

# THE REVERSE ENGINEERING OF THE SOCIAL ENGINEERS THROUGH ISOMORPHISM: THE HARBINGER OF GLOBAL ECONOMIC CATASTROPHE

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*Abstract:* The world economies are on a fast track for global integration with today's youth acting as the flag bearers of economic growth. The geographical distances are no longer hurdles in achieving world standards in business outputs, thanks to the advancements in the virtual world and high speed communication systems. The promotion of entrepreneurship through government policies, competitive educational environment and access to easy financial resources has made the phenomenon of globalization a reality for developing economies. In this optimism excitement, often the signs of the impending financial crisis are ignored. With the multinationals already having exploited their home grounds, they are now looking for greener pastures (developing economies) to be exploited under the garb of globalization. In this process the government, the economy and the society ( the youth) are working hard to align themselves with the needs and standards of the multinationals in the hope of forming growth driven economies, in return the multinationals want more liberalized economies for the ease of doing business. What one does not realize is that in this process the phenomenon of isomorphism is slowly creeping in to the developing economies as they are more and more copying the developed economies. This will create economic clones across the globe and once an anomaly occurs in any one of the clones the entire world will be hit by a widespread global meltdown.

Part one of the paper will provide an overview of the present world economic condition. Part two will explore the concept of isomorphism. Part three will explore the relationship between the state, the economy and the society in the light of isomorphism and issues related to isomorphism of economies.

*Index Terms:* Isomorphism, Economic Sustainability, Sub-prime crisis

## PART ONE: THE PRESENT ECONOMIC SCENARIO

### *Introduction: The Global Economic Situation*

The present global economic scenario indicates an averagely moderate growth in the economic output across the world. The financial market volatility of economies across the world has affected the developed economies more than the developing countries. The developed economies are hopeful that the developing countries would accommodate and further ease economic restrictions to enable the developed economies to explore their markets. Since the 2008 global financial crisis, it has not gone unnoticed that the developing countries have contributed the most to the global economic output. The comparative analysis of the key economic factors among developed and developing countries will give us a better insight into the present global economic situation.

As per the report published by United Nations, World Economic Situation and Prospects 2017, amidst weak aggregate demands, financial volatility and falling commodity prices the inflation across the globe continues to decline persistently. In some developed countries like Japan and European nations, there is an impending fear of deflation looming in the background. However in developing economies the rate of inflation was relatively higher (Global Consumer Price Inflation<sup>1</sup>, 2006-2017) indicating slow but steady economic growth. With the slow economic growth the issue of involuntary unemployment is also not far behind. The unemployment rates are projected to stabilize or recede only moderately in developing countries showing higher growth rates. In developing countries the actual transition from employment to employment often goes undetected due to presence of the large informal sector. World over the labour market conditions are worsening and presently the youth unemployment accounts for 36%<sup>2</sup> of global unemployment and there has been a steady shift to involuntary part time employment due to the economic slowdown. This may be attributed to the understanding of the interrelatedness of the economic factors of demand, investment, trade and

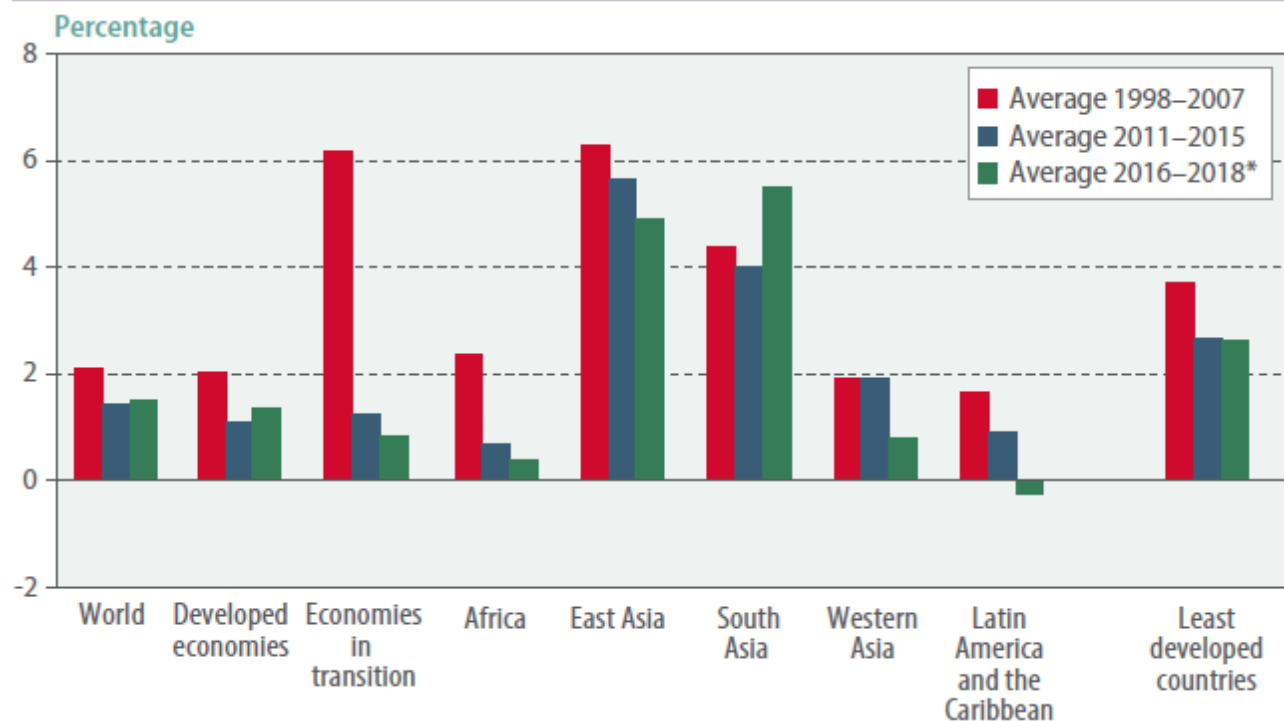
<sup>1</sup> <http://www.un.org/en/development/desa/policy/wesp/index.shtml>. Last accessed on 16 February, 2017, 11:00 am

<sup>2</sup> <https://www.un.org/development/desa/dpad/publication/world-economic-situation-and-prospects-2016/>. Last accessed on 14 February, 2017, 10:00 am

productivity. Since there is an overall decrease in the aggregate demand, the firms are unlikely to invest in new projects or expand the existing ones. Further, to reduce their expenditure to exist profitably, job cuts are next in order. With further job cuts, the uncertainty of income rises and consumerism falls.

The developing countries can attribute their relatively better economic conditions and steady growth rates to the conservative economic conditions that exist in their country. With the dawn of the era of globalization, there has been a constant force on the developing countries to open up their economies to the developed world. Under the disguise of promoting globalization and boosting economic growth, the multinational and transnational companies are steadily exploiting the economies of Lesser Developed Countries (LDC) and Developing Countries. One can easily recall that post the 2008 financial crisis, the FIIs who had once seen India as a promising economy, lined up to pull out their funds to counter the crisis back home thereby shrinking the economy even though the country's financial system was robust and healthy. It is therefore necessary for the conservative economies to understand that being partially conservative can help them protect their economy. This however does not mean that the country should separate itself from the benefits of globalization and technology transfer but only be cautious and keep in mind that the economy is not left fully exposed to be exploited by the developed nations.

**Figure 1: Gross Domestic Product Per Capita Growth By Region**



*Source: UN/DESA based on United Nations Statistics Division National Accounts Main Aggregates Database, United Nations Population Division World Population Prospects and UN/DESA forecasts.*

*\* Includes estimates for 2016 and forecasts for 2017-2018*

Overall, the improvement of the global economic conditions is heavily dependent on the developing countries. As the Figure 1 above indicates that the maximum growth registered during last two decades have been in the developing countries the world is therefore looking up to them for improving the prevailing economic conditions.

The Overview of the Indian Economy

In the recent times India's growth to become the world's fourth largest economy<sup>3</sup> has been phenomenal. It has gone from being dependent on an import of food grains to a net exporter of food grains. The literacy rates have significantly improved; life expectancy has more than doubled and the burgeoning middle class has catapulted the growth of the economy many folds. India is now home to a large number of globally recognized companies in the areas of medicine, pharmaceuticals, steel, manufacturing, information technology and aero-space. There is another factor in this success story of the growth of the Indian economy and that is the contribution of the youth of the country. India is slated to soon have the "largest and youngest work-force the world has ever seen"<sup>4</sup>. The country is in a phase of massive urbanization where approximately 10 million people move to towns and cities each year in search of job opportunities and better life making it the "largest rural-urban migration of this century"<sup>5</sup>. The key to India's success in future will primarily depend on how the development models for economic growth harness the potential of the large youth population. Equipped with world class education and exposure to the western economies has given rise to the new breed of Indian entrepreneurs who are making waves world-wide. With the Indian entrepreneurs and companies following the working patterns and organization structures of their western counterparts to compete with them on level ground, the phenomenon of

<sup>3</sup> <http://www.worldbank.org/en/country/india/overview>. Last accessed on 14 February, 2017, 10:13 pm

<sup>4</sup> *Ibid* 3

<sup>5</sup> *Supranote* 3

isomorphism has started spreading. With the youth being the flag bearers of change and having been given the title of Social Engineers by Roscoe Pound, it is necessary for them to understand and evaluate their future actions so that they can handover a sustainable economy with huge potential to their future generations. In the next part of the paper we shall try to explore the phenomenon of Isomorphism and evaluate its potential in contributing to the growth of the world economy.

## PART TWO: THE IMPACT OF ISOMORPHISM

In today's highly competitive world, there is a constant struggle for improving efficiency of the organizations whether corporate, governmental or not-for-profit. This trend has pushed organizations to have benchmarks or standard structures, procedures, rules and regulations for operational efficiency. Earlier, the efficiency of the organizations would evolve through interaction of market forces, but over a period of time constraints have been imposed by the state and professions which has led to the creation of homogeneous organizational structures also known as institutional isomorphism<sup>6</sup>. "As an innovation spreads, a threshold is reached beyond which adoption provides legitimacy rather than improves performance"<sup>7</sup>. P. J. DiMaggio & W. Powell describe Isomorphism as a "constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions"<sup>8</sup>. DiMaggio & Powell state in their paper<sup>9</sup> that organizations compete with one another not just for resources and clients or customers but also for "political power and institutional legitimacy, for social as well as economic fitness". There are three kinds of isomorphism of institutions; Coercive Isomorphism, Mimetic Processes and Normative Pressures. The Coercive Isomorphism is a result of peer pressure from organizations belonging to the same industrial environment and upon whom the organization depends on. The organizations are pressured by cultural and social expectations along with governmental rules regulations and laws to promote homogeneity of systems and processes. Mimetic Processes is an outcome of the belief of one organization that the other organization's structure is better and more beneficial for it. Uncertainty and constant migration of the work-force from one organization to another is also a contributor to this process. Every time an employee joins a new organization, they tend to bring with them a mix of experiences, work culture, systems and processes used in the earlier organizations and slowly introduce these processes into the new organization. Once the diffusion of these processes is complete more and more organizations mimic each other in their working patterns thus creating isomorphic institutions. This process is often sped up when a new CEO joins the organization and initiates the processes of organization change and development aimed at improving the efficiency of the organization's systems and processes. Normative Pressures as the name suggests is the result of "legitimization inherent in the licensing and crediting of educational achievement" which means that norms that are developed during imparting education with standardized frameworks will yield working professional similar thought processes which further means that in a given situation all the students with the similar academic qualifications and background will attack the problem with similar skill sets and manner; therefore, the output will be homogeneous. This is further strengthened by achieving conformity through social interactions within an organization and in the industry and thus once again isomorphic institutions are created. The similarities promoted by these three processes enable firms to interact more easily with each other and help to establish legitimacy among organizations.

The relation of globalization and isomorphism runs deep in today's times. Globalization is shrinking the geographic and economic boundaries of the nations' world-wide. It is creating contemporary national societies that are promoted by standardization of operational models across institutions globally. With the blurring of lines between geographic boundaries not only in terms of work processes but also the intermingling of culture, values and societal norms by associational processes, it does not seem a distant reality that similar form of institutions and societies will be found everywhere in the world. This would mean that over a period of time even the political and economic environment of the countries would become mirror images of each other and the previously isolated societies would integrate with the world to form standardized societies. Though the patterns of convergence may vary, but all roads lead to the same point even though some institutions are moving fast while others are moving slowly. The states which are highly integrated with the world polity and are a part of the various international organizations and bodies move faster towards normative socialization while states which still remain to integrate with the world polity may take time to undergo the above mentioned changes. Therefore isomorphism of corporate and societal institutions is now spreading to the structures of government and economy of countries. Soon there will be situation where economic clones will be created and because of integrated economies even a small anomaly in one country's economy will have the potential to create large scale world-wide financial crisis.

## PART THREE: YOUTH AS PROPAGATORS OF NORMATIVE ISOMORPHISM OF STATE, ECONOMY AND SOCIETY:

The youth of today is full of energy, hope and enthusiasm and is on a quest of a better future for oneself and the members of the society. In the past two decades entrepreneurship has taken the world by storm as more and more youngsters are interested in forming their own companies rather than working under someone else. They are also acting as the building blocks of change in the societal structures of the nations. The common denominator for such changes brought about by the youth can be attributed to similar education systems across the institutions. With the passage of time there is constant race among educational

<sup>6</sup> DiMaggio, P. J., and Powell, W. W. (1983). "The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields". *American Sociological Review*, 48(2), 147-160.

<sup>7</sup> *Ibid* 6

<sup>8</sup> *Supranote 6*

<sup>9</sup> *Supranote 6*

institutions to establish themselves as world leaders in imparting professional education leading to an increasing need for standardization of academic course curriculum. Seeing this field as a new opportunity, private players and organizations have jumped into the bandwagon for providing various accreditations to the educational institutions which now serve as parameters to provide the world rankings to educational institutions. One can easily understand the need for standardization of primary education as it is aimed at providing equal footing to all individuals who are in pursuit of good professional education, but while considering higher education (university level) the standardization of education will lead to normative institutionalization (Isomorphism) which will lead to creation of work-force clones. This may in future hamper the creativity and innovation of the young minds. At this juncture we can also take the examples of the various highly entrepreneurial success stories of our times in which the entrepreneurs are either college dropouts or have not undergone any professional education ( example: Bill Gates of Microsoft and Mark Zuckerberg of Facebook). The same fear of existing in highly structured societal and economic framework has been expressed in contemporary literature and films. For example, Aldous Huxley in his renowned work 'The Brave New World' explores a universal society where the structures are firmly in place and the division of work is based on the genetic constitution of the members of the society, so much so that the production of humans was a controlled mechanical and scientific process. It was similar to the caste system of the later Vedic period where by virtue of birth one had to follow a particular profession irrespective of the skill set of the individual. Similarly in the highly acclaimed motion picture 'The Matrix' (Year of release 1999, created by The Wachowskis and distributed by Warner Bros. Pictures) all humans are treated as programs and any digression of the program from the set norms was treated as an anomaly which needed to be rectified by eliminating it.

The above examples reiterate the fact that normative isomorphism is steadily influencing the corporate structures and the same can be further re-established by revisiting the 2008 sub-prime mortgage financial crisis which single handedly crippled some of the world's strongest economies. Often deemed to be the result of crony capitalism, the sub-prime crisis is a sneak peak at what the future might have in store for an isomorphic economic world order. Though the USA was the primary creator of the crisis, the European Union was also severely affected so much so that some of the countries like Greece, Italy and Spain were almost left bankrupt with thousands losing their jobs. The potent question to be asked at this point is that, with so many advancements in the field of data analytics, financial modeling and econometric valuations models, how did such an impending crisis escape the notice of financial corporations and state regulators? This question may be answered by the attributing the phenomenon to isomorphism, since when an organization observed that a fellow organization was earning huge money by creating financial instruments out of mortgage papers of prime valuations they followed the suit. This further created a demand for such financial instruments in the market and so all the other organizations followed the same path. Once the saturation point for the prime mortgage backed securities was reached the hunger for more profits led to conversion of sub-prime mortgages into financial instruments. Since everyone was riding the same wave no one cared to check the fundamentals behind such super normal profits and thus when the waves crashed it created one of the biggest financial crises of the modern times. Some may easily attribute this disaster to the reckless adventurist mindset of the youth or business cycles but essentially it was man made and a result of blindly copying of the business formulae among institutions as a result of normative isomorphism. Further, if the phenomenon of normative isomorphism spreads unchecked, it will lead to a phase where the world economies will be mere clones of each other and the moment an anomaly is introduced into the system it will move unchecked from one economy to another and in time will result in global financial catastrophe.

It is time that the impending issues of isomorphism are recognized by the youth, also this does not mean that the good practices prevalent among the institutions be undermined or importance of global organizations created to foster cooperation among the countries be downplayed, but only that the state should not give in to the pressure of aligning itself with economies of the powerful nations at the cost of exposing themselves to be exploited. Partially conservative economies may act as shock absorbers in case of widespread economic crisis. The youth must promote free thinking and innovation without feeling the pressure to imitate the success stories and institutional structures of organizations of other countries as it is imperative to understand that each country has a unique industrial environment and customization and creating variety will go a long way in future to build sustainable economies. One must allow the market forces and environment to form the structures and processes of the organization as it was earlier. As far as the Indian economy is concerned, one must appreciate that it was India's partially conservative economy and efficiency of the state owned market regulators that partially dampened the impact of the sub-prime crisis. With the western economies reaching a saturation point and growth rates remaining under 3%, the multinationals under the garb of globalization and fostering economic integration are looking to exploit the economies developing countries like India.

In conclusion, though the youth of today wants to work in a liberal paradigm and globalization is a catalyst in this, they should not fall prey to the advertised success stories of the west but try to weigh their options and critically evaluate the situations before implementing isomorphic structures. The youth are the social engineers and following preconceived isomorphic systems instead of creating new sustainable ones may have detrimental impact on society, economy and government.

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