

# Organisational Anatomy



# Organisational Anatomy:

*A Manager's Guide  
to a Healthy Organisation*

By

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## PREFACE

The tremendous growth in the number and scale of organisations over the last few decades reveals tough challenges for managers of all ranks in terms of higher demand on their capabilities, managerial skills and performance. Globalisation and contemporary technologies help organisations to expand and get closer to customers, but at the same time they may cause increased competition over market space, the acquisition and utilisation of resources, outcomes of organisational performance standards and the quality of products and services. As a result, the continued existence and wealth of many organisations are at stake and they face the need to develop superior capabilities and skills to make them stand out from the crowd and be successful. Competition for resources (particularly 'focal' organisational resources) and changing customer demands redefine the "rules of the game" which necessitates new skills, sophisticated understanding of internal and external processes, effective managerial practices and well-balanced, decisive programmes of action.

Success in twenty-first century commerce demands the development of surgically precise organisational strategies which are based on a clear understanding of organisational characteristics, available resources, and knowledge accumulated in order to exploit an organisation's potential to its fullest in the ever more competitive race for exceptional performance and survival.

Albert Einstein said that "everything should be made as simple as possible, but not simpler." In developing an understanding of organisational processes, managers cannot afford to make things even more complicated and fail to provide answers to their new dilemmas that may lead to expensive and unproductive results that will cause organisational failure and death.

This book offers a reconceptualisation of the organisation using the lens of “organisational anatomy” to consider organisational structure, functions, inputs, and outputs, viewing it as a human body. Opening a new era in exploring organisational processes, organisational anatomy explains ongoing internal and external organisational processes and suggests an optimum configuration of different organisations. Organisations are seen as living entities that can be taught to breathe, function, move and develop inside their specific environments. Through classifying the different types of organisations and looking at their biological functions, existing theories can be linked to this new approach. It allows stakeholders to understand the organisations where they work and with which they interact by using biological examples that offer a good way to make sense of complex ideas, because they can be related to their daily existence.

This book proposes a discussion of five archetypes of organisations – producers, knowledge-dependent, location-dependent, donor-dependent and state-affiliated organisations – and their specific features, operational principles, sizes, characteristics and different ages and levels of maturity. Whilst discussing access to resources, nature and the strength of external relations, the role of each organisational function in the access and effective utilisation of resources, the organisational anatomy approach allows for a classification of organisations and the development of a holistic approach.

The main use of organisational anatomy is to empower managers to recognise problems and difficulties by considering organisational pathologies and diseases, and enabling managers to diagnose or predict problems and overcome them. Simple problems may arise at a stage when the organisation is already weakened by an organisational disease which can seriously threaten its very existence. Many of these diseases are fairly common and can be treated if correctly diagnosed and cured, therefore managers should be capable of diagnosing organisational problems and diseases, particularly at the early stages, to secure organisational health, survival and success and to spot more sinister trends early. In

today's world, where management are being held accountable for gaps in the organisations' knowledge and performance, this new approach can offer useful insights for organisational wellbeing and survival.

The book is designed for a wide audience of leaders, entrepreneurs, and decision-makers of all levels in private, public and non-profit sectors. It is also of interest to the academic community and general readers. It supports those interested in developing an understanding of organisations as a whole through effective structures and processes, both internally and externally facing.



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# CHAPTER ONE

## INTRODUCTION TO ORGANISATIONAL ANATOMY

### **Why this book was born**

This book is for both ordinary and extraordinary people - those who are looking for an integrated approach to help them understand their own organisations and those they deal with in everyday life. It is for entrepreneurs and managers who focus their energies on their personal development and that of their colleagues, clients and their organisations - those who often go through sleepless nights and supported only by their own courage, dreams and ideas. It is also designed to indirectly ease their long suffering families in the hope that it helps answer those difficult questions and allows them to devote more time to non-work-related activities. Whilst we make no claim that this is a panacea, we hope that this novel approach may help clarify thinking and thence generate insights for problem solving.

Modern commerce is driven by outcomes and metrics. We tend to look at headline figures and financial ratios without actually realising why process failures can mean that the resources invested (including people, money and human effort) are not delivering the anticipated returns. Thus, we may not really understand the real basis of failure of potential and of promising new ventures. Whilst this is an important question for those in practice, with management experience, it is also equally important in day to day interactions with other organisations. Why is there no milk on the supermarket shelf? Why can't my car be fixed today?

The view or thesis of this book is that academic tradition and

practice have resulted in people looking at organisations as a collection of independent parts of an entity, without considering it as a whole. Though this idea is not entirely new, our approach, using ideas from clinical practice and considering organisations not merely as hard or soft systems, but as living bodies, offers a useful metaphor in determining how to optimise performance and develop a useful classification for problem diagnosis and solutions. Business or commerce represents the majority of resource provision supporting human life. However, organisations also suffer from issues, diseases and pitfalls which can be categorised in order to select the appropriate treatment. A systematic approach is needed, as recent crises show that economies can continue to grow while remaining unhealthy, which will eventually lead to crisis.

### **Co-operating corporations**

The word “corporation” is derived from the Latin word *corpus*, meaning body. This is not accidental. Historical references suggest that this dates back to the time of the Roman Emperor, Justinian, referring to an entity that has an independent existence above and beyond its members, as well as enjoying rights and privileges beyond those of its members. A corporation is, however, virtual. While we may view it as a thing or "reify" it, this does not allow physical life, and equally, because it is a virtual entity, it may not be experienced by observers in identical ways. Therefore, there is no single understanding of the nature of organisations even though we talk (and write) about them as if this is so. Additionally, organisations consist of people and function as the result of processes where internal and external stakeholders interact. In other words, people and outside organisations become involved in sustaining the life of a corporation. These interactive processes are vibrant and dynamic as well as interlinked and mutually related, and they operate continuously.

The idea of a unified whole that is made of components that function together can also be identified in armies. This offers a plausible reason for modern managers and business leaders to adopt the use of military strategies and the work and concepts of military

strategists. This explains why bookshelves containing business literature also feature analyses of the works of famous strategists and tacticians such as Sun Tzu, Julius Caesar, Alexander the Great, Napoleon, Nelson and Genghis Khan. The common feature they share is that they viewed their armies as a single live body, placing emphasis on developing a sense of belonging and integration amongst their people with success or failure being communally shared. Refusal to support other regiments was heavily penalised and thus they were able to develop powerful armies which were manoeuvrable, strong and controllable. Corporations or organisations are cohesive wholes too, not merely collections of individuals and processes.

A ship's crew is a good example of a self-contained "live" organisation, where all crew members are interdependent in terms of their functions and roles. Let us imagine a ship where navigators are having trouble understanding what is happening in the engine room or on the deck. Would you like to be on such a ship at rough seas? Unless you are a risk lover, we assume not! However, it is rather common that managers and staff have a very vague idea of what their colleagues from other departments are doing. What will happen when the first strong storm comes along to destroy their ship (organisation)? Would you like to work in such an organisation?

## **Organisational Anatomy**

Organisations are vitally important for human life, as suggested by Etzioni (1964), who pointed out that "we are born in organisations, educated by organisations, and most of us spend much of our lives working for organisations." At the same time, organisations are created by humans and reflect the human nature of their creators. The structures and constitutions of the organisations that Etzioni was thinking about are fairly similar to human beings in several ways. The human body is developed to be able to survive in different conditions and environments through adaptation to local conditions. Similarly, organisations are built for survival and profit-making in different environments and

conditions, i.e. countries, markets and industries. However, organisations are also different from humans in terms of their adaptability to different conditions and this begs answers to several questions:

- Are there differences in the types of organisations, as a result of long term adaptation, that are similar to the different human populations in different environments?
- If so, can we expect the anatomies of such organisational types to be similar, but with different functionality; will we see organs assuming different forms as they exist in different conditions?
- Will we observe an integrated organ level variance where types are created to withstand different conditions, where endomorphs, ectomorphs and mesomorphs, or different resources, consumption, energy development and resource-utilisation effect the organisational anatomy?

The science (or art) of anatomy was developed from research carried out to understand and explain the structure and functions of the human body. Even so, it took many centuries (and indeed theories that we can now dismiss as preposterous) before any development of a clear and agreed understanding emerged and still, there is much that remains unknown. Whilst anatomy explains the role and functions of organs, limbs, muscles, brain functions, senses, nervous systems, blood systems and digestion, we cannot treat the human body and internal problems without understanding anatomy as a whole. Often the malfunctioning of a single part of the body causes pain in other parts as well.

Continuing the metaphor, corporations or organisations are equally complicated. Smaller organisations may appear to be less complicated than the human body, and larger organisations and states possibly more so. However, if we concentrate on the smaller processes, we can see that similarly to anatomical studies of human patients, it is a matter of size or degree, rather than innate complexity. An organisation is like any other body which has a skeleton of a certain type, has complex central and peripheral

nervous systems and has organs with specific functions which are responsible for the transformation and transmission of resources. The skeleton depends on the type and pattern of processes, and the nature of resources utilised by each organisation that makes them different. The brain of organisations exists in the physical map of its governance structure - the board of directors and management structure are responsible for the coordination of all internal processes and the development of external relationships, as well as developing the organisation as a strong and resourceful entity. Functional departments are not single and independent units but valuable and vital parts of the eternal process of resource-transformation, which must be designed to produce the best of organisational potentials and secure successful development.

We can also consider that organisations possess an invisible "soul" or "spirit" that offers a moral compass and underpins the choices made in strategy and interpersonal interactions that meet the requirements of external codes of conduct and their attitudes towards all stakeholders.

Underlying this dissection is an assumption that all organisations from all corners of the world are similar in their shapes, structures and principles of trade. We can argue that the legal forms of organisations are fairly similar in all countries and that all organisations share common characteristics, a goal or purpose of existence, but this ignores their "birth" or genesis. People often ask how an American company would be different from a Chinese company in its formation and whether that affects its future survival and interactions - its "path dependence".

### **Organisational peculiarities**

Most of the materials written about organisations suggest that it does not matter whether the organisation is located in London, New York, Dubai, Beijing or Frankfurt. Organisations will have the same aims and problems as any other organisations - even the ones in another hemisphere. They will be constantly challenged by competitors for access to, and control of, better resources and

market position. The prevailing image of the "market" is of a horde of wolves where the position is important, space is premium and there is little or no place, food or support for the weakest members of the pack. As a result, organisations adopt strategies to secure the most comfortable position in terms of the flow of resources (food) with minimum internal energy and resources being spent. Organisations also interact with each other using verbal and non-verbal forms of communication to exchange resources and information around the clock, from day-to-day affairs, generation to generation and - for long lived organisations - from century to century.

We know from biology that active interaction is easiest between members of the same family or form, who speak the same language and send the same signals. On this basis, we cannot expect a retail shop to exchange much information with a steel plant in terms of business practice. This might appear to confirm the difference between different forms of organisations. However, such exchanges may be valuable because they offer new insights into processes. A good example is the exchange between a Formula One car team and a team from the National Blood Transfusion service. Both need to deliver accurately and at speed, and valuable lessons were taken from the experiences of both groups. This type of exchange, if facilitated carefully, can lead to a jump in organisational evolution, rather than the gradual change that we often see. Unlike the seamless processes in our own bodies - where we do not need to instruct the pancreas to process that bar of chocolate, or the liver to deal with the burger, because it is all automatically done for us - in the organisational body, different departments that are supposed to support each other's functions may be working hard, but not always together. Thus, there may be a loss of efficiency as resources, energy and effort are wasted or utilised sub-optimally or is lost as the outcome may not be beneficial.

Organisations do not exist in a vacuum or in tranquil, contemplative surroundings but in a very noisy and busy environment known as the market. Have you ever tried to listen to a market? Find a few minutes, relax, listen and think. You are most

likely to hear strange, wobbly noises as millions of different messages come across and most are not easy to decipher. Managers need to filter these messages to pay attention to the useful and screen out noises that are fake, murky, misleading and illogical. Intuitively, we tend to trust messages which come from reliable sources. In the same way, in an organisation the role of organisational senses and organisational sense-making was identified by Karl Weick as affecting intra-organisational and inter-organisational relations. Organisational survival in such a noisy environment depends on the ability to develop a healthy internal structure and strong, healthy and effective external relations to allow information to be transmitted into the organisational body for processing through these external sense-making organs, which are well-supplied with nerve endings.

Organisations also receive and transfer resources across this external boundary or skin where the maturity and specific conditions of these external relations either allow or disallow the resources to flow, which affects the survival of the organisation. The relative importance of body functions may vary in response to different environments, but it is also crucial to consider an integrated whole under those conditions to see if compensatory mechanisms exist. As part of this, we may also consider: the rate of growth of the number of businesses; incidents of strong and unfair competition (direct and diffusive); scarcity of and constraining conditions around resources, whether in terms of human resources, land, commodities or even household bricks, changes to industry and other external standards compared to previous centuries; and finally, the demand for higher quality of products and services.

### **Organisational health and wellbeing**

Organisations often have different functional disorders, whether imprinted from the moment of establishment or gained during their life, which directly influence the organisational performance, therefore lying in the area of interest of organisational anatomy.

In medical terms, clinical anatomy allows the classification and

treatment of diseases based on systematic knowledge of the whole body and the interdependency of all processes. Organisational anatomy has a similar aim of finding effective treatments for different organisational diseases. Thus, organisational anatomy can help in understanding the different organisational functions in different types of organisations, providing a clear classification of organisational types and the differences between them, development of strong and efficient organisations, and helping to avoid mistakes in corporate problem solving.

In clinical practice, medical history or case history is collected from the patient by asking specific questions either of the patient or stakeholders with the aim of obtaining information that is useful in formulating a diagnosis and providing medical care to the patient. The medically relevant complaints reported by the patient or others who are familiar with the patient are referred to as symptoms, in contrast to clinical signs, which are ascertained by direct examination by medical personnel. In organisational practise, the organisational history or case history is collected from the organisation by investigation with the aim of obtaining useful information in formulating a diagnosis and providing support to the organisation to overcome the challenge to its health. Often performed by external consultants, this may be heavily "pre-scripted", bringing existing attitudes and filters to the data collection process and thus symptoms may be potentially missed.

A summary of all the information about a patient obtained on a single or several occasions after the end of his or her initial period under observation is usually prepared after the patient is discharged from the hospital or after their final examination or treatment. A similar approach is adopted by some - but not all - organisations, whereby a summary of all information about an organisation based on observations may be prepared through the "lessons learned" routine in management after a challenge to its wellbeing or survival health.

This book will address the following areas of study: forms and types of organisations, ageing process, resources access and

utilisation, processes coordination and internal strength, appropriate structures and functional effectiveness, classification and description of typical and atypical diseases, and treatments of organisational diseases.



## CHAPTER TWO

### HOW THE ORGANISATION NOURISHES ITSELF

All living creatures need food as they cannot exist without it. Food equals energy and strength. We all need a combination of both solid food and liquid such as juice, water or soup. In the organisational context, food takes on the form of tangible and intangible resources. An experienced manager can easily recognise which resources are the most valuable for his organisation. However, quite often managers fail to recognise the key resources for optimal functioning of their organisations and thus give a lower priority to gaining critical or core resources than to obtaining less valuable resources. Fast-moving contemporary businesses in volatile contexts experience more difficulties when recognising and prioritising the most valuable resources than those in more stable contexts.

What are resources? Generally speaking, resources are defined as raw materials, human capital, financial assets, technologies, IT, expertise, information, capabilities, processes, knowledge, and other tangible and intangible assets. Efficient and effective utilisation of available resources is a complicated process leading either to success if properly and correctly managed, or failure if managed carelessly. We consider a good meal of two or even three courses. Similarly, organisations demand a long menu representing a set of resources which should be provided as a portfolio or bundle. Unfortunately, managers often save pennies on non-core resources and assets, but lose thousands of dollars on accessing and utilising vital organisation resources. Neglecting a pragmatic approach based on systematic knowledge, managers are often involved in non-productive resource juggling. This seems to result from placing an individual manager's performance ahead of the overall performance of the organisation. Such an approach leads to the loss of hard-won

competitive advantage.

Competitive advantage is something which is produced or “cooked” inside each organisation, using “secret” recipes and ingredients like all good chefs. Recipes may be identical, but the mastery of managing and working with available ingredients is individual. An organisation’s ability to utilise resources effectively directly influences the organisation’s competitive advantage. Competitive advantage thus reflects the choice of superior resources available to a firm and the mastery of effective utilisation of these resources. What are the essential ingredients in organisational terms? There are three different types of resources needed for obtaining full organisational productivity and strength: physical capital resources, i.e. technology, plant and equipment, geographic location, raw materials available to a firm; human capital resources in the form of professional expertise, experience, training, judgements, and relationships; and organisational capital resources including formal reporting structure, formal and informal planning, control systems, and external and internal informal organisational relations.

Resources have different values for processes and organisations. In other words, resources can be considered as sources of competitive advantage only when they exploit opportunities or neutralise threats in the firm’s environment. To qualify as a source of competitive advantage, resources must have several properties.

They must be rare. If they are freely available to competitors then they are less significant. Competitors exist in the same resource space and chase the same resources. Their interests are crossed at that point. This is the same as feeding a dog and a cat from the same bowl.

Resources that cannot be easily copied allow a firm to be considered as a strategic innovator and provide first-mover advantage via managerial creativity in resource utilisation and manipulation. Gaining the maximum effect from neglected or overlooked resources is often a key to success with minimum

financial expenditure.

If the resource can be replaced by something which is cheaper, more accessible and has similar characteristics, then it can be replaced in a relatively short time or imitated. For instance, one type of fish can be replaced by a much cheaper and easily available species when supplies are under pressure. The Atlantic salmon can be replaced on the supermarkets shelves with the cheaper Pacific salmon following a dramatic price increase.

The importance of organisational resources is bounded by their individual roles in satisfying the “focal resource”. Focal resource is defined as a human demand for organisational service or product. Logically, the most valuable resources are those used to satisfy the organisation’s focal resource - normally its customers. Customers are becoming more and more sophisticated these days and demand higher quality products based on what may be unique resources such as the demand for composite materials, highest quality parts, complicated IT systems, advanced expertise, etc. Over the last two or three decades, global changes suggest that such demand is growing exponentially, leading to a need to grouped together resources obtained from across the globe, increasing the organisation’s competitiveness. Simon, Hitt and Ireland (2007) suggested that: “Resources within the firm’s resource portfolio are integrated (i.e., bundled) to create capabilities, with each capability being a unique combination of resources allowing the firm to take specific actions (e.g., marketing, R&D, etc.) that are intended to create value for customers. Commonly, customers want value from a firm’s goods or services in the form of a solution to a problem or satisfaction of a need.”

### **Tangible resources**

Managers find it easier to recognise and utilise tangible resources to optimise their value, and therefore this type of resource is often considered to have the most influence on the organisation’s performance. We can physically touch tangible resources, whether they are buildings, equipment or vehicles. However, leveraging

assets to directly influence competitive advantage can be difficult to replicate. The problem is that the value of tangible resources is not fixed, as they are related to market value and strategic value, and can gain or lose financial value, thus influencing the residual value of cash flows. Note that we separate the strategic value from the financial value.

The disclosed financial value of tangible assets does not always reflect their actual value to the organisation because policies and local tax rules may affect it. However, strategic value is difficult to calculate and verify for inclusion in the balance sheet. Underestimation or overestimation can lead to ineffective utilisation of resources or mistakes in the capitalisation projection.

### **Intangible resources**

Intangible assets include intellectual property, organisational and reputational assets. They range from the intellectual property rights of patents, trademarks, copyright and registered design, through contracts, trade secrets, public knowledge such as scientific works, to the people-dependent or subjective resources of know-how, networks, organisational culture, and the reputation of product and company. Intangible resources are also viewed as assets and skills. Although this sounds straightforward, the identification of intangible assets is not always clear. Functional and cultural differentials are based on competencies, or skills, such as advertising, or zero defect production, whilst positional and regulatory differentials are related to assets which the business owns, such as brand names or physical locations.

### **Trade marks**

Trade marks were invented by the Romans in order to legally protect customers against fake goods. In those days, blacksmiths would mark their swords, which are now considered to be the very first trademarks. Much later, in 1266, King Henry III required all English bakers to use special marks in order to distinguish the bread that they produced and sold. The function of a trade mark becomes

the protection of the rights of producers, names, signatures and special features used for describing a product or service.

A trade mark is an extremely popular sign indicating the quality and individuality of the product offered. However, it is not easy to value trademarks, which may be hidden in goodwill items.

### **Patents**

Historically, patents are another legal method of protection for intangible assets. The meaning comes from the Latin “*literae patentes*” which means “open letter” or “to lay open”. The very first formal recognition of an inventor’s right ownership was issued by the Venetian government to Filippo Brunelleschi in 1421 as a means of recognition of his monopoly over his invention of a floating architectural crane. The English Crown followed this in 1449 during the time of Henry VI, who granted rights for installing stained glass windows in the Eton College chapel to John of Utyman.

A patent is a deal between the state and the inventor or producer and therefore it should be considered as an exclusive right to exploit trading rights over the invention or product in question for a particular period of time. For instance, patents for drugs production and distribution.

### **Copyright**

The trade body or first company to invoke copyright was the Stationers Company (England) in the 16th century. The term copyright emerged with the development of the printing industry with the aim of protecting the legal rights of publishers and was specific to their type of business. With the development of electronic books, games, different software, toys and cartoon characters, the role of copyright has become more important and more widely used, where the intellectual and legal rights of the product’s authors and publishers demand protection and clear recognition. As an example, this book is subject to copyright

protection and therefore, all appropriate measures are taken to fulfil the copyright rules and practices protecting the author's rights.

### **Registered Design**

Items with aesthetical value that appeal to our tastes and likings have a commercial value and two- or three-dimensional nature that can form a registered design. This includes the latest shoe design or mobile phone accessory, and remains a battle field for commercial pirates, where no hostages are taken.

### **Contracts**

A contract is an agreement between two or more parties, such as a distribution rights agreement, credit agreement, property lease, franchising contract, etc. We tend to forget that contracts often have an ultimate value to the firm. For instance, it is difficult to estimate the value of an exploitation contract for a mining company or an exclusive distribution contract for a trading firm.

### **Trade secrets**

Trade secrets relate to any valuable and confidential information which may influence the firm's success and even existence. It can be in the form of technology, strategy, customers' database, know-how, business process algorithm, staff personal information, etc. Even the logic of strategic decision-making can be considered as a trade secret. This is not just a small twist of thought which separates one organisation from another - it is important and therefore should be carefully protected.

### **Networks**

The range of organisational and personal relations linking organisation with markets and hierarchies through distinct structural properties create organisational networks. The Nobel Prize winner Oliver Williamson (1975) argued that markets and hierarchies serve a major role in the allocation of resources. External networks are