Journal of International Management 20 (2014) 290–311

Contents lists available at ScienceDirect

Journal of International Management

Fox School of Business
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Multinational Organizations as Rule-following Bureaucracies — *The Example of Catholic Orders*☆

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ARTICLE INFO

Article history:
Received 23 March 2013
Received in revised form 23 November 2013
Accepted 24 November 2013
Available online 11 December 2013

Keywords:
Multinational organizations
Governance
Organizational rules
Subunits
Local environment

ABSTRACT

Within the literature, organizational rules are mostly taken for granted even though the reduction of office management into rules and the provision of their blueprints may be the main enabler for the management of organizations that conduct operations in multiple countries. Using the example of Catholic Orders and their monasteries, we analyze whether rule-following bureaucracy contributes to the management of multinational organizations (MNOs). The introduction of organizational rules and the redefinition of labor within these rules produced early medieval monasteries that were the most efficient organizations of this time, allowing them to spread rapidly throughout the world. Our main hypothesis is that governance by rules is a superior governance mechanism for MNOs. MNOs with more bureaucratic rules have accumulated a richer pool of encoded knowledge to deal with heterogeneous problems and, thus, are better forearmed to deal with complexity. The empirical findings mostly support this assumption. Bureaucratic governance may be thus an important but neglected topic for the management of modern MNOs.

> "In modern societies, formal organizations are governed by rules: resource allocation and decision making are structured by a set of rules that establishes authority, priority, and planning in the organization. The familiar organization chart is in fact a visualization of the rules by which hierarchical levels are ordered and units coordinated. Even at the most basic level, employees enter and leave their workplaces following the rules specified in the time schedule."
>
> [Zhou, 1993: 1134]

1. Introduction

Organizational rules, as a primary feature of bureaucracy, were a recurrent theme in the classical work of organizational scholars (Blau, 1955; Cyert and March, 1963; Gouldner, 1954; Merton, 1971; Weber, 1964; zuerst 1921) and also in later work (Beck and Kieser, 2003; DiMaggio and Powell, 1983; Kieser, 1987; March and Olson, 1989; March et al., 2000; Nelson and Winter, 1982; North, 1990; Schulz, 1998; Weber, 1985; Zhou, 1993). In the recent past we find only a few studies explicitly dealing with the rule topic even though governance by rules today dominates all sorts of formal organizations (Gajduschek, 2003; Hodson et al., 2013). One reason may be that "nowadays the term bureaucracy, at least in everyday language, is no longer linked to 'rationality' or 'efficiency', but to cumbersome, overregulated, and impersonal processes that individuals are forced to adhere to" (Beck and Kieser, 2003: 794). Formal

☆ The underlying data of this research are used in two other working papers of the authors. One manuscript empirically tests the Uppsala model of internationalization. Another manuscript looks at aspects of charity in monasticism, i.e., it compares the extent of CSR practiced by the different kinds of Catholic Orders. The working papers can be requested from the authors.

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1075-4253/$ – see front matter
http://dx.doi.org/10.1016/j.intman.2013.11.001

rules are perceived as having a negative impact on motivation and satisfaction, and are associated with inflexibility and a reduced capacity for organizational learning and innovation (Beck and Kieser, 2003; Pinchot and Pinchot, 1996). Another reason may be the common interest in principal agency theory to identify suitable governance mechanisms (Eisenhardt, 1989; Fama, 1980; Jensen and Meckling, 1976). The agency theory points to universal control mechanisms to align diverse interests within organizations instead of pointing to firm-specific control mechanisms as a bureaucracy does. As a consequence, bureaucracy seems to be an 'organizational dinosaur' (Olsen, 2006) within organization theory and consecutive schools of management. The widespread assumption is that formal rational organizations are not able to unconditionally provide the highest level of efficiency (Gajduschek, 2003). This predominantly critical view on bureaucracy is also reflected in other social science disciplines, e.g., in political science and economics. Here, bureaucracy (i.e., public administration and government) is seen as a nonmarket mechanism, where bureaucrats tend to follow their own interests at the expense of the public interest, which has led to a call for debureaucratization with the goal of structuring the provision of public services more efficiently by applying non-bureaucratic, private-sector management techniques (Gajduschek, 2003).[2]

The lack of interest in bureaucratic rules particularly applies to the issue of multinational organizations (MNOs). First, within the current MNO literature, organizational rules are mostly taken for granted even though – or perhaps precisely because – organizational tasks today remain highly formalized and routinized (Gajduschek, 2003; Hodson et al., 2013; Markert, 2008; Ritzer, 2010) and most studies support the idea that bigger organizations are more formalized (Blau and Schoenherr, 1971; Pugh et al., 1969). This neglects that the reduction of modern office management to rules may have been the main enabler for MNO management. Second, most previous studies regard bureaucracy as an inefficient phenomenon resulting in lower levels of organizational performance (Gajduschek, 2003; Markert, 2008; Sewell and Wilkinson, 1992).[3] Arguing that business performance as "a subset of the overall concept of organizational effectiveness" (Ghoshal and Nohria, 1986; p.:10; Venkatraman and Ramanujam, 1986; pp.: 801ff.) should be at the core of organizational research, a strong focus is placed on aspects of efficiency, causing a 'blind spot' with regard to one strength of bureaucracy, namely the reduction of uncertainty (Gajduschek, 2003).

Organizational researchers have long noted the tendency of firms to avoid and reduce uncertainty (Henisz and Delios, 2001) that, in particular, holds for MNOs that face heterogeneous task environments (Ghoshal and Nohria, 1989) and that basically operate in an environment of uncertainty (Das, 1983). In a similar vein, institutional theorists argue that "firms may achieve legitimacy at the expense of efficiency, but in a turbulent environment, legitimacy per se is often crucial to survive" (Schellenberg and Miller, 1998; p: 207). According to institutional theory, "formal structures [...] dramatically reflect the myths of their institutional environments instead of the demands of their work activities" (Meyer and Rowan, 1977; p: 341). Incorporating the myths of the institutional environment leads to increased legitimacy, i.e., to the increased acceptance of the organization in its community (Baum and Oliver, 1991; DiMaggio and Powell, 1983; Meyer and Rowan, 1977; Scott, 1987). A few previous studies indeed show that bureaucratic measures help to reduce uncertainty. Perrow (1986) demonstrates that uncertainty causes stress among employees, creating the desire for stability, routine work and bureaucratic control. Another study on the adoption of bureaucratic structures in a software engineering firm in the late 1980s reveals similar potential benefits of bureaucracy in turbulent environments (in spite of the fact that the authors point to the problematic issue of inappropriate bureaucratization) (Schellenberg and Miller, 1998). However, oppositional findings also exist. For example, in a comparative study of six organizations, Lawrence and Lorsch (1967) show that organizations develop less formalized structures when operating in an uncertain environment. Nevertheless, substantial empirical evidence on the link between bureaucratic rules and potential gains through uncertainty reduction in MNOs is still missing, which justifies our contribution to fill this research gap.

In this study, we analyze whether the rule-following bureaucracy contributes to the management of MNOs. We focus on Catholic Orders and their monasteries. As pointed out by Weber (1958, 1973), it was in the monastery where work first assumed an ascetic value and the rule-following bureaucracy emerged as a consequence of the process of rationalization. The process of rationalization led to a demystification of the world (Weltbeherrschung) and, thereby organizational norms that rested upon religious and societal principles, were increasingly superseded by scientific–technical methods with which organizational procedures

[2] Empirical studies or theoretical considerations with regard to public bureaucracy are not considered in the following as we focus on the large scale multinational organization.

[3] While the formal rational school of management referred to Weber's notion of bureaucracy to describe the Taylorian organization model based on scientific management (Gajduschek, 2003), subsequent theoretical approaches, such as neo-Weberian approaches, the human relations movement and the open system theory of organizations, point to the 'dysfunctions of bureaucracy' (March and Simon, 1958). It has been argued that bureaucracy creates over-conformity and rigidity, does not take into account irrational behavior or conflicts within organizations, ignores communication processes between individuals, or disregards the trade-off between specialization and coordination (Gajduschek, 2003; Markert, 2008; Sewell and Wilkinson, 1992). However, formalization and centralization are still central constructs in the analysis of the organizational structure of MNOs (Ghoshal and Nohria, 1986; Ghoshal and Nohria, 1989; Pugh et al., 1968). For example, studies on the management process between headquarters and subsidiaries show that a high degree of formalization and standardization in MNOs facilitates the centralization of decision rights thereby leading to limited subsidiary autonomy (Ferner et al., 2004). In contrast, other studies find that a high level of formalization is associated with decentralized authority (Child, 1972). Similar contradictory results can be found in studies on the link between subsidiary performance and the (de-)centralization of the headquarters–subsidiary relationship (Ghoshal and Nohria, 1986). Subsequent studies based on contingency theory offer one explanation to these inconclusive results: organizational performance and effectiveness are often contingent upon a plethora of factors, meaning that there is no one "best way" to manage an organization. Rather, organizational success depends on a 'fit' between organizational environment and intra-organizational features. Through this lens, highly rationalized systems may only be suited to firms operating in stable and predictable environments (e.g., Daft, 1998; Emery and Trist, 1965; Heydebrand, 1989). Transferred to MNOs, this result implies that there is no single homogeneous structure in the headquarter–subsidiaries relationship (Ghoshal and Nohria, 1986, 1989, 1993). Nevertheless, contingency theorists seem to be essentially pessimistic in their assessment of formalization (Adler and Borys, 1996), that resulted in a rising body of literature on alternative organizational forms, such as network approaches, stressing that traditional authority mechanisms should be substituted by relatively little formalization, lateral communication and knowledge transfer between loosely coupled units (Bartlett and Ghoshal, 1991; Ghoshal and Bartlett, 1990, 1989; Hedlund, 1986; Perlmutter, 1969; Prahalad and Doz, 1987).