

C t lin M RGINEAN
Babes-Bolyai University

THE TECHNOSTRUCTURE IN JOHN KENNETH GALBRAITH'S VISION

Literature
review

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Abstract

*Large corporations are still an important part of today's economic scene. Although written more than fifty years ago, *The New Industrial State* is still a valid perspective on corporation management, on the relation between entrepreneurs and the so called technostructure, a term introduced by Galbraith by which he defines all the persons who participate in a group decision making. In Galbraith's view, the power of the modern corporation has passed from the hands of the owners into the hands of the technostructure, a group which basically run the business and have different interests than that of profit making, belonging to the entrepreneurs.*

Introduction

John Kenneth Galbraith was one of the economists that brought a new vision of the corporation and not only, in the middle of the 20th century. Even if often he had more critics than followers, he managed to be an extremely influential economist in the last century as he did play an important role in the policymaking of the time by advising several U.S. presidents and other important political figures. Moreover, his work is still being discussed and analyzed by economists, theories of the corporations being still of actual interest. The *New Industrial State* (1964) was one of Galbraith's main works. In the book, Galbraith deals with the economics of production and especially with the structure and impact of the large corporation on the mechanism of free competition. In his view, the evolution of the corporation has reached a point where, with the help of planning, a new industrial state was formed. In this industrial state, large corporations dominate the market and manage to promote their own interests, but this system basically cancels any competition mechanisms. Another important discussion is that of the separation of power from the entrepreneur to a distinct category of groups of specialists inside the corporation, which actually have more power in running the business than the entrepreneur. As Dunn observes, Galbraith's work has taken into account previous opinions of other important economists such as Alfred Marshall's theory of the firm, a part of Veblen's economic anthropology, a part of Keynes' macroeconomics and a part of Schumpeter's vision of technological change (Dunn, 2011).

The concept of 'technostructure'

In analyzing the modern corporation, Galbraith introduces the term of technostructure, to define "all who participate in the group decision-making" (Galbraith, 1967). As Reisman states (Reisman, 1990), in Galbraith's view, the archetypal scarce input in the advanced economic system is not land and is not capital, but it is formed of the skilled, trained manpower in the form of highly qualified specialists. It is assumed that Galbraith's conception of corporate management derives from the classic work of A.A. Berle and G.Means, which describes the separation of ownership and management in the paper called "The Modern Corporation and Private Property" (1932).

Galbraith builds his theory regarding the technostructure by analyzing the role of the entrepreneur in the corporation. He states that the role the entrepreneur has been extremely minimized once corporations have appeared on the economic scene. In his view, the power in the business and the power in society have not passed to individuals, but to groups. Basically, any

important decisions are taken, in his opinion, not by individuals but by groups of individuals. The idea was not entirely new, as S. Dunn points out (Dunn, 2011), this was already observed before by Schumpeter (1943) who noted that: "economic progress tends to become depersonalized and automatized. Bureau and committee work tends to replace individual action". Galbraith provides three points of origin for this (Galbraith, 1967): first of all, the technological requirements of modern industry. For example, in the automotive industry, there is quite a rare chance that one single person could be an expert in all the areas that are involved in the manufacturing process: engineering, procurement, metallurgy, chemistry, merchandising and so on. It will be necessary to have at least one person for each of the key areas of such a business order to run the business accordingly. The second point derives from advanced technology, the associated use of capital and the resulting need for planning. A small business would not need to plan, to anticipate the requirements for raw materials due to the fact that the quantities needed are low, and the market stocks and supplies them anyway. By contrast, a car manufacturer, for example, would definitely need to foresee need and to ensure a supply of labor, materials and other production requirements. Galbraith goes even further, explaining that these men must also be able to have the knowledge to plan price strategies and to see that consumers are suitably persuaded to buy at these prices. The last point, refers to the need of coordination, so that talent is brought to bear on the common purpose. Information must be taken from the various specialists, tested for its reliability and being used to take a final decision. Even if the decision will be taken by that particularly group or committee, or taken for approval to a superior group, it will still be a result of a group, and not of an individual. Galbraith concludes that it is not managers who actually take decisions but that effective power of decision is lodged deeply down in the technical, planning and other specialized staff (Galbraith,1967). As Dunn (Dunn, 2011) observes, Galbraith did make some pertinent remarks at the time his book was published, the fact that at some point, firms also acquire the economies of experience.

There is a clear relationship between the corporation and the technostructure in Galbraith's view, namely that the corporation accommodates itself to the needs of the technostructure, this being an apparatus for group decision making (Galbraith, 1967). This requires a high level of autonomy, which means that it is vulnerable to any external influences. On the one hand, the danger would theoretically be represented by the state and by the owners or stockholders. The author considers that both dangers are cancelled. The state does not represent a threat due to the fact that any external

authority would be incompletely informed and hence arbitrary because of the nature of the group decision making and the problem solving nature. On the other hand, the owners of the modern corporation can be excluded as well as their stocks are being distributed to more and more hands, minimizing any possible interference as there would be no significant owners of stocks.

Even when it comes to the capital or funding of the corporation, Galbraith's view is that the autonomy of the technostucture is still safe. The main argument is that the complexity of modern technological and planning decisions acts as a main protector of the technostucture. The example is straightforward – any external creditors cannot ensure any control of decisions when judging the conditions of granting for example a financing loan, as the area of inside knowledge would be almost null. Furthermore, there might even be the chance that the business would finance itself by using its own retained earnings, in whichever way the technostucture would consider to be the best. The only possible outside intervention would be that when there are no retained earnings but losses registered, and in this case, any external financing institution would need to be provided more details related to what has generated those loses, but no major details would need to be provided anyway.

Galbraith also looks at the reports that exist between corporations, owners and technostucture but makes a clear statement that the size of the company makes these reports different. In the case of small firms, the owners still have significant voting power, even if the company is conducted by a hired manager. For the big corporation, things change. Smaller owners tend to lose their power of decision and what is more important, they will have less knowledge of what goes on inside the corporation. By contrast, the individuals that actually run the business, who are part of the technostucture, will have the full knowledge of the company's operations providing them full authority over the corporation. Due to these aspects, he will divide the corporations into two major categories: entrepreneurial corporation: the corporation in which age, size and simplicity of operation still accord power to an individual who has control of capital, and mature corporation, in which the technostucture has taken over.

Power in the mature corporation has moved from the entrepreneur to the technostucture, due to the imperatives of technology and planning. (Galbraith, 1967). To analyze this transfer of power, Galbraith takes the assumption of an entrepreneur in command: anything affecting his tenure in the office would have an impact on the prospective earnings, growth and capital gains. Should this person have health problems, this would immediately have a direct impact on the stock market, the media would start to investigate if

there is a successor for him and if that successor is suitable or not to run the company. But as the power has moved entirely in the hands of the technostucture, this would not happen. Individual members of the technostucture can always be replaced and their replacement should not have a significant impact in the business.

Galbraith tries to find the answer to the question: what the technostucture seeks to do with the autonomy it requires, and do its goals align with the goals of the society? In general view, the firm has one main purpose, namely to maximize its profits. In order to do this, it would be directly dependent on the market. It is the author's view that the market can be replaced by the control of prices through the planning activity, so the corporation has made the market subordinate to the goals of its planning. This would mean that the goal of the technostucture would not be anymore profit maximization of the business. The author rejects the theory according to which the goals of the technostucture could be linked to the maximization of their own personal revenue, due to the fact that even if the profit of the company increases, the remuneration of the members of the technostucture is not directly correlated to the increased profitability.

The form of the technostucture and its motivation

The main goals of the technostucture can be summarized into what Galbraith calls the motivating system. This system has 4 components as follows: compulsion, pecuniary compensation, identification and adaptation, which can motivate an individual either separately or in combination (Galbraith, 1967):

Compulsion – the group may compel the acceptance of its goal; failure to accept the goals of the group brings the negative reward or punishment;

Pecuniary motivation – the acceptance of the goals of the organization brings not a negative but an affirmative reward;

Identification – the individual, on becoming associated with the group, may conclude that its goals are superior to his own, and so he joins;

Adaptation – the individual may serve the organization not because he considers its goals superior to his own but because he hopes to make them accord more closely with his own.

Out of these components, it is the author's view that the members of the technostucture are mostly motivated by identification and adaptation. In combination, Table 1 shows the possible results.

For example, Galbraith states that compulsion and pecuniary compensation may exist in different types of associations with each other, as those who are compelled to accept the goals of the organization by fear or punishment always have

some affirmative compensation for such acceptance, but compulsion is always inconsistent with either identification or adaptation. When a person is compelled to accept the goals of the organization, he can't consider them superior to his own. Also, when a person is obliged to accept the goals of the organization, he will not embrace them in the hope of accommodating them more closely to his own.

In Galbraith's theory, the mature corporation can be imagined as a series of concentric circles (Figure 1). The participants belonging to each of the circles represent groups which have different motivational systems.

The stockholders of the corporations would be situated in the outermost circle. The stockholder does not want to identify himself with the goals of the corporation and his main concern is to maximize his profits. An exception from this position would be that of a stockholder who is part of the board of directors or is represented accordingly in that board. In the author's opinion, the relation of the ordinary stockholder to the corporation is the purest case of pecuniary motivation.

In the next circle would be the production workers. In their case, they tend to identify themselves with the organization so the motivation becomes mixed. Pecuniary motivation does play its part here, but not without the presence of identification. If the worker has a high pay rate, an interesting job and money making is not the main and only goal of the stockholders or management, then the level of identification is high. In the opposite case, the level of identification is low and there is a visible increase of the level of pecuniary motivation.

Next level is represented by the supervisory personnel and the clerical, sales and other routine white collar personnel. They merge at their inner perimeter with engineers, scientists, sales executives and other members of the technostructure. In the last circle there are the executives and management. Galbraith's idea is that as we move inside these circles, identification and adaptation become increasingly important.

One of the most important conclusions of the author is that, as the mature corporation is not compelled to maximize its profits, its goals will be a reflection of the goals of the members of the technostructure. Consequently, the goals of the economic society, since the large corporations have a dominant position therein, will tend to be those of the corporation (Galbraith, 1967). One major goal of the technostructure would be the growth of the corporation because in this way it would assure itself a high level of security, more jobs in the technostructure group and of course more promotion opportunities and compensation. The first concern of the technostructure would be to

protect the minimum level of return which would secure its autonomy and consequently its survival (Galbraith, 1967). The mechanism to cancel this concern is represented by price control.

Conclusions

As S. Pressman points out, the new term adopted by Galbraith, the technostructure, represents a new class and also a new factor of production in the economic literature (Pressman, 2005). Even though in the economic literature theories regarding the separation of power from the entrepreneurs to the management were launched before his work, Galbraith brought original and pertinent discussions regarding this topic. Members of the technostructure are, in Galbraith's opinion, a central feature of the giant corporation because they have the power to shape its culture, goals and behavior (Parker, 2005). He elaborated a very well argumentation behind the concept of technostructure, linking it to the economical conditions that surrounded the 60s-70s.

It is a fact that Galbraith developed an approach to social structures and hierarchies, an approach which is consistent with the realist social theory (Dunn and Pressman, 2005). These social structures can still be valid in today's economic scene, where the large corporations still have an important role, although perhaps the main actors are not the same with those that Galbraith used in his examples.

Even though criticized by many, Galbraith's theory of the large corporation remains a reference point in the economic literature. The combination with a sociological perspective over the structure of the corporation, of the technostructure, of the relation between technostructure and entrepreneurs remain original and valid concepts which can be pertinent of a complex analysis even today.

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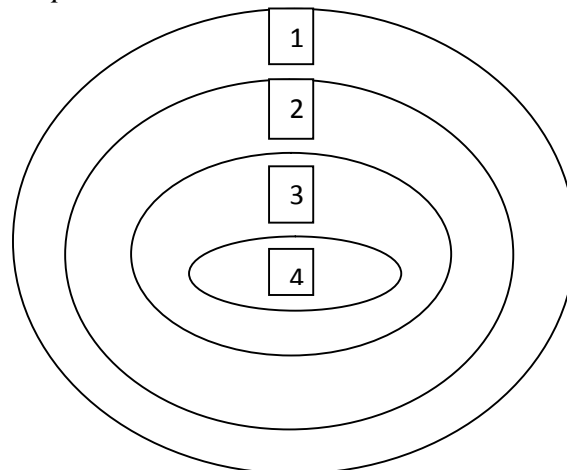
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Appendices:

Table 1
Motivating system components

	Compulsion	Pecuniary motivation	Identification	Adaptation
Compulsion	X	May be associated	Inconsistent	Inconsistent
Pecuniary motivation	May be associated	X	Not associated	Not associated
Identification	Inconsistent	Not associated	X	Highly complementary
Adaptation	Inconsistent	Not associated	Highly complementary	X

Figure 1
Mature corporation components



1. Stockholders
2. Production workers
3. Technostructure
4. Executives