**MNO1706 Organizational Behaviour**

**Lesson 8: Organizational Design, Power, & Politics**

**Overview**

Organizational structure/design and organizational power are two aspects of complex organizations that all managers must continuously grapple with.

Organizational Structure Versus Design:

There is a difference between organizational structure and organizational design.

* **Organizational structure** refers to the formal system of tasks, power, and reporting relations in an organization.

A typical organizational chart (of reporting relationships) tells us a lot about how the organization’s structure looks like. (For example, see Textbook Chapter 14, Figure 14.1).

* **Organizational design**, by contrast, refers to the process of selecting and managing aspects of organizational structure, processes, and people to enable the organization to achieve its goals.

Organizational structure can be likened to the skeleton of a living person and organizational design, the muscles.

As individuals walk forward, they need to use their muscles (“design”) to pull the skeleton (“structure”) and steer the entire body in the desired direction.

Some people are more flexible and agile (“organic design”) and others are more placid and inflexible (“mechanistic design”).

Organizational Structure:

Five dimensions can be used to describe an organization’s structure, including:

* **Division of Labour** (Wide-Narrow Job Scope): This refers to the degree to which employees specialize in one or a few tasks as specialists vis-à-vis perform a variety of tasks as generalists.

A higher degree of division of labour would mean employees are given a narrower or more specialized job scope.

* **Span of Control** (More-Fewer Direct Reports/Subordinates): This refers to the number of people reporting directly (“direct reports”) to an individual (the boss).

A wider span of control would mean the boss has a larger number of direct reports.

* **Hierarchy** (Tall-Flat Structure): This refers to the degree to which some employees have formal authority over others.

In a tall structure, there are relatively more people with a higher authority than others; in a flat structure, there are relatively fewer people with a higher authority than others.

* **Formalization** (Written-Unwritten Rules/Procedures/Communications): This refers to the degree to which organizational rules, procedures, and communications are written down.

A more formal structure would mean more rules, procedures, and communications are in written form.

* **Centralization** (Concentrated-Distributed Authority): This refers to the degree to which the authority of decision making is concentrated at higher levels of the organization vis-à-vis distributed across levels.

A more centralized structure would mean more decisions are made at higher levels of the organization.

Organizational Design:

Organizational design, on the other hand, is commonly described on the mechanistic-organic continuum:

* **Mechanistic Design:** In an environment that is stable and presents no changes at all or only a few minor/slow changes to an organization, the manager may wish to use a mechanistic design to ensure reliability.

Mechanistic organizations are usually characterized by rigid, traditional, & rule-based protocols and they tend to be hierarchical and use vertical, formal communication.

* **Organic Design:** In an environment that is unstable and presents a lot of major/fast changes to an organization, the manager may wish to use an organic design to ensure adaptability.

Organic organizations usually feature flexibility and decentralized decision-making, shared authority across organizational levels, and open communication.

For example, Volkswagen not too long ago eliminated 30,000 manufacturing jobs (out of a total global workforce of 610,000) and invested in new products that created 9,000 new jobs to counter the downturn in sales following the outbreak of its emissions-cheating scandal (Class Reading #36).

This can be viewed as an indication of an organic design.

Most organizations are partly mechanistic and partly organic (in-between the two extremes) because they need to be reliable and adaptable at the same time to earn the trust of customers and stay in tune with the changing environment.

The difference between organizations on the mechanistic-organic continuum is a matter of relative degree and not “either/or”.

Types of Organizational Structure:

Researchers have identified numerous types of organizational structure that can be effectively used by managers in different environmental conditions:

* **Pre-Bureaucratic Structure:**
  + Smaller and newer organizations with low standardization, total centralization (founder-driven), and mostly one-on-one communication.
  + Similar to a team in which anyone can be tasked to do anything.
* **Bureaucratic Structure:**
  + Based on formal division of labour, hierarchy, and standardization of work procedures.
  + Group employees based on:
    - Employee knowledge and skills (e.g., oncology versus genetics);
    - Management function (e.g., HR, marketing, R&D);
    - Work process (e.g., retail store versus online sales);
    - Output (e.g., consumer products versus industrial products);
    - Client (e.g., personal banking versus corporate banking); or
    - Location (e.g., Singapore, Hong Kong, Macau).
* **Functional Structure** (A Type of Bureaucratic Structure):
* Group people with the same skills or who use similar tools or work processes into departments (e.g., HR, marketing, R&D).
* **Division Structure** (A Type of Bureaucratic Structure):
* Based on geographic area, product/service, customer type, or market segment (e.g., oil & gas, shipbuilding and ship-repairing, property development, and investment and fund management).
* **Matrix Structure (Functional x Divisional):**
* Employees report to a divisional/project manager (e.g., B2B, oil & gas, Asian operations) and a functional manager (e.g., HR, marketing, R&D) at the same time.
* **Team-Based Structure:**
  + Employees stay in a horizontal team (a team without a team boss; e.g., Old Chang Kee outlet X) or a vertical team (a team with a team boss; e.g., MacDonald’s branch Y) within an organization on a permanent basis.
  + Employees do not report to a separate functional manager.

For example, employees specialized in online, print, billboard, and other advertising media form a branch and work permanently as members of the branch within a large ad agency.

To the top management, the branch is a permanent team and there are numerous such teams within the organization serving their own set of customers.

* **Lattice Structure:**
  + Cross-functional and cross-level teams are formed and dissolved as necessary to allow organizational members to compete for specific projects and tasks.
  + Individuals decide what works or projects to take on in consultation with managers to fulfil organizational requirements subject to the time they have on hand and these conditions:
* Jobs are open for bidding to suit the needs of the individual employees;
* Flexible work scheduling allows the employees to attain work-life balance while taking on the amount of responsibility they are able to shoulder; and
* Full participation provides opportunities to contribute ideas and suggestions in all areas of the employing organization.
* **Network Organization:**
  + A collection of autonomous units/firms from both within and outside the organization acting as a single larger entity pursuing a common goal.
  + Use social mechanisms for coordination and control (contract out any functions that can be done better or more cheaply by contractors from outside the organization).
  + Spend time controlling and coordinating the network of strategic partners/alliances/contractors.
  + Large property developers prefer this type of organizational structure.

Organizational Power:

Organizational power refers to a person/group’s potential to influence another person/group’s behaviour. (Textbook Chapter 13).

* For example, in a typical organizational structure, the CEO has great potential to influence how much budget to allocate to the marketing and finance departments.
* In turn, the Marketing Director has great potential to influence how the Sales Manager trains the salespeople.
* Likewise, the Finance Director has great potential to influence how the finance manager structures a managerial or financial report/presentation.

The Need for Unequal Power in Organizations:

In a one-person business, there is no division of labour and hence no need for an organizational structure because all the power of decision-making rests on one person.

When two or more people are involved in an organizational process, a division of labour arises and a structure is needed not only to divide out the tasks on hand to achieve greater efficiency, but also to clearly define the power and reporting relations.

A 50-50 or equal share of power between two positions is, in most situations, not desirable because when a disagreement of opinions arises, no final decision is forthcoming and a deadlock would ensue, resulting in organizational inaction.

* For example, if A and B have an equal share of power in a retail business and A insists on renewing the current shop rental lease and re-renovate it to attract more customers whilst B insists on moving to a new location that offers better human traffic, then no final action will be made and the retail business may cease after the current shop rental lease expires.
* An unequal distribution of power in an organization thus is essential for an organization to move on.

Types of Power: Position and Personal

The organizational structure bestows on the holder of a position several types of positional power, including:

* **Legitimate Power:** The power to make decisions, such as when a marketing manager decides whether to raise the price of a product.
* **Reward Power:** The power to decide who should receive a reward (e.g., bonus) for good performance.
* **Coercive Power:** The power to decide whether and when a punishment (e.g., warning) should be meted out when someone fails to perform to management’s satisfaction (e.g., being late for work).

Regardless of the positional power bestowed on the job position, individual jobholders may wield several personal powers (derived from within or outside the job/organization) that may enhance their influence over others and alter the organizational processes and dynamics (see Class Reading #37):

* **Expert Power:** Based on an individual’s specialised knowledge or expertise (e.g., special computer program coding skills).

* **Informational Power:** Derived from an individual’s control over info (e.g., the HR manager of an organization typically has access to a lot of confidential employee info).
* **Referent Power:** Based on an individual’s charisma and attractiveness to others (e.g., a helpful and fair boss may be well-liked and respected by the subordinates).
* **Persuasive Power:** Based on an individual’s ability to use logic and facts to convince others (e.g., a finance manager convinces the CEO not to enter an emerging market by pointing out that doing so would mean the company has to borrow heavily and raise its debt-to-equity ratio to a dangerous level).
* **Networking/Connection Power:** Based on who the individual knows and has connection with (e.g., a manager may have strong links with many people outside the organization and therefore is able to seek out and help the organization attract and recruit the best external talent available).

Group-Level Power:

As discussed in Lesson 5, groups/teams are the building blocks of organizations that channel individual efforts to create organization-level performance.

Groups/teams may derive power from these sources:

* **Resource Scarcity:** Based on control over scarce resources (e.g., typically, the finance department of an organization has a high level of power because of its control over scarce financial resources).
* **Centrality:** Based on the impact of the group/team’s activities on other subunits (e.g., the IT department has a great impact on all other departments in a typical modern organization because if the IT system fails, the entire organization will come to a standstill).
* **Substitutability:** Based on the difficulty in getting outside help to do the group/team’s tasks (e.g., the activities of the R&D department of an organization usually cannot be outsourced because the ideas and knowledge that the department has accumulated or pursues are unknown to anyone outside the organization).
* **Uncertainty:** Based on the subunit’s ability to cope with or to help the organization cope with crises (e.g., a marketing department that has developed both online and offline sales capabilities should be able to help the organization ride out a crisis and make itself important when offline sales plummet due to an external shock - such as the sudden appearance of an infectious disease - by simply expanding its online sales channels).

Influence Tactics to Enhance One’s Power

Although power can be derived from positional, personal, and group-level sources as described above, an individual may augment their power over the target through using influence tactics.

Some common influence tactics include:

* **Coalition** (seeking the help of others)
* **Consultation** (requesting the target’s advice)
* **Exchange** (give-and-take with the target)
* **Ingratiation** (flattering and praising the targets or their significant others)
* **Inspirational appeals** (appealing to the target’s aspirations, values, & ideals)
* **Legitimating** (highlighting the formal authority one has over the target)
* **Personal appeals** (based on friendship or personal favour with the target)
* **Rational persuasion** (based on logic and facts)

Impression Management (IM):

Impression management refers to the process of portraying a desired image or attitude to control the impression others form of the actor.

It is an influence tactic.

For example, it is not uncommon that we go for a fresh hairdo or get a special haircut before going for an important job interview.

To the extent that it does not become a dysfunctional deception, IM is a widely accepted (or at least not a widely detested) practice.

IM is simply an attempt to create referent power so that one is evaluated more favourably (or less unfavourably) than otherwise.

In general, we don’t deem IM (when no dysfunctional deception is created) as a form of power abuse or organizational politics.

It is a form of power abuse when dysfunctional deception has resulted from the actor’s manipulative acts.

**Applications and Practical Considerations**

Abuse of Power:

Ideally, holders of positional, personal, and group-level powers should use the powers they have to get things done effectively, efficiently, and fairly so that their organizations can attain the best possible outcomes for everyone.

In practice, however, abuse of power may happen at any level and at any part of the organization when the holder of the power uses it to demean, exploit, or take advantage of another or influence someone to do something that the person later regrets.

For example, the chief official in charge of an organization may abuse their legitimate power by awarding a cleaning contract to a personal friend at an inflated price even when other competing cleaning firms are willing to accept the same cleaning job at a substantially lower price.

This abuse of power is clearly at the expense of the organization.

Organizational Politics:

At times, individuals may engage in a variety of influence tactics to improve one’s own personal interests.

To the extent that it is done at the expense of the organization, it is a form of power abuse.

Called organizational politics, such activities include:

* **Controlling information** (keep certain info privy to some and exclude others)
* **Controlling lines of communication** (use gatekeepers to restrict access by others)
* **Using outside experts** (engage the service or help of leaders in specific fields who would do at one’s bidding to support oneself)
* **Controlling the agenda** (only certain topics that are in favour of oneself are discussed)
* **Game playing** (leak info, get friends to write feedback so that others receive info in one’s favour)
* **Image building** (enlist “spin doctors” or public relations influencers who would talk up one’s good side)
* **Building coalitions** (befriend powerful people or start small subgroups to strengthen one’s own position)
* **Controlling decision parameters** (set limitations/criteria for a decision-making context in one’s favour)
* **Eliminating political rivals** (sack/remove people not in support of oneself or even promote them to get them out of the current workplace)

Below are some situations in which abuse of power or abusive organizational politics had arisen.

Case Incident 1:

Ramesh Krishnan, a high performing insurance agent with AXA Life Insurance Singapore, obtained a provisional contract to work for Prudential Singapore but the latter did not finalize the contract after AXA issued an incomplete referee letter on Ramesh, which carried some negative performance info and left out the bulk of positive performance info on Ramesh.

Ramesh filed a lawsuit against AXA for defamation.

The court held that AXA had not defamed Ramesh but owed him a duty of care (or fiduciary duty) under common law in writing a proper referee letter.

AXA appealed but the appellate court supported the decision of the lower court.

At the conclusion of all the legal proceedings, the court set the damage to be awarded to Ramesh at S$4 million. (See Class Reading #38a).

This case illustrates how information power may be abused by the information holder.

In this case, AXA had apparently tried to sabotage the career prospect of a high performing agent who was leaving the organization for a competitor.

Fortunately, there is safeguard under common law (where the judge writes the law in respect of the case in question on a case-by-case basis) to ensure justice for the victim.

In addition to common law, statutory laws may also be applicable.

In your basic business law course, for example, you may have come across fiduciary duties of directors under the Companies Act in Singapore.

Such fiduciary duties are spelt out under the Act and all individuals (i.e., directors) covered by the Act must abide by the statutory provisions (e.g., act honestly and in good faith for the interests of the company).

Abuse of power of any type thus may not pay off for the abuser because the “wronged person” may be “righted” under common law or statutory provisions.

More recently, in a separate court case, Mr Peter Tan Shou Yi, a former agency manager at Prudential, was found liable by the High Court for breaching his agency agreement with Prudential when he orchestrated 204 agents and 23 agency leaders to move en masse to competitor Aviva in return for a $15.3 million compensation package.

The manager was ordered to pay S$8.5 million in damages, interests, and legal costs. (See Class Reading #38b).

What type of power was abused in this case?

Case Incident 2:

Years ago, a Mr Cheah Peng Hock got a job as the CEO of Luzhou Bio-Chem Technology Limited, a China-based corn syrup company.

The CEO appointment contract specified that the appointment was for 3 years and if either party wished to terminate it, then the party walking away from the contract had to serve a 6-month notice of termination on top of paying the other party a sum equal to the salary otherwise payable covering the unserved period of contract.

Several months into the contract, Luzhou was not happy with the changes initiated by Mr Cheah and it claimed that Mr Cheah had failed to seek the Board of Directors’ approval before implementing the changes.

Mr Cheah disagreed with the accusations and Luzhou subsequently appointed a joint-CEO to work alongside Mr Cheah, excluded Mr Cheah from work-related meetings, denied him access to company emails, and deprived him of his use of the company car.

The joint-CEO also insinuated that Mr Cheah’s performance was not up to par and should take a vacation.

Mr Cheah resigned from the post of CEO and subsequently sued Luzhou for damages based on constructive discharge.

Constructive discharge is a legal doctrine that says that if an employer creates a work environment that is so unbearable that an employee resigns, the resignation may be deemed to have been “constructed” by the employer and the employer may be liable for damages. (See Class Reading #39a).

In the case of Mr Cheah vs Luzhou as described above, the court found that Mr Cheah did indeed resign because Luzhou had created a constructive discharge situation.

This meant that instead of Mr Cheah paying Luzhou a sum equal to the salary otherwise payable for the unserved period of the contract, Luzhou had to make good its contractual obligation of paying Mr Cheah the salary due to him had he served out the unserved period.

The amount of damage was valued at RMB 8.58 million (S$1 = RMB 5.02). (See Class Reading #39b).

What type of power was abused in this case?

Note that punitive damage usually does not accrue to the wronged party (the employee who has been unfairly dismissed) in the case of constructive discharge in Singapore. (See Class Reading #39c).

This is because under Section 10 of Singapore’s Employment Act, either the employer or the employee may terminate the employment contract by serving a notice of termination to the other party covering the notice period as agreed to in the employment contract or if the contract is silent on the length of notice period, then between 1 day and 4 weeks depending on how long the employee has served the employer.

Hence, even if employee X can prove that the employer has “forced” X to resign, X may be able to receive the salary covering the notice period to be served by the employer only.

The amount awarded to Mr Cheah as described above was relatively large because in the CEO appointment contract for Mr Cheah, it was stated that the party who wished to walk away from the contract must pay the other party a sum equal to the salary that was otherwise payable covering the unserved period of the contract.

Case Incident 3:

Because people higher up the organizational hierarchy possess greater positional power (reward, coercive, & legitimate), people lower down the hierarchy may sometimes be subject to seemingly formidable threats from management.

One employee, for example, asked these questions:

* If I wish to resign and join another company, can my boss refuse to accept my resignation?
* To prevent me from resigning and joining a competing firm, can my employer put a clause in the employment contract saying that I cannot join a competing firm for 1, 2, 3, or more years after my resignation?
* To make it less attractive for me to resign, can my employer put a clause in the employment contract saying that I must pay S$3,000 (or any other sum) if I resign?
* Fortunately, under Singapore Constitution Article 10, no slavery or forced labour is allowed and hence, no one can force an employee to stay in the current employment (or refuse to let the employee go) against the employee’s will. (See Class Reading #40a).
* Further, as mentioned above, under Section 10 of the Employment Act, either the employer or the employee may terminate the employment contract by serving a notice of termination to the other party covering the notice period as agreed to in the employment contract or if the contract is silent on the length of notice period, then between 1 day and 4 weeks depending on how long the employee has served the employer. (See Class Reading #40b).
* In addition, under Section 8 of the Employment Act, “Every term of a contract of service which provides a condition of service which is less favourable to an employee than any of the conditions of service prescribed by this Act shall be illegal, null and void to the extent that it is so less favourable”. (See the same Class Reading #40b).

This means that if the employer tries to make employees pay a sum of money before they can resign from the company or make the employees wishing to leave promise not to work for a competitor for a period of time after leaving the company, the conditions as created can be deemed to be less favourable than what is provided for under the Act and hence, the said conditions would be deemed null and void under the Employment Act.

However, in some situations, such as in the case of a CEO leaving a company, the current employer may have a genuine concern that the leaving CEO may use the sensitive insider information (information power) that they have gained from their current employment to unfairly benefit the new employer (who may be a direct competitor) at the expense of the current one.

In this situation, hence, a garden leave (paid leave during which the resigning employee cannot do work for the new employer) may be justifiable. (See Class Reading #40c).

When a garden leave is offered to the leaving employee, the condition of not working for a direct competitor for a period of time after resignation is essentially compensated for separately.

This may constitute a new contract that is not part of the original employment contract.

Hence, a paid garden leave does not seem to render the original employment contract less favourable than what the Employment Act has prescribed and therefore, the paid garden leave is valid and tenable.

Therefore, in general, the answers to the three questions posed above are: no, no, no.

Case Incident 4:

An employee in a company complains that the social environment of the workplace was very hostile because management seems not to be able to respond effectively to the widespread gossips and rumours circulating in the company.

What should management do?

Gossips and rumours are a form of abuse of information power.

Employees at any hierarchical levels may come across work & non-work incidents & info pertaining to other employees at any hierarchical level.

They may start to form inaccurate impressions based on half-truths and start “sharing” their perceptions with other employees online and offline.

For example, the male boss of a department may let a female subordinate use his designated car parking lot because he doesn’t drive. A rumour then starts to fly around that the boss is having an affair with the subordinate.

Gossips and rumours can be damaging to the psychological climate of the workplace as well as to the victim’s social standing.

They constitute actionable infractions under common and statutory laws (e.g., criminal and civil defamation).

Management should penalize employees who:

* Spread rumours resulting in defamation against other employees (legal infraction); and
* Gossip during work time (abuse of work time for non-work activities).

Examples of penalty include warning, suspension from work with no pay for up to a week, demotion, and immediate dismissal.

Class Readings #41a,b,c explain the civil and criminal penalties associated with defamation in Singapore.

They apply to workplaces as well as non-work settings.