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Emergent character of interpersonal relationships in organizational structures of capital groups

Abstract *The paper presents an analysis of interpersonal relationships in organizational systems of capital groups, treated as an effect of personal union. Emergent character of this type of relationships was shown through imitation, trust and cooperation of undertakings forming a capital group. Examples of model and concept references of the above mentioned factors were pointed out, on the base of the theory and practice of organization and management. A synthetic characteristic of the influence of these factors on the character of the discussed intraorganizational relations was made.*

Keywords: interpersonal relationships, capital group, emergence, imitation, trust, cooperation

Introduction

Interpersonal relationships in capital groups appear in organizational structures of capital groups. They result from performing functions by the same persons in supervisory boards and boards of directors in at least two different companies being a part of the same capital group, which is an indicator that management of the dominating company tries to strengthen its control over dependent companies [Trocki 2004, p. 51]. Therefore the source of this type of relationships is personal union. Interpersonal relationships can be vertical, when the same persons perform functions in governing bodies of the dominant company and the subsidiary, or they can be horizontal when the same people are employed as members of supervisory boards or boards of directors of different subsidiaries. Appearing of interpersonal relationships among undertakings of a capital group can be perceived as a result of the influence of various conditions influencing the processes of forming of such relationships or, independently of intentions of the decision makers, as their

emergence from social processes occurring in an organizational system of the group. Interpersonal relationships are an example of inter-organizational relationships which should be considered, as W.Czakon stresses, in specific time periods, specific environment conditions, through the perspective of three features characteristic for them, that is exchange, engagement and mutuality. Organizational relationships, according to the above mentioned author, come into being primarily as a result of imitation (mimetism), trust and organizational cooperation [Czakon 2007, p. 151].

The aim of this paper is analysis and presentation of each of the above mentioned factors.

I. Imitation as a factor of emerging interpersonal relationships in capital groups

Imitation as a factor of emerging interpersonal relationships in capital groups is based first of all on two types of imitation processes, that is an institutional process and compulsory process and to a lesser degree on a competitive process. The competitive process, as one of the three processes of imitation presented in literature of the subject, plays relatively smaller role in creation of interpersonal relationships in capital groups. It can be taken into account as a factor influencing creation of this type of relationships in such capital groups as international joint venture or strategic alliances, where partners are perceived as competitors. These processes lead to isomorphisms, that is creation of similar forms of relations in the social environment of companies constituting a capital group.

Institutional isomorphism consists in spreading among members of the group of managing practices, work standards, attitudes and values whose generator is the main undertaking of this group in terms of formal status or professionalism of management. It can, in the author's opinion, influence standardization of behaviour of both managers and employees of companies constituting the capital group and lead to unification of activities in the area of operational management of these companies. Examples of institutional isomorphism are processes of acquisition and mergers of companies, especially international. Results of empirical studies show that benchmarks in these processes are often operational management systems and cultural patterns functioning in the corporation of the new owner, being the acquiring subject or in the leading company in the merger. The carriers of these modern standards are expatriates, that is representatives of the new owner (parent company) delegated to work in supervisory boards and boards of directors of the acquired

companies, situated abroad, in order to control and represent its interests.¹ Cultural context of acquisition or merger, considered here as a method of creating capital groups, has a strong influence on the course, character and scope of such imitation [Olie 1990, p.206-315].

Institutional isomorphism in capital groups is accompanied by „compulsory” isomorphism, which is a result of imitation of behaviour of decision-makers representing the dominant undertaking by managers from subsidiaries. Such imitation is favoured by the presence of representatives of the dominant company in supervisory boards or boards of directors of these companies, and their active participation in the work of these bodies, that is personal union, which leads to creation of interpersonal relationships inside the capital group. If these people have well-developed managerial competence and their work is based on professional and business ethics, this type of organizational solution is beneficial for the group. It creates favourable conditions for professionalization of management in the whole capital group and propagation of desirable values and cultural standards, thus enhancing its competitive potential. It also leads to competitive isomorphism, that is spreading of best management practices, work standards, values and standards shaping rational and beneficial for the whole capital group behaviours and attitudes of managers and employees of companies constituting the group. Furthermore it favours organizational learning by these subjects from the leader of management practices, that is the dominant company.

2. Trust as an element of building organizational personal relationships

Trust, next to transparency, is increasingly considered to be a very precious value. A lot of organizations suffer from lack or scarcity of trust, which is confirmed by empirical studies of business relations.² In management sciences trust, as an element of building relations inside a company, is interpreted as mutual belief that none of the parties will take advantage of the weaknesses of another party [Sabel 1993, p. 1133]. It is perceived as a multidimensional category, in personality, calculative, institutional, perceptive and cumulative

¹ More about it in: J.Child D. Faulkner, R. Pitkethly, *The Management of International Acquisitions*, Oxford University Press, New York 2000, p.34; S. Cartwright, C.L.Cooper, J.Jordan, *Managerial Preferences in International Merger and Acquisition Partner*, [in] W.D.Hussey (ed.), *The Strategic Decision Challenge*, John Wiley & Sons, Chichester 1998; Cz. Zając, *Spółeczne i organizacyjne problemy przejęć i fuzji przedsiębiorstw*, Wydawnictwo Akademii Ekonomicznej we Wrocławiu, Wrocław 2006, p.134-136.

² See: J.M.Podolny, *The Buck Stops and Starts at Business School*, “Harvard Business Review” 2009, No 87 (6), p.62-67.

dimensions. More thorough analysis of each of the above dimensions, within boundaries determined by the internal organizational structure of the capital group, lets us treat them as a factor very important for creation of interpersonal relationships and character of such relationships.

Personality dimension of trust in the organizational system of a capital group is determined by cultural factors, first of all values, norms and beliefs shared by all or at least majority of workers and managers of companies constituting this group. Thus, this dimension is connected with subjective character of trust. The above mentioned cultural factors also create a base for building inter-organizational trust. Therefore trust, understood as a combination of trust between people and trust between organizations, is an additional factor strongly supporting application of reliable procedures, management practices, structural and operational solutions of the dominant company by subordinate companies. Very important for building of this credibility are expertise and attitudes of managers - participants of personal union.

Calculative dimension of trust is based on calculation of benefits and costs of building a trust relation by members of an organization. This dimension of trust referred to members of a capital group leads to the conclusion that at the stage of making a decision about creating a group of enterprises, the decision-makers decide that it is better to achieve benefits by cooperation than by competition. Calculation of benefits and costs that is being discussed, should apply to all partners - members of the capital group. Useful methodological basis for such a calculation is the theory of games. Application of two key elements of this theory, that is payment schemes, understood as quantitative reflection of benefits resulting from cooperative or opportunistic attitude, and preferences of the decision-maker, understood as the order of decision variants obtained by taking into account the criterion of its maximum benefit, enable identification of behaviour of all players - members of a group.³ It also enables defining conditions in which rationally operating managers of companies - members of the group, will be oriented to cooperation. These conditions include such shaping of the payment scheme which guarantees advantage of benefits resulting from cooperation over alternatively considered benefits from potential competition and ensuring repeatability of the game.⁴ Fulfilling the latter condition guarantees a long-term character of the capital group.

In agreement with the theory of games, mutual trust between members

³ Here we refer to Nash's concept of equilibrium which is based on the assumption that strategies of all participants of the game are best reactions to each other, more about it can be found in M. Malawski, A. Wiczorek, H. Sosnowska, *Konkurencja i kooperacja. Teoria gier w ekonomii i naukach społecznych*. PWN, Warszawa 2004, p.30.

⁴ See: W. Czakon, A. Borczuch, *Trwałość sieci gospodarczych w świetle teorii gier*, „Przegląd Organizacji” 2005, no 3, p.18-21.

of the capital group is also manifested in each member's care of their own reputation, maintaining symmetry of behaviour and a possibility to sanction behaviour contrary to common goals of the capital group. Therefore predicting future behaviour of partners is based on the estimated (calculated) scope of mutually given trust. The basis for such trust may be reputation of partners. Good reputation, seen as a source of trust, is considered by some authors to be a necessary condition for emerging of inter-organizational relationships [Ariano, Torre de la, Ring 2001, p. 110]. In accordance with the views that can be found in literature of the subject, positive reputation should be understood as information about actual fulfilling of obligations taken on in the past by the partners [Dolinger, Golden, Santon 1997, p. 127], precious resource of the company enabling its being competitive [Barney, Hansen 1994, p. 17-190], and also critical factor of its success [Blomqvist, Stahle 2004]. A possibility of mutual predicting of behaviour of the capital group members and possibility to interpret their goals, which are determined by the status of individual members in the group and the character of capital and other than personal relationships existing between them, determine institutional dimension of trust. What is also important for developing trust in this dimension, is transparency of the organizational and structural system of the capital group and organizational order determined by its architecture.

In the opinion of the author of this paper, a model solution, correctly reflecting the essence of internal relations existing in „architectural systems” of capital groups, is J.Sydow's model of inter-organizational trust. It includes six characteristics referring to cooperating organizations – members of the network and relations between these organizations: frequency and openness of communication, multiplicativity of network relations, open collection of relations, relation balance between autonomy and dependence (subordination), number and uniformity of organizations in the network and the structure of intraorganizational area [Sydow 2000, p. 48-52].

Mutual perceiving of partners as units cooperating with the view to realize goals of the capital group as a whole and operating in their own interest, common cultural values and standards, constitute the perceptive dimension of trust, and knowledge about partners possessed by members of the group combined with their ability to fulfill their own obligations, constitute its cumulative dimension. Trust considered in the last two dimensions is an important factor of internal integration and an element of strong sense of identity with the capital group by its members [Kordel 2002, p. 83-88].

3. Intraorganizational cooperation as a source of interpersonal relationships in organizational structures of capital groups

Intraorganizational cooperation is the third important source of emerging of interpersonal relationships in their structures. In literature of the subject we find stressed the importance of repeatability of bilateral and multilateral transactions between enterprises for enrichment of their mutual relations by mutual engagement, faithfulness to partners and habit. It leads to transformation of this kind of relation into inter-organizational relationships [Nooteboom, Jong, Vossen, Helper, Sako 2000, p. 118].

Nevertheless, engagement of each of the subordinate companies in the process of cooperation within a group is also oriented to fulfilling of their own organizational interests, achieved by realization of goals of the group as a whole. Interests of the group are guarded by the dominant company. This engagement, first considered as unilateral engagement, consequently leads to engagement of partners. A result of such mutual engagement of parties is emergence of inter-organizational relationships between them as well as building of the climate of trust, openness and mutual loyalty. It increases probability of repeatability of activities of group members taken in the interest of the whole group. Further possibilities and prospects of their cooperation reveal as well. Thus there appears a basis for emergence of interpersonal relationships inside a group of enterprises, being an important element holding together the organizational and social tissue of this group. In such a „soft” approach to cooperation of economic subjects within a capital group, interpersonal relationships, treated as its architectural element, are then a result of various social and organizational processes taking place inside it. These processes have characteristics typical for network systems of enterprises. The most important of these characteristics include mimetism, which means mutual „infecting” of the group members, perceived also in the context of their learning from cooperating units and „conditioning” resulting from the status of a specific unit, determining the scope of its decision autonomy, possibility to make choices and the scope and strength of its influence on other members of the group. „Conditionong” also leads to limitation of rationality of decisions and business activities of each of the subordinate undertakings. A positive result of such interpersonal relationships is growth of credibility of the participants of economic and organizational cooperation withing the capital group and enhancing their sense of identity and identification with the group.

Conclusion

The conducted analysis shows that imitation, trust and intra-organizational cooperation are important sources of emergence of interpersonal relationships in structural systems of capital groups. Each of these factors is multidimensional and has different influence on creation of this type of relationships. It is worth stressing that apart from organizational reasons, the scope of interpersonal relationships in capital groups is also determined by personality features of the key decision-makers employed in management bodies of both the dominant and the subordinate companies, as well as cultural norms and values observed by them. The latter play an important role in creating of interpersonal relationships in international capital groups.

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