

International Encyclopedia of Organization Studies



Editors

Stewart R. Clegg • James R. Bailey

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3

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bias has neglected the important role played by emotion in the negotiation process. Negotiation creates both positive and negative emotions. Recent research has shown that positive negotiations generally have positive consequences for negotiations: They lead the parties toward integrative processes, create a positive attitude in the other side, and promote persistence in finding a better outcome. These positive outcomes result from fair procedures and from favorable social comparisons to the other. In contrast, negative emotions generally lead to negative consequences: they define the situation as more distributive, undermine the negotiator's ability to accurately assess the situation, escalate the conflict, and are interpreted as retaliatory actions toward the other. These negative emotions generally result from a competitive mindset, or from reaching impasse. Finally, emotions can be used strategically as a manipulative weapon to trick one's opponent.

Ethics In Negotiation

Negotiation is an interesting context in which to study ethical decision making. Most of the ethics issues in negotiation are concerned with standards of truth-telling: how honest, candid, or disclosing a negotiator should be. A negotiator who tells the whole truth may reveal too much information and become vulnerable to a competitive opponent. In contrast, if one is completely dishonest, then achieving any kind of meaningful and valid agreement is impossible. Researchers have been examining how negotiators decide to "draw the line" and determine some common ethical standards that will distinguish among tactics that are acceptable from those that are unacceptable.

Cultural Differences

Finally, given the rapid growth in cross-national ventures, alliances, and partnerships, researchers have been examining how the negotiation is transformed when the parties negotiate within or across national cultures. Negotiation differs across cultures due to different legal and political systems, different economic and currency systems, different government and regulatory systems, different ideologies, and different cultural

customs; most research has emphasized these cultural differences. Employing the seminal works of Geert Hofstede on patterns of cultural differences in international business, an extensive program of research has explored the impact of culture on the definition of negotiation, opportunities to negotiate, the selection of negotiators, differences in protocol, communication processes, views of time and risk, the nature of agreements, and many other factors. Culture affects negotiation processes, definitions of successful outcomes, cognitive processes, the selection of ethics and tactics, and the effects of culture on conflict resolution.

—Roy J. Lewicki

See also Business Ethics; Cognitive Approach; Competition; Conflict; Coordination; Cross-Cultural Management; Emotion; Intergroup Conflict; National Culture; Power; Trust; Truth

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NEOCLASSICAL ECONOMICS

Neoclassical economics is the name given to an economic theory that was developed at the end of the 19th and the beginning of the 20th century in Europe. The main contributors to this theory were Léon Walras, Alfred Marshall, and Vilfredo Pareto.

Conceptual Overview

Like the classical economists before them, neoclassical economists sought answers to the burning political questions of their time. In the case of the classical

economists, the issue was the distribution of power between landlords and industrialists; the issue that neoclassical economists dealt with was the distribution of power between industrialists and workers. The end of the 19th century saw a marked increase in the strength of workers' organizations in Europe. In 1871, England passed a law that legalized unions.

Classical economics was squarely on the side of workers. David Ricardo explained that the profit that a capitalist receives is the "residual" that remains after the capitalist pays the cost of replacing the capital that has been used in production and the cost of labor. In other words, workers produce value and this value-added is the source of both the workers' wages and the profit of the capitalist. Ricardo assumed that workers are paid a subsistence wage, and that the rest of the value-added is the capitalist's profit. But if the profit is just a residual, there is no reason why it cannot be lowered in order to raise the standard of subsistence. Furthermore, if unions were successful at raising workers' wages, society as a whole would benefit because according to the theory of utilitarianism that was developed by another classical economist, Jeremy Bentham, economic efficiency means income equality. Karl Marx pointed out that what is considered subsistence is not determined by biology alone, and that it has changed throughout history according to the relative strength of employers and workers.

Neoclassical economics is the theory that argues that Ricardo is wrong. Profit is not a residual. Profit is determined by the level of the marginal productivity of capital, and the wage of workers is determined in a similar way by the marginal productivity of labor. Therefore, according to neoclassical economics, if a union succeeds in raising the workers' wage, the inevitable result will be unemployment. In tandem with this new theory of wages and profits, Pareto first dismissed the theory of utilitarianism, which called for redistributing income, and then developed a new definition of economic efficiency to replace it. According to Pareto's definition, the higher union wage results in economic inefficiency.

Although entirely different from Ricardo's theory of profits and wages, the neoclassical theory of profits and wages is an application of another of Ricardo's

theories, that of land rent, and this is how neoclassical economics got its name. According to Ricardo, parcels of land differ in their fertility. The most fertile land is put into production first, and as agricultural production expands, less and less fertile parcels are added; the rent for less fertile parcels is lower than the rent for more fertile land. Neoclassical economists argue that the process of adding labor and capital when industrial production is expanded is similar. As industrial production expands, additional workers are hired (while the quantity of capital is held constant) and, exactly as the fertility of additional units of land in agriculture falls, neoclassical economics assumes that the productivity of each additional worker diminishes.

Neoclassical economics assumes that the employer hires workers one by one. When the employer considers whether to hire an additional worker, he or she compares the value of that worker's marginal product to the wage. As long as a worker's value of marginal product exceeds the wage, the worker is hired. Because the marginal product is diminishing, eventually so many workers will have been hired that the value of the marginal product of an additional worker would be less than the wage. At this point, the hiring will stop. Of course, if at this point the wage rate were raised, some workers would get fired, because the value of the marginal product of at least some workers would be below the new wage. Thus, if unions push the wage higher, some workers would become unemployed, a situation that is not only painful to these workers, but is also according to Pareto inefficient.

The process of hiring capital is exactly the same. A unit of capital is added when the value of the marginal product of capital exceeds the rental price of capital and the process stops when, because of the decreasing marginal productivity of capital, the value of the marginal product of capital becomes lower than the rental price.

Critical Commentary and Future Directions

Following Piero Sraffa, Joan Robinson and John Eatwell point out that Ricardo assumed that the

marginal product of a worker couldn't be separated from the marginal product of the capital that worker uses. For example, a limousine service will not hire drivers without cars or cars without drivers. If the wage of a limousine driver were to increase, the owner of the limousine service would have to be content with a smaller profit, or would have to make not only drivers but also limousines redundant. In fact, because in a perfectly competitive market the price of each ride is the same, the choice of the owner is either a smaller profit or closing down the business without any profits at all.

It is not only the productivity of capital and labor that are inseparable. Production often involves teams, and the contribution of each team member, whether a worker, a manager, or a machine, cannot be measured separately from the productivity of the rest. The classical economists believed that the division of the social product between those who produced it could not be determined by the process of production itself. It does not appear that the neoclassical economists succeeded in proving them wrong. Wages, profits, and executive pay are not determined by the technology of production but by a political struggle of everybody against everybody else. Future research should explain how the outcomes of such struggles are determined, and how these mechanisms may be improved.

—Moshe Adler

See also Class; Competition; Unionism; Wage Inequities

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NEOCONTINGENCY MODEL

The neocontingency model refers to the latest in a long line of interpretations of structural contingency theory, which was the main school of thought in organization theory in the 1960s and 1970s. The neocontingency model focuses on the "fit" between contingencies and organizational structure and how that fit influences organizational performance. The construct "contingencies" is defined broadly and can include organizational technologies or organizational size, which are internal to the organization, as well as dimensions of the organization's strategy or environment. The neocontingency model has been developed by Donaldson in his 1995 and 1999 books. Alexander and Randolph, Drazin and Van de Ven, and Gresov have also made contributions as well.

Conceptual Overview

The neocontingency model is a dynamic model because it describes a self-correcting process through which organizations move from states of high performance to states of low performance and back again. The model posits that when a fit exists between contingencies and organization structure, organizational performance will be high. The high level of organizational performance generates slack resources, and these resources are invested in expansion of contingency variables. For example, the high performance produced by a fit between organization size and formalization (a dimension of organization structure) would produce slack resources, and those resources would be invested in expanding the organization's size by hiring more employees. As another example, a fit between the type of organizational technology the organization is using and its structural complexity would enhance performance, and the resulting slack