♦ ♦ ♦

EDITORS' CHOICE

How We Can Learn How Governments Matter to Management and Organization

JONE L. PEARCE
University of California, Irvine

How do governments matter in management and organization? Certainly the power of governments is implicit in the great attention most pay to who controls what governments do. Yet only recently have we begun to address this question, and these preliminary studies are tantalizing in their observations of substantial differences across differing governmental jurisdictions (e.g., see Davies, 1995; Khanna & Palepu, 1999; Newman & Nollen, 1998; Xin & Pearce, 1996). The Academy of Management's 2001 meeting theme on the subject might be expected to spur further theoretical and empirical work in this area. As such work continues, we might see more theoretical and empirical exploration of governmental effects on organizations and organizational behavior.

This begs the question, Why has there been so little so late? After all, governments have been recognized as critical to economic and organizational life for centuries (Paine, 1776/1953), if not millennia (Plato, 1966). Governments do establish the legal structures and enforcement mechanisms that provide the frames of action for managers and organizations. Surely these differences matter for management and organization, at least as much as more heavily studied concepts such as technology or resources.

On reflection, the paucity of attention to the effects of government in theories of management and organization may arise from two research impediments. If we are to learn more about how governments matter from increased attention to them, these impediments need to be understood. To that end, this article is intended to describe these impediments and to suggest how they can be addressed, or at least circumvented. These impediments appear to be (a) the difficulty of isolating governmental effects and (b) the paucity of theory specifying the causal mechanisms by which governments may affect management, organization, and organizational behavior.

CONFOUNDED GOVERNMENT

It is difficult to isolate the effects of governments from other effects such as individuals' assumptions and expectations, historical inertia, nongovernmental institutions, and a host of other variables that are causally intertwined with governments. Except in the simple case of a governmental policy specifying a certain organizational practice, as in Germany's codetermination laws, the effects of governments are so inter-

JOURNAL OF MANAGEMENT INQUIRY, Vol. 10 No. 2, June 2001 103-112

twined with other societal systems that it is difficult to determine how they, in particular, matter.

Governments and other institutions and practices evolve slowly over time and in response to one another. For example, Putnam (1993) described how new regional governments introduced in the 1970s to Northern and Southern Italy evolved into quite different institutions in response to locals' differing expectations of and experiences with governments. Riggs (1964) and Fallers (1965) documented how modernist colonial governments were undermined by locals' traditional practices. For example, Riggs noted in many of the societies he studied that everyone assumed that officials took bribes, so they would always offer an official a bribe and no one would believe that an official was not taking bribes. Under these circumstances, even officials who wanted to be honest found that they gained no reputational advantages and lost needed supplements to their meager salaries by refusing bribes. Fallers analyzed the ways colonial governments deviated from their modernist European models of due process in response to locals' expectations.

In practice, it is difficult to isolate the effects of governments from other institutionalized societal practices and assumptions. These all evolve and influence one another slowly over time. Rarely do governments antedate other societal practices and expectations, and even more rarely are governments allowed to remain fixed and unchanging, forcing other institutions to adapt to them. Governments are too important to those who live with them (and who benefit from control of them) to allow governments to be imposed without attempts to mold them to their preferences. Nevertheless, just because governments usually are deeply imbedded in their societies does not mean that governments themselves do not have powerful effects on the organizations operating in their jurisdictions. Just because a phenomenon is difficult to isolate and study should not mean it must be ignored. As will be illustrated here, ignoring imbedded yet powerful effects can lead to partial and misleading theory.

How, then, can we study the effects of institutions as imbedded as governments are? Comparative analyses are limited because there are not enough variations in governments and all of the confounding societal features to allow us to isolate governmental effects. Comparative work may shed insights, but it does not allow us to confirm these insights with confidence.

Alternatively, we can wait for an abrupt and definitive governmental change. This would permit the isolation of governmental effects from those of other societal institutions. Putnam (1993), Riggs (1964), and Fallers (1965) documented an abrupt addition of new governments into previously stable societal milieus. The governments were the new variable to local stable expectations and patterns of action. Nevertheless, just because governments were molded to conform to other institutionalized practices in their studies does not mean that governments are always derivative of other forces. Governments are not inevitably epiphenomenal to other cultural influences on organizations and their participants.

Governments themselves may cause patterns of behavior and expectations to adapt to them. Governments do maintain monopoly control over the use of force within their jurisdictions. If a government really does change and maintains even modest ability to enforce official will within its jurisdiction, it should be a significant force. Fortunately for our scholarship, such government change in advance of other institutional expectations is less rare than we might assume. In the present day, we have current examples in Europe of countries where governments have changed from communist dictatorships to functioning democracies with political parties alternating in power nonviolently. In these cases, many deposed elites attempted to maintain their personal control, and many of the old organizational practices were maintained (see Antal-Mokos, 1998; Burawoy & Krotov, 1992; Pearce & Branyiczki, 1997). However, in many countries governmental changes were substantial and have become intrenched.[1] In these countries, governments changed and were able to maintain those changes in the face of numerous local attempts to bring the governments back to their old patterns. Such governmental changes provide a unique, naturally occurring experiment providing an opportunity to identify how governments may affect management, organization, and organizational behavior.

To summarize this argument, governments' effects on management are difficult to isolate with confidence. This is because governments are inevitably imbedded in, and thus confounded with, other societal features. Governments and social practices and individuals' expectations develop and evolve in response to one another and exogenous challenges over long periods of time. Scholarship comparing management and organizations under different governments can suggest theoretical insights, but the variations in governments and related societal processes is insufficient to allow confident conclusions from purely comparative work. Fortunately, there is great promise in studying those admittedly rare circumstances in which governmental changes occur more swiftly than those of other institutions and are established as comparatively strong facts of life. In these cases, organizations and their participants need to adapt to the distinctly differing governmental pressures, permitting the identification of the causal role of governments.

UNDERSTANDING CAUSES

This brings us to the second impediment. Because there is such a great distance between governments and the decisions and actions of organizational participants, the mechanisms by which governments have causal effects on organizations and management is not immediately transparent. It is not enough to simply link different governmental practices to management, organizational practices, or organizational behavior; we need to develop theory that specifies the causal mechanisms underlying such relationships. Work in this area is just beginning. For example, Khanna and Palepu (1999) have compared the slow-changing regulatory environment of India with the more rapidly changing one in Chile. They provide evidence that developing countries' inability to provide certain kinds of credit information favors the formation of large heterogeneous business groupings. Similarly, Redding (1990), although conducting comparative work, developed compelling theory about governmental effects (among others) on organizational form and executives' behavior in overseas Chinese businesses. He proposed that the hostile governmental environments in which the overseas Chinese operated lead to their distinctive reliance on personal relationships in business. In each of these cases, these scholars specifically describe how governmental practices affect organizational practices and individual behavior.

I have also been working on this question of causal government-organization linkages with several colleagues. We have tracked governmental changes in China, Lithuania, and Hungary and tried to identify governmental effects in these transitional societies. Here I will provide an example of how the causal effects of governments can be specified to illustrate the kinds of causal linkages necessary in explaining how governments can matter to organization and management.

CAUSAL EFFECTS OF GOVERNMENTS: AN ILLUSTRATION

The arguments developed here are illustrated in Figure 1.[2] First, to analyze the effects of governments, we need a way of conceptualizing governmental effects. One way to do this is to propose that governments may range from those that facilitate independent organization[3] to those that impede independent organization. Facilitating governments are supportive of organization and provide predictable laws and regulations that the governments are capable of enforcing. Governments are relatively less facilitative the less supportive they are of organizations, the more erratic they are, and the weaker they are. Although a difference in governments' facilitation of independent organizations is not the only governmental difference affecting organization, it is one with noteworthy implications for organizing.

Nonfacilitating governments are proposed to affect organizations and the behavior of their participants in several ways. North (1990) proposed that governments reduce unpredictability in economic exchange by establishing stable structures for human interaction. As economic exchange increases in complexity—involving more numerous exchanges among more specialized individuals across greater expanses of space and time—unpredictability increases. When economic exchanges are simple and involve local trade with repeated dealings with the same parties sharing a common set of values, informal arrangements such as tradition, religious precepts, and ritual are sufficient to sustain them. Yet as complexity increases, traditions and participants' attempts to maintain personalized relationships break down and they find that impersonal exchange (with strangers) requires a government with formal laws and regulations. Fligstein (1996) summarizes these ideas in a model elaborating the importance of governments in providing stable and reliable conditions under which organizations form, compete, cooperate, and exchange. What is central to the present argument is that Fligstein suggests that governments can vary in their capacity to intervene. That is, some governments cannot maintain sufficient control over their own officials to ensure reliable enforcement. Many governments do not have the capacity to enforce their laws, and such incapacity can be doubly costly—both in the absence of this necessary facilitating function and in the unpredictability of erratic, partial enforcement.

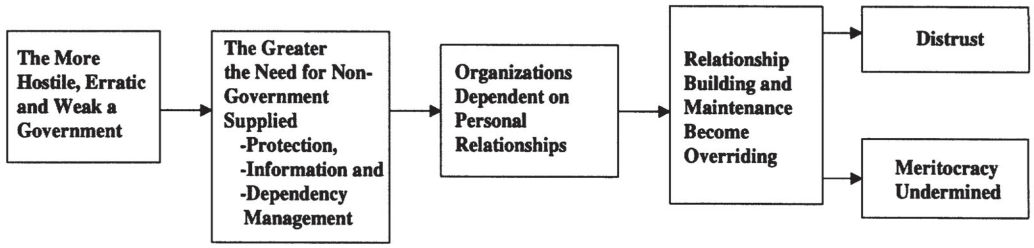

Figure 1: An illustrative causal model of how governments can affect organizational behavior

Thus, North (1990) and Fligstein (1996) propose that predictable, strong governments are necessary to complex organizations. My own experience studying the transition from communism has lead me to add the term *supportive* to these two. Many communist governments were sufficiently strong and predictable, but they were hostile to independent organizations. Independent organizations did exist, often operating in what has been called the black market, but such organizations are necessarily different from their counterparts that can operate within the law (see Pearce, 2001).

How do organizations and organizational behavior function if governments are nonsupportive, erratic, or weak? North (1990) and Fligstein (1996) are silent on the subject of complex organizations under no government or nonfacilitating governments. Yet their arguments do suggest that if nonsupportive, erratic, and weak governments cannot provide protection, some substitute must be found if complex organization is to take place.

Organizing Dependent on Personal Relationships

Although there are many reasons why governments may impede or fail to facilitate independent organizations, when such failure occurs it is proposed to lead to organizations dependent on personal relationships. Without facilitative government, impersonal relationships are insecure, and when facilitating government does not support impersonal dealings, organizing depends on personal relationships. A hallmark of modern societies has been the institutional arrangements that can produce impersonal trust among strangers—when the scope of business activity expands beyond what can be accommodated by a friendship or kinship circle (Parsons & Smelser, 1956; Weber, 1947; Zucker, 1986). If governments are unwilling to provide or incapable of providing the infrastructure to support extensive impersonal exchange, individuals have no choice but to continue to rely on the only means available to them—the personal relationships they build themselves. This is in many ways a return to traditional practices, albeit with organizations that superficially look like modernist complex organizations.

Dependence on personal relationships in organizing under nonfacilitative governments serves several purposes: protection, information, and dependence management. First, if laws and regulations are not reliably enforced, cultivating personal relationships with government officials is the only way to protect oneself from governmental power. This argument is supported by the research of Gambetta (1988), who describes how the personal ties characteristic of the Sicilian Mafia served to protect those working under a weak government. In addition, Varese (1994) proposed that the weakened and erratic government of Russia after the collapse of the Soviet Union led to the rise of the Russian mafias. Weak and erratic governments create a threatening environment for those seeking to organize. They face unpredictable government officials who may expropriate their businesses, levy unexpected taxes and fees, as well as possibly threaten their personal safety. Personal relationships with the powerful (often government officials) provide the only protection available under nonfacilitative governments. By contrast, those who live under the protection of a facilitating government are freer to work with strangers who might help with a new market or provide a fresh source of funds; they do not need to cling to those who can protect them from the danger posed by erratic governments unable to control their officials.

In addition to protection, facilitative governments support organizing by providing useful information. When that information is not freely available to all, personal relationships with those in a position to know are particularly useful. As Khanna and Palepu (1999) argued, valuable supporting actions of governments is the maintenance of conditions supporting information flows useful in organizing. In emerging markets, there are problems with inadequate financial disclosure and an absence of intermediaries such as investment bankers, venture capitalists, and an active business press. Thus, managers lack adequate financial information about potential partners. They found that in India and in Chile this favored the growth of large heterogeneous business groups because such groups have competitive information advantages in such environments. The visibility of large business groups made them more trustworthy recipients of financial support and more attractive to managerial talent. Personal relationships can also produce information that can help reduce the costs of transactions. Khanna and Palepu reported confirming data indicating that obtaining loans and capital in India and Chile is substantially more expensive for those companies that are not part of one of the large business groups (because they would thereby appear more risky to financial institutions). In societies with facilitative governments, credit and capital suppliers can rely on extensive databases and regulatory bodies allowing a more accurate assessment of risk. In countries without facilitative governments, personal introductions mean that the introducer backs or supports the people being introduced, and this provides information about their reliability. Those with personal relationships know one another, producing information about reliability and performance unavailable elsewhere.

Finally, when governments are nonfacilitative they become a critical dependency that must be managed. A critical dependency is one that must be managed to ensure the organization's survival (Pfeffer & Salancik, 1978). When government officials administer laws in erratic and personal (rather than impersonal) ways, they make the government officials themselves a critical dependency. Their benevolence and goodwill must be maintained if the organization is not to be mired in audits, seizures of assets, or other interference at the discretion of these officials. If government weakness means that officials can use the coercive power of government at their own discretion, those organizing become dependent on the personal beneficence of officials. Such government support is critical to survival and must be secured. Such relationships are built and sustained by such practices as sharing profits through partnerships, paying officials special fees, or through providing a scholarship for the official's daughter to attend college in California.

Thus, personal relationships come to dominate organizations under nonfacilitative governments. Personal relationships secure protection, are a reliable source of information, and can be used to manage the critical dependency of dependence on weakly constrained government officials. This reliance on personal relationships under high levels of unpredictability in organizational life appears to be a general phenomenon. There is evidence that organizational executives seek to manage their financial critical dependencies by seeking to build personal relationships with those on whom they depend (see Larson, 1992; Pennings, 1980). Certainly, the threats posed by nonfacilitative governments would be at least as problematic as those involved in technological or market shifts. Under nonfacilitative governments, participants fear that their competitors may harness the power of government to expropriate their company, have them thrown in jail for tax fraud, or harass them in any number of ways.

There is independent confirmation that managers depend more on their personal relationships for protection and dependency management under nonfacilitative governments than under more facilitative ones. Xin and Pearce (in Pearce, 2001) compared Chinese and American executives' descriptions of their most important work relationships. The Chinese executives, working under the less facilitative government, reported more dependence on their personal relationships and that they needed to cultivate such relationships with government officials to secure themselves against threats from arbitrary and potentially predatory officials when compared with the matched sample of American executives. Yet although Xin and Pearce report significant differences between Chinese dependence on personal relationships when compared with American settings, such comparative observations cannot definitively demonstrate that this organizational difference arises from variations in government facilitation rather than some other feature of these distinctly different societies and cultures.

However, the governmental changes involved in the transition from communism helps to isolate governmental effects.

Whitley, Henderson, Czaban, and Lengyel (1996) discovered that, contrary to their expectations, personal relationships became more important to the executives of state-owned companies during the early stages of Hungary's economic transformation. They found that these corporatized (but still state-owned) enterprises continued to depend on the government, with executives focused on their relationships with government officials rather than on their customers. Apparently, the political maneuvering and frequent changes in policies and personnel during the early governmental transformation led to substantial unpredictability that executives tried to manage by maintaining personal relationships with government officials. In an environment of uncertain privatization, rife nonpayments by state-owned customers and transforming legal and banking environments, personal relationships became even more critical for these managers.

Similarly, Pearce and Branyiczki (1997) proposed that the increase in erratic governmental actions in the early period of the transition led Hungarian managers to be even more dependent on the good graces of government officials than they were under reform communism. The process of privatization in Hungary was long and drawn out, characterized by changes in ruling parties with shifting political objectives. The transition introduced new players (foreign owners or alliance partners) that added to the complex maze of relationships that needed to be maintained. Hungarian enterprise managers needed to redouble their efforts to foster and sustain good relationships with an exploding number of other executives and government officials.

To restate this literature in more general terms, the greater managers' dependence on others, the more likely they were to cultivate a personal relationship of mutuality with those on whom they depended. Under nonfacilitative governments, personal relationships became more critical because they become the primary available way to build and sustain organizational work. Facilitative government and other structures of modernism are intended to build substitutes for personal relationships when complexity and scope require extensive impersonal exchanges with strangers. When those substitutes are not available, personal relationships with the powerful are all that is left. Relationships provide protection and needed information and convert asymmetric dependence to dependence. Although personal relationships are useful for virtually any dependency, they are particularly well suited to managing the insecurity posed by nonfacilitative governments. Such environments are significantly more threatening and opaque, and the protection and information that relationships with the powerful provide become quite simply indispensable.

Organizing Without Trust

To summarize the causal linkages described to this point (see Figure 1), a feature of governments—their nonfacilitation of independent organizations—has been proposed to lead to a form of organizations dependent on personal relationships. Now, how such organizations affect the behavior of individuals is developed. Organizing dependent on personal relationships has long been recognized and has been called organizing by trust (Arrow, 1974; Bradach & Eccles, 1989). This would lead to the assumption that we can look to this literature for causal guidance. Unfortunately, however, these theorists' ideas were not derived from close observations of how such relationship-dependent organizations operate in practice. Rather, in some cases theorists have contrasted historical accounts of organizational dependence on personal relationships with modernist forms of impersonal organizations (usually termed *bureaucracy*) to better understand the origins of modernist impersonal organizations (e.g., Weber, 1947; Zucker, 1986). Other scholars have sought to highlight the advantages of interpersonal trust in reducing the need for the costly surveillance systems of bureaucratic organizations (e.g., Arrow, 1974; Ouchi, 1980). In all these cases, modernist facilitative government was the context these scholars assumed. In contrast, those who have observed interpersonal interactions in organizations dependent on personal relationships under weak, erratic, or hostile governments do not report what is usually thought of as trust; instead, they report wary, distrustful relationships. This suggests that previous scholars' use of the term *trust* can be a misleading description of personal-relationship dependence in organizing.

How have those who have observed behavior in relationship-dependent organizations characterized these relationships? Yang (1994) describes the long process of testing that her fellow students underwent in establishing their relationships with one another. Self-disclosure was slow and measured compared to that of the American students among whom Yang had previously lived. She explicitly tied this wariness to the system of political informers prevalent in China in the early 1990s. Although the slow development of relationships is a practice with a long cultural tradition, it appears to be sustained by living under a government in which betrayal by one's fellows is a real possibility. Similarly, descriptions of wary, distrustful relationships also are found in scholarly descriptions of non-Chinese workplaces operating without facilitating governments (Banfield, 1958; Voslensky, 1984). For example, Haraszti (1977) described the distrust among coworkers vying for bonuses awarded erratically by foremen in a Hungarian factory in the communist period. Pearce, Branyiczki, and Bigley (2000) reported that employees working under the nonfacilitative government of transitional Lithuania did, indeed, report less trust in one another than did comparable employees working under the more facilitative government in the United States. Thus, those who have described their observations of interpersonal relationships in organizations dependent on personal relationships in societies without facilitative governments describe them as wary and distrustful. It seems that participants' mutual dependence on one another is not necessarily, or even particularly, associated with trust in one another.

Why should those working in those organizations dominated by dependence on personal relationships under nonfacilitative governments distrust their coworkers more than those in the impersonal bureaucratic organizations possible under facilitative governments? Pearce et al. (2000) suggest that it is because the absence of universalistic organizational practices fosters organizational fragmentation into the mutually suspicious and distrustful "fiefdoms" described by Boisot and Child (1988). Furthermore, Gambetta (1988) proposed that unpredictability in sanctions leads to distrust and restricted cooperation. Personal relationships secure the support and predictability people need to function in organizations, however limited in scope they may be (North, 1990; Weber, 1947; Zucker, 1986). Personal relationships are partial, incomplete, and unsatisfactory solutions to the organizational problems posed by nonfacilitative governments—producing distrust and wariness among those who must work in these organizations.

If we take this consensus among observers from a wide variety of organizational settings seriously, it would indicate that trust-based authority is a misnomer for organizations dependent on personal relationships. Relationships in such organizations are not necessarily characterized by the warmth and supportiveness we usually associate with the word *trust*. This is organizing based on mutual personal dependency rather than trusting relationships. Under nonfacilitative governments, personal relationships with government officials provide executives with the support and predictability they need to organize. The participants may have warm, trusting feelings about one another, but this is neither necessary nor common, as these studies indicate.

How, then, are such nontrusting or distrusting relationships maintained? They are more accurately characterized as relationships of mutual knowledge and dependence rather than of trust. In many cases the economists' phrase, "mutual hostage taking," is a better characterization than mutual trust. Given the unpredictable legal environment and dependence on arbitrary officials, participants are often in a position to do serious mutual harm to one another. The partners need each other and are more useful to one another in the relationship than outside of it. So they follow the old adage, "Hold your friends close and your enemies closer."

This assumption in the literature that organization based on personal relationships is based on mutual trust no doubt derives from a lack of experience with organizations actually dependent on such relationships. After all, markets and bureaucracies continue to be studied by large venerable scholarly disciplines (economics and organization theory, respectively). Organizing based on personal relationships has not received comparable attention.

Personal Relationships Undermine Meritocracy

Organizations dependent on personal relationships not only foster distrust, they also will undermine meritocracy in large organizations. Meritocracy is the impersonal evaluation of others based on their merit—in organizations, it is usually defined as contribution to the organizational performance. When organization is dependent on personal relationships, the priority–critical relationships must have means that they can be expected to trump meritocracy wherever the relationship and meritocracy come into conflict.

When personal relationships dominate organizations, they create their own demands. It is notoriously difficult to set aside personal relationships in response to demands to act impersonally. This has always been an exacting and difficult standard (Parsons & Smelser, 1956). Without impersonal rules, participants must foster and maintain a network of personal relationships, because this is the basis of their survival and success. When personal relationships dominate, participants depend on their personal network for organizational success, not on their performance. Certainly, powerful actors' confidence in someone may be based on that person's job performance; but even so, the person is driven to maintain the relationship, first and foremost. Under nonfacilitative governments, the pressure to build personal relationships with those who may be useful becomes a dominating objective in all interpersonal interaction.

Further damaging meritocratic universalism is the way in which systems of personal-relationship dependence are actively sustained by those who benefit most from them. Those who have built themselves favorable positions based on their good connections find that it is in their interest to undermine any development of an impersonal order, that is, bureaucratic constraints on their own actions. This is because an impersonal order would devalue their own hard-won personal network. Gambetta (1988) illustrates this phenomenon with his description of how Mafia chieftains in Sicily actively used their positions to foster others' dependence on them by regularly injecting distrust into the social milieu. He cites the example of a coachman-client of a local Mafia chief who bought and sold horses. The Mafioso protector ensured that the horse dealer was not cheated in these transactions and that, with this protection, the dealer had been able to pass off a bad horse as a good one. The Mafioso did not try to prevent cheating in his domain (i.e., establish an impersonal order that did not allow cheating). Rather, he used his position to protect his own clients from cheats and also to provide opportunities for them to cheat others—reinforcing the pervasive distrust that made his protection necessary. This illustrates how confidence in the impersonal order characteristic of meritocracy may be actively undermined by the powerful (often government officials, but most certainly local elites) who want to maintain the value of their personal patronage.

Other times, participants' behavior to secure personal protection does not so much intentionally disrupt meritocracy as it does inadvertently sustain the primacy of personal relationships. If everyone assumes that personal relationships are the basis for all decisions and allocations, they act accordingly. They will seek to build as many useful personal relationships as they possibly can and will use whatever resources they have to indebt others to them personally. Participants don't have the luxury of considering whether such actions are right or wrong, functional or dysfunctional—it simply is the way the world works. Furthermore, because dependence on personal relationships is driven by unpredictability under nonfacilitative government, participants are reluctant to abandon their relationships or ignore an opportunity to develop useful new ones. Whether consciously manipulated, once established, organizing dependent on personal relationships achieves a powerful stability. These demands are so insistent, so critical to survival, that they subordinate attempts to build meritocratic organizations.

My colleagues and I did find evidence supporting less emphasis on meritocratic employee performance in the organizations operating under the less facilitative governments of transition Lithuania and Hungary when compared with organizations in the United States. Lithuanian and Hungarian employees reported their own perceptions that their organizations were not meritocratic (Pearce, Bigley, & Branyiczki, 1998; Pearce, Branyiczki, & Bakacsi, 1994), reporting that "who you know" or "good connections" were more important than job performance in obtaining salary increases or promotions. These employee accounts were reinforced by an examination of actual human resources practices; for example, there were no formal written performance appraisals in any of the Lithuanian or Hungarian organizations.

Certainly, there is little in the writings of organizational theory or organizational behavior that suggests that personal relationships may undermine meritocracy. To the contrary, building personal relationships, particularly between supervisors and subordinates, has long been advocated (e.g., Roethlisberger & Dickson, 1939). Such works were written by those studying organizations operating under facilitative governments, and they reflect assumptions that meritocratic objectives would dominate organizations. Personal relationships were assumed to be subordinated and merely harnessed to cope with the unexpected or foster clearer performance-based communication. However, Pearce et al.'s (2000) observations of pseudobureaucracies operating under nonfacilitative governments suggests that such advocacy has been blind.

Doesn't the argument that personal relationships at work undermine meritocracy contradict decades of admonition to foster personal relationships among coworkers and between supervisors and subordinates?

It certainly suggests that the context in which those personal relationships exist is more important than has been acknowledged. Those advocating that one should build personal relationships with subordinates, managers, peers, or alliance partners appear to be advocating a very specific type of relationship. This is one that assumes that performance obligations remain paramount and that the parties know that they share the common objective of the success of the organization or alliance. Such assumptions are not possible with the relationship dependence fostered by nonfacilitative governments and probably should not be assumed to be universal in organizations under any kind of government. When personal relationships dominate organizations, as they do more frequently than is acknowledged in the management and organizational literature, they undermine rather than enhance the impersonal meritocratic system. Although a closer relationship between two individuals may increase the trust they have in one another, that relationship exists in a larger organizational context that influences (and in turn is influenced by) the relationship. Advocates of building more personal relationships at work have not had to justify themselves—they assumed personal relationships among those working together in organizations to be an unqualified good. Observations of organizational behavior under nonfacilitative governments suggest otherwise.

CONCLUSION

Developing scholarship on the effects of governments on management, organization, and organizational behavior can be impeded by the difficulty of isolating governmental effects from other societal practices and expectations and by a lack of causal understanding of how governments might affect management and organization. Governments develop slowly over time, acting on and reacting to other institutions and institutionalized expectations in their societies. This makes it difficult to determine which organizational and managerial practices might be caused by governments or by some other variable that also affects governments. One approach to this problem is to study those unusual circumstances where governments have changed, forcing other institutions and expectations to adapt to them.

The second impediment is the need to specify the causal mechanisms by which governments might influence organizations and organizational behavior. Each connection in such a causal argument can be tested, allowing our understandings of the effects of governments to develop. It is not enough simply to associate different governments with different organizational forms, practices, or the behavior of participants. Governmental effects may be various, and we are only just beginning to try to articulate those aspects of governments that might affect organization and organizational behavior. A small step toward explicating such causal linkages was offered in an account of how nonfacilitative governments can foster organization dependent on personal relationships that in turn encourages distrust and particularism rather than meritocracy. The illustration suggested that at least some theories of organization and management may be based on implicit assumptions about the (facilitative) governmental context of organization and organizational behavior. Specifically, the longstanding encouragement of personal relationships at work in the field of organizational behavior and the characterization of organization based on personal relationships as trust-based may be misleading.

As I hope the extended example illustrates, just because a phenomenon is difficult to isolate and study does not mean that it has unimportant effects on management, organization, or organizational behavior. This is particularly so in the case of governments. Governments matter a great deal to the organizations in their jurisdictions and to those who work within them. Furthermore, the effort to observe and think through the logical connections and alternative hypotheses regarding messy problems such as these can provide richer insights—not only into the phenomena directly studied, but also into other unarticulated assumptions in our scholarship.

NOTES

1. The reasons why some countries were able to make and sustain meaningful changes in governments are beyond the scope of this discussion. No doubt much of the credit for these changes goes to the bravery of many who took substantial personal risks when success was by no means likely, from differing strengths arising from historical circumstances, as well as from the persuasive claim that political, legal, and economic institutions isomorphic with those in the European Union are necessary to gain admittance.

2. Much of the data and examples used in this discussion have been adapted from a more comprehensive treatment of governmental effects on organizations and organizational

behavior (Pearce, 2001). I particularly want to thank Imre Branyiczki and Katherine Xin, my collaborators in data collection and theory development.

3. Independent organizations are those that operate independently of direct government dictate—they are not components of government, nor do they exist to achieve government-determined objectives (for more information, see Pearce, 2001).

REFERENCES

Antal-Mokos, Z. (1998). *Privatization, politics, and economic performance in Hungary*. Cambridge, UK: Cambridge University Press.

Arrow, K. (1974). *The limits of organization*. New York: Norton.

Banfield, E. C. (1958). *The moral basis of a backward society*. Glencoe, IL: The Free Press.

Boisot, M., & Child, J. (1988). The iron law of fiefs. *Administrative Science Quarterly, 33*, 507-527.

Bradach, J. L., & Eccles, R. G. (1989). Price, authority, and trust: From ideal types to plural forms. *Annual Review of Sociology, 15*, 97-118.

Burawoy, M., & Krotov, P. (1992). The Soviet transition from socialism to capitalism. *American Sociological Review, 57*, 16-38.

Davies, H. (Ed.). (1995). *China business*. Hong Kong: Longman Asia.

Fallers, L. A. (1965). *Bantu bureaucracy*. Chicago: University of Chicago Press.

Fligstein, N. (1996). Markets as politics: A political-cultural approach to market institutions. *American Sociological Review, 61*, 656-673.

Gambetta, D. (1988). Mafia: The price of distrust. In D. Gambetta (Ed.), *Trust* (pp. 158-210). New York: Basil Blackwell.

Haraszti, M. (1977). *A worker in a worker's state*. New York: Penguin.

Khanna, T., & Palepu, K. (1999). Policy shocks, market intermediaries, and market strategy: Evidence from Chile and India. *Journal of Economics and Management Strategy, 8*, 271-310.

Larson, A. (1992). Network dyads in entrepreneurial settings: A study of governance of exchange relationships. *Administrative Science Quarterly, 37*, 76-104.

Newman, K. L., & Nollen, S. D. (1998). *Managing radical organizational change*. Thousand Oaks, CA: Sage.

North, D. C. (1990). *Institutions, institutional change and economic performance*. Cambridge, UK: Cambridge University Press.

Ouchi, W. (1980). Markets, bureaucracies and clans. *Administrative Science Quarterly, 25*, 129-141.

Paine, T. (1776/1953). *Common sense, and other political writings*. New York: Liberal Arts Press.

Parsons, T., & Smelser, N. J. (1956). *Economy and society*. Glencoe, IL: The Free Press.

Pearce, J. L. (2001). *Organization and management in the embrace of government*. Mahwah, NJ: Lawrence Erlbaum.

Pearce, J. L., Bigley, G. A., & Branyiczki, I. (1998). Procedural justice as modernism. *Applied Psychology: An International Review, 47*, 371-396.

Pearce, J. L., & Branyiczki, I. (1997). Legitimacy: An analysis of three Hungarian-west European collaborations. In P. W. Beamish & J. P. Killing (Eds.), *Cooperative strategies: European perspectives* (pp. 300-322). San Francisco: New Lexington Press.

Pearce, J. L., Branyiczki, I., & Bakacsi, G. (1994). Person-based reward systems. *Journal of Organizational Behavior, 15*, 261-282.

Pearce, J. L., Branyiczki, I., & Bigley, G. A. (2000). Insufficient bureaucracy: Trust and commitment in particularistic organizations. *Organization Science, 11*, 148-162.

Pennings, J. M. (1980). *Interlocking directorates*. San Francisco: Jossey-Bass.

Pfeffer, J., & Salancik, G. R. (1978). *The external control of organizations: A resource dependence perspective*. New York: Harper & Row.

Plato. (1966). *Plato's republic*. Cambridge, UK: Cambridge University Press.

Putnam, R. D. (1993). *Making democracy work*. Princeton, NJ: Princeton University Press.

Redding, S. G. (1990). *The spirit of Chinese capitalism*. New York: Walter de Gruyter.

Riggs, F. W. (1964). *Administration in developing countries*. Boston: Houghton Mifflin.

Roethlisberger, F. J., & Dickson, W. J. (1939). *Management and the worker*. Cambridge, MA: Harvard University Press.

Varese, F. (1994). Is Sicily the future of Russia? Private protection and the rise of the Russian Mafia. *Archives of European Sociology, 35*, 224-258.

Voslensky, M. (1984). *Nomenklatura*. Garden City, NY: Doubleday.

Weber, M. (1947). *The theory of social and economic organization* (A. M. Henderson & T. Parsons, Trans. and Eds.). New York: Oxford University Press.

Whitley, R., Henderson, J., Czaban, L., & Lengyel, G. (1996). Trust and contractual relations in an emerging capitalist economy. *Organization Studies, 17*, 397-420.

Xin, K., & Pearce, J. L. (1996). Guanxi: Connections as substitutes for formal institutional support. *Academy of Management Journal, 39*, 1641-1658.

Yang, M. M. (1994). *Gifts, favors and banquets: The art of social relationships in China*. Ithaca, NY: Cornell University Press.

Zucker, L. G. (1986). Production of trust. *Research in Organizational Behavior, 8*, 53-112.