Faculty Working Papers

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MANAGERIAL ATTITUDES

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ABSTRACT

Managerial behavior in organizations is probably affected by influences from external organizations in the environment. It is hypothesized that the extent of external influence from specific organizations will be related to the degree to which the focal organization is interdependent with the external organization. Data from 141 Israeli managers tends to support the principal hypothesis. Firms that sell relatively more to the government perceive themselves as influenced more by governmental demands. Firms that are in relatively poorer financial condition are influenced more by both the government and banks. Managers tend to report spending more time with external organizations to the extent that the firm is interdependent with them. And managers who tend to rank external, governmentally controlled factors as being more important to organizational success are more likely to rank the importance of having political connections as being more important for a manager.

INTERORGANIZATIONAL INFLUENCE AND MANAGERIAL ATTITUDES

The question of what determines how organizations operate stands at the very center of attempts to develop managerial or organizational theory. It would be beyond the scope of this paper to review the various analytical perspectives that have been developed in an attempt to address the issue of what determines organizational behavior. We can point out that originally, organizations tended to be viewed as rational instruments for achieving some specified objective (Taylor, 1911; Gulick and Urwick, 1937). Later, it was recognized that organizations are social systems of interacting persons, and this fact has certain dysfunctional consequences for bureaucratic operation (Merton, 1940; Gouldner, 1954), and can also be used to analyze some of the determinants of organizational behavior (Selznick, 1948). Another line of research has viewed the organization as a loosely coupled coalition of participants (Cyert and March, 1963), with the central organizational problem being that of supplying enough inducements to maintain a viable coalition. Finally, there has recently been within the organizational writing an increasing analytical focus on the organization as an open system (Katz and Kahn, 1966; Thompson, 1967; Parsons, 1956; Perrow, 1970). It is the purpose of this paper to provide some evidence indicating how this latter analytical perspective can be useful in analyzing organizational behavior and the attitudes of managers within organizations.

The Organizational Problem

The organizational problem is that of organizing and controlling collective action so as to achieve, as effectively as possible, the goals of the organization in the environment in which it operates. As Thompson and McEwen (1958) have noted, these goals are dynamic responses to the environment, and Parsons (1956) has noted that the organization's goals provide a means of legitimating it in the larger society in which it exists.

Parsons (1960) has distinguished three levels in an organization. The technical level does the work of the organization, and is focused toward goal attainment. The administrative level has the function of integrating the technical level, coordinating the work, and ensuring the proper administrative machinery exists so that organizational operations can proceed. The third level in the organization, the institutional level, has the function of relating the organization to its environment, and of handling interorganizational relations.

That part of the organizational problem that deals with internal efficiency has been treated most extensively in the organizational and management literature. There has been great concern with what type of supervision is best (Argyle, et al., 1958; Vroom, 1964; Katz, et al., 1951), and concern with the relationship between worker satisfaction and productivity (Brayfield and Crockett, 1955; Katzell, et al., 1961; Viteles, 1953. Relatively less concern has been directed to the relationship between the organization and its environment. Nevertheless, the experience of

General Motors (Cordtz, 1966) and the automobile industry in general, the problems of universities today, and many other examples illustrate the importance of the institutional function of legitimating the organization's goals and output in the social context in which it operates. Moreover, in a society which is increasingly organizationally dense (Boulding, 1953), it is likely that many of the stimuli for managerial behavior come from outside of the organization, rather than from within.

The Organization and Its Environment

There has been some research that has attempted to trace the managerial and organizational implications of the environment. Burns and Stalker (1961) noted how the rapidity of change and the complexity of the technological environment appeared to determine whether a mechanical or organic system of management was employed. Under a mechanical system, appropriate for very stable environments, there was greater adherence to rules, less group decision making, and in general, a more bureaucratic management system. The organic system of management, which was more flexible, seemed to be more appropriate for rapidly changing environments.

The impact of the environment on organization was also studied by Woodward (1965), where this time the environment was viewed in terms of the production technology. Lawrence and Lorsch (1967) noted how organizations differed along the dimensions of differentiation and integration as the rapidity of change in their environments differed, and furthermore indicated that organizations that more closely matched the environmental requirements tended to to be more successful than those that did not.

Simpson and Gulley (1962) examined how differences in the goals of the organization and pressures from the environment affected organizational operation, while Pugh, et al. (1969) investigated the interrelationship of a variety of organizational contextual variables and variables of organizational structure.

These studies can all be distinguished by their focus on the interrelationship between environment and elements of organization structure. More like the present study, Dill (1958) examined the impact of the environment on the behavior of managers. In his study of two Norwegian firms, Dill provided evidence that managerial behavior was conditioned at least in part by the environment, as well as by factors internal to the organization.

The present study focuses on the impact on managerial perceptions of their behavior of influences emanating from specific other organizations in the focal organization's organization-set (Evan, 1966). This study, then, is different because the environmental components being examined are other organizations, acting in mechanisms of interorganizational influence, and the effects being examined are actual differences in managerial behavior and attitudes.

Interorganizational Influence and Managerial Attitudes

We hypothesize that interorganizational influence arises from conditions of asymmetric interdependence between organizations. In turn, interdependence can be productively viewed in a resource-exchange framework (Levine and White, 1961). We shall argue, then, that when organizations are interdependent, because of resource exchange, and when one of these is less dependent than the other

on the particular exchange relationship, conditions exist which can lead to interorganizational influence.

Some examples may help illustrate the types of behavior to which we are referring. Perrow (1970) reports that it is believed that General Motors audits the accounting records of some of its smaller suppliers, to make sure that they are not making too much money on the business they are doing with GM. In this instance, the small suppliers are selling virtually all of their output to General Motors, while on the other hand, each supplier comprises only a minute fraction of the input-system that General Motors itself uses. Moreover, since there are relatively few automobile companies, there are few alternatives for the small suppliers in terms of markets for their output. Thus, the small suppliers are more dependent upon GM than GM is on them. Consequently, General Motors can use this asymmetric interdependence to influence the organizations to sell to them at a relatively lower price.

The antitrust laws are literally filled with proscriptions that seek to prohibit the use of interorganizational power. Suppliers are not supposed to be able to restrict their distributors' resale price or sales territory, and tying arrangements and contracts are also illegal. In most of these instances, the supplier has a large number of distributors, but each distributor can buy products from one, or only a few suppliers. This leads to asymmetric interdependence, and to the potential for interorganizational influence. In the cases just mentioned, society has acted to prohibit the actual exercise of such influence.

Interorganizational influence is actually a widespread phenomenon, and, as a matter of fact, many aspects of social change are accomplished through this mechanism. Thus, we see the Federal government attempting to have firms change their minority recruitment and hiring practices; consumer union groups attempt to have companies change their product policies; and trade associations and businesses attempt to influence legislative policies. We are hypothesizing that interorganizational influence will be observed, and will be successful, to the extent that there is asymmetric interdependence between the organizations. Without unequal interdependence, the probability of successfully influencing the organization is relatively small.

This argument implicitly focuses on the resource exchange process as being important to the understanding of organizational behavior. It is thus quite consistent with the perspective of the organization as an open system, and with the notion that the organization seeks to survive, for which it requires resources.

Data and the Sample

Interview data were collected by Aharoni (1971) from the managers of the 141 largest manufacturing plants in Israel. These data were collected as part of a study of the characteristics of the Israeli manager. The data collected ranged from background information on both the managers and the firm for which he worked to measures of the manager's attitudes toward a wide variety of subjects and situations. The study was undertaken for purposes independent of the test of the hypothesis on interorganizational

influence we have proposed, and thus while there is undoubtedly experimenter and interviewer bias in the data, this bias is at least unrelated to the propositions we will be testing.

The 141 managers had titles ranging from president to plant manager, but they could all be considered to be in general management, and they were all the chief executives of at least one large manufacturing facility. The plants had sales ranging from up to 100,000,000 Israeli pounds, with a median value of 11,883,000 pounds.[1] The largest concern had over 75,000 workers. Data on over 500 variables were gathered in the interview with each manager. Since most of this data does not concern the present study, we will discuss only those questions that are appropriate to examining interorganizational influence and the impact on managerial attitudes and perceptions.

One problem with the data, of course, is that it is strictly self-report, and furthermore, many of the questions tapping managerial discretion and influence are somewhat projective in nature. The general nature of the questions tapping how much the manager was influenced by external organizations was probably necessary because it is highly unlikely, for reasons of self-esteem, that many managers, in any culture, would admit to being influenced in a specific situation by particular external organizations. We therefore infer the influence of external organizations from the manager's answers to some general questions about what he would or would not do. To the extent that there is variation across managers in how they respond, and to the extent that this variation can be accounted for by hypotheses based upon conceptualizations

of interorganizational interdependence, then we feel justified in presenting these results as being supportive of our propositions concerning interorganizational influence and managerial behavior.

Influence of Government on Decisions

We expect that the greater the interdependence between the organization and the government, the more influence the government will have on the manager's decisions and his attitudes. Interdependence with the government can derive from at least two situations. In the first case, we can have the interdependence resulting from the fact that the firm sells a large percentage of its output to the government. To the extent that the firm's sales are largely with the government, the manager of that firm is hypothesized to be more susceptible to influence from the government, or one of the ministries.

A second cause for interdependence with the government is a relatively weak financial condition. While in the United States firms are generally expected to work out their own financial difficulties in Israel, firms in financial trouble can and do turn to the government for a wide variety of forms of assistance. This assistance is also available, we might note, to firms not in difficulty, but the government guaranteed loan would be less of a necessity to a firm not facing financial limitations. The government can guarantee a bank loan to the firm, thereby ensuring that the firm will obtain the loan. The government can also provide various forms of incentive payments and tax considerations to the firm. While such incentives are generally utilized to encourage exports or to encourage plants to locate in development areas,

they may also be used by the government to assist firms in financial distress. In the Israeli economy, government intervention is frequent and expected, even to the point of owning portions of firms, so that in addition to banks, the government becomes an obvious source of funds to firms having financial problems. Therefore, we hypothesize that firms in financial trouble will be relatively more susceptible to influence from the government.

The manager was asked what percentage of his total sales were made to various organizations or types of organizations. Government organizations include the categories of defense, the Shekem,[2] and other governmental organizations. These can be totaled to arrive at a figure indicating the percentage of sales made to all the various governmental agencies.

One question tapping the extent of government influence concerned investment in a development area. Certain areas in Israel have been designated by the government as development areas, and new plant investment is encouraged in these areas. The following question was asked:

> Assume that the management of the firm decided to establish a new plant. The Ministry of Trade and Industry has suggested that you establish this plant in a certain development area. According to your calculations, the return on investment will be 15% after tax if you invest in this town, after taking into account all incentives and government help. Please circle one of the following: 1. I would invest in all cases in the development city; 2. I would invest in the development area if the yield in the center of the country is as high as 25%; 3. I would invest if the yield in the center of the country is 20%; 4. I would invest if the yield in the center of the country is 15%; 5. I would invest if the yield in the center of the country is less than 15%; 6. I will invest only if the yield in the center of the country is less than 10%; 7. I would never invest in the development town.

The Kendall rank-order correlations between the percentage of sales to the government and the answer to this question are displayed in Table 1. Note that all correlations are in the expected direction, and that they are all statistically significant at the .035 level or less.

Table 1 about here

A second question tapping the influence of the government on managerial decisions was as follows:

> You are looking for a Vice-President, and are trying to locate a good man. Two persons were suggested to you. One of them is liked by a central government personality, but does not have the optimal qualifications for the job. The second man has the best qualifications, but his same government man doesn't like him. Would you 1. Take the first man; 2. Take the first man only if the job requires contact with the government; 3. Take the second only if the job does not require contact with the government; 4. Take the second man.

The Kendall tau correlation between the answer to this question and the percentage of sales to defense is significant at the .05 level. Firms that sell more to defense are more likely to choose the vice-presidential candidate favored by the government.

The extent of the financial limitations faced by the firm was assessed partially by the following question:

> Do you think the firm is limited in choosing its source of funds? 1. No; 2. Generally no; 3. Usually yes; 4. Always yes.

The answer to this question, as hypothesized above, correlated -.112 with the answer to the question on investing in a development area, a relationship which is significant at the .04 level. The direction of the correlation means that firms that were more limited in their financing tended to more frequently be willing

to locate in the government-sponsored area. The correlation between this question and the one on choosing the vice-president was in the expected negative direction, but did not achieve statistical significance.

Yet another measure of the influence of external organizations on the managers' decisions was obtained from the following question:

> Please rank the following bodies according to the amount of influence they have on your freedom to make decisions. (The ranking proceeds from 1 for most influence, to 15, for the least influence.)

The groups include government ministries, shareholders, directors, workers, customers, suppliers, and competitors. The influence of the Ministry of Trade and Industry was correlated non-parametrically -.098 with the extent of financial limitations reported, significant at the .06 level, and was correlated -.121 with the percentage of sales made to the Shekem, which is significant at less than the .03 level. The reported influence of the Ministry of Finance was also related to the reported financial limitations, with the Kendall tau value of -.172 being significant at less than the .003 level, while the influence of the Ministry of Finance was correlated at less than the .10 level of significance with the percentage of sales made to defense (Kendall's tau = -.085). Once again, then, we see demonstrated the relationship between both sales interdependence and financial interdependence and the reporting of increased governmental influence on managerial decisions.

In addition to the interdependence resulting from the sales distribution of the firm, and the possible interdependence arising from financial limitations, there is a third concern which involves

the ownership of the firm. Companies owned largely by foreign investors feel they have a special task of legitimating themselves, or of being good corporate citizens, in any country. We would therefore expect that the ownership of the firm might pose some special concerns in dealing with the environment, which will be, perhaps, reflected in the reported influence of the government on managerial decisions. A question measuring government impact on managerial decisions was the following:

> You have to decide between two alternatives. One alternative will ensure you the sympathy of the senior government minister; the second one, according to your best judgment, is better from the point of view of your firm and does not hinder any interest of the government. Would you 1. Choose the first alternative; 2. Choose the second alternative.

The answer to this question was negatively related with the percentage of foreign private ownership, with the Kendall tau value of -.11 being significant at less than the .03 level. This means that the greater the percentage of foreign ownership in the firm, the more likely the manager was to choose the alternative favored by the government.

In contrast to the reports of managers of firms owned by foreign investors, the percentage of government ownership of the firm was positively correlated with this question, with the Kendall tau value of .140 being significant at less than the .01 level. The organization owned largely by the Israeli government does not have the societal legitimacy issue to face as strongly, and hence has managers who tend to choose the second alternative, the one that is best from the point of view of the organization.

Firms owned by local investors would be expected to fall somewhere between these previously presented results, and in fact, there was not a significant correlation between the percentage of private local ownership and the answer to this question on governmental impact.

We would expect that firms that were largely owned by the government would have the power to be more independent of other governmental bodies, and in fact, we find that there is a predicted positive correlation of .126 with the influence of the Ministry of Trade and Industry and the percentage of government ownership of the organization. This relationship, significant at the .02 level, means that firms that were owned more by the government ranked the influence of the Ministry of Trade and Industry lower. The correlations with the other ministries were not significant, however.

The Influence of Banks

We hypothesize that the influence of banks on the decisions made by the firm would be directly proportional to the extent that the firm is in poor financial condition. When the opportunities for financing are limited because the firm is in financial trouble, banks, as providers of the necessary funds, should be able to exert relatively more influence. Bank influence, as ascertained in the question asking which external bodies had the most impact on decisions, was correlated -.135 with the extent of reported financial limitations, a relationship which is significant at less than the

.02 level. The direction of the correlation means that firms that were more limited in choosing their source of funds ranked banks relatively more important in influencing their decisions. At the same time, the percentage of government ownership was correlated .117 with the influence of banks, significant at the .03 level. This suggests either that under government ownership, financial conditions in the firm tended to be better, or that the problem of obtaining financing were reduced because of the connection to the government.

How Managers Report Spending Their Time

It is to be expected that not only managerial decisions and attitudes, but also reported time allocations among alternate activities should be affected by the existence of situations of interdependence with important external organizations. Correlations between the reported time spent in dealing with external organizations and those factors that have been postulated as influencing interdependence further support the conceptualization of these factors as sources of organizational problems.

The percentage of the time managers report spending with the government is correlated non-parametrically .102 with the percentage of foreign private ownership in the firm, and .109 with whether or not the firm believes its sales are being hindered by financial problems, with both correlations reaching statistical significance at less than the .04 level. The percentage of time spent with banks is correlated .170 with whether the firm's sales are being hindered by financial constraints, and this correlation is significant at the .001 level. The percentage of time spent in

contact with the Ministry of Finance is similarly correlated with the reporting of financial constraints, with the Kendall tau value of .128 being significant at the .02 level, while contact with the Ministry of Trade and Industry was correlated .154 with the same question, a relationship that is significant at the .003 level. While correlations of reported time spent with government ministries are not significantly related to the percentage of sales made to the government, the sign of the relationships is in the expected positive direction.

We see, then, that the percentage of time and reported contact with both banks and the principal government economic ministries are significantly positively related to the existence of financial constraints on the firm. These data reinforce our earlier conclusions that financial problems create increased interdependence between the organization and the banks and the government.

Attitudes Toward Exports

Exports are very important to the Israeli government. Export incentives are given, and exports are normatively valued in the Israeli culture. Willingness to export, then, is an attitude that is strongly desired and encouraged by the government.

The following question was asked:

> From the point of view of demand, you can sell all of your firm's output both in Israel and abroad. Assume that the rate of profit in the local market is 25% on sales. What will be the percentage of production that you will sell abroad under the following profit conditions. Profits both in Israel and abroad are after taking into account all of the export incentives. (Profit abroad ranged from 25% down to 5%).

For all profit conditions, the greater the amount sold abroad, the more the manager could be assumed to be attempting to please the government. This is because the firm, able to hypothetically sell all of its output either in Israel or abroad, is generally throughout the question taking smaller profits by selling more of the output abroad, compared to selling it at home.

Considering the final category, when the profit on sales abroad is only 5%, we find that there is a relationship between the percentage the manager says he will sell abroad and the expression of sales constraints due to financial limitations, with the relationship being significant at the .09 level. Furthermore, the percentage sold abroad is correlated -.111 with the expressed importance of finance as a factor contributing to managerial success, a correlation which is significant at the .03 level. This indicates that managers facing financial problems are more willing to do things the government desires. The percentage the manager is willing to export abroad at reduced profits is correlated -.116 with the importance of export incentives to his decisions, and this relationship is significant at less than the .03 level. Managers in firms in which sales are limited by financial problems, and managers who feel that export incentives are important for the firm are more willing to cooperate with the government in selling more of their output abroad.

The question of how much output the manager was willing to export did not correlate with the percentage of sales made to the government, though this result is possibly an effect of the fact that firms that sell a great deal to the government are not likely to be making products which are readily exportable.

The Importance of Good Political Connections

The following question was asked of the respondents:

> Please rank the following factors according to their actual effect on the advancement of a manager in Israel. (One factor is Political Contacts). (The ranking proceeds from 1 for most important to 7 for least important).

We would hypothesize that firms in situations of great interdependence with the government would have managers who would tend to rate political contacts as being relatively more important than managers of firms who were not as interdependent with the government. Much like the percentage of time spent with different external groups, this question provides a measure of cross-validation on the external influence of the government arising from various situations, and also indicates the extent to which managers are responding to this type of external influence.

The Kendall tau value for the correlation between the importance of political contacts and the percentage of sales made to the defense sector is -.187, significant at the .003 level. In other words, the greater the percentage of sales made to defense, the more important is the ranking of political contacts as a factor for managerial advancement.

An additional question tapping the perceived importance of political connections was the following.

> Below you have a list of certain personal traits. To what extent do you think any one of these traits is important for a good manager. Please indicate those that you think are 1. Very important; 2. Important; 3. Helpful; 4. Unimportant. (One of the traits listed was "he has very good connections in the government.")

We can hypothesize that answers to this question would tend to be related to the extent to which the manager believes that external factors, over which the government has control, are important to the success of the firm. To the extent that the success of the firm is dependent upon economic variables controlled by the government, the manager should express the belief that good political connections are relatively important for managerial success.

These predictions are supported in the data. The percentage of exports of the firm is correlated -.116 with this latter question, suggesting that the larger the percentage of exports, the more important good political connections are thought to be, and this relationship is significant at the .03 level.

When the respondent was asked:

> Please rank the following factors according to the influence they have on your freedom to make decisions. (One of the factors is customs protection on local production).

we found that this factor was correlated .118 with the importance of good political connections. The more important this factor was, the more important political connections were thought to be, in a relationship that was significant at less than the .03 level.

Finally, the question was asked:

> Based on your experience, please rank the following factors according to those which you think are most important for the success of the firm's management.

The factors, largely controlled by the government, and the correlations between their ranking and the question of the importance of having good political connections, are displayed in Table 2. The importance of the wages policy, while not correlated with this dimension of the importance of political connections, was

Table 2 about here

correlated .197 with the question of how much political contacts helped in the advancement of the manager in Israel.

The extent to which the manager attributes the success of the firm to factors essentially external to the firm, and under the control of the government, is related to his belief in the importance of good political connections for managerial success and advancement. Once again we see highlighted the interdependence between the firm and its external environment, and how this interdependence influences the perceptions and attitudes of the Israeli managers.

Conclusion

The data reviewed in this study appear to indicate the importance of external organizations in influencing the attitudes of managers in the focal organization under consideration. Interdependence, the result of transactions interdependence, financial interdependence, or an interdependence growing out of a need to be socially legitimate, tended to consistently influence the Israeli managers interviewed to take positions favored by the external organization with which they were interdependent. The importance of good political connections was related to the extent the managers believed that external factors under the control of the government contributed to their success and advancement. And, the time reported spent with various external organizations was also correlated with the firm's interdependence with these external agencies.

The data appear to point up the need to consider external influences in seeking to analyze organizational behavior, and also provide some evidence of the usefulness of the concept of interdependence in aiding this consideration.

FOOTNOTES

[1] At the time the research was done, the exchange rate was 3.5 Israeli pounds per American dollar.

[2] The Shekem is the equivalent in Israel of the American military commissary, or PX.

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Table 1.

Correlations of Percentage Sales to Various
Governmental Agencies and Willingness to
Invest in a Development Area

Government Agency	Correlation*	Level of Significance
Defense	- .110	.034
Shekem	- .325	.001
Other government	- .160	.004
Total government	- .211	.001

*Kendall rank-order correlations

Table 2.

Correlations Between Importance of Having Good Political Connections and Importance of Factors for the Success of Management

Factors	Correlation*	Level of Significance
Indirect taxes	.188	.002
Monetary policy	.169	.005
Export incentives	.202	.001
Incentives to development areas	.272	.001
Customs	.142	.015

*Kendall rank-order correlations