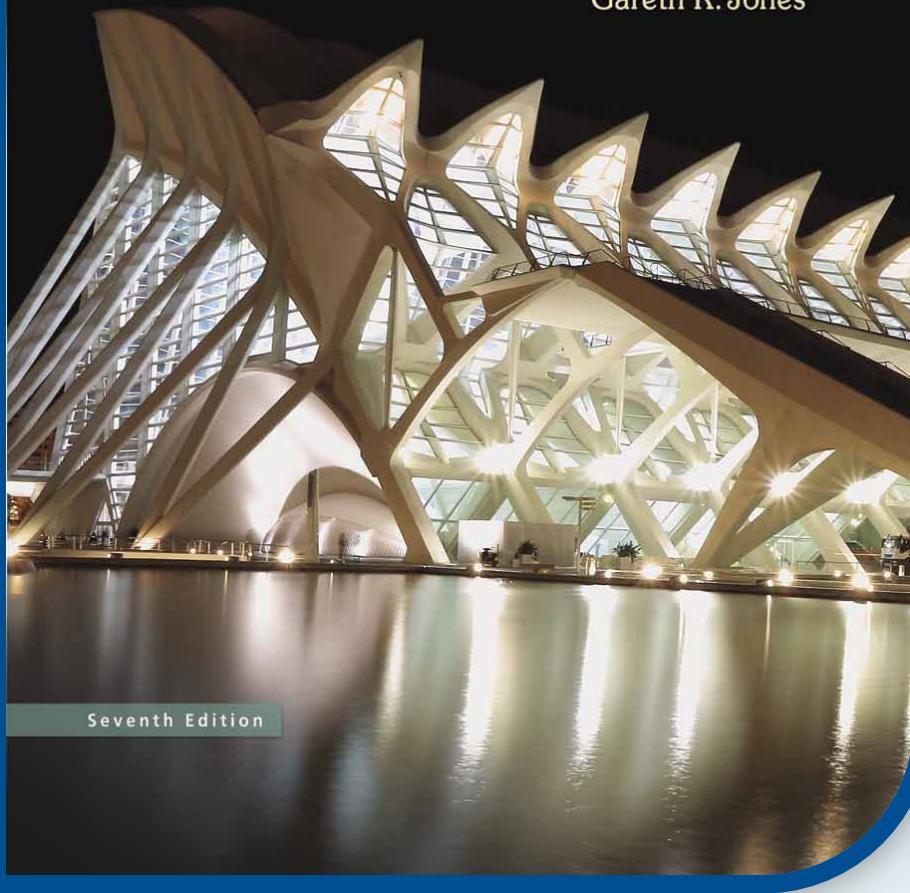


# Organizational Theory, Design, and Change

Gareth R. Jones



## Designing Organizational Structure: Authority and Control

# Authority: How and Why Vertical Differentiation Occurs

- The hierarchy begins to emerge when the organization experiences problems in coordinating and motivating employees effectively
- Division of labor and specialization make it hard to determine how well an individual performs
- Impossible to assess individual contributions to performance when employees cooperate

# Authority: How and Why Vertical Differentiation Occurs (cont.)

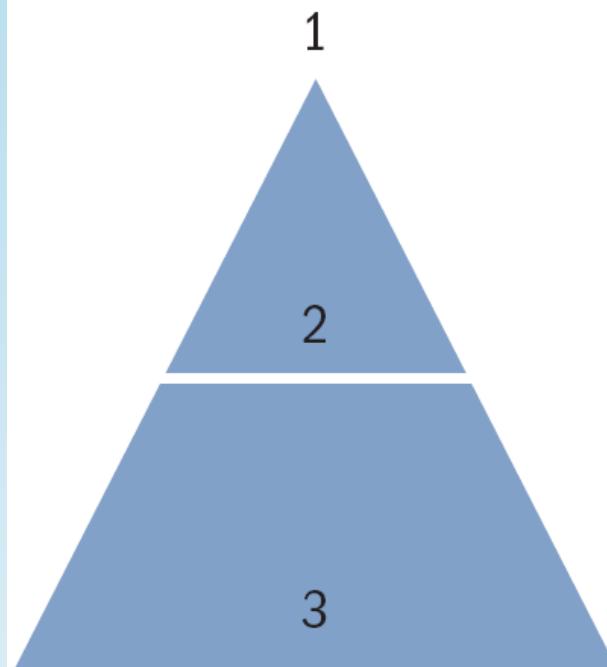
- To deal with coordination and motivation problems, the organization can:
  - Increase the number of managers it uses to monitor, evaluate, and reward employees
  - Increase the number of levels in its managerial hierarchy

# Authority: How and Why Vertical Differentiation Occurs (cont.)

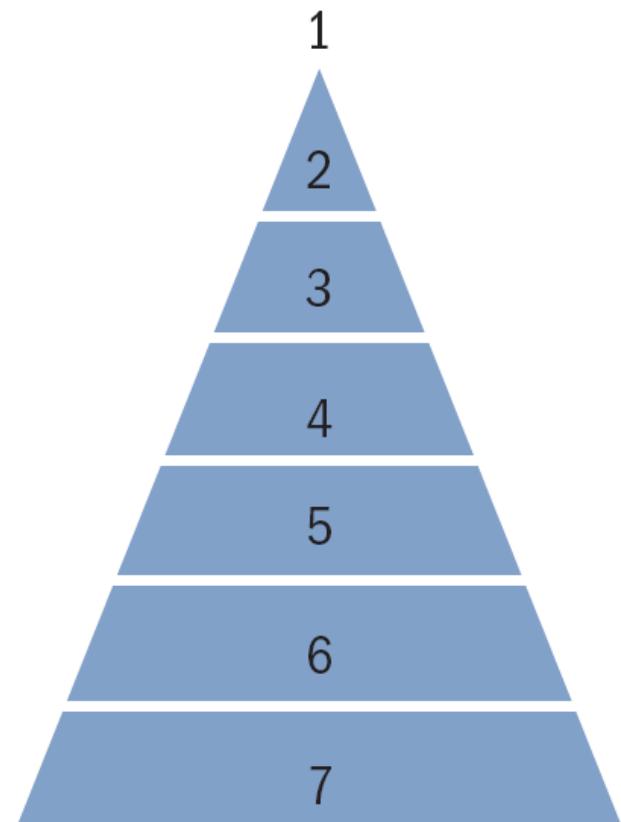
- Size and height limitations
  - Tall organization: The hierarchy has many levels relative to the size of the organization
  - Flat organization: Has few levels in its hierarchy relative to its size

# Figure 5.1 – Flat and Tall Organizations

A. Flat Structure



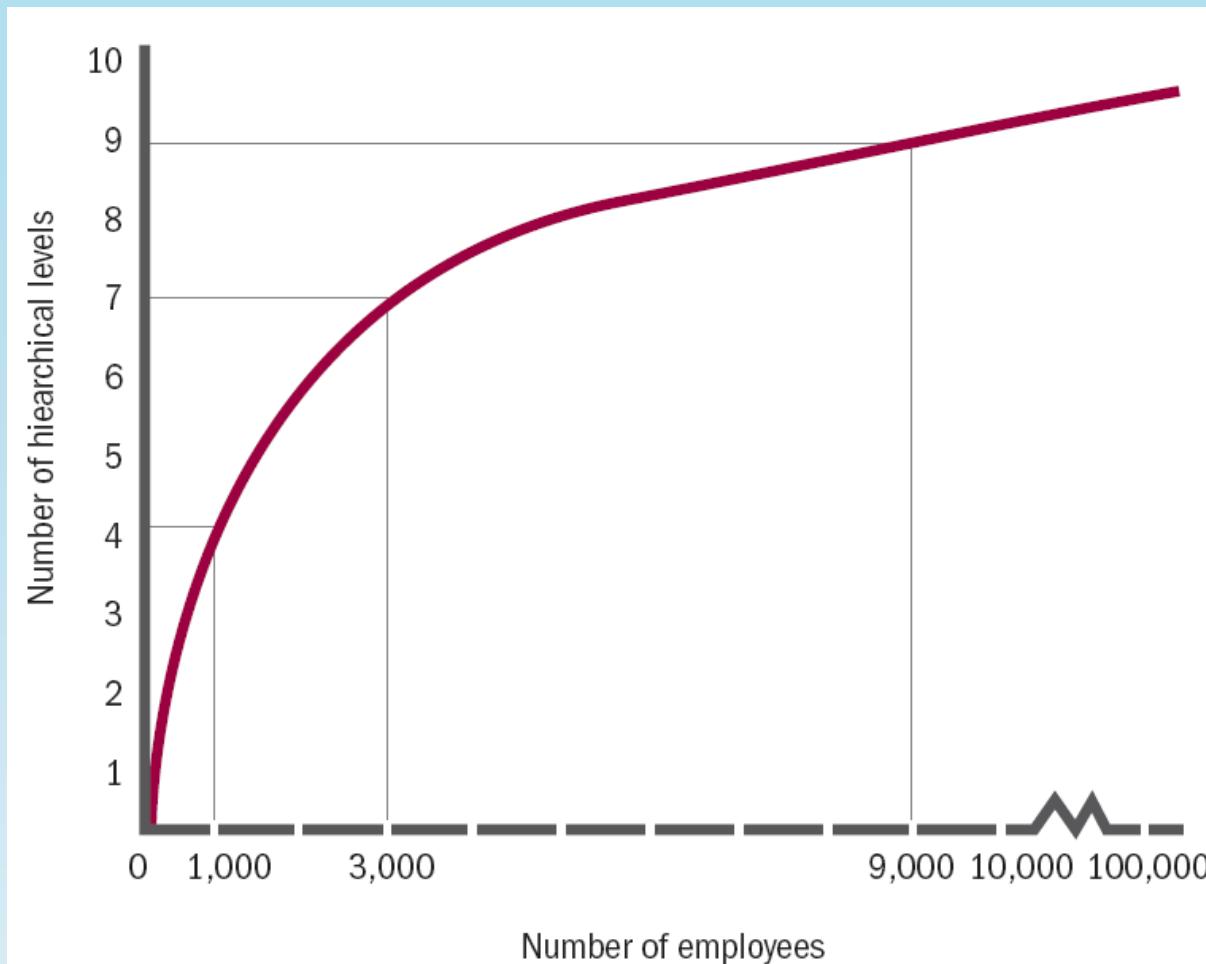
B. Tall Structure



# Authority: How and Why Vertical Differentiation Occurs (cont.)

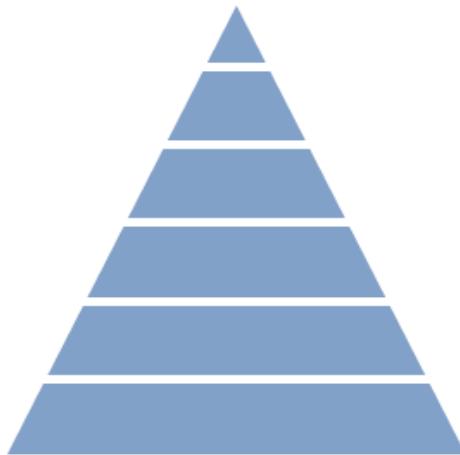
- By the time an organization has 1,000 members, it has 4 levels in its hierarchy
- At 3,000 members, it likely has 7 levels
- Between 10,000 to 100,000, organizations have 9 or 10 levels
- Increase in size of the managerial component is less than proportional to the increase in size of the organization as it grows

## Figure 5.2 – Relationship Between Organizational Size and Number of Hierarchical Levels

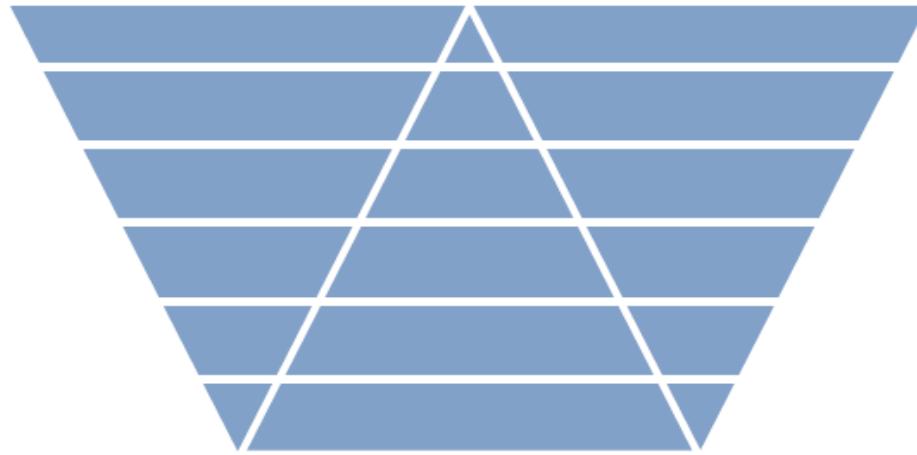


# Figure 5.3 – Types of Managerial Hierarchies

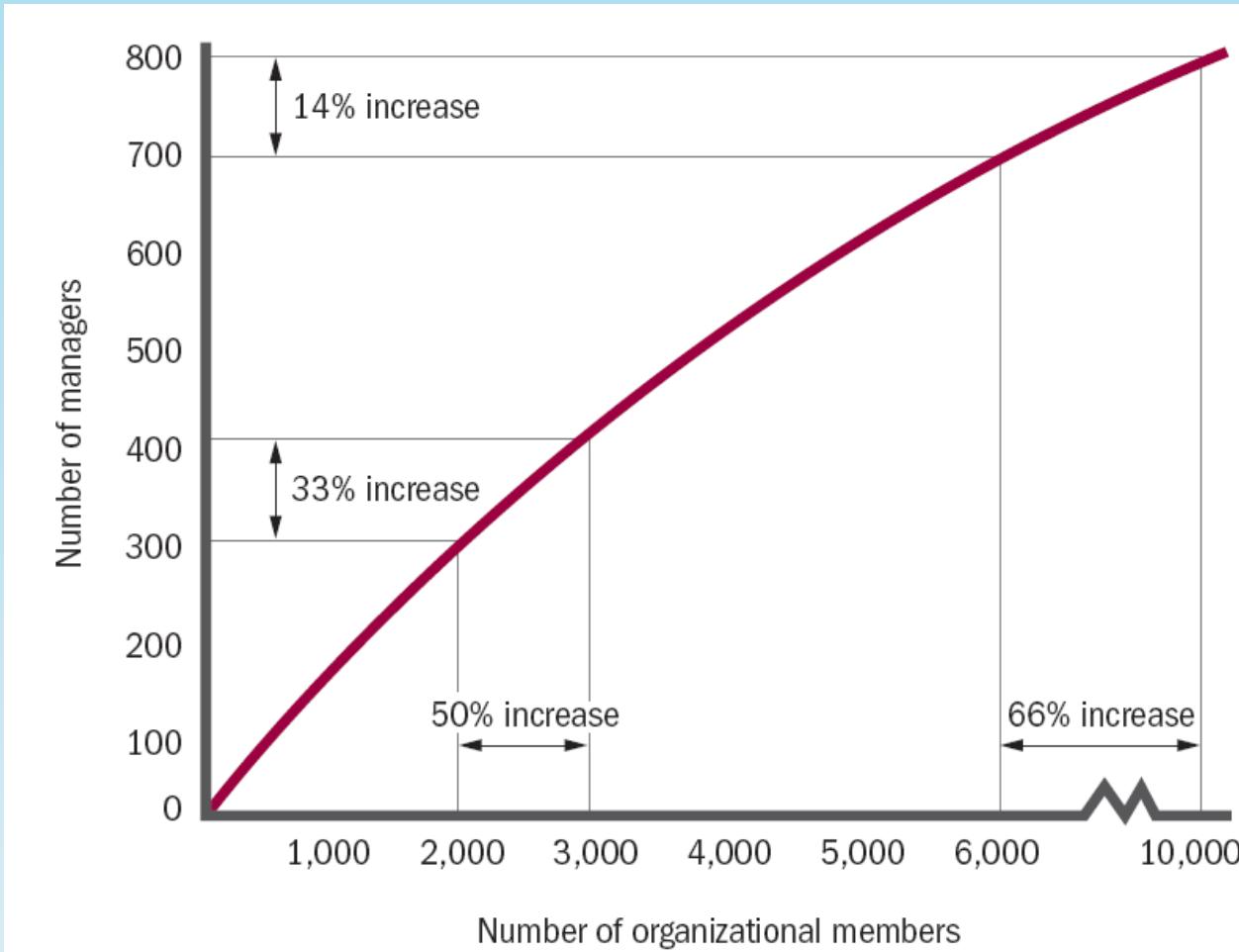
A. Pyramid-like structure with decreasing numbers of managers at each level



B. Bloated structure with increasing numbers of managers at each level



## Figure 5.4 – Relationship Between Organizational Size and the Size of the Managerial Component



# Authority: How and Why Vertical Differentiation Occurs (cont.)

- Problems with tall hierarchies:
  - Communication problems
  - Motivation problems
  - Bureaucratic costs

# Authority: How and Why Vertical Differentiation Occurs (cont.)

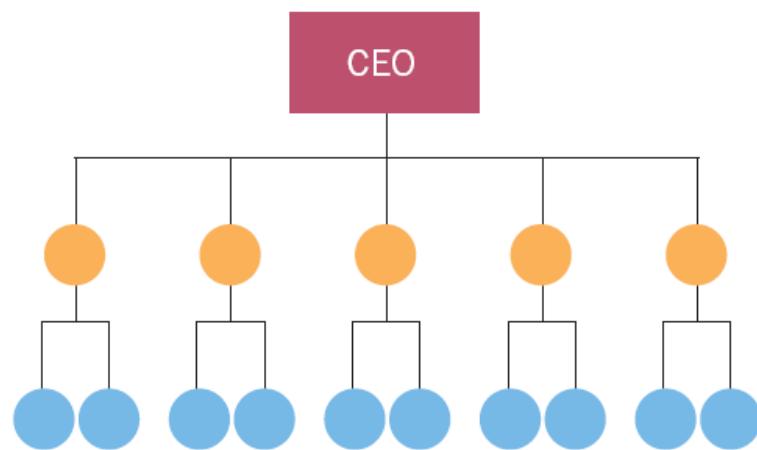
- Parkinson's Law Problem
  - Argues that the number of managers and hierarchies are based on two principles
    - A manager wants to multiply subordinates, not rivals
    - Managers make work for one another

# Authority: How and Why Vertical Differentiation Occurs (cont.)

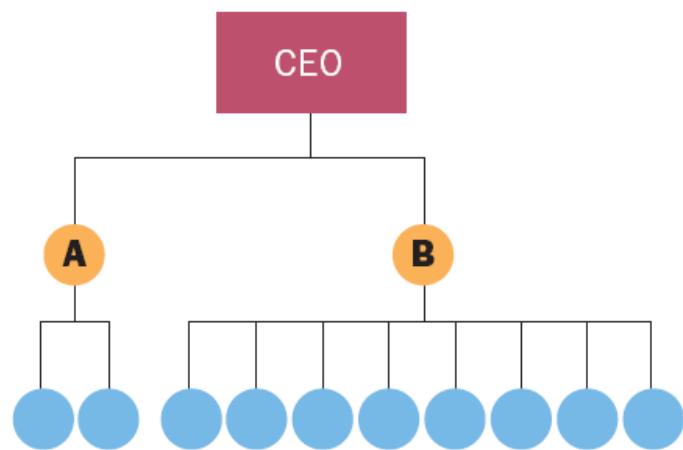
- Ideal number of hierarchical levels determined by:
  - Principle of minimum chain of command: An organization should choose the minimum number of hierarchical levels consistent with its goals and the environment in which it operates
  - Span of control: The number of subordinates a manager directly manages

# Figure 5.5 – Spans of Control

A.



B.



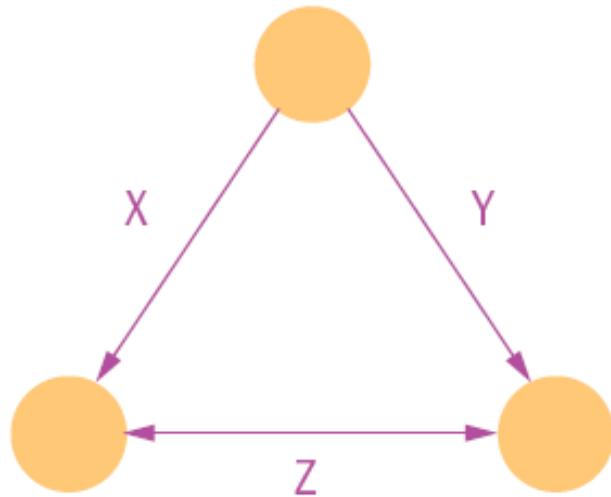
- Managers
- Employees

# Authority: How and Why Vertical Differentiation Occurs (cont.)

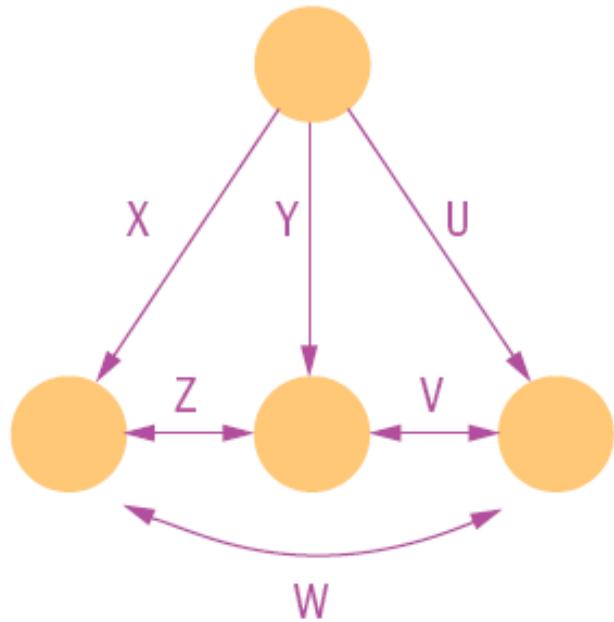
- There is a limit to how wide a manager's span of control should be
  - If the span is too wide, the manager loses control over subordinates and cannot hold them accountable for their actions
  - Dependent on the complexity and interrelatedness of the subordinates' tasks
    - Complex and dissimilar tasks – small span of control
    - Routine and similar tasks (e.g., mass production) – large span of control

## Figure 5.6 – The Increasing Complexity of a Manager's Job as the Span of Control Increases

A. The manager has two subordinates and must manage three relationships



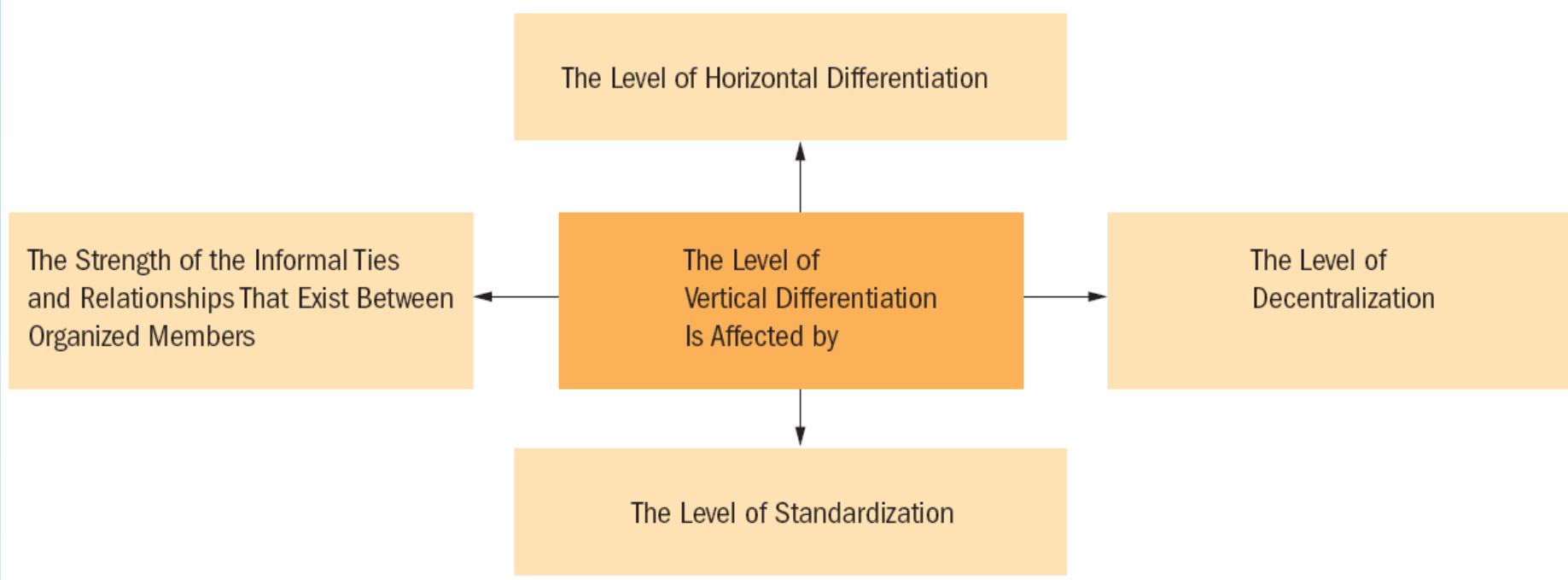
B. With the addition of just one more subordinate (for a total of three), the manager has six relationships to handle



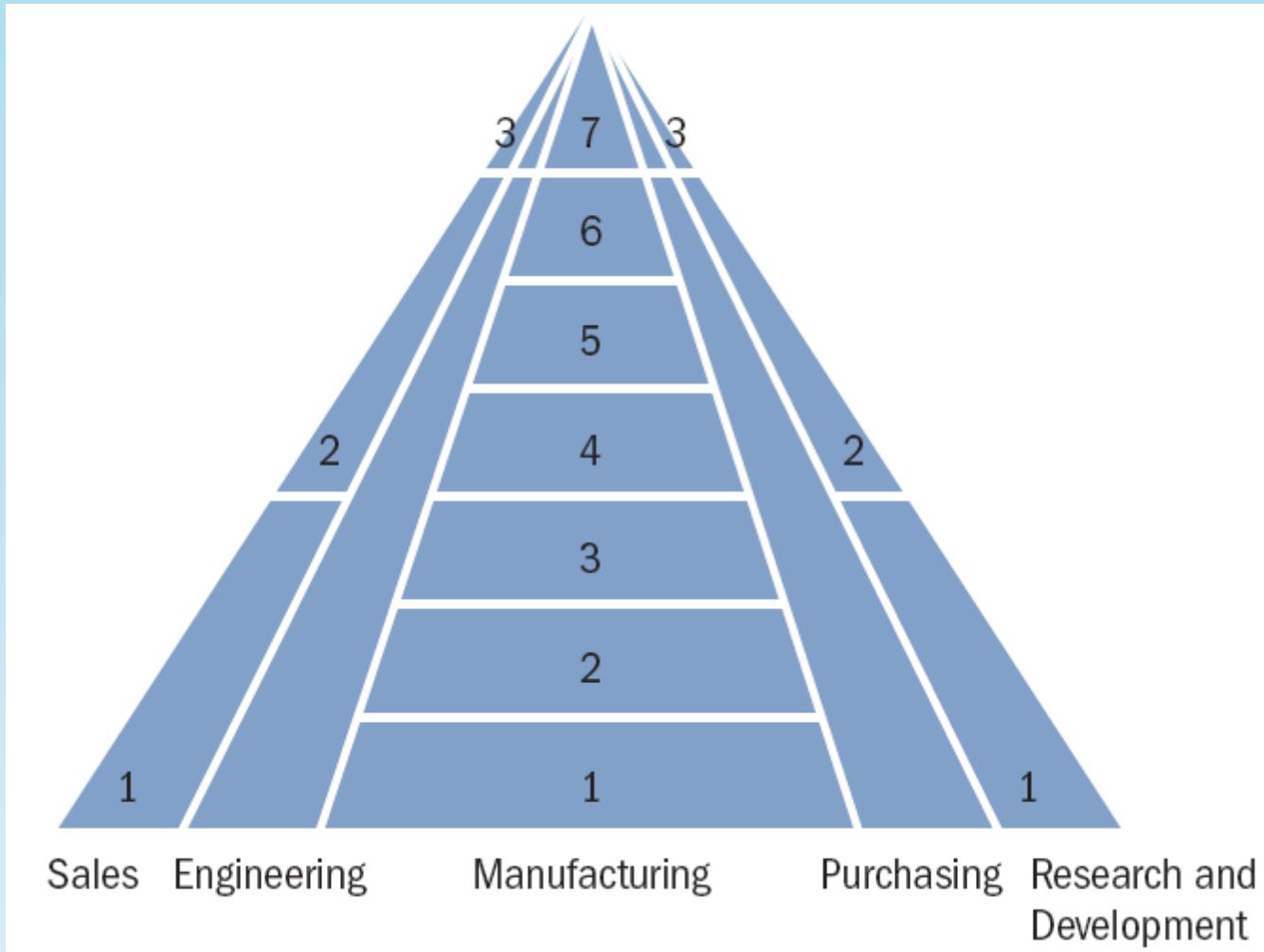
# Control: Factors Affecting the Shape of the Hierarchy

- Horizontal differentiation: An organization that is divided into subunits has many different hierarchies, not just one
  - Each function or division has its own hierarchy
- Horizontal differentiation is the principal way an organization retains control over employees without increasing the number of hierarchical levels

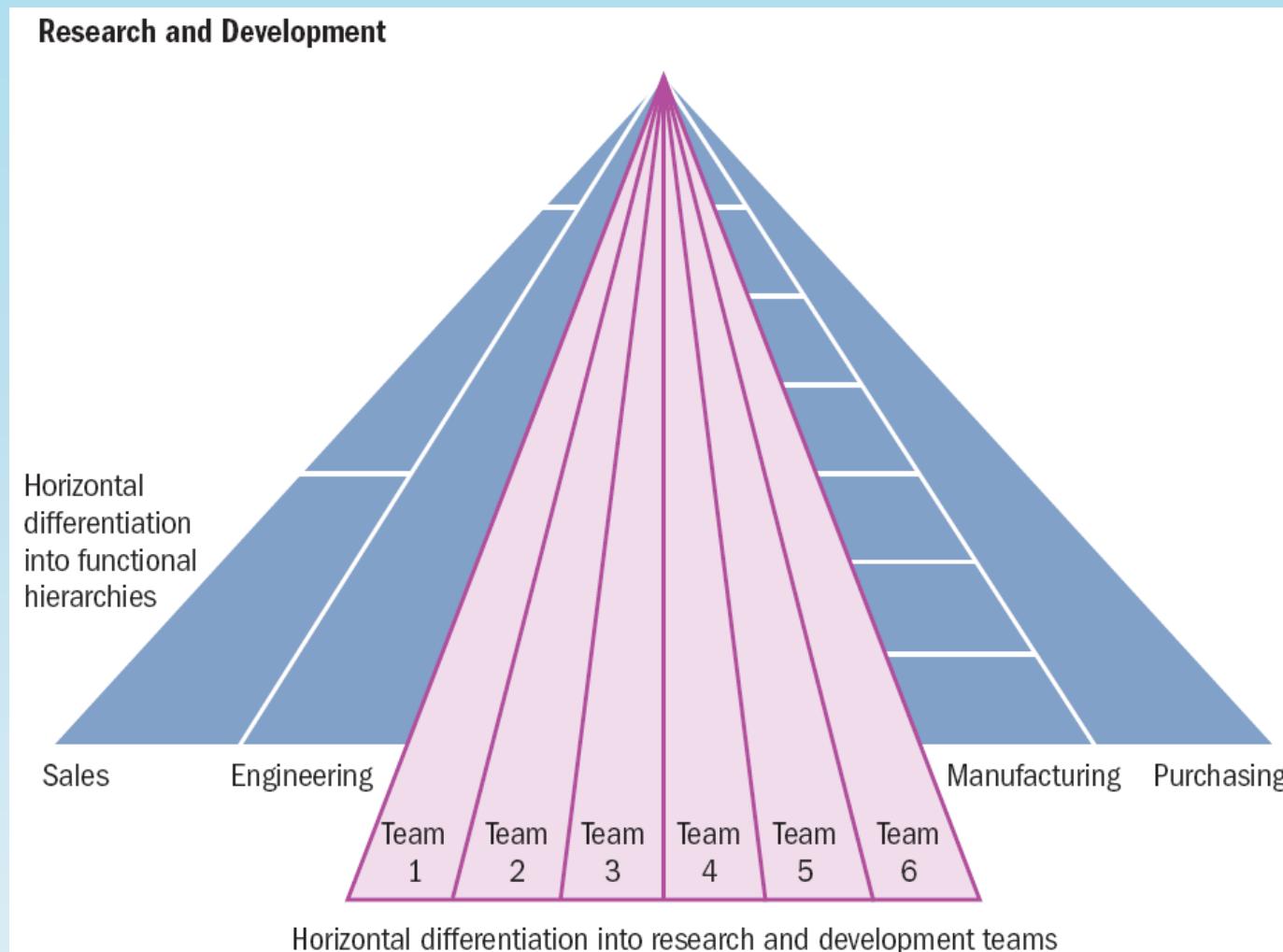
# Figure 5.7 – Factors Affecting the Shape of the Hierarchy



# Figure 5.8 – Horizontal Differentiation into Functional Hierarchies



# Figure 5.9 – Horizontal Differentiation Within the R&D Functions



# Control: Factors Affecting the Shape of the Hierarchy (cont.)

- Centralization
  - As the hierarchy becomes taller and the number of managers increases, communication and coordination problems grow
  - Solution to this is decentralization
    - The authority to make significant decisions is delegated to people throughout the hierarchy, not concentrated at the top

# Control: Factors Affecting the Shape of the Hierarchy (cont.)

- Standardization
  - Managers can gain control over employees by standardizing their behavior to make their actions predictable
  - The use of standardization reduces the need:
    - For personal control by managers
    - To add levels in the hierarchy

# The Principles of Bureaucracy

- Bureaucracy: A form of organizational structure in which people can be held accountable for their actions because they are required to act in accordance with rules and standard operating procedures

# Table 5.1 – The Principles of Bureaucratic Structure

Principle One: A bureaucracy is founded on the concept of rational-legal authority.

Principle Two: Organizational roles are held on the basis of technical competence.

Principle Three: A role's task responsibility and decision-making authority and its relationship to other roles should be clearly specified.

Principle Four: The organization of roles in a bureaucracy is such that each lower office in the hierarchy is under the control and supervision of a higher office.

Principle Five: Rules, standard operating procedures, and norms should be used to control the behavior and the relationship between roles in an organization.

Principle Six: Administrative acts, decisions, and rules should be formulated and put in writing.

# Advantages of Bureaucracy

- It lays out the ground rules for designing an organizational hierarchy that efficiently controls interactions between organizational members
- Each person's role in the organization is clearly spelled out and they can be held accountable
- Written rules regarding the reward and punishment of employees reduce the costs of enforcement and evaluating employee performance

# The Problems of Bureaucracy

- Managers fail to properly control the development of the organizational hierarchy
- Organizational members come to rely too much on rules and standard operating procedures (SOPs) to make decisions
- Such overreliance makes them unresponsive to the needs of customers and other stakeholders

# Management by Objectives

- Management by objectives (MBO): A system of evaluating subordinates on their ability to achieve specific organizational goals or performance standards and to meet operating budgets

# Steps in Management by Objectives

- Step 1 – Specific goals and objectives are established at each level of the organization
- Step 2 – Managers and their subordinates together determine the subordinates' goals
- Step 3 – Managers and their subordinates periodically review the subordinates' progress toward meeting goals

# The Influence of the Informal Organization

- Decision making and coordination frequently take place outside the formally designed channels as people interact
- Rules and norms sometimes emerge from the interaction of people and not from the formal rules blueprint

# The Influence of the Informal Organization (cont.)

- Managers need to consider the informal structure when they make changes as it may disrupt informal norms that work
- Informal organization can actually enhance organizational performance

# IT, Empowerment, and Self-Managed Teams

- The use of information technology (IT) is making it easier to cost effectively design structures to control subordinates
- IT provides people with the information they need at all levels
- IT is encouraging decentralization and use of teams

# IT, Empowerment, and Self-Managed Teams (cont.)

- Empowerment: The process of giving employees the authority to make important decisions and to be responsible for their outcomes
- Self-managed teams: Self-lead work groups consisting of people who are jointly responsible for ensuring that the team accomplishes its goals

# IT, Empowerment, and Self-Managed Teams (cont.)

- Cross-functional teams: Groups of employees from across an organization's different functions who are empowered to direct and coordinate the value-creation activities
- Contingent workers: Workers who are employed temporarily by an organization and who receive no indirect benefits such as health insurance or pensions