and suppliers should be fully consulted at all stages and invited to make representations. The views of one particular distributor, the views arising out of a recommendation made to the Steering Group by EAG (Economists Advisory Group) are published in full in this report.

In the above quote, the Steering Committee points out the possibility of a conflict between retailers and manufacturers but then focus on a conflict of interest between suppliers of components, materials, and equipment (which does appear to be problematic). The Steering Committee excludes suppliers from their discussions and imply that they also have excluded distributors. Yet, Mr. D. L. Roberts, the managing Director of British Shoe Corporation, (the largest distributor in the industry) chaired one of the main working groups of the Steering

The conflict of interest between distributors and manufacturers is a critical feature of the footwear industry but it is a problem which members within the industry and those outside of the industry are reluctant to address. The failure to acknowledge the existence of this conflict of interest has served to obscure fundamental problems in the industry. The conflict arises because the largest manufacturers in the industry are among the largest retailers and distributors of footwear. It is difficult, therefore, to draw clear distinctions between distributors and manufacturers since the largest British manufacturers are also major distributors. As large manufacturers the organizations would have some input into the direction of the industry. As productive units of large distributors, however, the goals and objectives of the distributors are placed before the goals and objectives of the manufacturers. To take an example of the problem, distributors, in order to remain competitive and to acquire the resources necessary to maintain their operation source from foreign producers on a regular basis. Import levels are a function of this purchasing behaviour. Manufacturers, on the other hand are finding their markets decreasing with this behaviour. In many instances these distributors are the customers of the large manufacturer/distributor. British Shoe Corporation Ltd., for example, which is the largest distributor in the industry purchases footwear from 133 of

the 400+ footwear manufacturers in the industry. The difficulties this conflict of interest pose are highlighted when the relationship between BSC and the Steering Committee is considered.

Both the Steering Committee and British Shoe Corporation (BSC) state that BSC was not represented on the Steering Committee. The submission by BSC begins with the following:

...BSC (who, in addition to their retailing activities, are the third largest manufacturer of footwear in the United Kingdom] are not represented on the Steering Group, but have met representatives of the Economists Advisory Group Limited, the Department's consultants.

Thus despite assertion to the contrary, distributors were strongly represented on the Committee.

Examination of the composition of the Committee reveals that interests of the majority of footwear manufacturers were not represented. This under-representation of the majority of footwear manufacturers is evident in all executive boards considering or directing the footwear industry.

The Steering Committee Report contains a submission made to the Steering Group by the British Shoe Corporation, the largest footwear distributor, and the third largest manufacturers in the U.K., which refutes allegations made

by the EAG (Economic Advisor Group) who were asked to submit an independent assessment of the industry. The Committee report also contains the EAG report which suggests that BSC should be examined by the Monopolies Commission. Although included, the Steering Committee did not endorse the recommendations of the EAG and in several parts of their report refute the allegations made by the EAG.

6.6. THE UK FOOTWEAR INDUSTRY: FORECAST OF PROSPECTS AND PROFITS IN THE 80'S

Before concluding this survey of the existing interpretations of the problems which face the industry, it is useful to examine a report on the future prospects of the industry. The report "The UK Footwear Industry: Prospects and Profits in the 1980's" was published in 1983 by the National Economic Development Office. The report suggests that the medium term prospects for the footwear manufacturing industry are more promising than in the past 15 - 20 years. According to this report there is the prospect of technological changes which the UK industry is well suited to exploit, and the opportunity of increasing sales at home and abroad due to decline in the exchange rate. In the international arena, some of the worst effects of changes in recent years may be over. Specifically, the main developed export markets (USA excepted) are already closed; major tariff reductions, other than those anticipated for Spain, have happened; much

of the impact for low - cost suppliers has taken place; and the value of sterling is now, and should continue to be, more realistic. Looking to the future no major developments in international competition and supply seem likely to emerge, apart from possible changes in Government trade policy. It is possible that the main changes for the worse have already been seen.

Although some manufacturers remain concerned about the rise in imports the British Footwear Manufacturers Federation (BFMF) - which is the footwear manufacturer association - has rejected suggestions by its members for a seminar to discuss the impact of imports on the industry's future.

The present time does not seem right for such a seminar, though we shall keep the suggestion in mind should the circumstance change.

The BFMF argues that a great deal is already being done on the import problem at industry and national levels, and in recent months seminars have been arranged by the Footwear Economic Development Committee and organizations such as Lancashire Enterprises, which many manufacturers have attended. The BFMF marketing Committee, while welcoming the thinking behind the proposal, doubted that, in view of the range of activities which were already being carried out in the industry itself, another seminar on the topic would be beneficial. "The Committee were not sure what could be done practically that was not already being

done." Also, they point out, import penetration of footwear is actually falling.

Where has this idea that import penetration is 65 % come from. Certainly not from us. The latest figure for import penetration over 12 months in pairs is 59 per cent. Import penetration has, in fact, been falling now for some months. So, whatever Independents experience, more retailers have recently been finding more of what they need from British manufacturers. Nov 14, 1985

Import penetration is and has been increasing while domestic manufacturing sales have been decreasing. (See Figure 6 - 4) Increases in efficiency and investment in management schemes and machinery are not likely to resolve the problems.

FIGURE 6 - 4

GROWTH IN DEMAND SALES AND IMPORTS

YEAR	DEMAND	% CHANGE	SALES	% CHANGE	IMPORTS	%CHANGE
1970	234.80	0.06	190.50	-0.03	65.10	0.25
1972	248.10	-0.05	184.40	-0.06	81.10	-0.01
1974	235.20	0.01	173.30	-0.09	80.20	0.22
1976	236.50	-0.00	157.20	-0.02	97.50	0.03
1978	236.20	-0.04	154.30	-0.14	100.50	0.05
1980	219.40	0.12	132.20	0.01	105.60	0.2
1986	271.40		134.20		152.30	
		0.02		-0.06		0.13

Despite a steady increase in imports, the continued contraction of the industry, the lack of growth in export volume and the increasing turbulence of the ecotone the industry is optimistic that the worst is over. There is however, reason to suggest that although there have been

increases in import levels in the last ten years, the industrial environment in relation to these imports has remained relatively stable. The changes in retailing and consumer preferences which are just now occurring are likely to have a profound effect on this stability. The possibility exists that the worst is yet to come.

The environmental factors affecting the footwear industry have not been considered. The ecotone of the UK footwear industry is becoming increasingly turbulent. The characteristics of the ecotone and the requirements which are emerging are different from those shaped by the industrial environment. The remedies being prescribed and implemented therefore, are unlikely to provide an appropriate solution to the problem.

6.7. THE PROBLEM EXAMINED FROM THE ENVIRONMENT PERSPECTIVE

The task environment of the footwear industry is fraught with contradiction. Retailers - a primary component of the industrial environment - demand lower prices, higher volume, as well as the ability to dictate the operating practices, design and product mix of its suppliers so they discourage innovation by these suppliers, yet maintain that the reason why they have increasingly sourced from foreign suppliers is the failure of UK manufacturers to innovate. The larger Made-To-Order (MTO) manufacturers which have established close relationships with multiple retailers have, what the retailers consider

to be, the 'correct attitude'; they produce a highly standardized, low cost court shoe in quantities of 10,000 per month to customer specifications. They do not retain in-house designers nor do they produce innovative footwear. The smaller firms which offer new designs and products, largely because of their attempts to remain autonomous, their volumes are lower, and thus their costs are higher, do not have a market for their product. Failure to meet the demands of customers in the transaction environment has led many organizations to failure. Yet innovative, creative and high design - content products are becoming increasingly important to consumers and consequently to customer industries as products developed in the ecotone enter the market. It is not evident that large capacity, efficient producers can develop the design capacity required.

The manufacturers complain that the components industry is not well developed but the lack of an active and integrated components industry is in part the result of the actions of the footwear industry itself. The development of internal efficiencies (many firms now make the required components in house), the switch from leather materials to synthetic materials in the production of footwear, the switch from the production of shoes and boots to slippers, and the emphasis on low design - content products has meant that the footwear industry has withdrawn support from the components industry and consequently

numerous component suppliers have been forced out of the market through lack of demand. The footwear industry has defined the type of resource base (industrial environment) in which it is embedded. A few years ago satellite closing units were very much in vogue but they became the first casualties of the recession. Some manufacturers now want the skilled operators displaced to return but many have entered different employment. [The environment has adapted to the needs and requirements of the manufacturers, yet this congruence places the footwear industry in a very precarious position.]

The transaction and industrial environments have systematically encouraged efficiency over innovation, standardization over diversity, price over quality and specialization over flexibility. The footwear industry is therefore, unprepared for a market which increasingly demands fashion, style and variety but which at the same time has become accustomed to lower prices, offered at specific price points.

In the chapters which follow, these environmental factors are examined. Most of the failure occurring in the footwear manufacturing industry can be classified as type III and type IV failures. That is, failures which occur because of environmental factors which have been largely beyond the control of the organization.

CHAPTER 7

THE TRANSACTION ENVIRONMENT

In this chapter the relationships between the UK footwear manufacturers and their customers, suppliers, competitors and regulatory agencies are examined. These relationships have influenced the structures and strategies which the manufacturers have adopted, generally provided stability and certainty to the manufacturers but now limit the ways in which the manufacturers can respond to the turbulent environment in which they find themselves. The relationships have developed over time and reflect past industrial environment change and organizational responses to this change.

Most manufacturers began production as specialist suppliers who sold their products to a large group of potential distributors. Changes in the structure of footwear distribution channels which occurred between 1950 and 1960 forced many organizations to alter their production systems and modes of operation in order to survive. What was once an atomistic, competitive market which encouraged innovation and product design as well as

increased efficiency has become a market in which the terms of exchange are determined by the power of large multiple retailers.

7.1 THE MANUFACTURERS: DISTINCT POPULATIONS

The footwear industry is comprised of five distinct groups of manufacturers: backward vertically integrated manufacturers, forward integrated manufacturers, branded manufacturers, integrally linked Made-To-Order (MTO) manufacturers and small MTO manufacturers (including those who sell shoes which their own labels). Each group of manufacturers has developed different types of organizations, pursued different strategies, and serve different market segments. Consequently, the relationships which each of these groups has formed with suppliers and customers are somewhat different. The opportunities, threats, degree of uncertainty, heterogeneity, and complexity in the transaction environment and the impact that changes in the industrial environment and ecotone will have on the organization differs for each group of manufacturers. Manufacturers have responded to changes in the industrial environment by developing characteristics which support the continuation of their exchange relationships and thus have created stability in their transaction environment. Figure 7 - 1 provides a brief summary of these characteristics.

FIGURE 7 - 1

CHARACTERISTICS OF THE UNITED KINGDOM MANUFACTURERS

	Vertically Integrated		Branded Mfr.	Integrally Linked	MTO
	Forward	Backward			
SIZE	Large	Large			
# of employees	1,000+	1,000+	200-500	500-1,000	<200
Capacity Average	160,000+		10,000- 30,000	30,000	10,000
Type of Footwear	Court Shoe		Traditional Court Shoe Oxford Men's Children's	Court Shoe	Slippers/ or High Priced Footwear
Characteristic of Product	Standardized		Specialist	Standardized	Standardized/ Specialist
Target Market (age)	15-40		40+ (children)	15-40	general/ 29-40
Price Range of Product	moderate-high	low-moderate	moderate-high	low-moderate	low/high
Design Content	moderate	low	moderate	low	low/high
Design Department In House	Yes	No	Yes	No	No/ Yes
Organization Emphasis	marketing/ design	efficiency	marketing/ design	efficiency	efficiency/ design
Current Market Uncertainty	moderate	low	moderate	low	low/ high

7.1.1 THE MAJOR BRANDED MANUFACTURERS

If an internationally competitive strength in the UK footwear industry were identified, it would lie with the branded footwear manufacturers. Branded manufacturers produce high priced, middleground, and traditional footwear which are purchased primarily by Independent retailers, department stores and Co-operative societies. Their customers, who cater to the middle (25 - 59) and the traditional (60+) market, rely on customer brand recognition as a selling feature and tend to remain loyal to the manufacturer once a relationship has been established. Branded manufacturers (Elmdale, Start-rite, Van-Dal, Lotus, Brevitt, Crockett & Jones, Dubarry, Greson & Kids Co., Devonshire, Dunlop and Pirelli) who produce mens' leather upper classic shoes, children's multi-width fitting ranges and ladies' comfort shoes in particular are highly regarded by their customers. Their footwear is somewhat fashionable but style and design tend to be staid, mundane and generally 'unexciting'. Like forward integrated manufacturers, branded manufacturers have considerable breadth in the skills and expertise of footwear manufacturing. They have design capabilities, strong marketing expertise, organized distribution systems and generally productive manufacturing operations.

The major branded manufacturers (some of which are forward vertically integrated) - Clarks, K Shoes, Start-rite, Van Dahl, Holmes, Bally and Lotus - often act

in concert and take up similar positions on issues affecting the industry even though the individual companies would, if acting individually, take up different positions. When commenting on a decision by the major brands to boycott a trade fair the sales director of Holmes stated "We do not desire to be here, We've been pushed into the situation because of the dates. We don't want to be split from Blackpool. We expect to be back at Blackpool next year, but we have to go with the other brands. If a significant number of brands decide to go back to Blackpool, then we will follow suit". On the same issue a Start-rite representative commented, "We weren't even going to open our showroom, but the other brands persuaded us to".

7.1.2. FORWARD INTEGRATED MANUFACTURERS

Forward integrated manufacturers are branded footwear manufacturers which have integrated forward into retail outlets in order to gain market share and market penetration. Their retailing operation is harmonised with the manufacturing side to the extent that brands and products are stocked. The house brands form the core with complementary brands that have developed a specific and defensible market supplementing the product range. This requires suppliers standards to harmonise with the in-house production. Unlike with other types of manufacturers, therefore, there is considerable cooperation between these manufacturers.

The forward integrated manufacturers have built their business on the design and manufacture of footwear targeted for the middle (consumers between the age of 25 and 55) and the traditional (consumers over 55) market segments. Most of their footwear is purchased by consumers over forty years of age.

They have capitalized on their expertise and strengths. Their strategies centre on the marketing of footwear which has already been accepted by consumers in a particular market niche and the direct distribution of this footwear through company-owned outlets. The retention of these strengths and focus on the product has meant that although they may face competition in the marketplace their response to the environment is both positive and elemental. They have a competitive advantage over other firms and their viability depends upon the exploitation of this competitive advantage. Because their success in the market depends on the cultivation of brand loyalty these organizations tend to be much more multifaceted than other footwear manufacturers. Their operation contains design, development, production and marketing units. This breadth in skill and expertise provides a buffer for the organization should conditions in the environment change.

7.1.3. BACKWARD INTEGRATED MANUFACTURERS

Backward integrated firms are very large production units which produce 'fashion' footwear for the retail arm

of the large fashion multiple retailers. They have not purchased raw material suppliers but rather are the suppliers of footwear to retailers farther up the transaction chain. The footwear they produce is targeted for the 15 - 24 year old market and is generally a highly standardized, low design content product. The British Shoe Corporation is the largest backward integrated manufacturer.

Vertical integration provides two interrelated types of benefits: economies from co-ordinated production planning for different manufacturing stages, and enhanced market sensitivity and security. Co-ordinated production planning enables the vertically integrated firm to secure longer production runs; to reduce stockholding costs; to reduce buying and selling costs; and to match quality control more precisely to the needs of subsequent links in the production chain. Greater market sensitivity is encouraged by the closeness of the finishing section to the market, and this knowledge of final markets may be used to plan production and the design stages. Greater market security is provided from the assurance that the product will reach the market. This is particularly important in a secularly declining industry subject to cyclical fluctuations.

A major consequence of these benefits is that vertically integrated firms have both the ability and the

confidence to take advantage of process innovations by re-equipping with new machinery. Most of the large manufacturers have introduced changes in their production system which enhances efficiency. Bally, for example, (who now produce 3 million pairs of footwear a year in their Norwich plant) recently embarked on a three year investment programme designed to increase their efficiency, service, competitiveness and profitability. The changes made will encompass the distribution, wholesale, marketing production and operation functions. The installation of CAD equipment will enable Bally to speed up dramatically, the length of time it takes to get new fashions into production and therefore into the shops. Clarks and K Shops have also installed CAD systems.

Most of the vertically integrated retailers have developed markets outside of the United Kingdom. Ward White have two factories in the U.S.A. and, in 1981, its overseas division accounted for 48% of group turnover and 54% of profits. The company has also recently indicated that it will expand its U.S. retail arm by another 54 stores. BSC has enjoyed increased profits from their American operation and now owns 550 outlets in the U.S.A. Clarks who currently own factories in eight countries and shops in four has overseas plans to develop factories and markets in Germany, Denmark, and Holland.

7.1.4. THE INTEGRALLY LINKED MTO MANUFACTURERS

Integrally linked MTO manufacturers are the second largest capacity producers in the United Kingdom. Firms such as Eatoughs, Edge Shoes, Millers, Newmans, Premier, Priestly, Priory, Dysch Rosen, Beaconsfield, Hirst, and Cacup each operate plants with capacity of 26,000 - 30,000 pairs of footwear per week. Together they employ over 3,000 workers and their annual output represents approximately 7% of total production. Most of the footwear they produce is synthetic footwear for the fashion market.

These firms have established long-term relationships with the retailers/distributors to which they supply footwear. Their production represents the core around which retailers build their lines. Although an important source of footwear for the fashion multiple the integrally linked manufacturer has very little influence or power in the relationship. Their operations are designed to cater to the needs of their customers. They strive to achieve efficiency in production and reduce the costs associated with the production of standardized synthetic footwear. They do not have design capacities, they rely on the retailer for product specifications.

Although these firms sell to several different retailers, the basis of their relationship with these suppliers is always the same. Design is dictated by the requirements of the retailer, the integrally linked

manufacturer does not design the products it produces. Stock control and order books are co-ordinated through the use of integrated computer networks which allow them to predict the requirements of the retailer. This information allows them to forecast and plan for upcoming orders.

7.1.5. THE SMALL MTO MANUFACTURER

The majority of manufacturing firms in the industry are small MTO manufacturers which employ fewer than fifty employees and produce small volumes of footwear. Many of these firms now produce slippers rather than daywear footwear. There are a number, however, which have retained their original design capacities and manufacture specialty footwear for small market niches.

7.2. RELATIONSHIP BETWEEN MANUFACTURING GROUPS

There is very little solidarity or unity between the groups of UK manufacturers. The only evidence of co-operation and association between manufacturers is their membership in the British Federation of Footwear manufacturers and even then, only the largest 133 manufacturers maintain their membership. Unlike manufacturers in other countries, which have increasingly worked together to exhibit footwear as a national product in foreign markets, the UK manufacturers have retained a national focus and have not developed an identifiable British identity.

The footwear industry is becoming increasingly fragmented. The major branded manufacturers, being the most aggressive in the market and perhaps less vulnerable to changes in the industrial environment have begun to move away from the other manufacturers and seem to remain impervious to their customers wishes and requirements. In an unprecedented move, they decided, in early 1986, not to attend a scheduled trade fair in Blackpool (organized by the independent retailers) and hold an independent trade fair in London two weeks earlier. Their customers, the Independent retailers, were then forced to attend two trade fairs in order to obtain information on the available footwear. The independent retailers rely on the branded manufacturers to supply footwear recognized by the public as comfortable and well designed but search elsewhere for fashion content and design. The branded manufacturers' confidence in its ability to ignore its environment appears to be somewhat misplaced. Retailers and consumers alike find the footwear produced by these manufacturers unexciting and mundane. They are gradually turning to alternative suppliers for their footwear. A retailer attending the London trade fair commented,

Viewing the brands in isolation made one realize how far they are removed from fashion trends. The ranges are, no doubt, very commercial but without the fashion leaders one gets at a mixed trade fair I found it very difficult to judge which were the real winners.

7.3. RELATIONSHIP BETWEEN MANUFACTURER AND CUSTOMER

There are distinctive patterns in the relationship each group of manufacturers has established with its customers. Forward integrated manufacturers have retail outlets through which to distribute their products. They compete with other forward integrated manufacturers for consumer support. Backward integrated firms produce footwear for the retail multiple. The multiple sets the terms of production and has organized the production unit in particular fashion. These firms do not compete with other firms in the industry. Branded manufacturers in contrast, compete with one another for customers. There are several different customers and competitive advantage accrues to those firms which secure brand loyalty. The competitive imperatives operating in this sector determine the strategies and behaviors these firms exhibit. These firms are less responsive to customer demands and have largely ignored their customers' requirements.

Like backward integrated firms, integrally linked firms have been organized by the large multiples to produce a standard product. They do not compete with other firms in the industry but are subject to the dictates of their customers.

7.3.1. MANUFACTURER CONTROL OVER THE TRANSACTION ENVIRONMENT

Forward integrated and backward integrated footwear manufacturers differ in the extent to which they have control over their transaction environment and therefore in the degree to which they are affected by events or actions of other organizations in the transaction environment. In forward integrated firms the retail arm of the larger organization co-ordinates the distribution of the product which is designed and produced by the manufacturer. The forward integrated firm therefore, has considerable control over the products which are produced. By virtue of the nature of their relationship in the market they have substantial control over the acceptance of the products they produce. They are mass producers which have developed - through the establishment of an extensive distribution network - a large market to absorb the relatively standard products which they produce. The retail/ distribution arm of the enterprise buffers the organization from fluctuations in the marketplace.

Backward integrated footwear manufacturers, in contrast, have very little control over the product or quantity of the product, or ultimately their own destiny. They are supply-oriented organizations, which exist to supply the needs and requirements of the distributor or retailer further down the chain. The product they produce is dictated by the distribution chain. The manufacturing

operation serves as the buffer to the retailing chain. They ensure that the retailer has sufficient resources to serve its market. If the retailers are very large, the manufacture frequently has a high level of purchasing power. It therefore has considerable control over the input transaction environment. The forward integrated firms, also by virtue of their size have substantial buying power.

If the retail side of the operation finds that it is not competing successfully in the market it does not try to develop the manufacturing capabilities within the organization to meet these requirements, it purchases the product required from an external source and close down its existing operations. BSC, for example, has recently closed one of its nine factories. This factory produced 10,000 pairs of traditional children's footwear per week and employed 130 people. The market for children's footwear has changed as fashion becomes increasingly important in the purchase decision. BSC was losing considerable market share to other firms which offered a fashionable children's shoe. Developing fashion requires a design capacity which existing BSC factories do not possess. This lack of design capacity is true of all of the manufacturing side of BSC. The magnitude of the havoc this trend could render in the industry is startling. If design capability is required, but is not now being cultivated, the increasing importance of fashion could result in a reduction in domestic

production of some 1500,000 pairs of footwear per week and the loss of 4,000 employees just from one manufacturer. Considering that the majority of large capacity manufacturers are integrally linked to BSC and produce the same standardized, low design content footwear, the consequences could be substantially worse, especially when other firms appear to be following suit. Ward White has recently closed a factory in Ireland which employed 130 people. Barratt sold its shoe factory to the NENE group.

The Branded manufacturer's survival depends upon the development of loyalty and support of independent and department store outlets. If they develop this loyalty, the branded manufacturer resembles the forward integrated firm in that it has considerable control over the transaction environment. This control arises because of the network of customers which they build to support their product. Customers come to rely on the branded manufacturer for advertising support, advice, information and a ready supply of the products which it sells. These customers tend to be relatively smaller than the organization and depend upon the manufacturers reputation to sell the footwear which they stock. The branded manufacturer supports their products which national advertising, sponsorship, thus creating brand loyalty. Once a reputation for the product has been established other customers adopt the product without supporting it with their own advertising or promotion. The later type of

customer may be larger than the focal organization, but they are usually multi-product retailers or distributors for which footwear represents only a small proportion of the products which they sell. The development of a market is critically important to the branded manufacturer. The organization is continually attempting to cultivate relationships with the buyers.

Integrally-linked MTO manufacturers, like backward integrated manufacturers, have very little control over their transaction environment. They are, however, independent organizations and thus have the option of supplying other distributors. To exercise this option, however, the organization may have to sever ties with the distributor it is currently supplying. By the same token the retailer/distributor is less committed to the Integrally-linked manufacturer than it is to its own manufacturing base and therefore shifts in their retail strategies are likely to have an impact on the viability of these firms. The Integrally-linked manufacturers have developed ongoing relationships with the distributors (to supply a given product, at a specific price) but within this relationship the manufacturer has very little latitude to develop products or skills other than those required by the distributor. The distributor dictates the product, price and sometimes the production methods and control systems which the focal organization adopts. They produce relatively standardized products which require substantial

volumes of standard resources. The predictability of and volume of the resources required by the manufacturer allows the development of ongoing relationships with resource suppliers. The stability in their order books encourages resource suppliers to offer some discounts for bulk purchase. Thus, indirectly the nature of the relationship between the Integrally-linked supplier and the distributors provides some control over the transaction input environment to the manufacturer.

Small Made-To-Order (MTO) manufacturers are the most vulnerable footwear manufacturers. They have little control over either the input transaction environment or the output transaction environment. They neither have the on-going contracts of the integrally-linked manufacturers nor the strong brand labels of the branded manufacturer. They do not have the capacity to offer a wide product range required by the large multiple retailers. Unlike the integrated MTO manufacturers, the small MTO has frequently developed their organization with a capacity for design. Most of these organizations have been in existence for over thirty years and have developed quite differently than have the other types of organizations. Traditionally they have produced a product to take to the market and in consultation with the distributors have acquired orders. The decline of the independent has meant, however that their transaction environment has changed significantly over the past twenty years. The nature of the transaction

environment dictates that in order to survive, these organizations must produce volume products. Consequently, many of these firms have turned to the production of slippers.

7.4. THE RELATIONSHIP BETWEEN PRESENT CONTEXT AND ORGANIZATION BEHAVIOUR

Pfeffer & Salancik (1978) argued that present organizational activities and behaviours of organizations can be accounted for by the context within which the manufacturers now find themselves. Examination of the footwear industry, however, suggests that the expectations, behaviours and terms established when the relationships were formed tend to persist even though there may have been a change in the industrial environment. Organizational activities and behaviours are taken up in response to customer demands and competitive imperatives and once established, this behaviour persists as long as the transaction environment continues to support the behaviour.

If there is a major shift in the characteristics of the industrial environment and consequently a shift in the demands and requirements of customers in the transaction environment, the organization must make decisions regarding its future strategies and behaviours. The organization has several alternatives. It can adapt its behaviour and strategies to the new requirements, it can attempt to remain the same and alter the requirements or it can seek

alternative markets. Depending on the organizational characteristics and orientations different organizations will choose alternative strategies. Having made a decision and oriented their organizations to their relationship with their customers the organization is later constrained by the organization it puts in place.

The decision to comply with customer demands and alter behaviour seems to depend on the degree to which the manufacturer feels "ownership" of the product being produced. That is, whether the organization is responsible for the design, production and marketing of the product and is recognized for the production of that item by external actors.

Faced with the possibility of failure many manufacturers (in particular the integrally-linked manufacturers) relinquished control to the retailers in order to safeguard the flow of scarce resources. Having relinquished this control the manufacturers are subject to the dictates of their customers and increasingly dependent on them. They are also increasingly vulnerable to changes in the industrial environment and the ecotone. There are however, several benefits the organization derives from the relationship. The organization is protected from sales fluctuations and competition, margins are predictable and moderate, uncertainty is decreased and the organization need only worry about internal functioning. Control then

was forfeited for increased stability.

Other organizations (particularly large branded manufacturers) reacted to the loss of customers by forward integration. The shift from independent outlets to multiple outlets prompted C & J Clark, for example, the largest branded manufacturer, to become integrated. This company lost 1,000 distribution outlets between 1960 and 1970 as independents left the market. To recapture market share the company moved to retail selling through company-owned outlets thus competing directly with the independents it retained.

The smallest manufacturers were the hardest hit by the changes in industrial environment. Many of these firms, unable to find a market for their product, went out of business. Others have moved into another form of production. They now produce slippers, which have a low design content and can be produced in larger quantities.

In all instances the manufacturer has made decisions in order to attain some stability in its transaction environment. Their strategies have been developed in response to, rather in anticipation of, changes in the industrial environment. These strategies have affected the degree to which the organization has control over its environment.

7.5. CAPACITY TO RESPOND TO CHANGES IN THE INDUSTRIAL ENVIRONMENT

As will be discussed in the next chapter, the industrial environment is becoming increasingly turbulent as the requirements of retailers are again changing and they sell alternative sources of footwear. Most of the existing branded, integrally-linked and vertically integrated firms have established stable relationships with their customers and have no plans to alter the character of these relationships. The only observable response to the increasingly volatile environment has been the increased efforts to improve the aspect of their business which they see as the foundation of their relationship with their customers. Integrally-linked and backward vertically linked manufacturers have emphasized the need to improve efficiency. Many have adopted the computer technology available and are reviewing their production operations with the intent of improving efficiency. Their customers have set price points for the footwear they accept. These price points are very low and have put considerable pressure on these manufacturers to reduce costs in any way possible. It has also meant a gradual reduction in margins which these manufacturers obtain. Branded manufacturers and forward integrated manufacturers have increased their marketing efforts, establishing elaborate display showrooms and courting retailers. It is clear that the retail multiples require capacity levels which are not currently available in the footwear industry. The transition from

independent retailers to multiples has altered the requirements of the industrial environment. There appears to be no operating market mechanism which leads the industry to develop manufacturing capacities to meet these requirements. Although those firms which do not have sufficient capacity are failing, they are not being replaced by manufacturers in the industry which have larger capacities. The retailers are turning to external sources of supply. Since this is a relatively easy thing to do there are no barriers to substitution. One must question, therefore, the natural selection model that suggests that the population becomes more isomorphic with its environment. In the footwear industry, the changing requirements of the industrial environment has led to the decline of the population.

CHAPTER 8

ENVIRONMENTAL CHANGE

There have been two major periods of change in the manufacturers' industrial environment, both the result of changes in the retail industry. The first occurred between 1950 and 1970 when the structure of the retail industry changed and multiples (retail firms with more than 10 outlets) became the predominant retailers. The second began in the early 1980's and can be expected to continue in the years to come. Multiples face increasing competition from new types of retailers entering the market, and must add variety and styling in their footwear while maintaining existing price levels if they are to survive. Throughout the first period of change the industrial environment became very volatile, but stabilized once the manufacturing industry had adjusted to the requirements of the market. The industrial paradigm adopted to achieve this stability may, however, prevent the manufacturing industry from responding and adapting to the new requirements of the retail industry.

Prior to 1950, most of the footwear sold in the United

Kingdom was sold by small independent retailers. As a result of the changes in the structure of the retail industry, the majority of footwear is now sold by large multiple retailers rather than by small, independent retailers. When the independent retailers left the market, manufacturers, especially the smaller firms, lost their customers. Manufacturers were forced to re-evaluate their strategies and focus their activities to particular market niches in order to survive. Their structure, strategies, and behaviour had to be realigned with the needs and requirements of the new set of dominant retailers.

The structural changes in the retail industry were initiated by the strategic actions of what is now the largest footwear retailer in the UK, The British Shoe Corporation (BSC). The merging of seven independent retail chains - two small retail chains (Phillips Brothers Character Shoes and Fortess Shoes - now Curtess) and five larger retail chains (Freeman Hardy Willis, True Form, Mansfield; Dolcis, and Saxone) to form BSC - created a huge retailing organization dominated by high street retailers and increased the level of concentration in the retail footwear industry.

Prior to their acquisition, each of the chains manufactured and distributed distinct footwear, targeted at different market segments. When the firms were merged, each of the retail chains retained a separate identity,

but the factories were integrated into a single, co-ordinate manufacturing system. The centralized factory system supplied all of the BSC retail outlets, irrespective of name. Although BSC maintains that the footwear is targeted for different segments of the market, the footwear produced and sold in the various chains is very similar. The rationalization and consolidation of the manufacturing facilities, in order to achieve economies of scale, reduced the variety in styling which was present when the chains were in competition.

With the introduction of this large multiple distributing relatively similar footwear across the country, BSC established a new market niche - the "fashion market" - which independent retailers had hitherto ignored. They sell standardized, moderately priced, men's and women's footwear, targeted at the 15 - 24 year old market. The women's court shoe, which they sell has very simple lines, and thus low design content. Seasonal variety is achieved through variations in colour rather than style. Prior to the amalgamation of the seven chains, a consumer shopping for footwear was able to visit seven High Street outlets and find unique footwear in each. Following their merger the independent chains remained but the footwear carried in each was very similar. Their predominance in the market allowed BSC to dictate the 'fashion' trends in the market. In order to remain competitive other larger multiple chains followed suit. They began to offer a

similar type of footwear, expanded their retail chains and centralized their manufacturing operation.

British Shoe Corporation now sells over 20% of all footwear sold in the British market, and approximately 40% of all footwear sold in the middle and fashion markets. Their factories produce 8% of all footwear manufactured in the UK and absorb 25% of domestic production of non-BSC manufactured MTO footwear. BSC purchases footwear from 133 UK manufacturers. Forty-eight percent of the footwear purchased from UK manufacturers comes from 9 suppliers which each supply in excess of 1m pounds worth of footwear. The other 52% of the footwear comes from: twenty manufacturers supplying in excess of 500,000 pounds worth of footwear, fifty - two manufacturers who supply at least 100,000 pounds of footwear and 30 manufacturers who supply less than 5000 pounds worth of goods per year.

During the two decades which followed the formation of BSC there was a dramatic shift in the structure of the retail industry. As multiple retailers expanded their operation the independent retailer found it increasingly difficult to compete with the highly visible, High Street multiples. The multiples share of the market rose from 61% in 1961 to 73% by 1982 and proceeded to rise in succeeding years. This 12.7% change represents approximately 21.1 million pairs of footwear that were then sold through multiple chains rather than through independent outlets.

(See table 8 - 1)

TABLE 8 - 1

CHANGES IN THE DISTRIBUTION OF FOOTWEAR - SALES VOLUME

	1961	1966	1971	1982
CO-OP	10.3	10.5	7.6	6.5
INDEPENDENT	67.1	76.4	110.1	389.2
MULTIPLE	142.2	172.0	231.7	1052.7

Source: Market Research Great Britain, 1981

The UK retail footwear distribution channel is now the most concentrated footwear distribution system in the world. Over 50% of all footwear is sold through outlets owned by some twenty multiples, the top five of which account for 33% of all footwear sold. These multiples own outlets in every part of the UK, in both urban and rural centres. The head office and buying arms of four of the five dominant multiples are located in the Leicester area. A footwear manufacturer may, therefore, negotiate access to a substantial proportion of the UK market in the space of a few days. Estimates of concentration based on the percentage of total market sales accounted for by multiples, however, underestimate the level of concentration as many of these multiples focus on one segment of the market. The two largest multiples British Shoe Corporation (BSC) and Clarks/K Shoes, for example, sell footwear to different segments of the market and thus do not compete directly with one another. BSC sells footwear primarily targeted for the medium to high fashion market, Clarks/K Shoes sells

medium priced footwear to the middle and traditional markets.

The high level of concentration is reflected in the margins obtained by UK footwear distributors. Their margins are higher than all other distributors with the exception of the jewelry distributors. (See Figure 8 - 2)

FIGURE 8 - 2

UK FOOTWEAR RETAILERS MARGINS

	Return on Capital	Net Margins
Quoted Distributors	12.6	9.1
Unquoted Distributors	18.8	10.4
BSC Footwear (Distribution)	24.2	15.3
All Distributors	20.6	12.7
All Manufacturers	16.5	4.3
Footwear Manufacturers		2.2
General Retail	15.4	6.9

Source: Business Monitor, 1981

The changes in the structure of the retailing industry had a major impact on the UK manufacturers. Their entrance and subsequent expansion in the market, forced many independent retailers out of the market and consequently, many of the small manufacturers who supplied them. The branded manufacturers whose customers were being forced out of the market, integrated forward in order to maintain their market share. By contracting production from most of the large MTO manufacturers, the multiples defined the

orientation, behaviour and skills developed by a large segment of the UK manufacturing industry. Because they required a low-cost, standardized product produced in large quantities the manufacturers developed production methods and utilized raw materials and machinery which provided the highest degree of efficiency. Footwear designs are simple; buckles, trims, and bows were omitted; synthetic material rather than leather is used in many cases; and footwear styles remain constant from one year to the next. What design capacities the manufacturers had before contracting with the multiples have disappeared. The on-going relationships established between the multiples and the integrally-linked manufacturers created stability in the transaction environment. This stability has prevented the firms from developing marketing capabilities and from attending to changes occurring in the industrial environment. It has also isolated the manufacturers from the market. They neither compete nor cooperate with other firms in the industry. Since the multiple dictates product specifications and price the manufacturer's only concern is the maintenance of internal efficiency and the cost and availability of resources.

The footwear manufacturing industrial paradigm changed to fit the new retail industry paradigm. Two new competitive imperatives - price and capacity - emerged. Manufacturers had to have sufficient capacity to produce the large quantities required at a low price. Thus

standardization, rationalization and specialization were encouraged. The retailers domination of the market also altered the balance of power between the manufacturer and the retailer except in the case of the forward integrated manufacturers.

The footwear manufacturing industry had originally developed as a craft industry. Manufacturers created rather than produced footwear for their customers and consequently employed designers and craftsmen who could translate the ideas of the independent retailer into a saleable product. Manufacturer and retailer worked closely in the design and development of footwear. The manufacturer retained a substantial amount of autonomy, subject only to market appreciation.

The multiple retailers dealt with manufacturers in a very different way. They did not need a manufacturer with design capacities, they needed manufacturers who could produce a standardized product, in large quantities, which met retailer specification, and whose production system maximized efficiency and minimized cost. The larger MTO manufacturers, already used to contracting with retailers were particularly suited for this role. Lacking sufficient capacity in their own operation the multiples organized a production system, encompassing both in-house and external production facilities, which could support their retail operation.

When the market consisted of a large number of independent retailers, the small MTO manufacturer had a market for their limited range of footwear and could produce it in the smaller quantities independents required. The total volume of these orders were well within the small manufacturers' capacity. SATRA estimates that since the majority of these firms employ fewer than 100 employees and have capacities of no more than 1,000 pairs/week the average sized MTO UK manufacturer can produce, with delivery times of at least three months, 40,000 pairs of shoes annually.

The increase in the number of outlets owned by multiples meant that the quantities demanded by the retailer substantially increased. Multiples, who have a large number of outlets and must maintain stock consistency throughout their operations, require far larger volumes of footwear than do the independents and small multiples. The small manufacturer, because of capacity limitations, was unable to compete.

The change in retail distribution altered the balance of power between the manufacturer and the retailer. Because of their larger size retailers could dictate the products which were sold in the market and the type of production facilities which produced the footwear. Figure 8 - 3 presents the ratio of sales of the largest retailers in relation to that of the average manufacturer.

FIGURE 8 - 3

BUYING POWER OF SELECTED MULTIPLE FOOTWEAR RETAILERS
IN RELATION TO MANUFACTURERS

	BUYING POWER RATIO
British Shoe Corporation	72.20
Barratts/Stylo Shoes Limited	10.85
Lennards, Greenlees and Sons	8.96
Timpson, William Limited	8.93
Bata British Shoe Company	6.77
C & J Clark Retail Limited	6.11
Stead & Simpson Limited	5.91
K Shoe Shops Limited	5.53
Lotus Limited	4.75
Greelees John Limited	4.14
Hiltons Footwear	2.86
Turner W. & E. Limited	2.67
Oliver George Limited	2.40
Jones & Sons Limited	2.35
Frisby's Phillips	2.12

They have used this power to squeeze the margins of the Integrally-linked manufacturers who produce for them, thus forcing manufactures to continually search for ways to cut costs. Their dominant position in the marketplace also forced Branded manufacturers to keep their prices in line with those sold by the fashion retailers. The fashion multiples dictate the type of footwear sold to the market and therefore the type of footwear which is produced.

The British footwear industry adjusted to the changes in the industrial environment. Larger MTO manufacturers established long term relationships with the large multiples to produce the low cost, low design footwear which is required by these distributors. Small MTO

manufacturers, unable to find a market for their traditional product moved into another form of production. Many now produce slippers, which have a low design content and can be produced in larger quantities. These manufacturers moved increasingly to highly efficient organizations. Design capacities diminished under pressure from the retail sector.

As the multiples grew so did the quantities of footwear they required. They outgrew the production system which they had organized. It was then that they began to look for alternative sources. The network of UK manufacturers organized to serve the multiple retailers were not placed in jeopardy by this action. The smaller MTO manufacturers, however, continued to lose business, not because of import penetration, but because they lacked the capacity to produce in the quantities required. Had they been larger and willing to produce the type of footwear required, the multiples probably would have purchased footwear from them.

The multiple retailers complain that there is a lack of capacity in the industry and urge manufacturers to expand their operations but there does not appear to be a market mechanism which would have lead the footwear industry to install capacities to meet the requirements of the multiple. With profit margins averaging 2.2% in the footwear manufacturing sector it is simply not economic for

firms in the industry to expand their production. Thus firms which do not have sufficient capacity are failing, but they are not being replaced by manufacturers with larger capacities. One might question, therefore, the natural selection model that suggests that the population becomes more isomorphic with its environment. In the footwear industry, the changing requirements of the industrial environment has lead to the decline of the population.

The Integrally-linked firms are unlikely to expand their operations since there are no, or negligible, economies of scale beyond 250 employees (10,000 per week capacity). The smaller firms would have to increase their operation tenfold before begging considered by the multiples as a source of supply. Such expansion is risky given that they have no guarantee that the multiples would support their production if they did so. Contracting with the multiples also means a loss of autonomy which many owner/operators resist. The low prices the multiples require provide no incentive for expansion. Given that the majority of footwear manufacturers produce 1,000 pairs per week, in order to meet the minimum requirements of most large multiples, 10 small firms would have to be combined. The differences in management expertise, management style and production processes are substantial.

During the 1970's, import levels increased because of

a gap between the capacity requirements of the retailer and the average capacity levels of the majority of footwear manufacturers. Informal agreements between the major multiples, however, prevented the importation of footwear which would compete directly with that produced by their own production facilities. In this way the behaviour and structure of the retail industry actually buffered the UK manufacturing industry from higher importation levels.

In the late 1970's the retail industry began to change again. A new market niche emerged and new types of retail outlets began to sell footwear. These changes are beginning to affect the manufacturing sector but the full impact has not yet been felt. Most manufacturers, Integrated, Branded and Integrally-linked manufactures and those small MTO manufacturers producing slippers, have been operating in fairly stable transaction environments. Because of this stability in most of the industry the industrial environment has also been stable, even though periphery firms continue to leave the market. There is evidence to suggest, however, that the industrial environment will move from stability to turbulence in the coming years.

8.1. RECENT CHANGES IN THE INDUSTRIAL ENVIRONMENT

Like the changes which occurred in the late 1950's and 1960's the turbulence will arise as the result of changes in the customer industry. Unlike prior changes, however,

the consequences will be significantly different. These changes represent a major shift in the industrial environment which will allow products developing in the Ecotone, not only to enter the market but also to disrupt the existing industrial paradigm. Customer industries, by virtue of their position in the task environment may be thought of as being part of the industrial environment in their role as secured customers but as part of the Ecotone when alternative suppliers exist.

The entrance of two new footwear retailers, in the early 1980's - the discount footwear store and the food store - and their expected market share growth has the potential to destabilize the retail market. Both the discount and food store retailers offer low priced footwear. If they cannot obtain inexpensive footwear from the UK they will likely source from those countries which offer lower priced shoes. This could greatly increase the competition between retailers and alter the agreements existing between distributors.

The market share of the sports retailer has grown substantially since 1972. Department stores, clothing stores and Co-ops began leasing space to the multiples rather than taking responsibility themselves for footwear sales. Mail order and direct mail distribution has steadily increased. (see Figure 8 - 4)

FIGURE 8 - 4

CHANGES IN THE RETAIL DISTRIBUTION OF FOOTWEAR

Type of Retailer	Forecast 1992		1982		1972		Change 72-92
	%	mp	%	mp	%	mp	
Multiple	51	127.5	55	134.3	45	111.6	+15.9
Discount	4	10.0	1	2.4	-	--	+10.0
Independent	12	30.0	15	36.6	21	52.1	-22.1
Department Stores	1(3)	2.5	2 (4)	4.9	4	9.9	- 7.4
Co-op	1(2)	2.5	1 (2)	2.4	3	7.4	- 4.9
Mail Order	12	30.0	10	24.4	11	27.3	+ 2.7
Sports	3	7.5	2	4.9	1	2.5	+ 5.0
Clothing	3(6)	7.5	2 (4)	4.9	4	9.9	- 4.9
Supermarkets	12	5.0	11	2.4	-	-	+ 5.0
Variety Chain	10	25.0	10	24.4	10	24.8	+ .2
Market Stalls	1	2.5	1	2.4	1	2.5	-

Source: National Economic Development Office, 1983

The retail market continues to change. By 1992, it has been forecasted that discount stores will be selling 10 million pairs of footwear, the majority of which will be taken from the multiples' share of the market. This estimate is considered low by many manufacturers and retailers. The supermarkets will also increase their market share. There is nothing to prevent large numbers of discount retailers from entering the market to the extent that they have in the US market.

8.1.1. CHANGES IN THE SPORTS SHOE MARKET

A large part of the growth in imports is the past seven years can be attributed to the growth of the leisure/sports market.

In 1975 sports footwear constituted 2.0% (4.4 million pairs) of total domestic footwear consumption. By 1983, this percentage had risen to 17% (40.97 million pairs). Over eighty-seven percent of this footwear is imported. The dramatic rise in the sport footwear market reflects a re-interpretation by consumers of the use of the sport shoe. Prior to 1975, the sport shoe was a specialist product, purchased by those customers participating in sports activities. In the past decade, the sport shoe has become an integral part of the footwear wardrobe. It is used as a casual leisure shoe and is evidently bought as an additional pair of footwear. The sport shoe has not, therefore, replaced other footwear which the customer purchases. It has not cannibalized other footwear products.

The creation of an additional market segment has meant an expansion of the total footwear market. After seven years of expansion, however, the market appears to be stabilizing. While there are a large number of sport shoes in this market, most of them are produced by foreign manufacturers.

The UK footwear industry did not recognize that this new market was developing. This footwear was not directly cannibalizing existing footwear lines, so the changes would only have been recognized had surveillance of the overall footwear market been maintained. There were no punishing

market signals to alert organizations that the market had changed. Import penetration, however, increased substantially. Had the industry recognized that a new market segment was emerging it is unlikely that they would have responded. Clarks, which has both the resources and the retailing strength to enter the market developed a jogging shoe to compete in the market and another company, Hi Tec, has recently grown substantially with its sport shoe. The majority of UK manufacturers were not, however, in a position to develop a sport shoe to sell in this market.

The Integrally - Linked Made-To-Order manufacturers do not possess design capacities and are required by the Fashion Multiples to produce adult synthetic footwear. They therefore would not have produced this footwear. The majority of the vertically-integrated manufacturers also produce a very standard product which represents the core of the distribution arm of the organization. Multiples find it much easier to purchase sport/leisure shoe from foreign producers than to develop it in their own organization. This leaves only the small MTO producer. They can not produce in the quantities which are required. Individually, they would not have developed the sport footwear.

The Branded manufacturers, produce relatively standard, traditional adult footwear with which they have

been relatively successful. There would be no reason for these manufacturers to switch from a relatively successful and proven product to the development of a new product which is not necessarily sold in their traditional markets (i.e. by Independent Retailers).

The specialist sports footwear manufacturer would have been the logical place for the expansion into the sport/leisure market. These manufacturers, however, did not take up the possibilities of producing on a larger scale to a different market. They were secure in the markets which they were already serving, and therefore, did not see the opportunities for expansion.

The formation of a new market segment did not disturb the industrial environment of the British Footwear Industry. It is not the cause of organization failure. It merely represents an area of import penetration which was not anticipated by the footwear industry. The market is now well established and is likely to remain an area which is sourced from overseas.

8.1.2. INCREASING COMPETITION BETWEEN RETAILERS

Competition among multiple retail chains is going to intensify. Ward White, which currently owns 400 UK outlets is planning to increase this number to 1,000 outlets in the next four or five years. Since 1980 the company has moved from a company in which manufacturing ruled to one in which

retailing dominates. Two retail chains, Frisby and Turner have recently been purchased. The footwear offered in these outlets and the Focus chain is aimed at the fashion market which has for the past twenty years been dominated by BSC. The Ward White strategy is similar to that BSC took in the 1950's but has one significantly different component. BSC organized national production to supply its large retail enterprise; Ward White will source from all available sources of supply and has no plans to extend its manufacturing arm at the current time. If Ward White is successful in its bid for increased market share the level of imported footwear will increase substantially. BSC on the other hand, is unlikely to give up market share readily and will, in order to compete increasingly source from foreign producers.

Independent retailers are becoming increasingly aggressive and are attempting to find alternative ways to prevent their decline. Their margins are being squeezed by the branded manufacturers to the point where they are considering cooperative action which would allow them to achieve the benefits of bulk buying. As more alternatives become available, their loyalty to the UK manufacturers is diminishing.

At the same time, several large integrated manufacturers are expanding their retail operations in order to increase market share. They are instituting franchise

programs and purchasing concessions in national department stores. Much to the ire of the independent retailers, Clarks/K Shoes have also set up a discount house to sell outdated styles and discontinued lines. Since footwear styles have not changed much in past years, the independents' concerns may be justified. If new lines do not differ significantly from old lines the discount outlets will affect their business.

In response to growing competitive pressure, retailers are beginning to respond to customer preference and many have renovated their existing outlets to project a high quality, pleasant shopping environment. They are attempting to attract a segment of the market previously ignored.

8.1.3. MARKET GAP

Retailers and manufacturers have defined three distinct adult footwear market segments, the fashion market, targeted at men and women between the ages of 15 - 24; the middle market, for which footwear is designed for the age 25 - 55 year old and the traditional market for those consumers over 55 years old. Footwear in three price ranges are sold in each of these markets: budget shoes, medium priced and high priced footwear. Multiples are generally organized to serve one rather all of the market segments. The independent retailer tends to avoid carrying high fashion shoes and is most likely to carry

branded footwear aimed at the middle and traditional markets. Manufacturers are also organized to serve one particular market segment. Made-To-Order manufacturers tend to serve the fashion market although some MTO manufacturers do produce middle and traditional footwear. Branded manufacturers primarily produce footwear for the middle and traditional market segments. The footwear sold to each segment is different.

The existence of a retail segment which organized primarily to serve the "fashion market" is unique to the British Footwear industry. In no other country is the distribution of footwear to the 15 - 24 year age group segment so prominent. While there are clearly differences in the buying behaviour of this group and other groups of consumers, retailers in other countries have not distinguished this group from others and therefore have not capitalized on these behaviors to the extent that certain British retailers have done.

The middle ground market is the largest market and represents approximately 42% of the total adult market for shoes. UK manufacturers serving this market have presumed that the footwear offered to this market should be conventional and classical. The emphasis has been on fitting and comfort rather than fashion. Much of the footwear sold in this market is described by retailers as "very mundane", "unexciting", "traditional" with low

design" and "conservative styling". While there is room in this market for branded footwear which is fashionable there is not likely to be large disturbances in the market. Most UK branded manufacturers sell their shoes in this market and retailers are very loyal to the manufacturers they have relied on.

The existence of a strong fashion market offering footwear at a low price point has put considerable pressure on this middle segment of the market. Retailers have defined their niche through offering similar types of footwear but with wider fittings and service to accommodate feet which do not generally conform to the uniform sizes of the fashion footwear.

Footwear targeted for the traditional market has been the mainstay of British footwear manufacturing. It is this type of footwear which has been successfully exported to other markets. Manufacturers of this type of footwear have developed retail chains which concentrate on serving the market.

In the fashion market retailers, rather than manufacturers, have defined the fashion, style and design of footwear sold. In the middle and traditional market segments however, the manufacturers, most of whom are branded manufacturers, have retained their capacity to dictate fashion and style trends.

Although there are only three types of footwear offered in the British market there are four distinct customer groups. This has meant that some consumers have been forced, through lack of options, to choose footwear which may not reflect their preferences. The failure of both retailers and manufacturers to recognize the existence of another market segment demonstrates the capacity of the industrial environment to buffer both retailers and manufacturers from consumer responsiveness.

The demographic features of the British population are as follows:

FIGURE 8 - 5
UK ADULT POPULATION

	1981		1985		Projected 1989	
	M	%	M	%	M	%
15 - 24	8.67	20.0	8.88	20.2	8.44	19.1
25 - 39	7.77	18.0	7.65	17.4	8.21	18.5
40 - 59	15.83	36.6	16.24	37.0	16.48	37.2
60+	11.01	25.4	11.18	25.4	11.13	25.1

Source: National Economic Development Office
1989 figures projected by NEDO

But, footwear sales to the fashion, middle and traditional markets do not parallel these demographic characteristics. The percentage of footwear sold in each market during 1983 is presented in Table 8-6.

TABLE 8 - 6

PERCENTAGE OF FOOTWEAR SOLD IN THE FASHION, MIDDLE GROUND
AND TRADITIONAL MARKETS - 1985

	FASHION %	MIDDLE GROUND %	TRADITIONAL %
Men's - leather	35	50.8	12.4
Men's - synthetic	30.3	45.0	15.4
Women - leather	35.7	42.0	22.2
Women - synthetic	39.6	42.6	14.1

Comparison of the demographic characteristics of the population with the footwear sold in each market segment indicates that a substantial number of consumers beyond the age of twenty-four purchase 'fashion' footwear. Twenty percent of the British population was between 15 - 24 years of age in 1985 yet approximately 38% of the population purchases this footwear. Contrary to trade perception, it would appear that the 25 - 39 year old population purchases its footwear from the fashion multiples. The consumer profile of these customers is significantly different from that of the 15 - 24 year old.

The 15 - 24 year old consumer is likely to purchase a product which is relatively inexpensive. They are not likely to be influenced by established branding and may wish to appear to be making independent decisions which are distinct from those of their parents. The opportunity to purchase footwear from outlets other than those where their parents purchased their footwear and where they made choices in their childhood is likely to be welcomed. These

customers are likely to be seeking a distinctive rather than a high design and quality product. They are not likely to want to deviate from the norms established by their peers and are therefore they want to buy the shoe that "everyone is wearing" rather than a shoe that sets them apart from their peers. (Market Research Great Britain, 1981)

The 25 - 39 year olds are likely to be looking for distinctive footwear with both design and style content. They are also likely to spend slightly more on this footwear. At present there is very little choice in the market. The footwear offered in the middle ground market is oriented to consumers over 40 years of age. It tends to be mundane and lack style and design.

Until now the existence of a large group of consumers, seeking a relatively low priced, homogeneous product, placed in a high street location and the control multiples exert in the market allowed the large multiple chains to push standardized products to the marketplace. Competition in the retailers environment will force them to become more attuned to customer preferences.

There is currently a gap in the marketplace. Given the competitive environment faced by the multiples and the fact that some multiples are experiencing difficulties in maintaining market share it is unlikely that this market

gap will remain in the future. Two possibilities exist: existing multiples will begin selling footwear directed to this market or a multiple currently experiencing difficulty may be purchased by another firm which offers footwear to this market.

If either of these occur, the fashion market dominance will be disturbed and the Made-To-Order (MTO) manufacturers who support this market will face increasing difficulties. In light of the size of the major retailers in the fashion market it is unlikely that they will not react. They have both the resources and the contacts to meet any challenges which occur in relation to the development of the 25 - 40 year old market. The major impact will be felt by the UK manufacturers who currently supply the bulk of the fashion footwear.

The move to serve the 25 - 39 year old market has already begun. Several of the multiple chains have recently begun renovation programs which involve up - dating their retail outlets. Bally, initiated a 3 year, investment program designed to improve their efficiency, service, competitiveness and profitability. Bally now has 13 franchises in a scheme that allows the franchisee to sell a comprehensive range of Bally shoes and accessories for men and women.

8.1.4. CHANGES IN THE SLIPPER MARKET

Although the slipper market is relatively small compared to the total footwear market, twenty-five percent of all footwear produced by the UK manufacturer is slipper footwear (33.1m pairs). Only 27% of the total UK slipper market (45.1m pairs) is imported.

There have been three main factors helping to limit the growth of imports. The styling of slippers popular in the UK market is almost unique in Europe. Overseas manufacturers would have to make slippers especially for the UK market, and would therefore, have little opportunity to sell volume elsewhere. Secondly, the process is capital intensive and production plant oriented which means that low labour cost areas can not offer significant price differentials in these styles. Finally, the retail structure in slippers is different to fashion footwear, with a higher Variety Chain involvement. This places greater emphasis on a UK sourced, middle ground consistent product.

The ladies slipper market is likely to change in terms of fashion and style in the future, however, until now the majority of slippers has been sold through Variety Chains which obtain the bulk of their slippers from UK manufacturers. As supermarkets, stalls, and discount outlets (all of which have a propensity to source from foreign suppliers) become more prevalent the slipper

manufacturers may lose market share. This problem will be compounded as customer preferences change. The slippers produced by UK manufacturers tends to be very traditional and lacks excitement. The preference for slippers made with a high fabric content and closed toe and heel design is giving way to the mule. Fashion pressures are building.

Mules were being brought in from Europe for design reasons and from the Far East because of price. European branded products are becoming increasingly popular. These novel and fashionable slipper products are well backed by normal brand merchandising support. Slippers with turned soles and higher labour content are also being sourced from overseas. Several UK branded slipper manufacturers are making an effort to develop brand strengths and improve the fashion element in the range, but many other manufacturers are unable to alter their footwear lines because their customers continue to demand the traditional product.

At the same time the style of clothing being worn at home by women at times when slippers are appropriate footwear is changing. The growth of casual leisure/lounging wear based on the jogger suit styling and fabric has been most marked. This fashion change may induce a reassessment of the traditionally designed slipper.

8.1.5. THE IMPORTATION OF UPPER MATERIALS

Manufacturers are increasingly importing completed

uppers for assembly in the UK. This allows them to offer new, updated fashions at affordable prices, and continue to operate in the UK. There is a cost, however, associated with this practice. National design capacities decrease as does the need for manufacturers to keep abreast of fashion requirements. The progressive deskilling of the industry makes it easier for other nations which have lower labour costs, or larger capacities to emerge. Assembly plants can easily be moved to take advantage of low cost labour and materials.

8.2. CONCLUSION

The footwear industry was able to adjust to the first set of changes because i) retailers were involved in the organization of production to meet their requirements, and ii) there was synergy between the retailers' requirement for a standardized, low design content product and the products the manufacturers produced. It is unlikely that the manufacturing industry will be able to respond to the recent changes in the industrial environment.

The industrial environment of the footwear industry has become increasingly turbulent over the past ten years even though it has the semblance of stability in many segments of the industry. One of the consequences of this turbulence has been an increase in importation penetration, the failure of several small and medium size organizations, and the rationalization of many of the larger footwear

organizations. The footwear industry is approaching the Disruption Phase. Improvement of the existing paradigm will not be sufficient to prevent retailers from increasingly sourcing footwear from elsewhere. There is, however, no evidence that the industry is prepared to re-evaluate practices or take appropriate measures to stem import penetration. Indeed the industry is optimistic that the problems of the past decade have ceased to present difficulties. Import levels, although now over 55% are accepted and the industry appears confident that no other disruptions are likely to occur. Industry analysts and the Industry Association have emphasized the need for manufacturers to increase efficiency, modernize their production facilities and adopt new computer-aided software. The issue of design and capacity has been substantially ignored in most analysis of the industry. Yet as will be discussed in the following chapters, these will become increasingly important in the years to come. Improvement of the existing paradigm will not be sufficient to prevent retailers from increasingly sourcing footwear from elsewhere.

CHAPTER 9

CUSTOMER REQUIREMENTS

The shift from domestic footwear to foreign footwear has had a profound effect on the British Footwear Manufacturing sector. Between 1980 and 1982 UK footwear production capacity decreased by over thirty percent, a large number of UK manufacturers went out of business and several other plants were closed.

If manufacturers in the footwear industry are to survive they must identify the present and future needs and requirements of their customers. These requirements may differ from those which the manufacturer is currently organized to meet. Manufacturers (especially those which have established stable and on-going relationships with particular customers) respond to the demands of the retailers when necessary and conform to the competitive imperatives of the industry but they neither seek information on the requirements of their customers nor respond to these requirements when they become apparent. Given the availability of alternatives the retailer is unlikely to pressure national suppliers to meet its requirements. It is easier to switch suppliers. To

complicate matters retailers espouse one set of requirements while searching and purchasing products elsewhere to meet different requirements.

The UK retailer can easily obtain footwear from four sources: UK manufacturers who produce Made-To-Order (MTO) footwear for the retailer; UK manufacturers who sell Branded footwear, some of which may be resourced from overseas; import agents representing a number of overseas suppliers; and individual overseas manufacturers. Which source is utilized depends on the particular requirements these sources meet.

In the following chapter the reasons why UK suppliers have increasingly turned to foreign sources for their footwear are examined and the advantages and disadvantages of sourcing from the UK manufacturers, the import agent and directly from foreign sources explored.

Although retailers and wholesalers frequently and publicly express a preference to be able to source footwear from UK manufacturers they generally have difficulty identifying UK manufacturing strengths. While they do note exceptions, they suggest that the UK manufacturers have a general introspective, production orientated attitude; a conservative and rather pedestrian approach to manufacturing and lack a wide appreciation of the retailer's situation and needs. The UK manufacturer is considered

inflexible and traditional. Sourcing from UK manufacturers appears to offer no inherent or significant advantages to the retailer.

The advantages most often identified by wholesalers and retailers in sourcing from UK firms - the ability to visit factories quickly and easily, common language and culture, and the short supply line - are largely negated or equalized by the efficiency and effectiveness of the import agents with whom the retailers work closely.

The UK manufacturer has the advantage of a short supply line. The retailer does not have to commit to very large volumes and therefore does not have to commit capital to this volume. The shortness of the supply line, however, often works to the UK manufacturers disadvantage as it encourages buyers to put the domestic source last in the supply queues. This makes it difficult for the domestic supplier to introduce new ideas and to innovate.

The import agents with whom the retailer deals on a continuing basis are very conversant in English and in the language of the factories which they represent. In sourcing from overseas, therefore, the retailer does not generally experience problems arising because of culture or language. Difficulties generally only arise when there are overseas supply problems based on misunderstanding. Such misunderstanding might just as easily arise between

domestic suppliers and retailers.

Direct access would provide a competitive advantage to the UK manufacturer were it not for the sophisticated and effective monitoring system developed by the import agents, which tend to negate this advantage.

Overseas manufacturers who deal directly with UK retailers have established a good long term relationship with their clients and supply footwear to them each season. UK retailers usually enter these relationships to obtain exclusivity of design but may do so in order to obtain a price advantage. In the very competitive retail climate where retail sales are not expanding, increased individual sales are most likely to be achieved if novelty is offered.

The overseas supplier dealing direct who offers a unique product for the UK market has an advantage over an agent. UK retailers cannot always obtain exclusivity from agents. Even if they obtain a unique line, the theme and essence of the line can be copied quickly since agents will be talking to a number of competitive retailers. Going direct to the manufacturer gives the retailer the opportunity, to have an exclusive line ahead of his competitors. Although once it is in the stores the line will be quickly copied, the retailer can achieve full margin volume sales before competition depresses the price.

Retailers dealing direct require a higher margin to

fund the activities and the risk reduction role normally carried out by agents. A unique line can be priced above normal price points and thus the retailer can achieve higher margins.

Over the past 16 years UK retailers have increasingly relied on foreign sources for the footwear which they sell. In 1970, seventy-two percent of all footwear sold was produced by UK manufacturers. By 1986 the percentage of total footwear sold which was produced in the UK had fallen to forty-two percent.

TABLE 9 - 1
UK IMPORT LEVELS BETWEEN 1970 - 1986

	Million Pairs	% of Total UK Sales
1962	31.4	
1970	65.1	27.7
1972	79.9	32.2
1974	80.2	34.1
1976	97.5	41.2
1978	100.5	42.5
1980	105.6	48.1
1981	129.0	52.0
1982	124.4	51.0
1986	152.3	56.1

Source: Census of Production

Retailers differ, however, in the extent to which they rely on foreign sources for footwear supplies. Multiples import the largest volume of footwear, most of which is made-to-order. Clothing and sports stores, food retailers

and mail-to-order firms import over 50% of the footwear they sell but because they sell lower volumes of footwear the pairage imported is lower. Independents generally sell branded footwear, 66% of which is sourced from UK manufacturers. Table 9 - 2 presents the percentage of imported footwear sold in the various types of retail outlets.

TABLE 9 - 2

RELIANCE ON FOREIGN SOURCES BY TYPE OF RETAILER

Retailer	1982		Supplied by Foreign Sources
	Total Market (Million Pairs)	%	Million Pairs
Multiple	108.41	51	55.29
Independent	34.62	34	11.77
Department Stores	13.96	44	6.14
Variety Chains	25.12	36	9.04
Clothing	13.06	66	8.62
Sports	7.36	97	7.14
Food Retailers	6.97	74	5 . 1 6
Mail Order	20.97	57	11.96
Elsewhere	13.54	71	9.61
Total	244.00	51	124.44

Source: Textile Market Studies, Footwear EDC 1985

There are four fundamental reasons why retailers turn to alternative sources of supply; they seek information and coordination capabilities, quality, capacity and lower price.

9.1. FACTORS INFLUENCING RETAILERS' DECISION TO PURCHASE OUTSIDE THE UNITED KINGDOM

9.1.1. THE IMPORT AGENTS

Although Import agents are used by all types of retailers and by some manufacturers, the relationship between the import agent and the Fashion multiples tend to be the most significant and enduring. Agents prefer to deal with large retailers. As a major importer, the Fashion multiple requires the assistance of specialist companies who can provide up-to-the-minute information on fashion change and sources of footwear supply. The intelligence gathering system that import agents have is vital to Fashion multiples who are seeking to have a constantly changing offer in their window. The import agent performs a wide variety of activities for their potential customers. They look after the basic mechanics of transporting products, with correct documentation, from one country to another and ensure that the logistics of delivery are correct; they contribute to quality control; and they make an important contribution in the area of quality and fashion.

The Import Agent also acts as a filter; before approaching the retailer the agent ensures that the factories for whom he is operating have the capacity and quality of production suitable for the appropriate level in the UK retail market. This vetting process parallels that

carried out by the UK retailer with UK based companies. Most agents have local staff in major footwear manufacturing centres who maintain a continuous monitoring process of the factories they represent. This monitoring is considered essential since the shoe making process is complex and manufacturers may not always appreciate the need to provide the consistency and level of quality demanded by the retailer. Without monitoring there is a tendency for products produced to drift from manufacturing specifications. The arrival of sub standard footwear may be a disaster as replacements may take some time. Thus potential corrected early before real volume is committed.

Major multiples with large volume overseas orders seldom have the staff to allow them to monitor overseas factories on a regular basis. Consequently Import agents are used by almost all retailers that import from the Far East and Brazil. The sheer distance involved means that companies are very dependent upon agents as a source of control and information on quality and delivery. Larger retailers purchasing significant quantities of textile upppered footwear visit the Far East factories generally only once a year.

The role of the agent is therefore critical in ensuring that orders are fulfilled and delivered on time. If repeat orders are required the agent can organize this production quickly as s/he has a wide range of factories at

her/his disposal. The retailer trying to deal direct would find this extremely difficult.

Agents work very hard at keeping up-to-date with fashion and other developments in the industry and ensuring that their clients are aware of these changes. Larger agencies have good world wide contacts and monitor the development of particular fashion themes continuously.

The agent works closely with the multiple retailer, The major agents visit retailers several times each week and provide a continuous flow of information to them. These meetings involve a continuous offering and receiving of feedback on new developments, current and planned. Only a proportion of these developments are suitable and are taken up and translated into orders.

Multiple retailers often discuss with the agents the major parts of their fashion range well before the season. With his up-to-date fashion and sourcing information, the agent can make a major contribution into the fashion ideas pool from which the buying plan is determined. Retailers and their agents often jointly visit trade fairs and between them evaluate new styles. This interaction is invaluable to the agent as it provides him with an understanding of the way in which retailers are reacting to the new styles. The agent is thus continuously aware of the direction in which his potential customers' perception of

fashion and footwear styling is moving.

Agents seldom are the originators of fashion or have the intelligence about new lines to the exclusion of the major multiples but they are able to take the knowledge about a particular development to the next stage which is to provide a source and a sample for their potential customers.

Representing a wide range of factories the agent can orchestrate the production of a particular retail order. They select lines which they feel will interpret the particular new fashion at the right price and quality level for their potential retail customer.

Agents are also a useful entree to a source of supply in new fashion areas where the manufacturer has no established links. They can either encourage their existing factories to consider investment to produce a new type of footwear or identify other overseas sources of production. This presents the major retailers with alternative sources of supply which are useful if pricing is particularly important or there are problems of capacity limitations. Major multiples can obtain exclusivity on new lines from agents, through the strength of their buying power. This is particularly important in the fashion area where the ability to have exclusivity even for a limited amount of time is extremely beneficial.

9.1.1.1. FASHION, DESIGN AND QUALITY DIFFERENCES

There is a pervasive belief that retailers are turning to external sources such as Italy, Spain and Portugal for their footwear because UK manufacturers lack fashion and design flair. The Footwear Manufacturing Association, the Footwear EDC and the Department of Industry have all issued reports which identify this as a major factor in the retail decision to import. Retailers frequently note the domestic manufacturers failure to get up-to-date fashion information or to develop or employ designers.

The relationship between sourcing decisions and design, however, is not at all clear or self evident. If fashion and design are indeed the key factors in sourcing decisions and the retailer is sourcing outside the UK in order to bring such fashion and design to the British consumer, one would expect this fashion and design to be reflected on the High Street, especially in the fashion multiple outlets. The shoes sold in these outlets should contain a high fashion content since 58% of these shoes are imported. Yet the design content in the majority of the footwear offered is not above average, nor is it significantly different from the large volume of footwear produced in the retail-owned factories.

One of the most striking features of the shoes sold on the British High Street is the high degree of homogeneity

and general lack of variety offered. There is very little difference in the footwear styles offered either within a store or between competing stores. Colours change from season to season but the basic design of the shoes offered changes very little. The same colours are offered by all UK manufacturers as the colour scheme for leather footwear is set by the British Leather Fashion Council in consultation with representatives from the major tanneries a year and a half before the footwear is sold in retail outlets. The decisions are made following the two main European colour meetings, Modeurop and Cotance. The court style shoe has not been replaced by another style for several years. The footwear offered by multiple retailers with several distinct chains do not offer substantially different styles in these outlets either. Although the quality of the footwear may vary, the style and design are very similar.

A study done by SATRA of the footwear exhibited in the "Better Made in Britain" Exhibition provides an indication of the fashion content of footwear imported into the UK. The "Better Made in Britain" Exhibition was instituted to encourage UK manufacturers to match foreign goods in price, design, quality and delivery. During the exhibition major retail multiples exhibited footwear which they were currently sourcing from Spain, Brazil, Portugal, Comecon countries and Italy (45% of the shoes on display were from Italy). SATRA rated this footwear on fashion content, type of footwear and upper styling, materials and construction

methods, order size, delivery and cost. Their study revealed that the majority of both male and female footwear exhibited was fashion footwear, 61% of the women's shoes were court style design which had normal fashion content (defined as fashionable but without extremes of design). Only 40% of the footwear examined was judged to have a high level of work content. Table 9 - 4 presents the assessment of the fashion content of the footwear exhibited.

TABLE 9 - 4
FASHION CONTENT OF FOOTWEAR EXHIBITED

	Low	Fashion Content Normal	High
Men's 134 Styles	9	89	36
Women's 189 styles	8	126	55
Children's 33 styles	4	23	6
Total 356 styles	21	238	97

Leather was the main upper material used in 85% of the men's footwear and 70% of the women's footwear exhibited. The proportion of leather used on the children's footwear was very much lower than on the men's and women's footwear. The requirement for leather upper materials was the most significant finding of the SATRA study. UK manufacturers proportionally produce more synthetic footwear than any other country (much of this production for the fashion

multiple). Consumers, however, prefer leather products to synthetic products. Foreign producers use a wide range of materials in their footwear some of which is not readily available within the UK. The leather used was not of high quality and had been selected on the basis of the appearance required for the fashion feature required. In many cases, the leathers were thinner and very much softer than those used in the UK.

The relatively high volume of closed shoes and women's court shoes is important. This is a product traditionally accepted as being one of the strengths of UK manufacturers but overseas manufacturers have responded to the market needs and have produced items which are very competitive in both styling and price.

The selection of trims, linings and insoles were regarded by retailers as a very important requirement in producing the overall fashion look. Most heels, for example had been covered with the same leather used for the main part of the upper. The use of trims, bows and colorful linings is a design feature which cannot be emulated by the UK manufacturer because the high level of court shoe production has forced most of firms which produced components to leave the UK market.

SATRA, commenting on the results of their survey state:

Although many of the shoes were not judged to have a higher than normal fashion content most were considered to be attractive with a high customer appeal. A high proportion of the shoes reflected the current fashion demands of the market confirming the ability of overseas manufacturers to closely relate to the market needs. For UK manufacturers to compete it is important that sufficient attention is given to fashion information and a willingness to innovate and introduce new designs quickly.

These comments reflect the opinions expressed by the retailers displaying the footwear. No assessment was made of how "new" these designs were or how they differed from previous styles nor were the factors which gave these designs particular customer appeal identified. In light of the fact that the majority of exhibitors were multiples who depend on MTO manufactured footwear and the fact that most MTO manufacturers who supply these retailers do not have a design department in their organization these assertions must be questioned. The retailers generally specify the footwear they require from their suppliers and would find it difficult to assess the various new designs were the individual MTO manufacturers to develop their own designs. They therefore do not encourage their main suppliers to develop design.

Fashion and consequently design is considered to be most important in the fashion market where 35% of all footwear is sold. This market would therefore appear to be the most appropriate market to study in relation to design features. The fashion market is supplied by several large

UK manufacturers, the largest being the BSC Supply Corporation (the manufacturing arm of the British Shoe Corporation). The British Shoe Corporation has a market share of 20% of total retail sales, the majority of which is concentrated in the fashion middle market. The BSC factories produce approximately 8.0 million pairs of footwear annually. If 60% of this production is sold in their fashion outlets then these factories supply about 30% (5.6 million pairs) of domestic production of fashion footwear. Multiple retailers sell over 70% of all fashion footwear that is sold in the UK.

Table 9 - 5 presents the sales figures for footwear sold by multiples offering fashion footwear during 1982. The footwear sold in this market is targeted for the 15 - 24 year old bracket. The prominent position of the fashion multiple on the High Street and the staid, traditional product of the middle market however, have resulted in customers in older 25 - 39 brackets purchasing footwear from the fashion multiple as well. No attempt has been made by the industry to do a customer profile of this market so a precise definition of the market is not available.

TABLE 9 - 5

STATISTICAL ANALYSIS OF THE FASHION MARKET - Multiples

		Total % Market	% Import	Imports mp	Home mp	Price Range mp
TOP						
Women	- Leather	2.46	30	.73	1.72	16.50
	- Synthetic	2.60	14	.36	2.24	9.00-16.49
Men	- Leather	1.14	57	.65	.49	20.00
	- Synthetic	.17	42	.07	.10	12.50-19.99
Total		6.37		1.81	4.55	(71%)
MIDDLE						
Women	- Leather	6.10	37	2.26	3.84	9.00-16.49
	- Synthetic	4.54	31	1.41	3.13	6.00-10.49
Men	- Leather	4.04	40	1.62	2.42	12.50-19.99
	- Synthetic	.48	80	.38	.10	7.50-12.99
Total		15.16		5.67	9.49	(63%)
LOWER						
Women	- Leather	2.27	58	1.32	.95	Up to 8.99
	- Synthetic	1.91	59	1.13	.78	Up to 5.99
Men	- Leather	2.02	71	1.43	.59	Up to 12.49
	- Synthetic	.21	35	.07	.14	Up to 7.49
Total		6.41		3.94	2.46	(38%)

In the sale of consumer durables there is generally a positive relationship between price range and level of design: the higher the price range the more work content, style and design in the product. If UK footwear lacks design and fashion flair we would expect the import penetration in the fashion market to be most predominant in the higher price ranges. Yet in the top fashion bracket 71% of

the footwear sold is produced by UK manufacturers. In the middle price range - the largest segment of this market, 63% of the footwear sold is produced by UK manufacturers. Only in the lower price bracket does imported footwear represent the majority of footwear sold. The UK manufacturer only produces 38% of this footwear.

Within each price range the design levels must be relatively consistent. If they are not, those shoes with more fashion or consumer appeal will sell at the expense of those lines which do not have customer appeal. We can therefore assume that the footwear produced by the UK manufacturers and those imported had similar design and customer appeal levels. The design content of each price range must be sufficiently different as customers would be unwilling to pay a higher price for footwear with less style and design. Italians are known world - wide for their fashion flair and design. The predominance of the UK manufactured court shoe in the "fashion" area of the market suggests that the footwear offered in the British market is not necessarily what is considered internationally fashionable.

Why, if the UK manufacturer lacks design and fashion flair is the majority of footwear sold in the fashion market produced by UK manufacturers? There are two plausible explanations. Either retailers are importing footwear which meets a given British standard of design and

is congruent with existing British production, or the British manufacturer is producing a fashionably designed product. In light of the truly innovative designs and superior quality of the Italian footwear, and their world-wide reputation for such design it seems more likely that British retailers are not in fact importing footwear with a high fashion and design quality. The footwear they are importing is similar to that of domestic production. This is probably more true in the middle and lower ranges than the top price ranges in the fashion market.

The high level of UK manufactured footwear in this market can be explained however by examining the type of footwear sold in this market and the integrated nature of the multiple retailer. Most of the footwear sold in the women's fashion market is a style of court shoe. This is traditionally a UK manufacturing strength and most of the large UK manufacturers produce this type of footwear. The styling of court shoes, is relatively simple, with few style variations and a low work content. Court shoes have a low labour content and this makes the UK manufacturer competitive with output from low wage cost EEC countries. The principal area of competition in ladies fashion footwear, Italy, is not particularly noted as a source of closed court shoes and there is little price advantage for them in this specific market sector.

A fashion trend is established by two means: i) the

customer chooses particular styles and designs from a variety of those offered and the retailer, if they are to be successful, adjusts stock to meet these demands, or ii) the retailer establishes the fashion by offering only a limited number of alternatives. The existing structure of the UK distribution channel has meant that customer needs and preferences have not been taken into consideration. British products have set the standard of design and style offered in the British fashion market because most multiple retailers own factories with large total capacity and have established supply links with several larger UK manufacturers. These factories provide the core of the fashion multiples' requirements. Factory space is regularly reserved with these main suppliers to ensure supplies. This provides a supply core around which the retailer can build their range by sourcing from smaller UK MTO suppliers, UK brands or from overseas. The high British labour costs means that to be cost effective the factories need to produce a product with low labour content and requires few style differences. As long as the fashion multiple continues to dominate the retail market they can dictate the fashion trends and ensure a market for their factory produced products. As was pointed out in the previous chapter, however, the multiple retailer, is facing increasing competition from other types of retailers.

Although Italy and to a lesser extent France, Spain and Portugal are the fashion trend setters for future

seasons, and retailers look to these countries for style and fashion trends, the integrated manufacturers have set the fashion trends in the UK over the past twenty years.

9.1.1.2. CAPACITY DIFFERENCES

As the number of retail outlets owned by a multiple increases so does the volume of footwear required in a particular style. The multiple must therefore look for sources which can provide the quantity of footwear required. The specific factories from which fashion shoes originate are of no particular significance to the larger multiples. The fulfillment of orders is more important.

During the "Better Made In Britain" Exhibition, retailers were asked to state the quantities they required of the footwear displayed. Only 8 of the 17 were able, or willing, to do this. Of those who identified the quantities required (the majority of which were clothing stores not multiples) 70% of the styles were within the small MTO manufacturers capacity. Most of the retailers who did not identify the quantities required were large multiples who would generally require production capacities of at least 10,000 pairs per week. The multiple retailers maintained however, that they would consider purchasing from the small manufacturers.

There is no need for small manufacturers to be in awe of our size. Some of our companies, such as Roland Cartier, are no bigger than any other

multiple. - buying director, BSC ¹

It is doubtful that the small manufacturers have the capacity to supply the other multiples either. Even if they could supply in the quantities required most do not produce footwear targeted for the high design content and fashion market to which Roland Cartier sells.

The majority of footwear firms in the UK employ less than 100 employees and have capacities of no more than 1,000 pairs/week. These manufacturers can produce 10,000 pairs of footwear per quarter or 40,000 pairs per annum. If the large MTO retailer is to maintain consistency across outlets they require volumes of at least 10,000 pairs per week. (the BSC production facilities produce 160,000 pairs per week). There are approximately 65 UK manufacturing firms which have factory capacities of 10,000 or more, 30% of which produce footwear for the fashion market, the majority producing women's fashion footwear (BSC the largest fashion footwear manufacturer produces a total of 160,000 pairs per week). Those firms with capacity of 5,000 to 9,999 produce Branded footwear not generally sold by the fashion multiple.

Although the Fashion multiple might consider contracting with smaller manufacturers this greatly increases

¹ The Shoe and Leather News, October 24, 1985, p. 5

the need for co-ordination between firms and expands greatly the staff needed to supervise the operation. The availability of ready and easy alternatives means that this is not necessary. Retailers maintain however, that UK manufacturers should be investing in capacity expansion to supply core merchandise needed in volume by larger retailers. UK manufacturers have generally been very resistant to the expansion of capacity. Italian factories and other factories represented by the import agents are far more responsive to capacity limitation problems and are willing to invest. It is frequently pointed out that there are no economies of scale beyond factory sizes of 10,000 or 250 employees.

A few manufacturers have responded to the retailer's requests and have developed important links with these retailers. Although their current capacity is small they have shown a willingness to be responsive to retail design, quality and quantity needs and are prepared to invest to expand capacity. The existing capacity falls far short of the multiples requirements.

Without sufficient domestic capacity the fashion multiple will continue to source from overseas. The British manufacturer's reluctance to invest in more capacity to meet the growing multiple retailers demand means that the volume of imports in this sector of the market will continue to grow unabated. It does appear

however, that those factories currently supporting the fashion multiples will continue to be viable in the near future. The changes occurring in the industrial environment which were discussed in the previous chapter may destabilize their apparently secure future.

9.1.2. PRICE DIFFERENCES

Foreign footwear is sourced from two distinct types of supplier: low labour cost producers; and producers with similar costs structures to that of the UK manufacturer. Table 9 - 6 identifies the countries supplying the majority of imported footwear.

TABLE 9 - 6

MAJOR SOURCES OF FOOTWEAR PRODUCED BY FOREIGN SOURCES BY
COUNTRY OF ORIGIN - 1982

	Volume Million Pairs	%	Average Price
TOTAL FOOTWEAR			
Italy	43.4	31	5.36
Spain	9.1	7	4.44
France	5.9	4	4.72
Portugal	3.9	3	4.49
Brazil	4.7	3	5.46
Weighted Average Price			5.10
India	4.0	3	1.19
South Korea	11.9	9	2.10
Taiwan	15.1	11	2.37
Hong Kong	15.5	11	1.17
Weighted Average Price			1.81

Source: Custom & Excise, October 1982 - September 1983

The landed cost of the footwear supplied by the two types of suppliers is significantly different. This difference reflects differences in labour costs and differences in the materials used in the construction of footwear. In 1984, the majority of footwear produced by Italy, France, Spain, Brazil was made of leather; the majority of footwear produced by India, South Korea, Taiwan and Hong Kong was constructed of other material (e.g., textile, synthetic, rubber). Many countries in both groups, however, are expanding their product lines to include footwear made of both synthetic and leather.

The cost differentials between lower priced footwear manufactured by UK firms and those manufactured in the South Asian countries places UK manufacturers at a distinct competitive disadvantage and limits the possibility of reducing importation in this market. Labour costs in the developing countries are significantly lower than that of the UK. The low labour costs prevailing in such countries as Brazil enable a greater work content to be used than is economically viable in high labour cost countries such as the UK.

Although many of the shoes were not judged to have a higher than normal fashion content most were considered to be attractive with a high customer appeal. A high proportion of the shoes reflected the current fashion demands of the market confirming the ability of overseas

manufacturers to closely relate to the market needs. Several of the large MTO manufacturers however, do produce shoes for this market.

Although the production of synthetic court shoes is traditionally recognized as a particular UK manufacturer strength, this strength is gradually being eroded. The UK manufacturer is unable to match the lower price tickets offered by the Far East manufacturer. In an effort to remain price competitive UK retailers are increasingly relying on these countries for their synthetic products. Until now, multiples have generally avoided sourcing this type of footwear from the Far East since it was felt that offering this footwear at lower prices would not generate significant extra volume and would simply lead to a reduction in turnover. It was therefore not worth the multiples' while to import significant quantities from the Far East of synthetic court shoes. Another reason why the multiple retailer has not turned to foreign supply of this type of footwear is because it is produced by the company-owned factories as well as by some of the largest UK manufacturers. If this type of footwear were sourced from the developing countries a substantial number of UK jobs would be lost and major footwear MTO manufacturers would be forced out of business. There appears to be an informal understanding that it has been in the multiples' best interest to avoid sourcing the synthetic court shoe from the Far East. If, however, one of the multiples began

to offer these in significant volume, other MTO multiples would feel obliged to introduce these lines to remain competitive at retail level.

Changes in the competitive environment of the multiple retailer are forcing retailers to reconsider their position on the sourcing of this footwear. The steady increase in footwear sold by clothing stores, variety chains, food stores; the introduction of discount outlets in the UK; and increasing competition between multiples in particular may create enough competitive pressure that the multiples will be forced to source from the Far East. Several multiples are experiencing difficulties and it is predicted that some of these will cease trading. It is indicative of the competitive pressure experienced by retailers and consequently UK manufacturers that retail footwear prices were lower at the end of 1984 than they were at the end of 1980.

9.2. SUMMARY

Prior to the late 1970's retailers sourced footwear from foreign countries primarily for capacity reasons and to broaden their fashion range in some markets. They avoided importing footwear which would compete directly with that produced by their own factories. Italy has been a valued source of supply and is noted for their footwear style and design and their responsiveness to the market. Italian manufacturers are highly innovative and have a high

level of design and fashion flair, and value good design far more highly than do UK manufacturers. Good design is believed to permeate Italian companies. They continually invest in knowledge, design and machinery to achieve new effects. This commitment predisposes large MTO fashion retailers to source in Italy. UK manufacturers, in contrast are poor at design and do not invest heavily enough in fashion intelligence. They rely primarily on attending trade fairs.

The agents' role as intermediary should not be underestimated. They provide the retailer with important information about market changes and facilitate the acquisition of the footwear the retailer requires. They have the ability to organize the production capacity of a number of small firms to fill a large order. Were their services not available the retailer would have to spend considerable time and money to organize this production. The existence of an intermediary places the small UK manufacturers at a distinct disadvantage. The UK manufacturing industry could be organized to produce the capacities the retailers require but such a system has not been put in place.

With the changes occurring in the retailing industry both the independent and the multiple retailers will require footwear which has a higher design content than is presently produced in the UK. They will also become far

more conscious of price. Neither of these requirements can be met by the footwear manufacturers at the present time. The focus on increasing productivity does not address the primary reasons why retailers are sourcing from overseas and therefore are unlikely to help the industry stem its decline.

CHAPTER 10

SUMMARY, CONCLUSIONS AND ALTERNATIVES

One of Wellingborough's oldest shoe-making firms, the Wellingborough Boot and Shoe Manufacturing Co., has gone into receivership. The total work-force of 35 has been made redundant. The original company were [sic] started more than 100 years ago to make men's shoes. The present firm, incorporated into a reorganization scheme in 1907, have been producing sports shoes since 1951. Chairman John Idiens blames a shortages of orders, caused by an influx of imports, for the firm's demise. - The Shoe and Leather News, January 16, 1986

Failure can be a traumatic, disruptive and personal defeat for those involved with the business. Management frequently feels responsible for the failure even though events occur which may have been outside of their control.

A director of G.M. Shoes who took overall control of the business in February last year told a creditors' meeting earlier this month that while pressure in the industry had affected the business, his lack of management experience and staff problems that occurred after he took over contributed to the firm's losses. Mr. Y. Keufi, who assumed overall control when he bought 970 shares from G. Mustafa for 15,000, said the company's product was competitive and he was confident that future orders would be enough to enable them to trade out of their difficulties. The meeting was told that on May 4, while Mr Keufi was out of the country, 50,000 worth of goods was stolen from the firm's premises. With pressure being exerted by the bank to reduce the borrowing, it was impossible to replace the

stolen stock to enable trading to continue. Trading eventually ceased on May 19. - The Shoe and Leather News, June 19, 1986

Organization failure is particularly disturbing when the firm has been operating for a long period of time. Why, one wonders, does a firm fail after having competed successful for one hundred and thirty years?

Huge shoe imports into Eire from third world countries dealt a killer blow to Dublin footwear manufacturers James Winstanley, creditors were told at a meeting in Dublin. Denis O'Neill, joint managing director, said the company was founded in 1852 and with the O'Neill family involved in the business for five generations. The average price of popular imported shoes was \$20 a pair. The company was unable to match this and suffered losses of IR100,000 a year for each of the past three years. - The Shoe and Leather News August 8, 1985

It is difficult to identify organizational failure which has been caused by environmental factors if the organization is studied in isolation. The organization's behaviour, strategies and structures must be examined in the context of its relation to its task environment. Only then do underlying factors become apparent. What appears to be the responsibility of management may in fact have been beyond their control.

The average age of UK footwear manufacturing firms is seventy-six. These firms have survived the volatile start-up and growth phases, adapted to the numerous changes in process technology which have occurred in the industrial

environment, lost and regained customers, altered their products to suit current styles and preferences, and survived through periods of recession and depression, yet they are now failing one by one.

If you were to ask the manufacturers why they are failing they would blame the failure on the use of imports, cash flow problems, inconsistent delivery of raw materials, their inability to attract skilled workers or bad luck. The footwear industry as a whole and its governing bodies believe that the industry is declining because of cost differentials. If firms invested in new computer technology and increased productivity they would not fail. Theorists such as Lawrence & Dyer, Pettigrew and Abernathy would blame the industry's decline on the failure of firms to adapt to the changing realities in their environment. They are not as innovative, productive or efficient as they should be.

I have argued that the industrial environment of the footwear industry has defined the industrial paradigm through which production is carried out and has determined the social, political and economic position of the firms within the industry. This has affected the way in which production is organized and the structure of the industry. Manufacturers have adopted behaviours, strategies and structures in accordance with the demands of the retail industry which have subsequently affected their performance

and limited their long-term viability.

The stability in the transaction environment and consequently the stability in the industrial environment has prevented footwear manufacturers from recognizing the need to alter their behaviour and develop new ways of relating to the retailing industry. Fear of jeopardizing the established relationships they have with between retailers, prevents manufacturers from adopting new behaviours and strategies which thus might prevent future failure.

The footwear manufacturers are so used to responding to retailer demands or have developed marketing networks through which to distribute their products, that they have not considered their customers requirements. Given the time and energy required to maintain existing transaction environment relationships, the degree of control the retailer exercises in the exchange relationship, and the consistent, though low profit margins, however, it is perhaps unreasonable to expect the organization to understand these requirements.

Industry reports should provide such information but as the examination of reports published on the footwear industry, presented in Chapter 5 indicated, analysts do not consider the customer industry when examining the behaviour and performance of the industry. They focus on the

manufacturers rather than the retailers behaviour. Their reticence to examine the interdependency which exists between manufacturers and retailers and the factors which prevent most of the firms in the industry from altering their behaviour, has prevented recognition of the threats and opportunities in the environment.

Even when the need to develop new skills is acknowledged, the firm finds that the resources required to change are not available. UK consumers, for example are becoming increasingly dissatisfied with synthetic footwear, especially now that leather footwear is being sold at the same price. UK footwear manufacturers, should therefore, if they were to respond to the market, begin producing this type of footwear in larger quantities. Were they to do so however, they would find that many of the leather suppliers upon which they relied before the switch to synthetic products, have left the market. They would also find that they could not supply footwear in the quantities they could when they were producing synthetic footwear. The skilled operators which they laid off when they increased production are no longer available.

Many footwear manufacturers (especially integrally-linked) cannot alter their present behaviour without losing their existing customers. Firms which now produce footwear for the multiple retailers are producing highly standardized products and do not have design capacities.

The retailers will increasingly require such design capacities but at the moment discourage supplying firms from developing these capacities. Their dominant position in the market and the availability to foreign products has forced manufacturers to rationalize their production facilities to increase efficiency. The manufacturers cannot afford the costs of producing a high design content product. The transaction environment, therefore, locks firms into particular patterns of behaviour which prevents them from responding to changes in the industrial environment.

The task environment within which the footwear firms operate is becoming increasingly turbulent. The new requirements of the retailer industry will render the existing industrial paradigm obsolete. The multiple retailer is facing increasing competition from other types of retailers. The recent trend of selling shoes in clothing stores and the increasing number of multiples who have changed their target market from the traditional and middle markets to the fashion market will have an increasingly destabilizing effect on the retail industry. These changes will mean that the fashion multiple can no longer dictate fashion. Highly standardized, low design content footwear will not predominate. As other retailers begin to offer fashion shoes with higher work content, different styling at the same price, consumers are likely to choose this footwear.

To remain competitive the fashion multiple will have to offer more stylish footwear as well. This will place the integrally-linked and backward integrated factories in jeopardy. They are unlikely to have the time to develop new fashion design expertise and the retail arm will find it easier to source this footwear elsewhere. The effects of the increased emphasis on fashion and design was dramatically portrayed in the closure of the BSC children's manufacturing factory. The children's market is becoming increasingly fashion oriented and BSC experienced a sharp decline in traditional children's footwear. Unable to produce such footwear in their factory they decided to close it and source footwear from elsewhere.

Consumers are beginning to demand more fashionable, high design footwear. Such footwear is not currently being produced in the UK except by some of the smaller MTO and branded manufacturers. As retailers begin to respond to these preferences the multiples will be forced to follow suit. Their own production facilities do not have the capacity to produce such footwear and will gradually be disposed of. If this happens the majority of the footwear industry will be affected.

As competition increases retailers will have to add variety to their footwear range. The very large production systems set up to produce large quantities of highly standardized footwear will no longer be appropriate. It is

particularly telling that the chairman of a large backward integrated manufacturer suggested that if he were to start again he would not produce footwear in very large production facilities but would manufacture footwear in small manufacturing units. Asked if he would dismantle the existing system, he responded saying "not until necessary".

The expansion of the multiple retail chains will mean an ever increasing need for large volumes of footwear. The capacity of the manufacturer is, therefore, a critical issue. The very low margins offered by the retail industry provides little incentive to expand capacity. If the small manufacturers do not find a way to meet the capacity requirements of these retailers, however, they cannot survive. The organization of production in the UK must be examined.

Piore & Sobel (1984) suggest that many industries have come to the point where they must choose to progress through the development of a manufacturing system based on mass production or on flexible specialization. The UK footwear industry's future depends upon the decisions it makes in the near future in this regard. It is doubtful, however, whether the industry will address this critical issue. The way in which footwear production is, or should be organized, in the United Kingdom has not been questioned by industry analysts or industry members.

The remedies which have been proposed to improve the viability of the industry focus on the reduction of costs through efficiency measures and the adoption of computer systems. The Footwear EDC Productivity report suggests that the reduction of costs by 7 1/2 percent would greatly improve the viability of the industry. The implication has been that a reduction of 7 1/2 percent would cause retailers to source from the UK rather than Italy. This ignores several features of the relationship which exists between UK distributors and the Italian footwear industry. Firstly, the UK distributors require very large volumes of footwear which are currently unavailable in the United Kingdom. While much of the footwear that distributors have been sending from Italy is of low/moderate design and is very similar to that produced in the United Kingdom and their prices are similar to that of the UK, they have the capacity to produce this footwear in very large quantities. Agents continually bring up-to-date information on changing fashion and organize the production of those styles which the retailer decides is appropriate for the UK market. When necessary Italian firms invest in machinery and equipment to meet the retailers needs.

Industries create explanations for their fate which they then tend to perpetuate and react to. The institutional structure of the environment tends to support and reinforce these assessments and responses to the environment reflect this structure. This prevents an

objective or alternative interpretation of the situation and thus prevents corrective action.

The domination of the manufacturing industry and the industry association by the multiple retailers has meant that problems are approached from the perspective of the retailer. The industry takes up issues which are viewed as problems by both sides of the market not those which are experienced by the manufacturers themselves. The problem of increasing import levels is a particularly difficult issue to resolve in this industrial environment given that the multiples need to continue to import footwear in order to meet capacity requirements, do not wish to organize production within the UK to meet these requirements, and require those firms which are producing standard, low design products to continue to do so.

Like firms in many other industries, the footwear manufacturers are feeling the effects of the switch from national to international market competition. Imports are invading the domestic market. The industry has moved from being a leading world producer of footwear to a minor and declining producer. In 1955, world footwear trade totalled 30 million pairs, 12 million of which were produced by UK manufacturers. By 1980, world trade had risen to 1,500 million pairs, of which the UK produced 132.2 million pairs.

10.1. INDUSTRY DECLINE

Except for some competition between the Branded manufacturers the footwear manufacturers do not compete with one another. Each group of manufacturers provides footwear to a particular market niche. When asked who they competed with, individuals interviewed had difficulty identifying their competition. Because there is very little competition between UK firms, change occurs primarily through either customer demand or the withdrawal of customers. The withdrawal of customers usually results in the failure of the firm although the manufacture usually makes a valiant attempt to find a new market.

When the multiples dominated the market and faced little competition among themselves or from other distribution outlets they were able to push a standard, low-design product to the market. Consumers now have alternatives. They can choose products produced in industrial environments which have different resource bases and consequently offer different competitive advantages. They do not make demands on the producer to change their operation to meet their requirements, they go elsewhere. The footwear firms recognize that their customer is moving to alternative sources but does not generally recognize the need to alter its behaviour.

The footwear manufacturers are so used to responding to retailer demands (producing standardized, low content

design products to meet customer specifications for established customers) or have developed marketing networks through which to distribute their products, that they have not considered their customer requirements. Given the time and energy required to maintain existing transaction environment relationships it is debateable whether or not the organization should be expected to understand these requirements.

There have been two major periods of change in the industrial environment. The first occurred when the structure of the retail industry changed, and multiples became the predominant retailers. Although the environment became very volatile during this period, the manufacturers adjusted their behaviour and strategies to the new industrial environment. Those which did not failed. The informal agreement between the multiple retailers not to bring in very low cost footwear and the large in-house production facilities which the large multiples had set up prevented imports from penetrating the UK to the same extent that it did in the United States. The structure of the UK customer industry, has, therefore, indirectly buffered the manufacturers for failure.

Although much has been written on the development of mass-production and the organization and development of markets which permit the realization of economies of scale, there has been little written on the development of

mass-markets to offset the high fixed costs of the retailing a particular product. In the development of mass-production it is usually the manufacturing sector which organizes the market to achieve economies of scale. The development of a mass-market requires the organization of a manufacturing sector to provide the product. In the British Footwear Industry, the amalgamation of the British Shoe Corporation meant that a large mass market was produced which required the organization of a production system to support it. This was achieved first by rationalizing the associated factories of the chains which were acquired and the establishment of linkages with large capacity production facilities in the market. The growth of other fashion multiples serving the same mass market with little differentiation required further rationalization of the footwear manufacturing sector. Thompson (1967) argued that organizations develop to buffer their technical core from fluctuations. The need to develop mass-production units arises from the nature of the high fixed-cost component of the cost structure. In order to reduce fixed costs the organization must find large stable markets in which to sell their products. This has been the case in the automobile industry, meat packing, sewing machine industry, harvesting machinery and processing companies.

It is clear that the retail multiples require capacity levels which are not currently available in the footwear industry. The transition from independent retailers to

multiples has altered the requirements of the industrial environment. There appears to be no operating market mechanism which leads the industry to develop manufacturing capacities to meet these requirements. Although those firms which do not have sufficient capacity are failing, they are not being replaced by manufacturers in the industry which have larger capacities. The retailers are turning to external sources of supply. Since this is a relatively easy thing to do there are no barriers to substitution. One must question, therefore, the natural selection model that suggests that the population becomes more isomorphic with its environment. In the footwear industry, the changing requirements of the industrial environment has lead to the decline of the population.

The relationship between the Import Agent and the retailer provides an important link between possible sources of supply and the mass-market. The retailer requires an assured standard product which was delivered in large quantities. The Import Agent provides a solution to the problems of coordinating this production. The retail chains have grown so large that they require a substantial amount of footwear each week. The industrial structure of the UK footwear industry would have meant that a substantial amount of the multiple retailers resources would have had to be deployed merely to organize the production it required. If the Import Agent is used these resources are not required and the cost of the coordination

is born not by the multiple but by the manufacturer. The Import Agent organizes and coordinates the production of several different factories. Just as the incorporation of the organization buffers the organization from the costs and uncertainty, the usefulness of the Import Agent in the organization of production minimizes the cost to the corporation.

One of the major requirements of the development of a mass-market is the existence of large-scale sources of footwear. The small footwear factories are blatantly unsuited for this role. They frequently are under the size of even the low economies of scale and simply do not produce enough of the product. They tend to be run by entrepreneurs rather than managers, and which are not ready to adopt a subservient role to the retailer. The small retailers have been forced to seek other ways to remain in the industry which will allow them to keep some degree of autonomy. In most cases this has meant the transfer into the production of slippers. The production of slippers is much more capital intense and the organization can produce sufficient quantities to sell to the larger chains without having to subscribe to the dictates of the retailer.

There are, therefore, two sides of the British Footwear Industry. That which has developed as the suppliers of the mass-market and catering to the requirements of a mass-market and those manufacturers which

produce products for which they then develop a market. The Branded manufacturers have developed a distinct product which they sell to a particular segment of the market. The Branded manufacturers have not been affected by the import penetration. Their product is sufficiently differentiated to allow them to sustain their market.

Changes in the Ecotone have made the industrial environment excludingly turbulent. It is the changes in their industrial environment which have lead retailers to search for alternative sources of footwear. Multiple retailers are competing with one another for market share as well competing with new types of footwear retailers. In order to compete they are turning increasingly to foreign sources of footwear because the basis of competition has changed. The dominant retailers can no longer control the market with low cost, low design, standardized products. The market will still require such footwear, but they will not pay the prices offered by the multiples when they can purchase the same product at a lower cost from supermarkets and discount stores.

10.2 THE STRUCTURE AND BEHAVIOUR OF THE FOOTWEAR INDUSTRY

The multiples have played a critical role in the organization of the manufacturing industry and the development of the industrial paradigm. By organizing all of the MTO manufacturers which had sufficient capacity to produce the quantities of footwear they required they

defined the orientation, behaviour and skills developed by a large segment of the UK manufacturing industry.

If anything is to be done about the industry's decline, managers, analysts, government officials and theorists must recognize that the nature of competition has changed in the past twenty years. Firms no longer compete with one another in the marketplace, their products do. Since these products are developed and produced in different task environments the differences between one task environment and another, not the differences between firms must be taken into consideration. Policies, strategies and practices must encompass a global perspective.

Footwear manufacturers are facing increasing competition from two sources: Italy, Spain, Portugal and Brazil in the middle and upper quality market and Hong Kong, and Taiwan, in the lower and middle fashion markets. The first group of manufacturers have similar cost structures to those in the United Kingdom but they have much better design and fashion capabilities. The Italian footwear industry is based on functional specialization. The latter group has much lower labour costs and until recently a low fashion content. In the last decade, however, the quality and design features of the footwear, which these countries produce, have improved under the direction of Western firms who have been subcontracting

footwear.

Competition within the industrial environment serves to ensure the efficient allocation of economic resources but it does not ensure the retention and utilization of national skills, expertise or potential which, if harnessed, could prevent the deterioration of the manufacturing sector in many Western countries. Co-operation between national firms, funding institutions and research bodies in the pursuit of global objectives must replace the national, protectionist orientation currently prevalent. This does not mean the abolishment of free enterprise, merely the organization of this enterprise such that those operating within it have the opportunity to develop and grow with the expansion of their potential markets.

The industrial environment of the footwear industry is likely to become increasingly turbulent in the years to come. How the manufacturing industry will respond to this turbulence is unknown. It has become increasingly clear through this examination of the footwear industry, however, that manufacturers acting on their own will not be able to stem the decline of the industry.

CHAPTER ELEVEN

THESIS SUMMARY AND CONCLUSIONS

The research objective of this thesis has been to examine the relationship between the organization and its task environment and to determine how this relationship affects organization viability. Although the analysis of the factors influencing the decline of the footwear industry provides information which should prove useful to footwear firms and policy makers, this analysis was undertaken to provide an explanation for the decline rather than a normative theory which might resolve the problem of industrial decline.

In order to gain an understanding of how environmental factors affect organization behaviour, performance and viability, it was necessary to move outside of traditional conceptions and frameworks of the task environment and to broaden the scope of the analysis to include examination of the industry, the adjunct supply and customer industries and industries outside of the immediate industrial environment. The degree to which the task environment shapes, influences, dictates, hinders and propels the organization and the industry cannot be discerned through

organization-level analysis. The context within which organization behaviour occurs must be identified. This requires a systematic analysis of the task environment itself. Only through such analysis do underlying factors become apparent.

The task environment was conceptualized as a suprasystem consisting of three distinct segments - the transaction environment, the industrial environment and the ecotone - each of which affect the organization differently. The task environment was distinguished from the Factor and Product markets in which goods and services are exchanged. It was asserted that products, not organizations, compete in the marketplace. The task environment influences the type of products which reach the market, the organization of their production, the resources available, the operating constraints and the perceptions and attitudes held by members within an industry. Since products produced in several different task environments compete within the same Factor or Product market it is necessary to understand these various task environments if effective strategies and behaviour are to be adopted.

The task environment provides three important elements necessary for the continuation of an organization or an industry: resources, recipes for action, and the impetus for change. Each of these elements is provided by a different segment of the task environment. The organiza-

tion obtains resources through its interaction with organization-set members in the transaction environment. Collectively members of the industrial environment define the way in which production is organized and tasks are carried out, competitive imperatives, and the issues, problems and solutions which the organizations within an industry take up. Changes in the ecotone necessitate a re-examination of the established practices. If new practices are taken up they serve to revolutionize the industry.

As we have seen in the footwear industry, however, organizations and industries have difficulty abandoning old modes of behaviour. They cling tenaciously to what have, in the past, been appropriate solutions. Intra-organizational phenomena such as resistance to change, structure and internal focus contribute to this tendency but these are not the only forces which impel such resistance. The relationship between the organization and the various segments of the task environment also limit the organization or industry's ability to change with the changing environment in which it is embedded. If organizations or industries do not adapt to the changing environment they fail or decline.

Prior research has focused primarily on failures which are the result of poor management or the organization's failure to adapt to its industrial environment. This

thesis examined failure which is largely beyond the control of the organization itself. It has been argued that the task environment has played a significant role in the organization failure and industry decline which has occurred in the footwear industry and other mature industries. The relatively recent decline of these industries has occurred as a result of fundamental changes in the industrial environment specifically the penetration of products developed in the Ecotone in the product market to which the organizations within the industry did not respond. Under such conditions the structure and behaviour of the industry and those industries adjunct to it, rather than intraorganizational phenomenon must become the subject of inquiry if effective remedial action is to be taken. Most industries when threatened by external changes, however, focus on correcting firm specific aspects such as levels of productivity, innovation, marketing, efficiency and resource allocation.

It has been suggested that organization failure may be attributed to one of four causes: i) the failure of organizations to establish sustained relationships with significant members of the transaction environment often the result of poor management; ii) sporadic change in the industrial environment over which the organization has little control; iii) the failure of the organization to match its behaviour to industrial environment characteristics and competitive imperatives and finally iv)

radical change in the industrial environment which renders the existing industrial paradigm obsolete. Before remedies and preventative measures can be developed to enhance organization viability, the specific underlying cause must be identified. All types of failure look, at first glance, to be organization specific and the result of the organization's failure to adapt appropriately. It is only when an individual firm's failure is examined in the context of the total industry and the changes which have occurred at various levels in the task environment that other causes can be identified.

The study of the footwear industry provided an example of how task environment factors can limit the viability of both organizations and the industry itself. The industry faced changes in the industrial environment which created volatility and the need for organization change and now faces changes in the ecotone which have produced a turbulent industrial environment. In the following section aspects of the relationship between the organization and its task environment which have limited the organization and industry's awareness and effective response to these changes is briefly reviewed.

Adaptation to transaction environment conditions is necessary for the achievement of organization stability in the short-term. The organization cannot survive without sufficient resources. In order to ensure this flow of

resources the organization enters into formal and informal arrangements with members of its organization-set. If it cannot establish stable relationships with other organizations, the organization fails.

Such adaptation can become problematic, however, as once established, organization behaviour encouraged and reinforced by organization-set members in the transaction environment will continue regardless of the changes occurring in the industrial environment or the ecotone. Customers often continue to encourage the established behaviour, even while they are searching elsewhere for alternative suppliers. They maintain the relationship with the focal industry in order to ensure their own stability. This prevents the focal organization from recognizing impending threats and the need for change. The stability which the organization achieves through its interaction with the transaction environment, while necessary, is no guarantee that the organization's viability is assured. Long-standing relationships between the focal organization and its customers may serve to foster complacency and a false sense of security. In such relationships the organization does not have to compete directly with other organizations in the market niche for their customer's business. If they maintain the level of reliability and product consistency expected by the customer there is an expectation that the relationship will continue. Firms, facing no immediate competition but aware that if their

performance falls below customer expectations the customer may withdraw, increasingly turn their attention to internal operations rather than the environment. They respond to customer demands rather than market requirements.

Organizations respond to both the objective features of the transaction environment (customer demands, resource availability, competitor strategy and regulatory injunctions) and the subjective features (perceived uncertainty, scarcity and dependency). By responding directly to the objective features of the transaction environment, organizations attempt to minimize uncertainty and increase stability. They often accept dependency in order to enhance stability. Scarcity and uncertainty serve as cues to the organization that the organization must alter its behaviour. Once stability is obtained, and uncertainty and scarcity are minimized, however, these important cues can no longer be relied upon to alert the organization to environmental threat.

The focal organization adopts methods of production, competitive practices, and modes of behaviour similar to that of its competitors in the domestic industry. These practices (collectively termed the industrial paradigm) serve as the standard by which organizations judge their own behaviour. Continuation of these practices is encouraged through interaction and communication between industry members. Members of the industry address problems

from a common base of experience and information. They generally do not seek alternative perspectives or interpretations of either their behaviour or their problems. They rely on past practice and experience to interpret current and future events or problems.

Where the supply industry or customer industry is the dominant party, the interpretations adopted by the focal industry will reflect the interpretations of these industries. Also, dominant groups within the industry, if they have maintained established relationships with their customers frequently dominate discussions and interpretations of the cause of the problems. Unable to identify with other groups within the industry, they have difficulty understanding the problems the other groups are facing. Despite differences in organization characteristics, target market and customer and supply relationships, the dominant groups tend to ascribe the failure of firms in other groups to a lack of trying or failure to bring production up to a "satisfactory level".

Small firms, although they often make up the majority of firms within the industry, frequently have very little input into the development of the industrial paradigm. They are, however, the group which are affected first by changes in the task environment and the problems they face may be ones which other groups face at a later date and on a grander scale.

Competitive imparatives emerge from the interaction of firms in the industry and their customers which serve to govern the behaviour of firms within the focal industry. It is these imparatives which determine the emphasis the focal organization places on efficiency, marketing, customer and supplier contact and innovation. The behaviours which are encouraged and reinforced by customers become the competitive imparatives for short-term viability.

When the customer industry has no viable alternatives, the competitive imparatives of the focal industry will be congruent with customer industry requirements. As their requirements change, customers exert pressure on the focal industry to meet these requirements. If however, the customer industry has alternatives outside the focal industry (in the Ecotone) this pressure may not be exerted and the competitive imparatives and industry requirements may become increasingly incongruent. Despite this incongruence, firms in the focal industry continue to operate on the assumption that the defined competitive imparatives ensure their survival. They are, after all, meeting the demands of the customer industry.

Evolutionary change in the industrial environment disrupts the organization's and industry's stability periodically causing the industrial environment to become

volatile. New developments in technology or shifts in the characteristics of the customer or supply industries result in changes in methods of production or the structure of the focal industry. During such period of volatility, although many firms may fail, the prevailing industrial paradigm continues. The industry's viability is not in jeopardy.

The development of products in task environments dissimilar to that of the task environment in which the focal industry is embedded however, presents serious problems for the organizations and industry attempting to maintain their share of the product market if these products, developed in the ecotone enter the market. It is the contrasts between these task environments (the social political, economic milieu, the industrial paradigm which has developed and the characteristics and requirements of the customer and supply industries) rather than the activities of individual firms which determine the success or failure of the domestic industry.

If an industry faces a turbulent industrial environment its survival is in jeopardy. The existing industrial paradigm is being replaced by a new industrial paradigm that has been developed outside of the focal industrial environment. It has been contended that this does not necessarily mean the demise of the industry but it indicates the need for radical changes in the organization of production and resources if the industry is to continue.

The problem is beyond the control and influence of individual organizations. If a solution is to be found, the involvement of all associated and potentially helpful organizations in the task environment must be obtained. Relationships between industry, suppliers and customers must be examined and a market orientation rather than an industry orientation must be adopted. The likelihood that the industry will re-examine the existing paradigm and make significant changes decreases if the following features are evident:

1. Denial of the problem
2. Complacency
3. Industry fragmentation
4. Shortage of resources necessary to effect change
5. Pressure from customer industry to maintain existing practices.
6. Absence of significant competition between firms within the industry
7. Reliance on past recipes to solve problems
8. Intraorganizational focus
9. Tendency to view different foreign competitors as a homogeneous set of organizations
10. High integration of focal industry and customer industry
11. Absence of co-operative effort between industry members.
12. Lack of national identity in global competition.
13. Minimal export activity.

14. Tendency to forfeit market segments without challenge to foreign competition.
15. Lack of global scanning.

The framework for environmental analysis presented in this thesis provides a systematic method of examining both the focal task environment and those task environments in other countries which produce products sold in the domestic market. Industry associations and government policy makers are struggling with the problem of organization failure and industrial decline. Organization Theorists could provide leadership in both identifying the root causes of this decline and recommending solutions. This requires a shift in focus from the organization's structure to its behaviour and performance in relation to the environment within which it is embedded. The shift has already begun. The research conducted by Stream I theorists has a very different character than that conducted by Stream III researchers. The organization as a functioning whole is now the focus of inquiry.

The framework presented offers one direction such an investigation might take. Further research along these lines could include:

1. The study of other industries currently in decline to determine if the same underlying problems exist.
2. Comparison of the task environment of industries in one country with those of competing industries.
3. Analysis of the relationship between the focal

organization and its supply and customer industries.

4. The study of industry associations and their affect on industry direction.
5. The role of the organization as a buyer and as a seller.
6. The importance of the supply industry and the relationship between the organization and its suppliers.
7. The existing gaps between competitive imparatives and market requirements.
8. The analysis of the ecotone.
9. The re-evaluation of statistics compiled on foreign products sold in the domestic market.
10. The extent of environmental scanning conducted by organizations and industries.
11. The flow of relevant environment information between organizations and industries.

Organizations do not operate within a vacuum. They are a subsystem of a suprasystem which affects their structure, their behaviour, their performance and their viability. The relationship between the organization and its task environment is, therefore, an important area of study and one which flows out of the research which has already been done in the field. The study of context and process adds much to the structural analysis of organizations.

Echoing Emery & Trist (1965) I would, therefore again assert that:

The characteristics of the organization's environment demand consideration

for their own sake, if there is to be an advancement of understanding of a great deal that is taking place under the impact of environmental change.

NOTES

1. The principle of span of control states that administrative efficiency is increased by limiting the span of control of a leader to no more than five or six subordinates whose work interlocks.
2. The principle of unity of direction states that organizational efficiency increases if each unit has a single activity, or homogeneous set of activities, that are planned and directed.
3. The principle of task specialization states that the concentration of effort on a limited field of endeavors increases quality and quantity of output.
4. The principle of chain of command states that administrative and organizational efficiency is increased by arranging the parts in a determinate hierarchy of authority in which the part on top can direct and control the part on the bottom.
5. Although Woodward's work is most commonly interpreted as a study of the structural implications of technology, the basis of her arguments lay in the relationships which she observed organizations had with their environment.
6. Most theorists continue to measure overall organization structure, ignoring the important implications of Galbraith's statement. If there are several units within an organization, each performing a different task and each of these tasks having a different degree of uncertainty and diversity then each unit should have a different structure. Attempts to obtain global measures of structure are therefore liable to prove futile.
7. Osborn [1971] considered the economic, educational, legal-political and social-cultural aspects of the geographical area in which organizations are located the Macro environment and associations, interest groups and constituencies as the Aggregation environment.
8. The structural features of the market include the number and size distribution of buyers and sellers; the amount of product differentiation; vertical integration, diversification and concentration, and existing barriers to entry.
9. The market context refers to the exchange and bargaining which occurs between organizations and involves the behaviours and strategies which each participant utilizes to effect an exchange and cannot be inferred from structural conditions.

10. Technical knowledge comprises the body of knowledge about a] scientific principles and discoveries, and b] existing and previous industrial processes, resources of power and materials, methods of transmission and communication, and methods of administration which are thought to be relevant to the production or improvement of goods and services. - Burns, 1964:716

11. The available technical knowledge is reflected in the resources which are applied to the development of new technical knowledge such as industry expenditures on research and development, or the number of qualified scientist and engineers in employment and the rate of technical knowledge development
[i.e. the volume and value of new patents.]

12. The political environment of business enterprises consists of those non-business organizations and institutions, primarily agencies of the state, political parties or trade unions, whose actions may influence the rules under which the enterprises can operate.

13. The socio-cultural environment refers to the orientations and values which are manifested in the attitudes towards the business enterprise and those which management and workers adopt within the enterprise which can be ascribed to ethnic, religious, regional, class and other social memberships.

14. The general cultural context which encompasses the cultural, economic, educational, legal-political and institutional characteristics of the society in which the organization is located has been found to affect management styles and practices, worker attitudes, expectations and organization behaviour and structures. [Rimlinger, 1959; Ross & Irwin, 1951; Ross & Hartman, 1960; Abegglen, 1958; Crozier, 1964; Armstrong, 1965; Richardson, 1956].

15. Knowledge of the industry within which the organization operates and the stages of the life cycle provide a basis for predicting levels of industrial environment volatility and scarcity. comparative studies by Beard & Dess [1976], Lawrence & Lorsch, [1967], and Burns & Stalker, [1961] strongly suggest a correlation between industry type and levels of volatility and scarcity, research-intensive industries being more volatile than production industries, for example.

16. Knowledge of the strategies an organization employs also provides a basis for predicting levels of uncertainty and dependence for these levels will differ depending upon the strategies an organization pursues.

17. The use of the term industrial environment anticipates the later definition of this term and the distinction between this segment of the task environment and others.

18. The transaction environment has not generally been treated as a distinct segment of the environment but has been examined indirectly through the investigation of the relationship between the organization and its organization-set.

19. Researchers will be most familiar with aspects of the industrial environment since most assessments of task environment stability, turbulence and munificence are made on the basis of domestic industry sales and technology developments.

20. The Ecotone, which consists of factors which lie outside of the focal sector has been referred to by several theorists but has not been investigated as a distinct segment of the environment.

21. The term environment in this thesis refers to the context within which an organization operates which is produced through the behaviour of organizations acting in their role of customers, suppliers, competitors and regulatory agencies and has the potential to affect organization functioning and viability.

22. This important distinction was not taken up by later researchers. [Aldrich, 1979; Pfeffer & Salancik, 1979; Lawrence & Dyer, 1984; Dess & Beard, 1984]

23. When analyzing the task environment, researchers consider aspects of the input and the output organization-sets together as if their characteristics were identical and they had the same effect on the organization.

24. We know that at the interpersonal level individual behaviour differs depending upon the status or role adopted by each individual participating. There is no counter-indication that would suggest that this does not also occur at the group level or at the organization level.

25. This study was conducted by the author prior to beginning doctoral research. The car rental industry was examined to identify the relationship between a firm's organization-set, its structure, policies and performance. It was from this study that the original research proposal was developed and several themes which run through this thesis emerged.

26. One possible caveat to the above statement. The relationship between organization-set demands and performance held true as long as competitors stayed within their own market segment. During periods of cut-rate pricing, a small firm's performance could be significantly affected.

27. The discussion of the industrial environment builds upon research which has been conducted in economics particularly the structure-conduct-performance model, Strategy/policy literature which examines the strategy/structure performance relationships and the Organization Theory literature.

28. When analyzing the task environment, theorists rarely examine the supply and customer industries.

29. Economists have examined in detail the behaviour of domestic firms and the effect that market structure has on these organizations. Their investigation has centered on defining performance. It was from this study that the original research proposal was developed and several themes which run through this thesis emerged.

30. The importance of the Ecotone has been alluded to in the work of Emery & Trist, Lawrence & Dyer and others but has not been identified as a distinct environment segment.

31. Dun & Bradstreet figures of organization failures over the last eighty years indicate a fairly regular failure rate in each industry.

32. Industrial decline is a national problem characterized by i] an absolute decline in industrial employment; ii] decline in the proportion of total economic activity accounted for by industrial output; or iii] the failure to achieve sufficient surplus of exports over imports of manufacturers to keep the economy in external balance at full employment.

33. Per capita 1950 - 1975 productivity increased 1.2% annually in the United States, compared to 2.3% in the United Kingdom, 3.4% in West Germany, 3.7% in France, 5.3% in South Korea, and 5.9% in Japan. Related to low saving rate 1 1/3 Japanese rate and low rate of capital formation. The President's Commission on Industrial Competitiveness [note 2] pg 28. Global Competition: The New Reality (Washington, D.C.: The Commission, 1985)

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