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11 Internal Differentiation and the Establishment of Organizations

The topic of this paper reflects Everett C. Hughes' interest in the institutionalization process and, more generally, his cast of mind, which makes taken-for-granted aspects of social life problematic. In thinking about any topic, he ranges widely for data. He made me familiar with a wide variety of information and sources of data and, more importantly, he fostered my taste for such comparative considerations—exemplified in this paper. In conceptualization, he manages to capture significant aspects of a broad phenomenon, yet retains a concreteness which never lets one forget the people and their conduct upon which the abstractions are based. I think this is true for at least some of concepts in this paper. Finally, Hughes has always noted the ways in which aspects of social life are interconnected, in disorder as well as order. Dilemmas, inconsistencies, and paradoxes, consequently, are frequently noted. That perspective, I hope, also enlightens my analysis.

The establishment of organizations is problematic. Certain kinds of organizations are established at given places but not at others, at given times but not at others. Organizations producing industrial products are not established at the high rate desired in developing societies; new religious sects spring up at certain times; trade unions flourish in one period of American history and not at another; a large number of government agencies may be enacted in a short time; or the number of international nongovernmental organizations established increases, but at a varying rate.

Variations in the establishment of organizations have been accounted for by one or even several factors: by the appearance of particular leaders or ideologies, or by changes in the level of economic prosperity, of political repression, or of the social demand for a product which could be produced by an organization. The factors selected vary from one kind of organization and societal condition to another. To make comparable analyses of the establishment of different organizations, a comprehensive framework is needed, a framework based on a comprehensive view of organizations.¹ I am not attempting that but am basing the analysis upon one fundamental organizational characteristic. At a minimum, organizations consist of people carrying out different activities which are so coordinated and interdependent that the combined activities yield some common output.² In this paper, I will examine some of the implications of this partial definition for understanding how organizations are established. I begin by discussing the differentiation of activities within organizations.

Organizations, Activities, and Categories of Participants

With greater or lesser division of labor, people act in organizations to produce goods or services. First, some participants are primarily engaged in direct producing activities. Among their activities in an organization, workers alter material so it more closely resembles desired products, nurses dispense pills which presumably speed the recovery of patients, members of a voluntary association socialize and pass resolutions, and professors teach. These producing activities need supporting activities: servicing or advising the persons engaged in production and maintaining or supplying the material used in the production. All these activities must be coordinated and the relationships

1. The study of collective behavior provides the most comprehensive sociological approach to analyses of the establishment of organizations. This approach fits best the establishment of voluntary associations. The emphasis is upon conditions creating shared understandings and demands. For the relatively undifferentiated voluntary associations this emphasis is particularly useful. See, for example, Everett C. Hughes, "Institutions," in Alfred McClung Lee (Ed.), *New Outline of the Principles of Sociology* (New York: Barnes & Noble, Inc., 1946), esp. pp. 236-47; Kurt Lang and Gladys E. Lang, *Collective Dynamics* (New York: Crowell and Co., 1961), pp. 489-542; and Neil J. Smelser, *Theory of Collective Behavior* (New York: The Free Press of Glencoe, 1963), pp. 270-381.

2. Several other characteristics need to be included in a definition of organizations to differentiate them from primary groups such as families or peer groups on the one hand and societies or subsystems such as an economic market on the other. Characteristics such as size, specificity of roles, common goals, rationally ordered activities, and others have been suggested. Emphasizing one of these characteristics would lead to another set of implications for the study of organizations.

between the organization and its environments mediated. There can be no continuing production unless the output is consumed by someone, be they patients, clients, customers, the public, or the organization's own members. Finally, to maintain the producing, supporting, and coordinating activities, paying or contributing activities are needed.

Often, two or more of these activities are conducted by the same category of persons. A religious sect or other small, expressive, voluntary association is the most extreme in this regard: the same people may produce, contribute, and consume. In many kinds of organizations, those who consume the output also do at least some of the contributing; such people are generally called customers. For these organizations, part of the contribution for capital goods may be provided by still other persons—investors. These people may also carry out some coordinating activities; they are generally called owner-managers.

In other kinds of organizations, the activities are divided among many different categories. Consider a public welfare agency. Producing, supporting, and coordinating activities are conducted by different sets of employees. Other persons, the clients, consume the services. Still other persons (or some of the same people in another role or at another time) pay for the service. Differentiation goes even further in the case of a prison or school. In these kinds of organizations, there are direct and indirect consumers. In a sense, the prisoners or the students directly consume the producers' services; but others in the society benefit from the incarceration and training of the direct consumers.

In this brief discussion, and perhaps in the nature of the beast, the distinctions and combinations set forth are not without ambiguities. For example, what an organization's output is can be debated. I think that it is most useful to consider that the output of the organization is the goods or services which the producing component turns out. This, of course, is not the same as the purpose of the organization. The purpose is to a large extent the rationale used to legitimate the organization's activities to significant others. For example, in this society the "owners" of a business organization may assert that the purpose of the organization is profit; but the organization's output is not not profits and the owners are not the consumers.

Organizations differ not only in the sets of activities which are combined or differentiated into different categories, they also differ in which activities are considered to be within the organization. This is particularly true of the consuming and paying activities. These are generally included in religious organizations and excluded in industrial corporations. Which activities are included within the organization and which are combined obviously has great

relevance for the basic structure of the organization and the relations of various components within their environments. The relationship between consumers and other component categories is illustrative. When the direct consumers are also contributors, their bargaining power relative to the producers and coordinators is much stronger than when the consumers are not also contributors. If the direct consumers are within the organization but do not themselves control payment for the services received, the possibility of a "total" institution arises.³

Changes in the combination and location of activities are fundamental alterations. For example, when investing and coordinating activities, combined in the owner-manager role, are separated, the investing activities are generally no longer considered within the organization.⁴ This marks a basic modification of industrial organizations. Therefore, too, struggles often involve the inclusion or combination of various organizational activities; witness the efforts of students' parents or of welfare clients to attain greater representation within schools or public assistance agencies.⁵

The boundary between members and nonmembers of an organization may be contested and may shift. It is useful to have a full map of the possible members to note such issues. Furthermore, limiting organizational analysis to categories of persons who the core-members, the law, or the general public define as members, handicaps comparative analysis. Thus, customers of a business organization, clients of a welfare agency, or even students in a school may be excluded. Yet the inmates of a prison, the parishoners of a church, the patients of a mental institution would not be excluded. The producers of the organization's goods or services would be viewed differently according to whether one does or does not consider their relationship with consumers as well as other organizational components. In studying the establishment of organizations, at least, it seems necessary to take all activities into account.

Other implications follow from this analytic view. An organization is not

3. For the comprehensive analysis of the nature of total institutions, see Erving Goffman, "On the Characteristics of Total Institutions," in Donald R. Cressey (Ed.), *The Prison* (New York: Holt, Rinehart and Winston, 1961), pp. 15-106.

4. See, for example, Ralf Dahrendorf, *Class and Class Conflict in Industrial Society* (Stanford, Calif.: Stanford University Press, 1959), pp. 41-48; Adolf A. Berle, Jr., and Gardiner C. Means, *The Modern Corporation and Private Property* (New York: Macmillan, 1933); and Reinhard Bendix, *Work and Authority in Industry* (New York: John Wiley, 1956), pp. 198-340.

5. The current efforts to have poor persons participate in formulating and executing the programs directly affecting them is, in part, an effort to redress the imbalance which otherwise exists between recipients of welfare programs and the persons providing assistance. See, for example, Louis A. Ferman, Joyce L. Kornbluh, and Alan Haber (Eds.), *Poverty in America* (Ann Arbor: University of Michigan Press, 1965). On efforts of functionaries to maintain organizational boundaries, see Howard S. Becker, "The Teacher in the Authority System of the Public School," *Journal of Educational Sociology*, 27 (1953): 128-41.

only an entity with a single overall purpose which meets some societal function.⁶ The people carrying out different activities have different interests, make different demands on the organization, and hold different views of its purpose. Herein lies the source of many of the conflicts and dilemmas of prisons, schools, welfare agencies, and even voluntary associations and business enterprises. Thus, John L. Lewis, of the United Mine Workers, could argue that coal miners should receive adequate income and welfare benefits; the price of coal to consumers should not be subsidized by the financial and physical impoverishment of the miners. In other words, the purpose of mining companies is not only the production of coal or profits. Providing a decent standard of living for the workers is an essential objective, even if this should mean increasing the cost of coal so that fewer persons could afford to consume it.

The maintenance of an organization depends upon the balance of interests of the component categories. This may be buttressed and circumscribed by some shared understandings regarding organizational purposes and by the power differences—both legitimate and illegitimate—among the components. The balance of power among the various organizational components is a crucial characteristic of the organizational structure. It is a major determinant of the organizational outputs and of the exchange relations within the organization and between the organizational components and their environments.

Attention to the activities of organizational components aids in understanding how the environment affects organizations. Persons carrying on any given set of activities in an organization are drawn from a pool of potential incumbents of that category. Their scarcity, cohesiveness, other commitments, value orientations, and their status and power relations outside the organization, all affect their power position within the organization and the purposes for which they exercise that power.

The Process of Organizational Establishment

The general process by which organizations are established involves three interrelated aspects which can be analytically distinguished. These are: (1) the interests of potential members of each organizational component, (2) the appropriateness of an organization as a means of satisfying those interests, and (3) the mobilization of resources necessary to form the organization.

6. A very different position is taken by Talcott Parsons, "Suggestions for a Sociological Approach to the Theory of Organizations, I. II," *Administrative Science Quarterly* (June and September, 1956), 1: 63-85, 225-39.

Interests of Potential Members

Potential incumbents of each component category have a variety of interests among themselves and in relationship with other potential organizational components. The distinctions which are relevant and yet sufficiently general for the problem posed in this paper are among like, common, complementary, and conflicting interests.⁷ *Like* interests exist when persons have similar goals and the attainment of those goals by some persons does not necessarily diminish their attainment by others. *Common* interests exist when persons have goals whose attainment is shared so that some persons cannot approach that goal without the others doing so. *Complementary* interests exist when two or more persons or sets of persons each have goals whose attainments can be approached by the exchange of other valuables each has. *Conflicting* interests exist when two or more persons or sets of persons have goals such that, as one attains his, the other's attainment is diminished. This is most clearly the case when two parties want the same thing and what they want cannot be had by both parties at the same time. Conflict of interest may also exist if the parties disagree about how one of them is supposed to act or think. The former kind of conflict of interest might be conceptualized to include the latter if one argues, for example, that in a hierarchical relationship the superordinates want to control certain actions of the subordinates and the subordinates want to determine the conduct themselves. In any case, conflict based upon lack of agreement as well as agreement about some desired state should both be recognized. Obviously, in a concrete relationship, like, common, complementary, and conflicting interests will be present, but the relationship may be characterized by the relative significance of the different kinds of interests.

Various combinations of interests form the bases for the establishment of organizations. In the case of voluntary associations, like or common interests are the most frequent underlying basis. As a number of people discover they have like or common interests, they join together to express them or implement them, as in a religious sect or in a businessmen's trade association. The relatively slight differentiation among categories carrying out organizational activities does not necessitate or permit dependence upon extensive complementary interests for establishment. Even in such cases, however, some complementary interests are to be found, at least between leaders and followers.

In highly differentiated, non-coercive organizations, such as professional service organizations or industrial-manufacturing organizations, complement-

7. MacIver and Page use these concepts, but somewhat differently defined, in discussing the establishment of associations; see Robert MacIver and Charles H. Page, *Society* (New York: Rinehart, 1949), esp. pp. 32-33, 437-43.

ary interests are crucial. Members of different categories of an organization enter for different reasons and with variations in resources; consequently, they have the bases for exchange relations.

Persons with conflicting interests may be in the same organization if their other interests outweigh the conflicting ones or if the power differences are so great that one or more component category can coerce others to enter the organization. For example, under Tsar Peter of Russia, serfs were sometimes forced to work in some of the first industrial enterprises; on the other hand, the power of the Mafia in Sicily has been great enough at times to prevent certain law violators from entering prison.

It is useful to distinguish between objective and perceived interests.⁸ Without getting involved in the complexities of the distinction, I wish only to note that the circumstances external to the individual may be distinguished from the individual's perception of those circumstances. Objective interests are those external conditions which, aside from the orientations of the persons in the situation, affect what they want. Perceived interests are what the persons feel they want. The two are related, by definition; the lack of correspondence between objective and perceived interests arises from the orientations persons bring with them into a situation and which give the external conditions less salience or place them in a different context than an outside observer might anticipate.

Like objective interests exist for persons who are in similar circumstances. For example, when governmental organizations institute programs which directly affect particular categories of persons, the persons in those categories are placed in a similar condition. If, furthermore, the general policies of the governmental organizations are subject to influence by these persons, then they have common objective interests. Thus, trade associations rapidly increased in the United States in the early New Deal era and European trade associations increased very quickly when the European Economic Community was established.

Objective complementary and conflicting interests are more complex matters to describe. The conditions now must refer to more than one category of persons; they pertain to the relationship between two or more sets of conditions. In the case of complementary interests, the conditions must include the availability of resources for persons in each category that may be valuable to persons in another category. There is a wide variety of such resources: for example, money, labor, deference, knowledge, and affection. The value of such resources is partly, but only partly, affected by the subjective states of the potential traders. Conditions may be structured to affect the value of a

8. This distinction is similar, but more general, than the distinction between latent and manifest interests discussed in Dahrendorf, *op. cit.*, pp. 173-79.

resource, as when a colonial power insists upon collecting taxes in the form of money and thus makes money, presumably coming from employment, valued. In addition, to the availability of resources in the conditions, the conditions must be so related that exchange can take place.

Conflicting objective interests exist in several different kinds of relationships between sets of conditions. For example, they exist when two sets of conditions make the same resources valuable and the resources are scarce or very limited. They exist when the imbalance of resources is so great that persons with few resources are coerced by persons with many more resources. They also exist when sets of conditions make persons want different things of the persons in one category. This is clearest when authority in some sphere induces those in authority to try to extend their control or when those with less authority try to attain more autonomy.

In considering the perception of interests, cognizance must be taken of the different kinds of interests. In the case of like interests, the persons in a like objective condition must each recognize his own individual interests and that others in the same situation have similar interests. In addition, for common interests to be perceived, the persons must also see that some external condition can be altered to their collective benefit. Since complementary and conflicting interests can be defined only in terms of a relationship between two or more parties, recognition of those interests requires that persons see the interests of others in conditions which are complementary or conflicting to their own.

Many factors affect the degree to which persons in a similar objective condition perceive common or even like interests among themselves. Among the important factors, the following should be noted.⁹ The incumbents of the same situation have an opportunity for frequent and regular communication among themselves, as do workers in a factory; these communications among persons within a single category are salient and significant relative to those each has with persons in other organizationally relevant categories; moreover, the incumbents of a category have similar previous experiences, so that current experiences tend to be similarly perceived. Interests are likely to be perceived as common if, in addition, there is mutual dependence in carrying

9. Analyses of social movements (see note 2 above) are particularly relevant here. The modes and settings of communication among the persons in similar situations is particularly investigated. For illustrations and discussions of the way in which relations with other component categories and non-organization affiliations affect perception of interests among the incumbents of a given category, see, for example, Louis Kriesberg, "Customer Versus Colleague Ties among Retail Furriers," *Journal of Retailing* (Winter, 1953-54), 29: 173-76, 190-91; Erving Goffman, *op. cit.*, Alvin W. Gouldner, "Cosmopolitans and Locals, I, II," *Administrative Science Quarterly* (December, 1957, and March, 1958), 2: 281-306, 444-80; and Everett C. Hughes, "Knitting of Racial Groups in Industry," *American Sociological Review* (October, 1946), 11: 512-19.

out day-to-day activities, if there are conflicting interests with other component categories, or if other organizations treat the incumbents as a single entity.

The factors affecting the perception of complementary interests have not been studied as extensively as has the perception of like, common, or conflicting interests. Furthermore, it is difficult to conceive of such interests independently of a particular organizational arrangement. Consequently, I will venture only a few general points at this stage of the discussion. Traditional expectations about possible complementary relations shape the perception of them. Thus, the expectation that workers will exchange effort for money can, under certain conditions, make both workers and employers view the other as having complementary interests. Innovative perceptions can result when individuals form groups based upon common interests: demanding some action they may have mobilized resources which can be exchanged for the provision, by others, of that action. Finally, in the case of *crescive*, rather than enacted organizations, the experience with exchange relations on a face-to-face basis may be readily perceived as complementary and as each component category grows, that perception remains.

In regard to the establishment of organizations, the point is that a variety of interests are likely to be involved—not merely like or common ones. Complementary interests, given the differentiation within organizations, are likely to be very important. Furthermore, given the differentiation, conflicting interests are inevitable. This makes even more essential the existence of important, objective shared, common and complementary interests, if the organization is to be maintained. In the case of *crescive* organizations, the development of the organization proceeds as participants discover their interests. In the case of enacted institutions, the objective situation must be accurately assessed at the outset if a viable organization is to be established.

Appropriateness of Organizational Solution

The establishment of an organization depends upon the appropriateness of that organization to the attainment of the goals, of all the component categories, or at least of those categories which have enough resources to establish exchange or power relations.¹⁰ For many goals, such as the enjoyment of a book or a drink, individual actions, noncoordinated collective action, or casual dyadic relations are sufficient and an organization inappropriate. For example, in France the cafe, the political party, the conjugal family, and the public park provide ways of satisfying some of the interests which in the

10. For a comprehensive analysis of these processes and the conditions affecting them, see Peter M. Blau, *Exchange and Power in Social Life*, (New York: John Wiley, 1964).

United States are met through some voluntary associations.¹¹ Conflict between workers and managers, to use another illustration, can be expressed by workers forming organizations to present their claims or can be expressed by individual conduct which is reflected in absentee and turnover rates.¹² In short, the appropriateness of an organizational form for the attainment of goals must be perceived, at least by those component categories which have the resources to induce others to perform the required activities, to establish an organization.

Whether an organization is an appropriate way to attain the goals of component categories does not depend only upon the goals. One level of activity or one kind of organizational arrangement rather than another may be appropriate. But the creation or the adaptation of organizational arrangements so that they are appropriate cannot be taken for granted.¹³ This is what is exciting about bureaucracy.¹⁴ Its special characteristics make it well suited to meet many diverse interests. Its emergence and development provide a form of organization which facilitates the achievement of joint objectives of several component categories. Thus a government agency can find greater public support and increased public willingness to contribute for services which seem to be efficiently, universalistically, and legitimately provided. Thus too, the agency can recruit incumbents of the producing category more readily than with previous organizational forms by making possible careers with the concomitants of security and advancement and by limiting and specifying the authority of superordinates.

When a new organization is being contemplated, the creation of an appropriate organizational form is subject to debate, bargaining, and compromise. This is particularly evident in the creation of international political organizations. If the organization is intended to accomplish a great deal, an elaborate organizational structure may be created in order to balance and represent the interests of many component categories and even of sub-units within the categories. Thus, the European Coal and Steel Community was organized with variously composed bodies: a Court of Justice, Council of Ministers,

11. Arnold Rose, "Voluntary Associations in France," in Arnold Rose, *Theory and Method in the Social Sciences* (Minneapolis: University of Minnesota Press, 1954), pp. 72-115.

12. See, for example, W. H. Scott, Enid Mumford, I. C. McGivering, and J. M. Kirby, *Coal and Conflict* (Liverpool: Liverpool University Press, 1963).

13. For a classification of types of organizations in relationship to types of problems, see James D. Thompson and Arthur Tuden, "Strategies, Structures, and Processes of Organizational Decision," in James D. Thompson *et al.* (Eds.), *Comparative Studies in Administration* (Pittsburgh: University of Pittsburgh Press, 1959), pp. 195-216.

14. H. H. Gerth and C. Wright Mills (trans. and eds.), *From Max Weber: Essays in Sociology* (New York: Oxford University Press, 1946), pp. 196-244. Some students of organizations have equated bureaucracy with organization. This either overextends the meaning of the former or unduly restricts the meaning of the latter term.

Common Assembly, Consultative Committee, and High Authority.

Underlying these considerations is the importance of the cost to potential organizational components of attaining their objectives through the establishment of an organization. As suggested above, this in part depends upon the availability of an appropriate organizational form. It also depends upon technological and social conditions. Thus, the availability of capital used to produce goods can mean that collaboration of various components in an organization yields a larger pool of resources for the components than would be the case if they cooperated with too little capital. The capital resources make worthwhile the organization's establishment. Even the formation of voluntary associations depends upon the relative cost to potential members of acting together or separately. This is dependent upon the costs of communication and travel and the availability of resources to be so spent. The economic, social, and political conditions also helps determine what organizational form is appropriate for the peculiar balance of interests among the organizational categories. The history of the trade union movement is replete with unsuccessful efforts to establish a viable organizational form.

I have been writing of potential incumbents, but recognition must be made of the transformations in interests which occur once an organization is established. If an organization is to be more than a transitory phenomenon, it must be appropriate for the balance of objectives of the component categories. It is true that entrance itself often involves commitments which raise the relative cost of not being in an organization and this adds to the stability of every organization.¹⁵ But this is not sufficient to insure organizational survival. The organization must be appropriate to the objective interests of the participants while they participate. The establishment of an organization may transform the interests of component categories or add new interests, particularly in regard to the relations with other component categories. Categories of persons with conflicting interests may develop complementary ones after working together in the same organization; this is most likely if the power relations became more equal after the organization has been established. Industrial worker-management realtions illustrate this. Members of a voluntary association who join with common interests may develop new complementary interests as the association becomes internally differentiated. The most significant differentiation is between the leaders and the rank-and-file members. The leaders, because of their coordinating activities both internally and externally, develop special perspectives and interests. Interestingly, this development often gives them some like and complementary, as well as conflicting inter-

15. For analyses of the concept of commitment, see Howard S. Becker, "Notes on the Concept of Commitment," *American Journal of Sociology* (July, 1960), 66: 32-35, and Blanche Geer, "Occupational Commitment and the Teaching Professions," *The School Review* (Spring, 1966), 74: 31-47.

ests, with leaders of other organizations. This may even provide the basis for a new level of organizations in which associations join together to form broader organizations.¹⁶

Transformations are inevitable once an organization is formed. Until it is functioning, its precise structure and actual products are not clear: they are obscured by exaggerated fears and hopes. Once established, the reality of the experiences with a functioning organization gives some basis upon which more realistic evaluations can be made. On the other hand, it is also true that the original arrangement among the component categories creates the framework within which transformations occur. This has been documented, for example, in studies of the Tennessee Valley Authority and the National Foundation for Infantile Paralysis.¹⁷

The organizational form must be appropriate to the interests of the various potential components, but the discussion should have revealed how complex this matter is. Potential members of an organization perceive certain benefits from participation; yet once they are participating, the benefits may be other than those anticipated. Herein lies the importance of considering objective as well as perceived interests. Misperceptions of conditions by potential members may result in the initial formation of an organization, but it will be short-lived, rudimentary, or only a step to another organization more adequately fitted to the objective conditions. Undoubtedly, most conceptions of organizations are abortive, many die in infancy, and few reach the maturity originally desired by the founders. For example, many employees dream of starting their own business, relatively few do so, and most of the enterprises which are started do not survive more than a year or two.

Mobilization of Resources

Given goals which could be appropriately served by the formation of an organization, its establishment still depends upon the mobilization of the necessary resources. Ultimately, the persons contributing to the organization must provide enough resources to compensate for the activities of the other categories of persons. How much they are willing to contribute depends upon how much they feel they need the organization's output and the cost of

16. For illustrations of these processes and discussions of their implications, see Louis Kriesberg, "Societal Coordination by Occupational Leaders," *PROD* (September, 1959), 3: 34-36; Amitai Etzioni, "The Dialectics of Supranational Unification," *American Political Science Review* (December, 1962) 56(4): 927-35; Johan Galtung, "East-West Interaction Patterns," *Journal of Peace Research* (1966), 2: 146-76; and Paul Smoker, "A Preliminary Study of an International Integrative Subsystem," *International Associations* (June, 1965), 17: 638-46.

17. Philip A. Selznick, *TVA: The Grass Roots* (Berkeley: University of California Press, 1949), and David L. Sills, *The Volunteers* (Glencoe, Illinois: Free Press, 1957).

obtaining the service without an organization. For example, in a national survey in which adults were asked about prepaid dental care plans, a majority said they did not think a comprehensive dental insurance plan was a good idea for their own families.¹⁸ They explained that they had little need for dental care or that it would probably cost more than they already paid for private dental care. Among those who thought a prepaid dental care plan was a good idea, the proportion who were willing to join declined markedly when further conditions were specified: the premium or the restriction that service would be given only by participating dentists and the respondent's dentist did not participate. The decline was least marked among those who had the greatest dental needs or who did not have a regular dentist of their own.

The resources available for an organization does not depend only upon the proportion of the population desiring the organization's output. The absolute size of the effective demand is also important. For example, each of the fifty states in the United States has mental health programs, but in fewer than half of the states is there a separate and autonomous mental health organization; such an organization is generally found in the large and densely populated states. The establishment of a separate mental organization seems to be largely determined by the absolute size of the potential market for services and the public support for such services associated with urbanization.¹⁹

In short, some minimal effective demand is necessary for the establishment and maintenance of a given organization. This may be provided by varying ratios of the number of persons willing and able to pay for the output and of the amount each is willing and able to pay. When the consuming and paying activities are not conducted by the same category of persons, effective demand is not well indicated by the resources of the potential contributors. The social or political effectiveness of the direct or indirect consumers is then critical.

What the minimal effective demand must be depends basically upon the costs of providing the output. These costs are determined by a wide variety of

18. Louis Kriesberg and Beatrice R. Treiman, *Public Attitudes toward Prepaid Dental Care Plans*, National Opinion Research Center, Report No. 76 (Chicago: National Opinion Research Center, October, 1960). The assessment of support before the organization is actually established is difficult. Once established support for the organization may arise from new bases: legitimation by respected authorities, unforeseen attractiveness of the product, or favorable responses from esteemed other persons.

19. At the local community level, however, characteristics of the locality are not related to the existence of a separate mental health organization. If the locality is in a state with a separate mental health organization, there is a tendency for this to be true at the local level as well. This indicates the importance of the social environment (organizations, laws, and formal and informal control of resources) in affecting the establishment of organizations. This also indicates some of the problems in determining the boundaries of any particular organization. See Louis Kriesberg, *Mental Health and Public Health Programs: Their Relations in the Fifty States*, National Opinion Research Center, Report No. 83 (Chicago: National Opinion Research Center, January, 1962).

factors. One factor in these costs is the effective demand of the categories of persons providing the organization's output; that is, what they require to perform the necessary activities. This partly depends upon *their* alternatives: what organizational participation costs them relative to other possibilities. This in turn is affected by organizational arrangements, as suggested in the earlier reference to bureaucracy. In addition, of course, the costs of providing organizational outputs are affected by the state of the relevant technology.

Technological and social conditions also affect the ease or hardships in communicating among potential organizational participants. These conditions, furthermore, affect the costs of establishing an organization and mobilizing the available resources of all the component categories. Thus, laws which prescribe certain activities increase the cost, sometimes prohibitively, of engaging in these activities—whether this be gambling houses or trade unions.

Given the complexities involved, the establishment of most organizations depends upon some persons playing an entrepreneurial or broker role, that is, a person or group must believe that the objective circumstances are such that the potential incumbents of each component category presently have the appropriate interests or will have them if the resources for a particular organizational arrangement are mobilized. This person or group must make this view sufficiently visible to gain the necessary support of potential incumbents in key categories. This is crucial in the mobilization of resources. The entrepreneurs often must be creative in seeing a viable combination of interests and an appropriate organizational form; at times, novel organizational structures may be necessary.²⁰ Entrepreneurs do not have to be potential members of the coordinating category; they may be potential consumers, contributors, or even producers.

The formation of an organization requires the investment of resources: prestige, deference, power, money, time, and energy. Those contributing to the support of the organization must be numerous enough and possess sufficient resources to compensate for the activities of persons conducting other activities. If potential incumbents of any given category have relatively large resources, they can use them to induce others to fill the reciprocal categories. The members of the given category may then play the entrepreneurial role. Social, technological, political, and economic conditions all affect the amount of resources needed for the establishment of an organization and the ease of pooling and exchanging the necessary resources.

20. For example, see the discussion of the importance of innovative organizational arrangements for the establishment of integrated political communities in Karl W. Deutsch *et. al.*, *Political Community and the North Atlantic Area* (Princeton, N.J.: Princeton University Press, 1957), pp. 23-116.

Conclusions

In writing of the process of organization establishment, I have not considered the steps or phases of the process but three mutually dependent aspects. Those aspects must also be considered in relationship to the component categories of organizations. The point of view and framework presented should help in explaining the variations in the establishment of organizations noted at the outset.

For example, consider the establishment of industrial organizations. Students of economic development have often stressed the interests of one or another potential component category. Thus, attention has been given to potential producers; this usually entails analyses of the social and economic changes which have made potential workers available for industrial employment. The enclosure movement or the disruption of cottage industries increases the relative attractiveness of industrial employment for the workers as it decreases what they can demand for their services. Other analysts have stressed the availability of entrepreneurs or of investors. A few analysts have even pointed to the importance of effective demand by consumers as a stimulus for the economic development.

The discussion in this paper should indicate that such emphases must be partial ones. The establishment of an organization requires inducing incumbents of all component categories to participate. The discussion also suggests the relevance of considering alternative organizational arrangements. Thus, the important role played by governments in many developing nations can be understood as a way of combining and coercing several sets of activities at once. For example, coordinating, contributing, and consuming activities can be relatively combined in one category when the state constructs a road or a steel mill. Such combinations of activities or the use of coercion may seem swifter than waiting for the development of conditions which will make potential incumbents of each category independently available for collaborative organizational effort. Other organizational arrangements may increase the attractiveness of participation by providing increased social rewards or decreasing social demands. Thus, worker participation in some management activities can be viewed as a reduction in the costs incurred by workers who might otherwise be more subject to power of their superordinates or as alternatives to worker-organization demands for other rewards.²¹

21. For varying accounts of different worker participation systems, see Otto Neuloh, *Die Deutsche Betriebsverfassung* (Tübingen: J. C. Mohr, 1956); Clark Kerr, "The Trade Union Movement and the Redistribution of Power in Postwar Germany," *The*

In general, the multiplicity and interdependence of factors affecting the establishment of industrial organizations indicate some of the social obstacles in beginning industrial development. Once many industrial organizations are operating, even within a single city or region of a country, a critical mass can develop which creates new industrial organizations.²² Alternative organizational arrangements appropriate to local conditions have been developed. A reservoir of possible incumbents of each component category has been created for whom the costs of organizational participation are reduced after previous experience. If the organizations are successful, additional resources have been freed for further investment in industrial organizations.

In summary, the establishment of an organization can be likened to a game during which potential players reach an agreement about the rules by which later games will be played. In reaching the agreement, the players simultaneously assess their own interests and those of the other players and the relations between them, the relative costs of various ways of teaming together or not at all, and they weigh what they will give or demand for others playing different roles. Of course, some potential players have access to more resources than do others during the process of reaching an agreement. Once established, the balance of interests and organizational arrangements and the inclusion and exclusion of persons from the reservoirs of potential members constrain future activities of the component categories. Yet the very establishment and operation of the organization also transforms the participants. New interests and relations are established. None of the potential participants foresee all the implications and consequences of actual organizational operations. As a result, the game of remaking an organization continues as long as the organization exists.²³

Quarterly Journal of Economics, (November, 1954), 68: 535-64; Theo Pirker, Siegfried Braun, Burkhard Lutz, Fro Hammelrath, *Arbeiter, Managment Mitbestimmung* (Stuttgart: Ring-Verlag, 1955); Heinrich Popitz, Hans Paul Bahrdt, Ernst August Jueres, Hanno Kesting, *Das Gesellschaftsbild des Arbeiters* (Tuebingen: J. C. Mohr, 1957); and William H. McPherson, "Co-determination in Practice," *Industrial and Labor Relations Review* (July, 1955), 8: 499-519; Viktor Meier, *Das Neue Jugoslawische Wirtschaftssystem* (Zurich, 1956); and Benjamin Ward, "Workers' Management in Yugoslavia," *The Journal of Political Economy* (October, 1957), 65: 373-86.

22. For a discussion of how this may affect the likelihood of persons attempting to enter the entrepreneurial role, see Louis Kriesberg, "Entrepreneurs in Latin America and the Role of Cultural and Situational Process," *International Social Science Journal* (1963), 15(4): 581-94.

23. A. L. Strauss *et al.*, "The Hospital and Its Negotiated Order," in E. Freidson (Ed.), *The Hospital in Modern Society* (New York: The Free Press of Glencoe, 1963), pp. 147-69.