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Brick Over Brick in the Theory of the Firm

[Dezvoltând teoria firmei]

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Abstract In this paper we are dealing with the aspect of double-way relationships between entrepreneurs/managers and the rest of the human resource of the firm/organisation. Nowadays, this theory of the firm is effectively in progress, or advancing, because new aspects, new features, new ideas occurred, highlighting and supporting our belief that both parties, i.e. Entrepreneurs/CEOs and, on the other hand, the staff/the employees are in transformation and are the beneficiaries of these new practices and ideas in the field. As examples, the use of theories Z, Y and a combination of them, theory of interference, enounced in this paper. But, above all, important is the comprehension of the firm/entity as a live mechanism, humanized one, capable to answer to the challenges within the business environment, the goal pursueted is that of gain, of profit for each and every part. Stable internal environment, performance in business environment.

Keywords: *firm; entrepreneurs; employees; human resource; theories Y and Z; profit.*

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1. Theory of the Firm

Our intention is to dig deeper in the concept of Firm, to highlight some significant approaches of it and, going on the human vector-CEOs, entrepreneurs, employees-, to search new possible qualitative ideas/theories to improve the organizations' functioning and performances in the market.

Simple said, the entrepreneurs and human resource need the firm to exist and the *Theory of the Firm* needs the theories of domains to develop and to be a basic theoretical element in Economics (see also Klein, 2016).

Starting point in this approach was the French classical thinker Jean-Baptiste Say (1767-1832), who presented his ideas regarding the importance of *the entrepreneur* in a manufactury (firm/organization) in his fundamental book from 1803, significant entitled *Traité d'économie politique, ou simple exposition de la manière dont se forment, se distribuent et se composent les richesses*.

We make a leap in time to the theory in the field developed by Edith Penrose (1959) in his book *Theory of the Growth of the Firm*. The author considers that the growth of the firm is close connected with the attempts of a group of people/workers to do something (within it, our completiton). This action is based merely on the capabilities of the respective group, on the possibilities to acquiescence to the general movement towards achieving goals, getting profit, obtaining performances and, we add, the satisfaction of the human factor involved within the entity/organization structure.

Very interesting that Edith Penrose includes *the firm within a theory*. The firm is not only an administrative unit, but *a collection of productive physical and human resources*, BUT *the disposal of which between different users and over time is determined by* ***administrative decisions*** – our emphasis (Penrose, 1959). You see that the necessity of considering the human resource as a factor of production and the properly interference with the management (administrative) level.

But, the era of corporations becomes the most outstanding and the corporation the most important modern economic institution, since the end of 19th century. Of course, the first such corporations are, in a way, the remnants of the classic manufactures from the previous centuries and, thus, the manufacturing companies came to dominate the industrial scene in the twentieth century. As an example, the first *Fortune* list in 1956, presents nine of the top ten were manufacturing ones (apud www.johnkay.com/2018) (Tab. 1):

		Sales ($m)	Profits ($m)
1	General Motors	12,443.3	1,189.5
2	Exxon Mobil	6,272.4	709.3
3	Ford Motor	5,594.0	437.0
4	U.S. Steel	4,097.7	370.1
5	Chrysler	3,466.2	100.1
6	General Electric	3,095.4	200.9
7	Esmark	2,404.1	22.9
8	Bethlehem Steel	2,096.6	180.2
9	Armour	1,967.7	10.1
10	DuPont	1,909.2	431.6

Much later, in 2017, the largest companies by *market capitalisation*, presented by Bloomberg, were the following (also apud www.johnkay.com/2018) (Tab. 2) :

The Largest Companies by Market Capitalisation

1.	Apple	6.	Facebook
2.	Alphabet	7.	Exxon Mobil
3.	Microsoft	8.	Johnson & Johnson
4.	Amazon	9.	J P Morgan Chase
5.	Berkshire Hathaway	10.	Alibaba

These firms were often described as platforms – Amazon was itself an online retailer. Microsoft and Apple offered technology through which others could do business; Google and Facebook were conduits for content produced entirely by other people. Therefore, IT, financial institutions, these are now in top of the world companies. It's a virtual world in charge.

Another aspect of today is represented by *business failures*, one of the most raised issue in the of business management. The most fragile in this respect are the SMEs, with an important economic role, but also with an outstanding contribution to the jobs creation and added value to the business and economy. Most of them, especially in many developing countries, are at the risk of default, due to the regulations and competition with corporations and important players in the market.

Even *the Theory of the Firm* was considered by Smith and Marshall as a „black box", or, in our days, the emulation for a new theory in the field, but „a theory of what?" (Costa & Marti, 2012), the core of this theory is represented by the behavioral aspects, corporate social responsibility (CSR), the separation of ownership and control and the focus on human factor, both as entrepreneurs/CEOs/managers and employees/workforce, this tendence started since 1976, when Michael Jensen and William Meckling published a *Theory of the Firm* in which the emphasis was on managerial behavior, the notion of *maximizing behavior* being retained by the authors in their analysis (Jensen & Meckling, 1976).

2. Methodology

In this paper we used a survey of the literature in the field, empirical books based on this issue, the synthesis of the knowledge accumulated regarding *the Theory of the Firm* in some representative works in the field and, by consequence, we used the induction under the form of a new possible approach of this theory, occurred from the existing theoretical and practical elements.

The practice in management is defining for the intention to draw up this approach, necessary to the improvement and enlargement of this important part of the Economic Sciences of today.

3. Qualitative approaches of human factor within a firm

The attention is focused on the combination of *Theory Y in Economics* and *Theory Z in Economics*, in our opinion, decisive for capacitating the manpower towards improving the environment within the entity and properly facing the challenges of the business environment.

We start with the *Theory Z* in Economics, created and spread by the American economist and management professor William Ouchi, in the 80's of the last century, based on the Japanese management consensus style, a qualitative and structural approach of the management.

In synthesis, this theory is based on 2 (two) important assumptions of the author:

a. *The first one* is that the employees want to enter in partnerships with their colleagues and even their employer. This aspect seems to be close to the term of *intrapreneur*, including right facilities, working safe environment, but mainly, the possibility for personal development, training and improvement of skills and abilities.
b. *The second one* is that the employees, in change of their work well-done, of their new ideas, innovation itself, expect reciprocity and support from their organization/management and leadership. This aspect, including the desire for affiliation, is due to the necessity to exert a balance of the work life with personal/familial, cultural, traditional style of life. *They consider that the family (household) activity has the same importance as the working/job activity*.

As a result, the benefits of introducing *the Theory Z*, in professor Ouchi's thinking, would be represented by a quite reduced employees turnover, increased commitments, improved ethic and job satisfaction and, hence, important growth of productivity.

As we can see, this theory is focused mainly on the employees, staff side, analyzing the situation and the contribution of workers to the well-being of the entity, of course, taking into account the existing rules and measures taken and established by the management of the organization.

In Ouchi's opinion, the characteristics of the theory are the following:

1. ***Collective decision-making*** is considered the core of the theory and connect it with *the Theory Y* which follows in the analysis. This characteristic empowered the employees to be effectively part of the organization and engaged in its whole activity, in a consensus style.
2. *Long-term employment*, at least medium-term, taking into account the Maslow psychological approach regarding the necessity that employees to possess the certainty to have a job as long as possible in this challenging and chaging environment.

3. *Job rotation* and *possibility of promotion*, but not in a slow manner, as the theory implies. Getting more experience in different departments, using the new ideas/propositions, the employees can become vectors of development-*intrapreneurs*- and, in turn, to train other people for this status.
4. *Training* for as continous improvement of employees' performances and, by consequence, the firm's/organization's performances.
5. *Responsibility*, also in connection with *Theory Y*, it is mandatory for the employees to have their own responsibility and awareness regarding the support of the organization/entity in carrying out the activities.

Therefore, it is important that, reveiving the right management support, employees/workers can be trusted to do their jobs to their utmost, as possible, ability and knowledge and look *after for their own and others' satisfactions/well being*. Important is, not what they produce or service providing, *but how they are doing the job* and *how the management is dealing with the human factor within the firm*. Thus, we create the link to the theory proposed in this paper.

3.1 Theory Y

Regarding *the Theory Y*, this one was proposed, alongside the Theory X, by Douglas McGregor, management professor at MIT, in his 1960 book *The Human Side of Enterprise*. Each of the two assumes (Y and Z) the role of the management in organizing the firm/organisation, especially the human factor.

The principle of the Theory Y emphasizes the fact that the employees/people working within entities can pursue their objectives and needs through important elements as *self-direction* and *self-control*. These are added to the already known elements to stimulate people, such as control, rewards and punishments (www.courses.lumenlearning.com) .

What means for the management of an organization application of the *Theory Y?* It means to apply the following principles to the daily firm's/organization's activities:

1. *Decentralization* and the reduction of the management levels, the approach of the CEOs/leaders to the workplaces, but also the necessity to delegate some responsibilities to subordinates (because, in this case, the number of subordinates increases).
2. *Jobs enlargement* lead to diversity in someone's activity and motivate him/her to do the best work possible.
3. *Participative management*, meaning the consultation of the employees in some decision-making process incite their creativity and the feeling to be part of the organization environment.
4. *Performance appraisals*, in which the employees, by self-evaluation, taking into account the established scopes, become more engaged and dedicated to their work.

Theory Y is clearly focused on people and results in an arrangement whereby individuals can achieve their goals and of the firm's at the same time. Speaking about the managers Y, they will make choices about the arrangements of teams, how to talk with people, how to reward the employees and how to adjust the deviations from planned objectives..This situation seems to be in accordance with A. Maslow's *Hierarchy of Needs*, more precisely, capitalizing on *the human need for esteem and self-actualization*, i.e. the levels 4 and 5 of the pyramid (www.lucidchart.com/blog).

3.2 Do the two theories match?

Looking at their core characteristics and importance for this analysis, the answer is yes, in an important measure.

Thus, the work has to be as natural as play in the favorable internal conditions. Continuing, the capacity of innovative and creativity have to increase, supported by *intrapreneurship*, and spreads throughout the organization. If employees are committed, motivated and properly rewarded, they become self-directed, efficient and responsible for the work done and aware of the firm's interests.

This is a beneficial environment, both for management and workers, with a higher motivation of work and fairness, the latter especially from the part of entrepreneurs/managers.

3.3 Interference theory

We consider that the most suitable model of the management in our days is that of *Interference Theory,* between Z and Y theories (the symbol is presented below), in fact our credo that *only the phenomenon of interference between the thought and action of the managers/CEOs and the thought and action of the*

employees/staff is real beneficial for the functioning and stability within the firm/organization and the appropriate responses to challenges and impulses from outside.

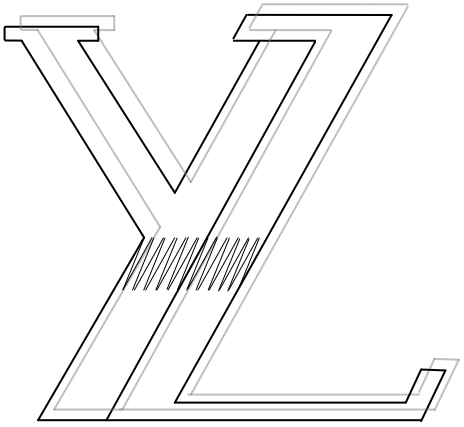


Fig. 1 The two theories matched and the interference zone

In this moment a comparison is needed: the term of *empathy*. And this necessity, due to the similarities of the two aspects involved in the analysis. We start with some definitions of *empathy*, understood as *individual's emotional state resulting from the observation or imagination of another person's state* (Singer, 2006). Or, other definitions, much closer to our theme, state that *empathy refers to an involuntary merging with another's feelings* (Hsiao, Lan, 2013), combined with the idea that *the empathy represents our ability to identify what someone else is thinking or feeling and to respond to their thoughts and feelings with appropriate emotion* (Baron-Cohen, 2012).

Empathy is considered a variable of the behavior framework and, from psychological point of view, can support behavior when it's about a so-called psychological cost for not giving help and no benefit for not doing so (Batson, & Coke, 1981). Also, *empathy* as support for intellectual capital of the firm/organization, can lead to beneficial characteristics like altruism, co-operation and pro-social behavior.

BUT, we need more than these aspects depending of the human personality. It is needed from both human parties involved in the firm/organization life of a mental inter-connection in order to put in

practice the decisions made, or ideas and solutions proposed for solving the current working problems. Therefore, from the psychological theories already enounced (including also *Theory X*), we have to extract the most flexible, motivating and efficient measures which could lead to get the desired scopes.

It is needed not to forget some subjective behaviors, especially from the part of CEOs/leaders, who persuade the subordinates in doing the required tasks, but after ended these activities, no rewards, no motivation and, in some cases, even highlighting the work of others. Furthermore, both in public and private organizations, it is the managerial custom that inferior level of hierarchy to receive orders, provisions, or perform tasks, *not from the direct superior manager*, *but from a higher level*. This means an unwanted shortening of hierarchical relationships and a disturbance of internal structure of the firm/organization.

Thus, what we want to point out is the fact that in this theoretical approach proposed, we must not to consider the so-called behavioral extremes, especially from the part of managers/leaders/entrepreneurs. We are referring to entrepreneurs/managers overconfidence, drastic attitudes in imposing decisions or their will, or the policy of retrenchment and firing the undesirable people. *Interference approach* means also a period of exploratory information, in which data and details about the tasks to be processed and to reach a consensus in their fulfillment.

4. Conclusions

Clearly it appears that, in this stage of the Management science, we speak no longer about a large and consistent new theory in this respect, but merely about approaches of aspects, trends in the analyzed field and elements of enlarge and develop the existing theory.

In our case, *the interference theory/approach* comes to focus on the human actions within organizations/entities, beyond the simple understanding the term of *empathy* (even as supporting of the human activities). It's about the establishment of the same „wavelength", same thinking and intention to action for both human parties involved in the firm as a powerful factor of production: CEOs, leaders and, on the other side, employees/working people. The two parts must react properly one each other, putting together

and sharing same ideas, same needs, same aspirations, towards accomplishing the desired goals.

In this *interference actions*, there are involved in more than feelings, subjective opinions, rational thinking comes into action to see what is good and beneficial for the firm/organization, thus surpassing those subjective experiences.

Therefore, the expectations are big and the non-compliance with the established/drawn measures and decisions of the management, the existing prejudices, are failures in the well-functioning of the firm/organization and behavioral corrections are needed in order to train and motivate both parts towards the same goals.

The necessity is to think the firm beyond the production function and any other operations linked to it, in the sense of an outstanding human resource and in the presence of the characteristics of being more entrepreneurial/intrapreneurial and innovative. And this can be done also by combining the theoretical with practical aspects, even in the sense in which, the current practice imposes new theoretical approaches.

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