Organization Design And Control

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Lecturer: Dr Mohannad Jreissat

Department of Industrial Engineering
School of Engineering

Chapter 5: Designing Organizational Structure:
Authority and Control

Textbook:

Jones, G. R., Organizational Theory, Design, and Change Prentice Hall Inc., 7th edition

Email: m.jreissat@ju.edu.jo

Office: IE

Learning Objectives

- Explain why a hierarchy of authority emerges in an organization and the process of vertical differentiation

- Discuss the issues involved in designing a hierarchy to coordinate and motivate organizational behavior most effectively

Learning Objectives

- Understand the way in which the design challenges discussed in Chapter 4—such as centralization and standardization—provide methods of control that substitute for the direct, personal control that managers provide and affect the design of the organizational hierarchy

Learning Objectives

- Appreciate the principles of bureaucratic structure and explain their implications for the design of effective organizational hierarchies

- Explain why organizations are flattening their hierarchies and making more use of empowered teams of employees, both inside and across different functions

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

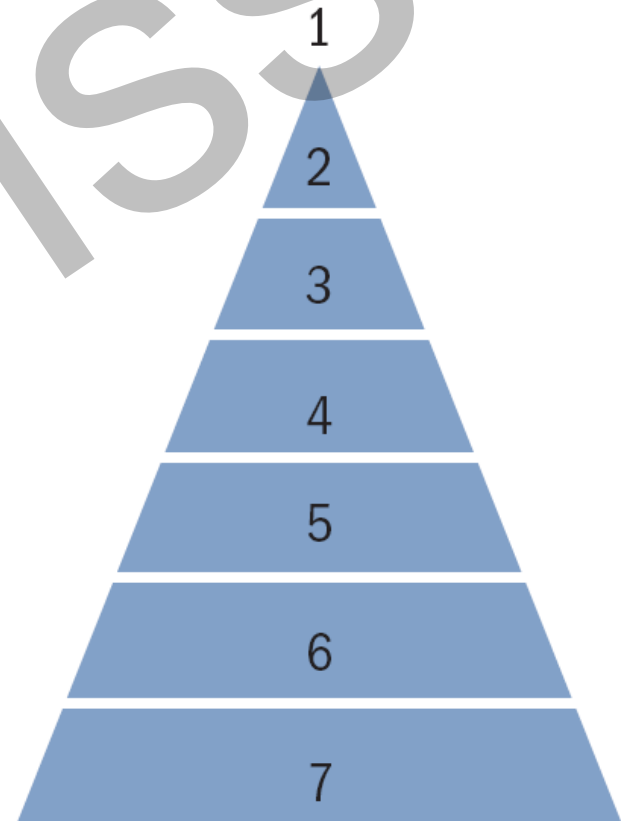# Authority: How and Why Vertical Differentiation Occurs (cont.)

- 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

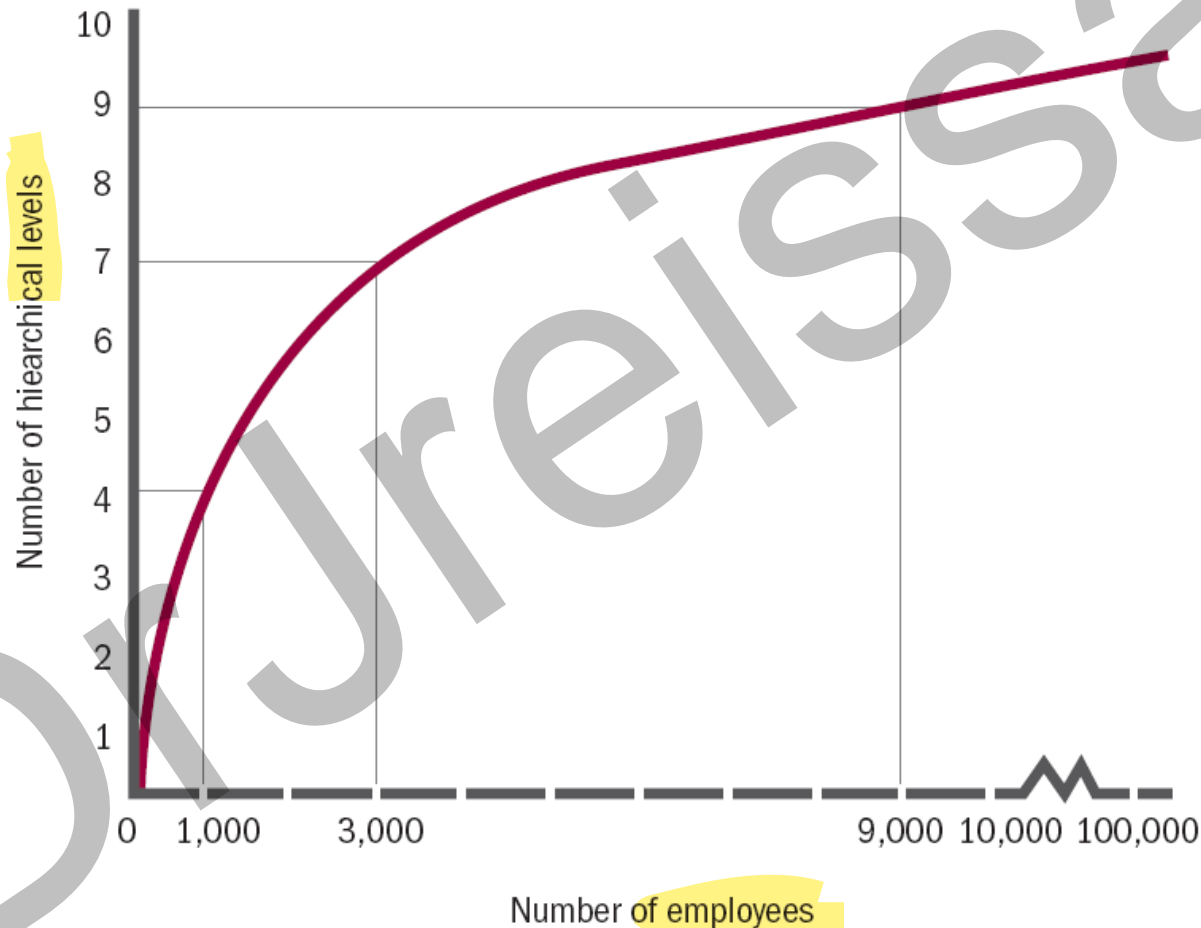**A.** Flat Structure
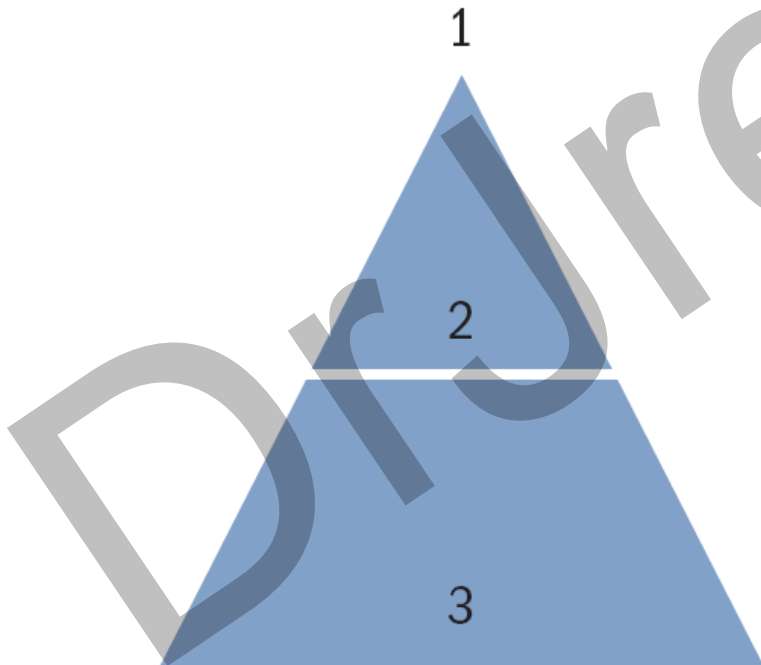
B. Tall Structure

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
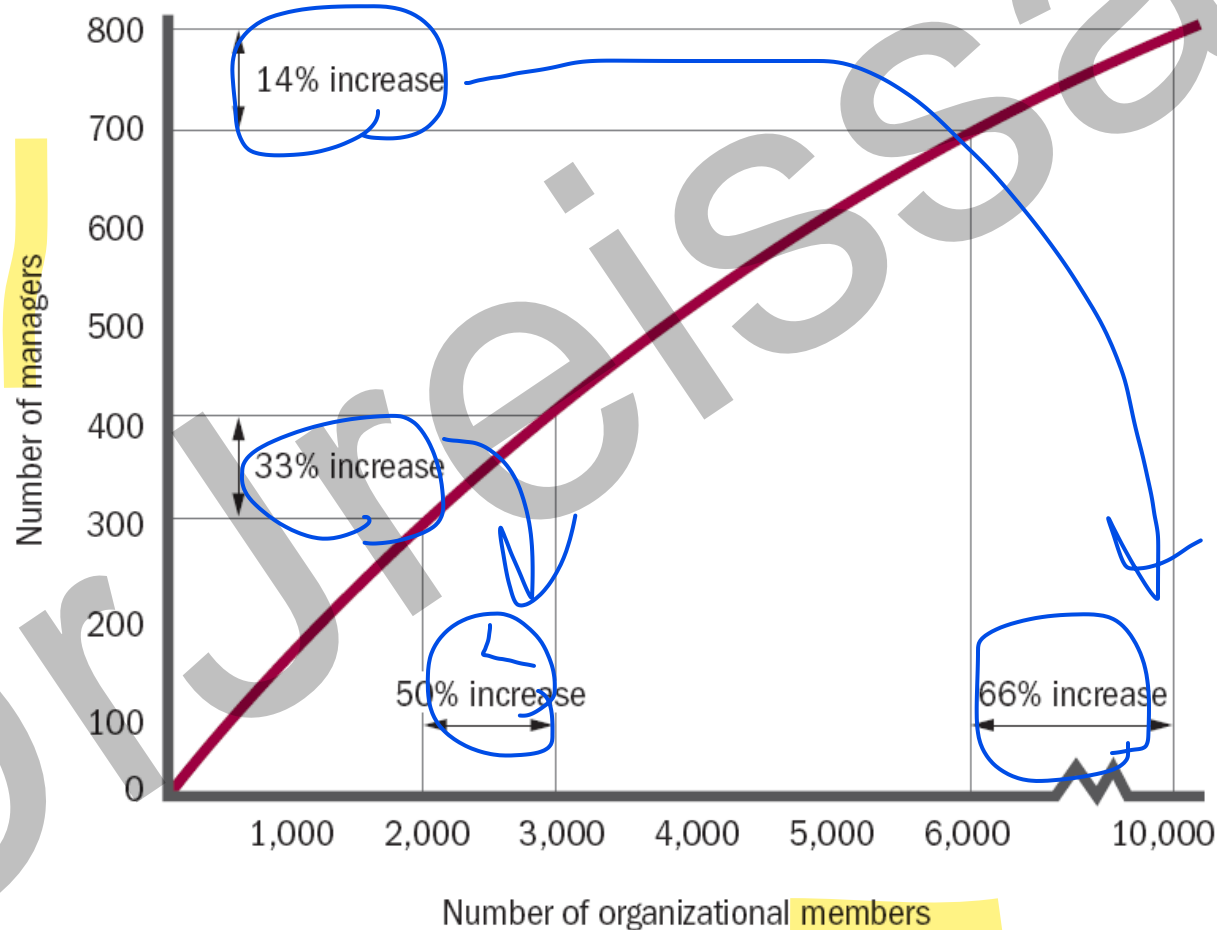
Figure 5.3 – Types of Managerial Hierarchies

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
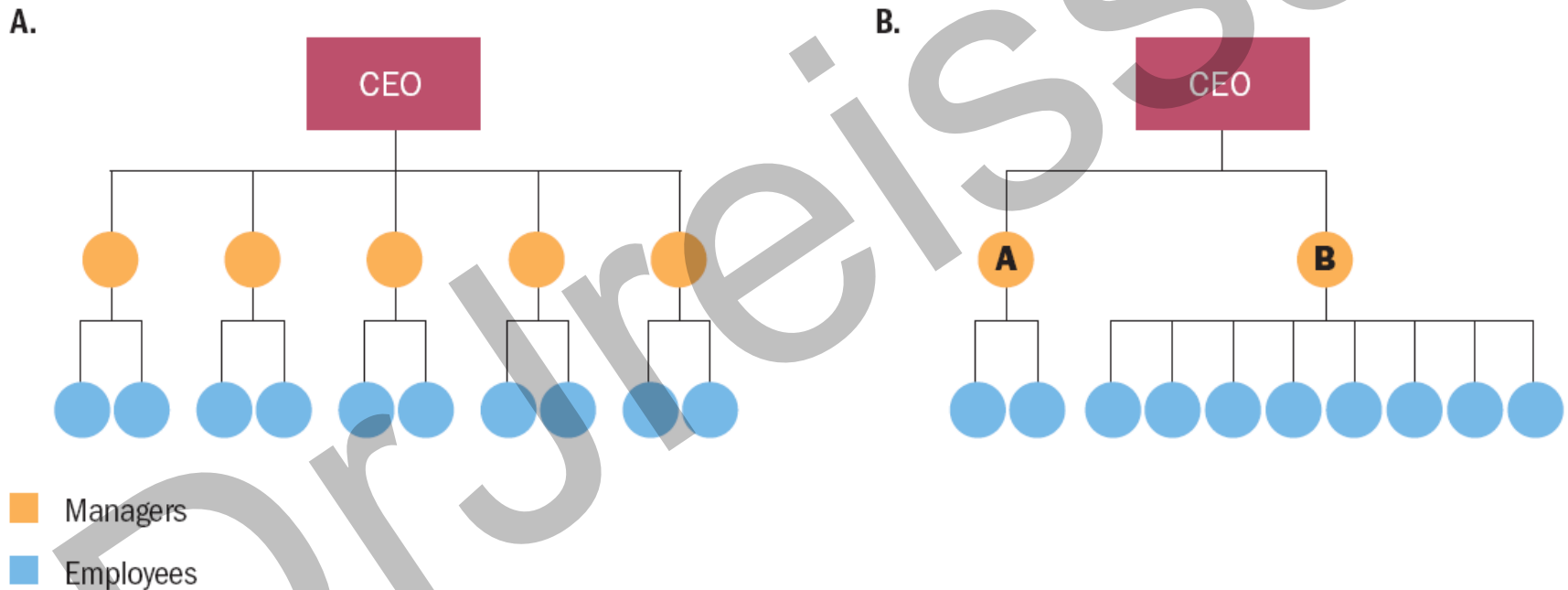
A.

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
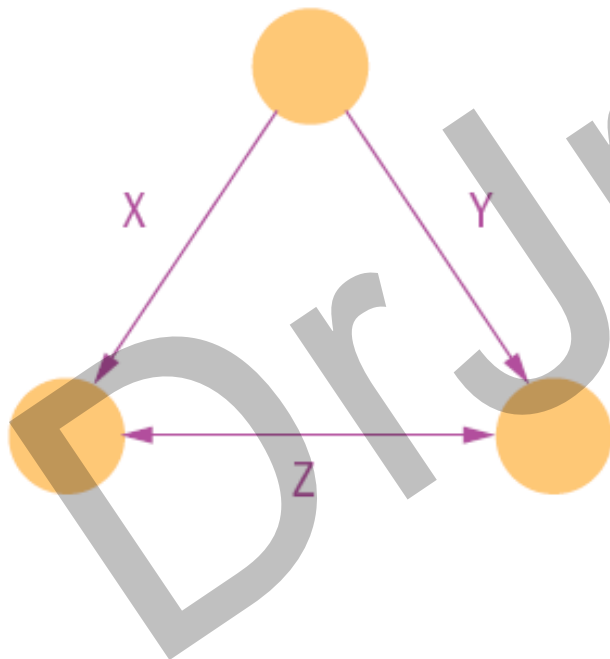
B. With the addition of just one more subordinate (for a total of three), the manager has six relationships to handle
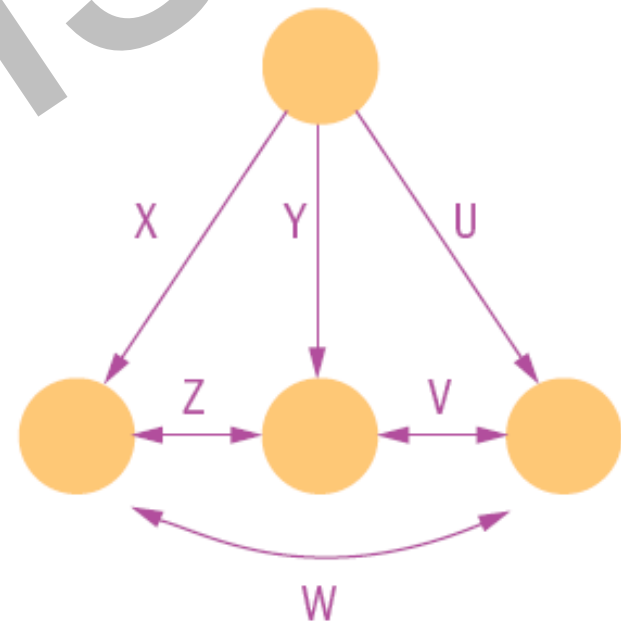
Control: Factors Affecting the Shape of the Hierarchy

- 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

1

The Level of Horizontal Differentiation

The Strength of the Informal Ties and Relationships That Exist Between Organized Members

The Level of Vertical Differentiation Is Affected by

2

The Level of Decentralization

3

The Level of Standardization
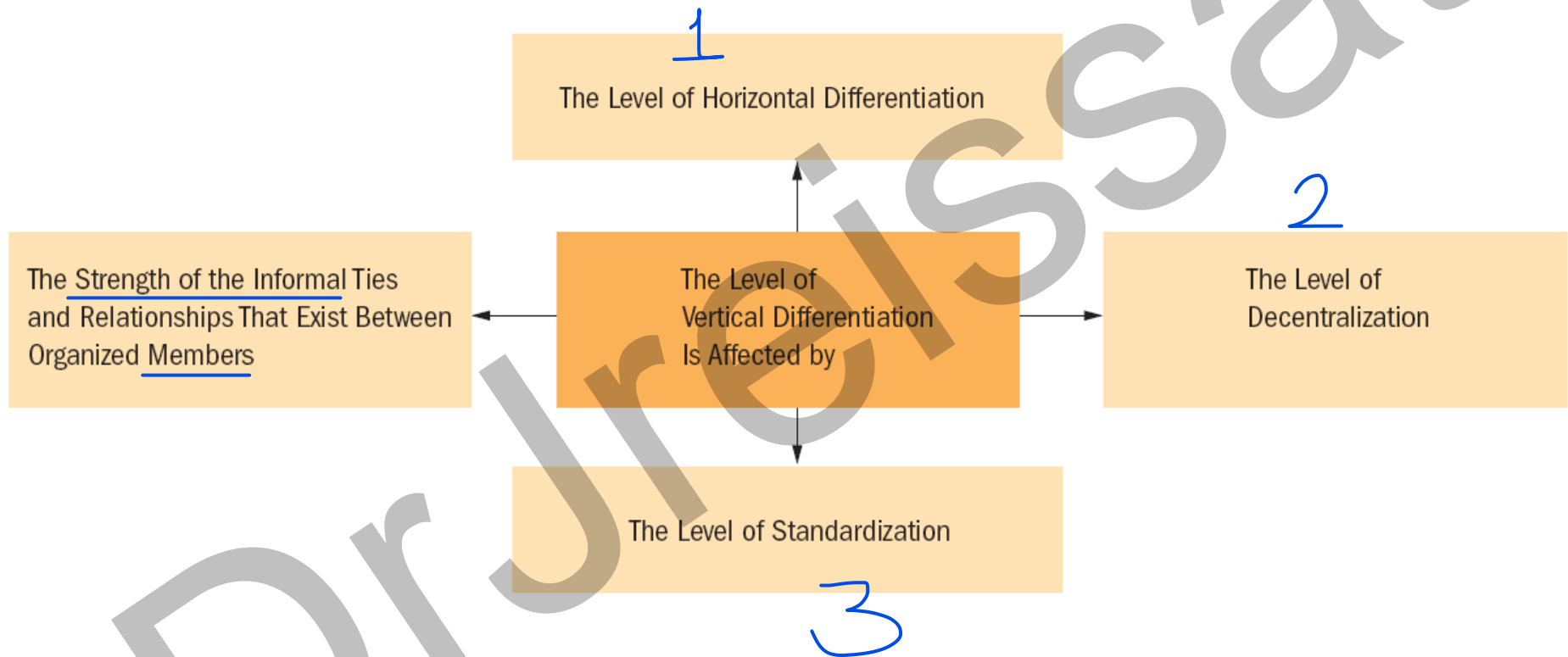
Figure 5.8 – Horizontal Differentiation into Functional Hierarchies
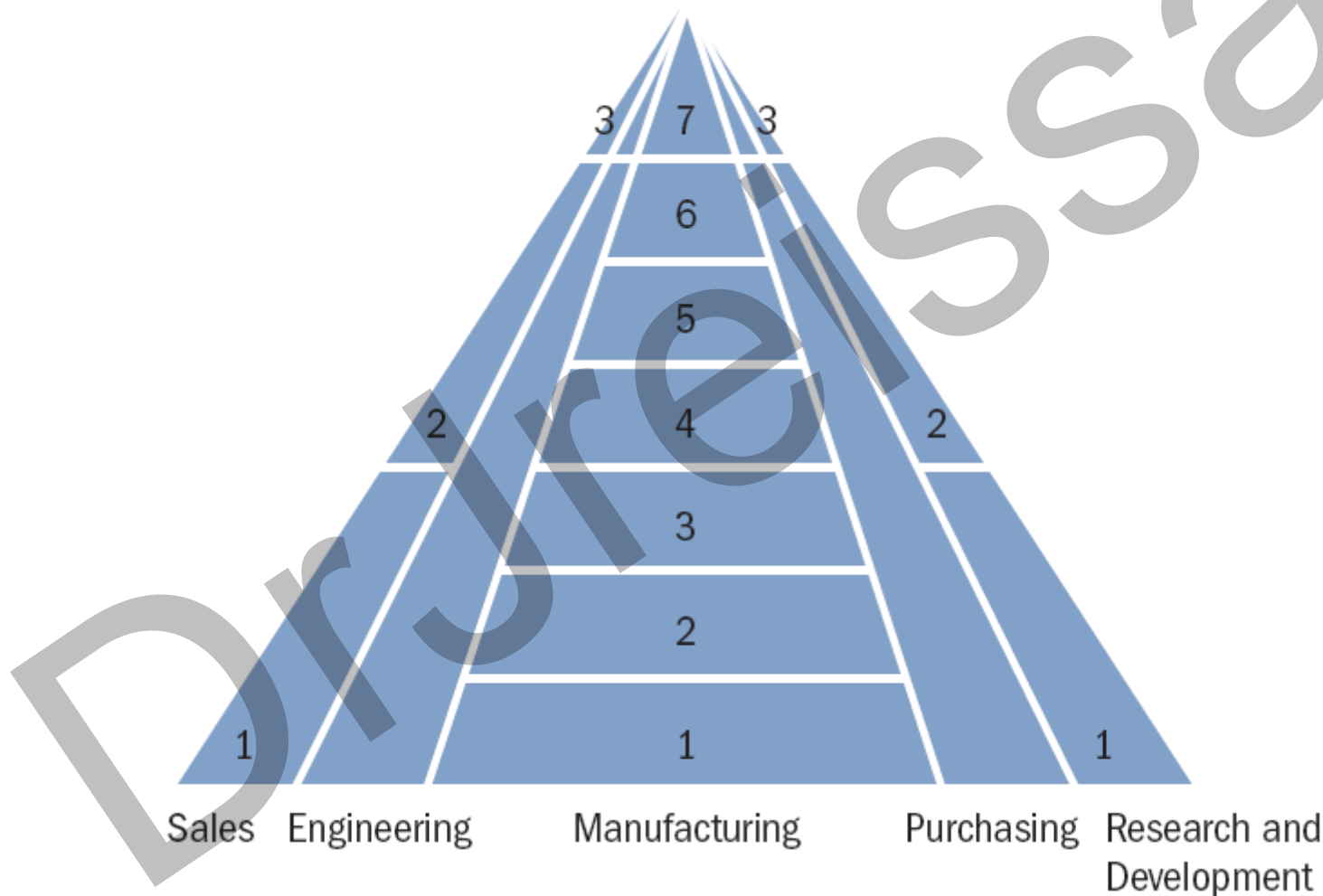
Figure 5.9 – Horizontal Differentiation Within the R&D Functions

Research and Development

Horizontal differentiation into functional hierarchies

Sales   Engineering   Manufacturing   Purchasing

Team 1   Team 2   Team 3   Team 4   Team 5   Team 6
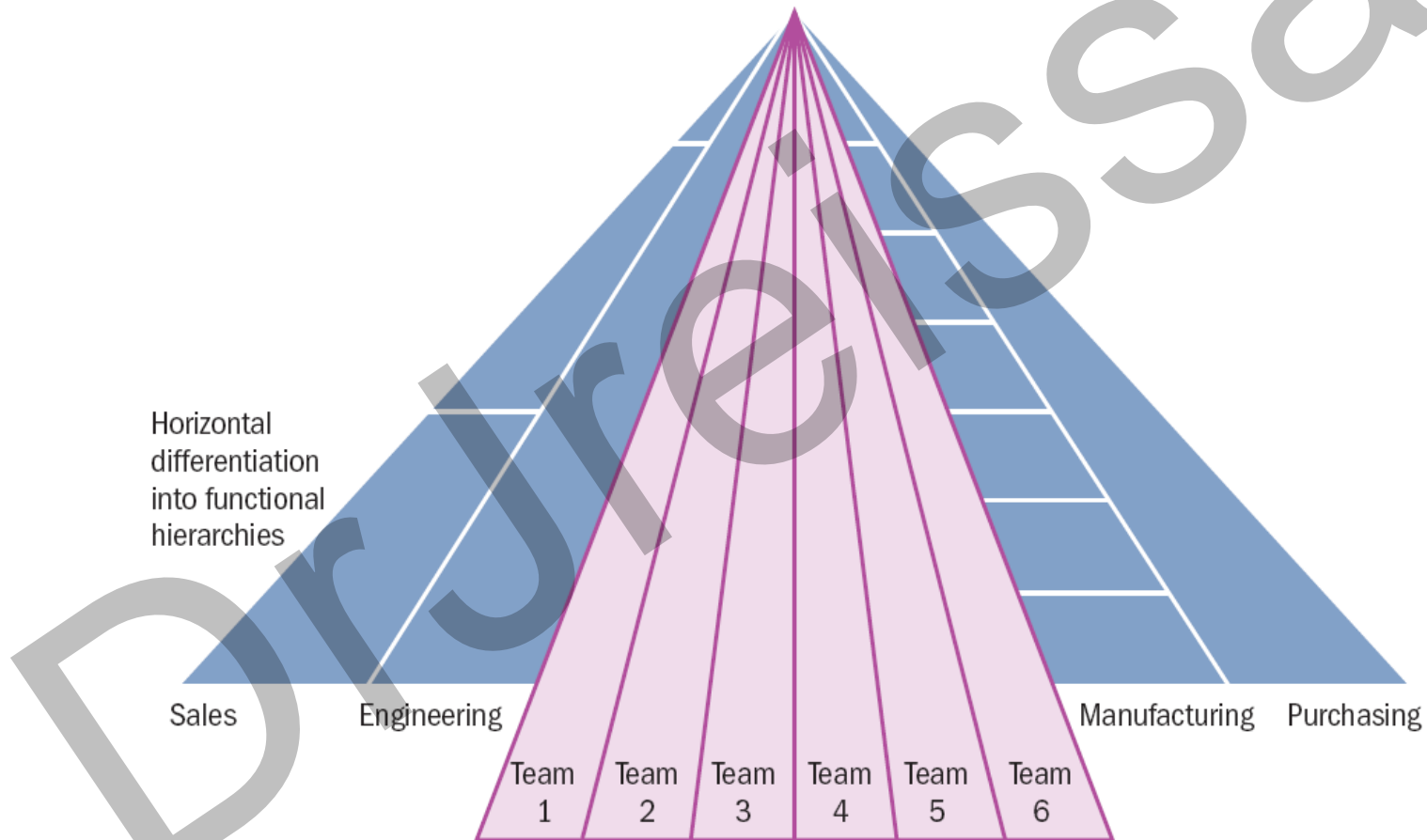
Horizontal differentiation into research and development teams

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

Advantages of Bureaucracy

- 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

- 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