© Academy of Management Journal
2005, Vol. 48, No. 6, 970–972.

ORGANIZATIONAL SCHOLARSHIP AND THE ERADICATION OF GLOBAL POVERTY

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There is a great gap in wealth among people of different nations. Millions in rich countries have comfort and affluence far beyond what anyone could have imagined two centuries ago, while those in poor nations live in unconscionable poverty and insecurity. What is more, our widespread mutual knowledge of these differences challenges us both morally and practically. Global poverty is one of the most important challenges of our time, one that I believe organizational scholarship can help address by bringing to bear its understanding of organizations and the managers who run them.

Because large, meritocratic organizations are a feature of "modernism," organizational and management scholars have rarely thought there was much use for their specialized knowledge in places where organizations are few, and rarely large or complex when they do exist. However, in the late 1980s I found myself in a country undergoing the collapse of Communism, and I discovered that organizational and managerial scholarship can be a useful guide to the challenges of steering a society through such a transition (cf. Pearce, 2001). Recently, I have extended that work to the application of organizational and managerial scholarship to the problem of national poverty.

The question of why some nations are so much wealthier than others has long been studied by economists, political scientists, and sociologists. While some scholars have proposed that poorer nations have little chance of gaining in relative wealth (Wallerstein, 1979), others have provided evidence for the wealth-creating effects of cultural values (Weber, 1988), economic growth (Chernery, Ahluwalia, Bell, Duloy, & Jolly, 1974), capital markets (Leff, 1976), trade policies (Behrman & Srinivasan, 1995), geography (Diamond, 1997), and property rights (De Soto, 2000), among others. Because of this important work we know a great deal about the roles of geography, physical resources, market institutions, and government policies in wealth creation. These streams of research have produced important policy changes that have had materially positive effects. Nevertheless, they all have neglected an important explanatory factor in wealth creation: the role of large, meritocratic organizations that are free of direct governmental control (see Pearce, Xin, Xu, & Rao, 2005).

Why organizations? Recently, poverty scholars have indirectly addressed complex organizations in work that converges on what has been called the quality of governance, or the practices of national governmental organizations. Governance quality is state effectiveness (the relative capacities of states to control their territory and officials), and state capture (law making and implementation captured by elites who use this power to benefit from government weakness). Poor-quality governments are unpredictable, corrupt, and weak; extensive empirical work consistently shows a strong, positive relationship between governance quality and average individual income in countries with poor-quality governments. Further, Evans and Rauch (1999) and Kaufmann and Kraay (2002) provided evidence for a strong causal effect of state governance quality on growth in per capita income.

However, with the notable exception of the World Bank (1997), these economists, political scientists, and sociologists have not focused on how governance quality raises per capita income. Rather, they have provided simple post hoc speculations about how individuals might make different investment decisions under high- or low-quality governments. So, while these scholars are accumulating data that incontrovertibly establish that better governance produces greater national wealth, they have not conducted thoughtful analyses of *why* governance quality is effective.

I contend that organizations are central to understanding why and how governance quality matters. Governance has powerful effects on wealth creation through its facilitation of large, meritocratic organizations independent of governments. These kinds of organizations are not owned by governments, are largely independent of governments in their ability to set their own objectives, and are independent in their sources of investment capital and revenue (Rao, Pearce, & Xin, 2005). Certainly the largest independent organizations are found in

The author wishes to thank Rebekah Dibble and Harry Briggs for their valuable comments on earlier versions of this essay.

the handful of wealthiest countries (Pearce et al., 2005). The richer the country, the more likely it is to have the largest meritocratic, independent organizations, even when the country, like the Netherlands or Switzerland, is not large. The strong congruence of all three—governance quality, large, independent, meritocratic organizations, and national wealth—suggests that governance quality may work as much through such organizations as it does through atomized individuals' incentives. After all, there are wealthy individual investors in even the poorest countries. High levels of *aggregate* national wealth require wealth to be dispersed beyond a handful of national elites, and as an organizational scholar I suspected that organizations might be central to that process.

As organizational scholars, we know that the larger the organization, the more it disperses knowledge and responsibility via decentralization (Donaldson, 2001). Size-induced decentralization makes middle managers and professionals very important to organizational success and provides them with the market and technical knowledge necessary to develop their own spin-off organizations (Child, 1972). As organizational scholars, we also know that resource dependence drives strategy, and organizational dependence on government favors makes cultivating government officials an organization's most important strategic contingency (Hickson, Hickson, Hinings, Lee, Schneck & Pennings, 1971; Pearce, 2001). Organizations independent of government ownership and revenue, whether for-profit or nonprofit, face performance pressures that foster innovation and meritocracy. And of course, large, meritocratic organizations can produce complex products and services more efficiently than can a handful of individuals (Weber, 1947).

Large, meritocratic independent organizations produce and disperse wealth, and so one of the most important ways governance quality creates aggregate national wealth is through supporting such wealth-creating and -dispersing organizations. Individuals can become wealthy under even the most adverse governmental circumstances, but national wealth appears to require large, meritocratic, independent organizations. Such organizations, and the managerial behaviors that sustain them, are not the sole engines of national wealth creation, but their critical role is poorly understood by policy makers concerned with alleviating poverty.

As organizational scholars we can provide the nuanced understanding of organizations that can help to craft governmental policies and practices that assist them. Because we work directly with managers in our research and teaching, we have a richer understanding of the decisions they make and why. Because we are scholars, we have a broad theoretical understanding of the organizational dynamics that influence managers' actions. Because we are organizational scholars, we notice organizations.

How can we use our insights to make a difference? Here Bill Ouchi's work is a model. First, like Bill, we have to test our insights. I have begun to do this by laying out the argument and providing some preliminary tests based on managerial actions (Pearce et al., 2005). Second, like Bill, we need to recognize that really important societal problems require more than a single, limited study. To further test and refine these ideas, I have begun to take advantage of many nations' changes in governance quality over the past 15 years to better test these arguments about the role of large, meritocratic, independent organizations in wealth creation. And I hope the provocative tone of the claims made here might spur others to elaborate, modify, and empirically debunk these claims in their own work. Third, like, Bill, I don't think policy recommendations can wait for the necessarily long accumulation of evidence. Therefore, simultaneously with these further tests, we have begun trying to identify which particular governmental policies seem to be the most facilitative of large, meritocratic, independent organizations. Once we have a better understanding of these particular policies, we hope to follow the model of Bill Ouchi, as well as other scholars, such as Hernando De Soto, who have worked with great creativity and persistence to translate their scholarly insights into action.

Organizational scholars have long noted the connection between large, meritocratic organizations and modernism (that is, national wealth) (Meyer & Rowan, 1977; Weber, 1947). We also have learned a lot about organizations and why managers make the strategic choices they do. Why shouldn't we be as willing to apply that knowledge to our most important societal problems as we are to apply it to the technical problems of businesses?

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