Washington University of Virginia

BUS 510E/510EA ORGANIZATION THEORY

Lecture Notes #4

The Physical Structures of Organizations

Organizational Size, Life Cycle, Bureaucracy & Control, and Decline

References: Draft, Richard L. *Organization Theory and Design*, 11th ed. Mason, OH: South-Western, 2012, 92-143. Chap 3 & 9. Kast, Fremont E. and James E. Rosenzweig. *Organization and Management: A Systems and Contingency Approach*, 4th ed. New York: McGraw-Hill Publishing Company, 1985. Chapter 7 and 8.

I. Organization Structure

1. Organization structure designates formal reporting relationships, including the number of levels in the hierarchy and the span of control of managers and supervisors.
2. Organization structure identifies the grouping together of individuals into departments and of departments into the total organization.
3. Organization structure designates the system to ensure effective communication, coordination, and integration of efforts across departments.

Figure 1. A Sample Organization Chart

<table>
<tr><td colspan="6">CEO</td></tr>
<tr><td colspan="2">VP for Finance</td><td colspan="2">VP for Manufacturing</td><td colspan="2">VP for Human Resources</td></tr>
<tr><td>Chief Accountant</td><td>Budget Analyst</td><td>Plant Superintendent</td><td>Maintenance Superintendent</td><td>Training Specialist</td><td>Benefits Administrator</td></tr>
</table>

II. Information-Sharing Perspective on Structure

Figure 2. The Relationship of Organization Design to Efficiency versus Learning Outcomes

<table>
<tr><td rowspan="2">Dominant
Structural
Approach</td><td>Vertical Organization
Designed for Efficiency
(Mechanistic)</td><td>Horizontal Organization
Designed for Learning
(Organic)</td></tr>
<tr><td colspan="2">Horizontal structure to dominant
Shared tasks, empowerment
Relaxed hierarchy, few rules
Horizontal communication, face-to-face
Many teams and task forces
Decentralized decision making

Vertical structure is dominant
Specialized tasks
Strict hierarchy, many rules
Vertical communication and reporting systems
Few teams, task forces, or integrators
Centralized decision making</td></tr>
</table>

A. Vertical Information Sharing

1.Specialized tasks; 2.Strict hierarchy, many rules
3. Vertical communication and reporting systems
4. Few teams, task forces, or integrators
5. Centralized decision making

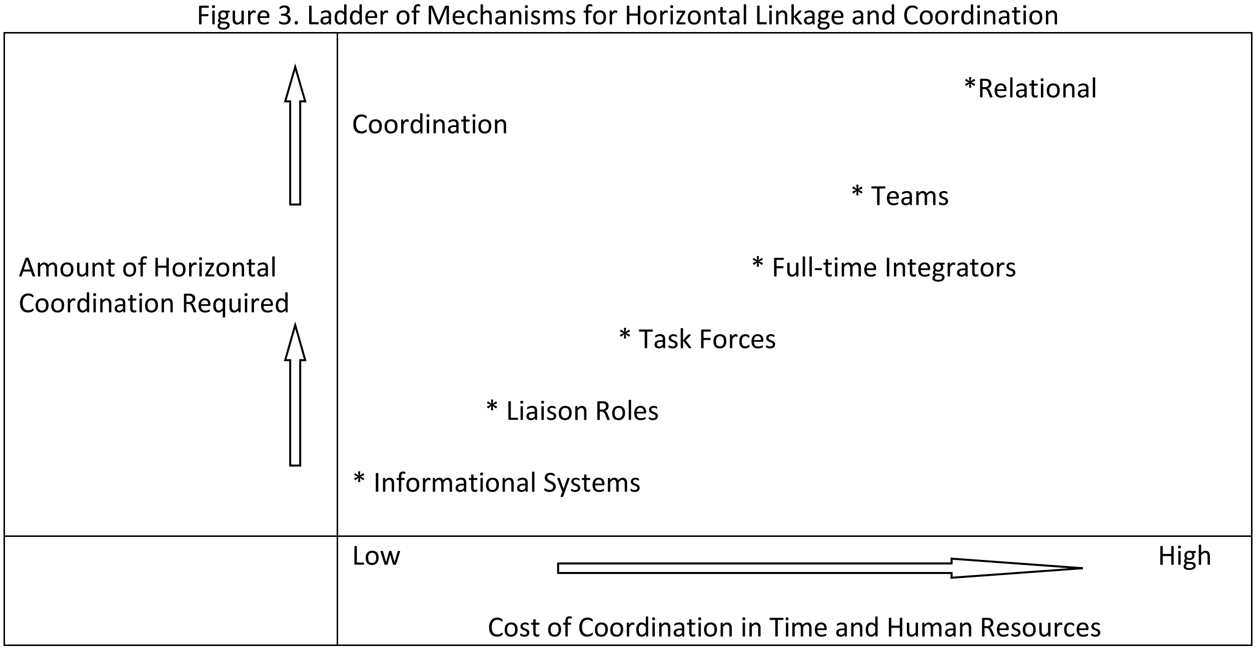
B. Horizontal Information Sharing and Coordination

1. Shared tasks, empowerment
2. Relaxed hierarchy, few rules
3. Horizontal communication, face-to-face
4. Many teams, task forces
   (It is useful to create special liaison roles and full-time integrators for coordination)
5. Decentralized decision making

C. Relational Coordination

1. Relational coordination refers to frequent, timely, problem-solving communication carried out through relationships of shared goals, shared knowledge, and mutual respect.

Figure 3. Ladder of Mechanisms for Horizontal Linkage and Coordination



2. In an organization with a high level of relational coordination, people share information freely across departmental boundaries, and people interact on a continuous basis to share knowledge and solve problems. Coordination is carried out through a web of ongoing positive relationships rather than because of formal coordination roles or mechanisms.

3. Building relational coordination into the fabric of the organization requires the active role of managers. Managers invest in training people in the skills needed to interact with one another and resolve cross-functional conflicts, build trust and credibility by showing they care about employees, and intentionally foster relationships based on shared goals rather than emphasizing goals of the separate department.

III. Organization Design Alternatives

A. Required Work Activities: Departments are created to perform tasks considered strategically important to the company. In a typical manufacturing company, for example, work activities fall into a range of functions that help the organization accomplish its goals, such as a human resource department to recruit and train employees, a purchasing department to obtain supplies and raw materials, a production department to build products, a sales department to sell products, and so forth. As organizations grow larger and more complex, managers find that more functions need to be performed. Organizations typically define new positions, departments, or divisions as a way oil giant BP has added a new safety division in the wake of the Deepwater Horizon oil spill.

B. Reporting Relationships: Once required work activities and departments are defined, the next question is how these activities and departments should fit together in the organizational hierarchy. Reporting relationships, often called the *chain of command*, are represented by vertical lines on an organization chart. The chain of command should be an unbroken line of authority that links all persons in an organization and shows who report to whom.

C. Departmental Grouping Options

1. Functional Grouping

CEO		
Engineering	Marketing	Manufacturing

2. Divisional Grouping

CEO		
Product Division 1	Product Division 2	Product Division 3

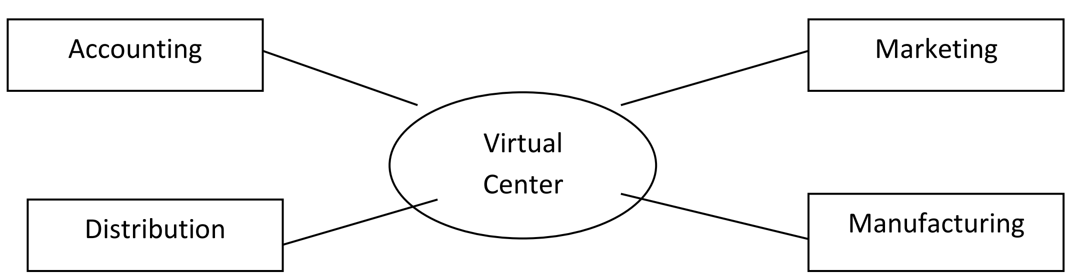
3. Multi-focused Grouping

CEO		
	Manufacturing	Marketing
Product Division 1		
Product Division 2		

4. Horizontal Grouping

CEO		
	Manufacturing	Marketing
Product Division 1		
Product Division 2		

5. Virtual Network Grouping



*****Geographic Structure (Divisional Structure)**

CEO			
Americas	Brazil	Asia/Pacific	Western Europe/ME
North America		Japan	
Latin America		Australia	

IV. Functional, Divisional, and Geographic Designs

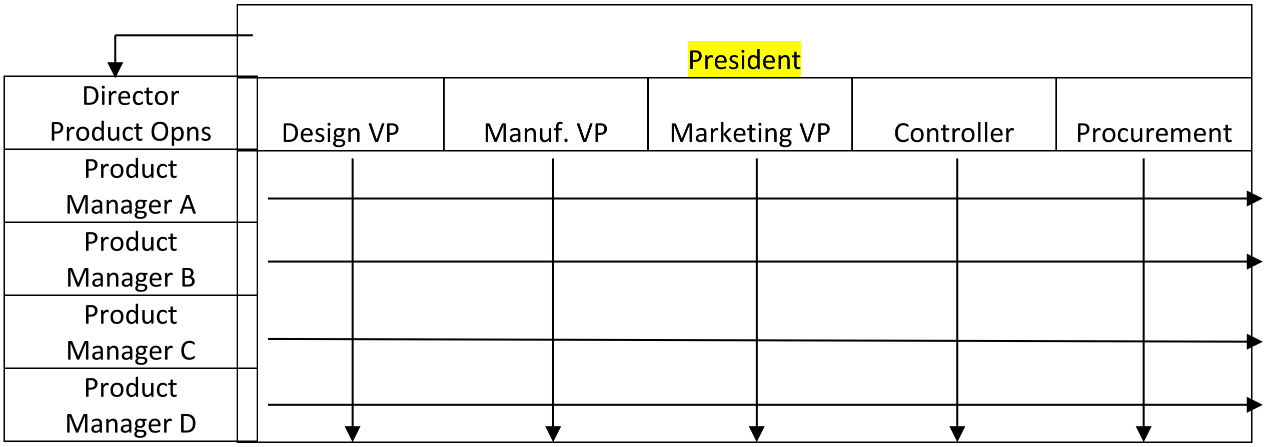
Table 1. Strengths and Weaknesses of Functional and Divisional Organization Structures

Organization Structure	***Strengths***	***Weaknesses***
Functional Structure	1. Allows economies of scale within functional departments 2. Enables in-depth knowledge and skill development 3. Enables organization to accomplish functional goals 4. Is best with only on or a few products	1. Slow response time to environmental changes 2. May cause decisions to pile on top; hierarchy overload 3. Leads to poor horizontal coordination among departments 4. Results in less innovation 5. Involves restricted view of organizational goals
Divisional Structure + Geographic Structure	1.Suited to fast change in unstable environment 2. Leads to customer satisfaction because product responsibility and contact points are clear 3. Involves high coordination across functions 4. Allows units to adapt to differences in products, regions, customers 5. Best in large organizations with several products 6. Decentralizes decision making	1. Eliminates economies of scale in functional departments 2. Leads to poor coordination across product lines 3. Eliminates in-depth competence and technical specialization 4. Makes integration and standardization across product lines difficult

V. Matrix Structure

Sometimes, an organization's structure needs to be multi-focused in that both product and function or product and geography are emphasized at the same time. The matrix can be used when both technical expertise and product innovation and change are important for meeting organizational goals. The matrix structure often the answer when organizations find that the functional, divisional, and geographic structures combined with horizontal linkage mechanisms will not work.

Figure 4. Dual-Authority Structure in a Matrix Organization



A. Conditions for the Matrix

Condition 1. Pressure exists to share scarce resources across product lines. The organization is typically medium-sized and has a moderate number of product lines. It fells pressure for the shared and flexible use of people and equipment across those products. For example, the organization is not large enough to assign engineers full-time to several products or projects.

Condition 2. Environmental pressure exists for two or more critical outputs, such as for in-depth technical knowledge (functional structure) and frequent new products (divisional structure). This dual pressure means a balance of power is needed between the functional and product sides of the organization, and a dual-authority structure is needed to maintain that balance.

Condition 3. The environmental domain of the organization is both complex and uncertain. Frequent external changes and high interdependence between departments require a large amount of coordination and information processing in both vertical and horizontal directions.

Under these three conditions, the vertical and horizontal lines of authority are given equal recognition. A dual-authority structure is thereby created so the balance of power between them is equal.

The matrix formalizes horizontal teams along with the traditional vertical hierarchy and tries to give equal balance to both. However, the matrix may shift one way or the other. Many companies have found a balanced matrix hard to implement and maintain because one side of the authority structure often dominates. As consequence, two variations of matrix structure have evolved - the functional matrix and the product matrix. In a functional matrix, the functional bosses have primary authority and the project or product managers simply coordinate product activities. In a product matrix, by contrast, the project or product managers have primary authority and functional managers simply assign technical personnel to projects and provide advisory expertise as needed. For many organizations, one of these approaches works better than the balanced matrix with dual lines of authority.

B. Strengths and Weaknesses of the Matrix Organization Structure

Table2. Strengths and Weaknesses of Matrix Organization Structure

Strengths	***Weaknesses***
1. Achieves coordination necessary to meet dual demands from customers 2. Flexible sharing of human resources across products 3. Suited to complex decisions and frequent changes in unstable environment 4. Provides opportunity for both functional and product skill development 5. Best in medium-sized organizations with multiple products	1. Causes participants to experience dual authority, which can be frustrating and confusing 2. Means participants need good interpersonal skills and extensive training 3. Is time consuming; involves frequent meetings and conflict resolution sessions 4. Will not work unless participants understand it and adopt collegial rather than vertical type relationships 5. Requires great effort to maintain power balance

VI. Horizontal Structure

A. Characteristics of Horizontal Structure

1. Structure is created around cross-functional core processes rather than tasks, functions, or geography. Thus, boundaries between departments are obliterated.

2. Self-directed teams, not individuals, are the basis of organizational design and performance. Members rotate jobs so that everyone experiences all jobs.

3. Process owners have responsibility for each core process in its entirety. A number of teams may work on jobs such as parts analysis, purchasing, material flow, and distribution, but a process owner is responsible for coordinating the entire process.

4. People on the team are given the skill, tools, motivation, and authority to make decisions central to the team's performance. Team members are cross-trained to perform one another's jobs, and the combined skills are sufficient to complete a major organizational task.

5. Teams have the freedom to think creatively and respond flexibly to new challenges that arise.

6. Customers drive the horizontal corporation. Effectiveness is measured by end-of-process performance objectives, as well as customer satisfaction, employee satisfaction, and financial contribution.

7. The culture is one of openness, trust, and collaboration, focused on continuous improvement. The culture vales employee empowerment, responsibility, and well-being.

B. Strengths and Weaknesses of Horizontal Structure

Table 3. Strengths and Weaknesses of Horizontal Structure

Strengths	**Weaknesses**
1. Promotes flexibility and rapid response to changes in customer needs 2. Directs the attention of every toward the production and delivery of value to the customer 3. Each employee has a broader view of organizational goals 4. Promotes a focus on teamwork and collaboration 5. Improves quality of life for employees by offering them the opportunity to share responsibility, make decisions, and be accountable for outcomes	1. Determining core processes is difficult and time consuming 2. Requires changes in culture, job design, management philosophy 3. Traditional managers may balk when they have to give up power and authority 4. Requires significant training of employees to work effectively in a horizontal team environment 5. Can limit in-depth skill development

VII. Virtual Networks and Outsourcing

Outsourcing means to contract out certain task or functions, such as manufacturing, human resources, or credit processing, to other companies.

A few organizations carry outsourcing to the extreme to create a virtual network structure. With a **virtual network structure**, sometimes called a modular structure, the firm subcontracts most of its major functions or processes to separate companies and coordinates their activities from a small headquarters organization.

A. How the Structure Works

The virtual network organization may be viewed as a central hub surrounded by a network of outside specialists.

With a network structure, rather than being housed under one roof or located within ore organization, services such as accounting, design, manufacturing, marketing, and distribution are outsourced to separate companies or individuals that are connected electronically to a central office. Organizational partners located in different parts of the world may use networked computers or the Internet to exchange data and information so rapidly and smoothly that a loosely connected network of suppliers, manufacturers, and distributors can look and act like one seamless company. The virtual network form incorporates a free-market style to replace the traditional vertical hierarchy. Subcontractors may flow into and out of the system as needed to meet changing needs.

With a network structure, the hub maintains control over processes in which it has world-class or difficult-to-imitate capabilities and then transfers other activiti4es - along with the decision making and control over them - to other organization.

B. Strengths and Weaknesses of Virtual Networks

Table 4. Strengths and Weaknesses of Virtual Network Structure

Strengths	***Weaknesses***
Strengths 1. Enables even small organizations to obtain talent and resources worldwide 2. Gives a company immediate scale and reach without huge investments in factories, equipment, or distribution facilities 3. Enables the organization to be highly flexible and responsive to changing needs 4. Reduces administrative overhead costs Weaknesses 1. Managers do not have hands-on control over many activities and employees 2. Requires a great deal of time to manage relationships and potential conflicts with contract partners 3. there is a risk of organizational failure if a partner fails to deliver or goes out of business 4. Employee loyalty and corporate culture might be weak because employees feel they can be replaced by contract services	

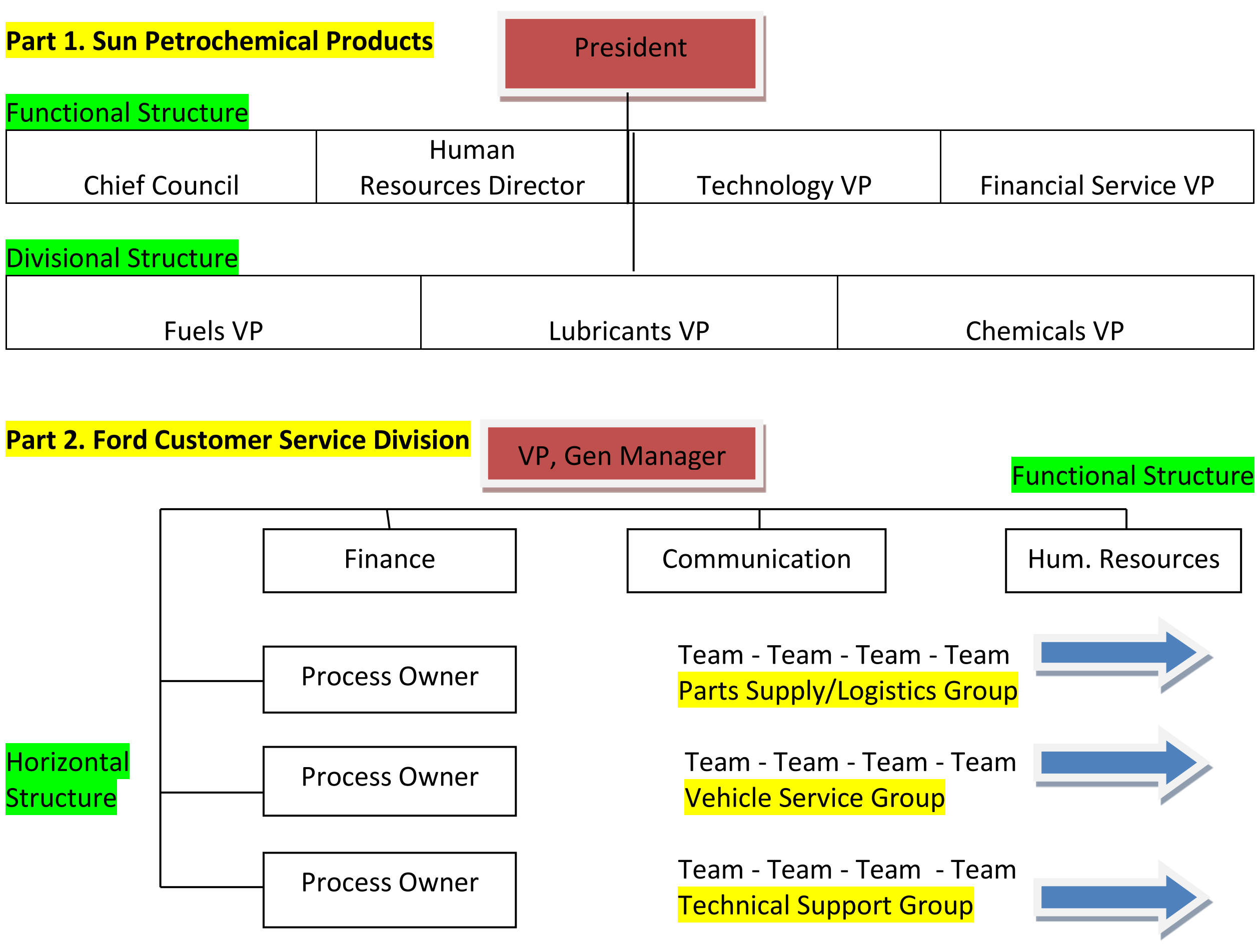
VIII. Hybrid Structure

Most large organizations often use a hybrid structure that combines characteristics of various approaches tailored to specific strategic needs. Most companies combine characteristics of functional, divisional, geographic, horizontal, or network structures to take advantage of the strengths of various structures and avoid some of the weaknesses. Hybrid structures tend to be used in rapidly changing environments because they offer the organization greater flexibility.

One type of hybrid that is often used is to combine characteristics of the functional and divisional structures. When a corporation grows large and has several products or markets, it typically is organized into self-contained divisions of some type. Functions that are important to each product or market are decentralized to the self-contained units. However, some functions that are relatively stable and require economies of scale and in-depth specialization are also centralized at headquarters. For example, Starbucks has a number of geographic divisions, but functions such as marketing, legal, and supply chain operations are centralized.

The other type of hybrid is to combine characteristics of functional, divisional, and horizontal structures. Ford Motor Company's Customer Service Division, a global operation made up of 12,000 employees serving 15,000 dealers, provides an example of this type of hybrid.

Figure 5. Two Hybrid Structures



IX. Application of Structural Design

Each type of structure is applied in different situations and meets different needs. In describing the various structures, we touched briefly on condition such as environmental stability or change and organizational size that are related to structure. Each form of structure - functional, divisional, matrix, horizontal, network, hybrid - represents a tool that can help mangers make an organization more effective, depending on the demands of its situation.

A. Structural Alignment

Structure	**Functional Structure**	Functional with Cross-funcTms, integrators	**Divisional Structure**	**Matrix Structure**	**Horizontal Structure**	Virtual Network Structure
Dominant Structural Approach	**Vertical:** Control, efficiency, Stability, reliability (mechanistic)					**Horizontal:** Coordination, learning, Innovation, flexibility (Organic)

B. Symptoms of Structural Deficiency

1. Decision making is delayed or lacking in quality
2. The organization does not respond innovatively to a changing environment
3. Employee performance declines and goals are not being met.
4. Too much conflict is evident.

X. Design Essentials: A Summary

@ Organization structure must accomplish two things for the organization. It must provide a framework of responsibilities, reporting relationships, and groupings, and it must provide mechanism for linking and coordinating organizational elements into a coherent whole. The structure is reflected on the organization chart. Linking the organization into a coherent whole requires the use of information systems and linkage devices in addition to the organization chart.

@ Organization structure can be designed to provide vertical and horizontal information linkages based on the information processing required to meet the organization's overall goal. Managers can choose whether to orient toward a traditional organization designed for efficiency, which emphasizes vertical linkages such as hierarchy, rules and plans, and formal information systems (a mechanistic design), or toward a contemporary organization designed for learning and adaptation, which emphasizes horizontal communication and coordination (an organic design). Vertical linkages are not sufficient for most organizations today. Organizations provide horizontal linkages through cross-functional information system, liaison roles, temporary task forces, full-time integrators, and teams, and by creating the conditions to enable relational coordination.

@ Alternatives for grouping employees and department into overall structural design include functional grouping, divisional grouping, multi-focused grouping, horizontal grouping, and virtual network grouping. The choice among functional, divisional, and horizontal structures determines where coordination and integration will be greatest. With functional and divisional structures, managers also use horizontal linkage mechanisms to complement the vertical dimension and achieve integration of departments and levels into an organizational whole. With a horizontal structure, activities are organized horizontally around core work processes.

@ A virtual network structure extends the concept of horizontal coordination and collaboration beyond the boundaries of the organization. Core activities are performed by a central hub while other functions and activities are outsourced to contract partners.

@ The matrix structure attempts to achieve an equal balance between the vertical and horizontal dimensions of structure. Most organizations do not exist in these pure forms, using instead hybrid structures that incorporate characteristics of two or more types of structure.

@ Ultimately, managers attempt to find the correct balance between vertical control and horizontal coordination. Signs of structural misalignment include delayed decision making, lack of innovation, poor employee performance, and excessive conflict.

k@ Finally, an organization chart is only so many lines and boxes on a piece of paper. The purpose of the organization chart is to encourage and direct employees into activities and communications that enable the organization to achieve its goals. The organization chart provides the structure, but employees provide the behavior. The chart is a guideline to encourage people to work together, but management must implement the structure and carry it out.

Appendix I. Organizational Size, Life Cycle, Bureaucracy & Control, and Decline

I. Organizational Size: Is Bigger Better?

A. Pressure for Growth

Organizations experience many pressures to grow, and large size is crucial to economic health in some industries. Size enables economies of scale, provides a wide variety of opportunities for employees, and allows companies to invest in expensive and risky projects. However, large organizations have a hard time adapting to rapid changes in the environment. Large organizations are typically standardized, mechanistically run, and complex. Small organizations typically have a flatter structure and an organic, free-flowing management. They can respond more quickly to environmental changes and are more suited to encouraging innovation and entrepreneurship. Managers in large or growing firms try to find mechanism to make their organizations more flexible and responsive.

Exhibit: Differences between Large and Small Organization

Large Organizations	Small Organizations
Economies of scale Global reach Vertical hierarchy, mechanistic Complex Stable market Organization men	Responsive, flexible Regional reach Flat structure, organic Simple Niche finding Entrepreneurs

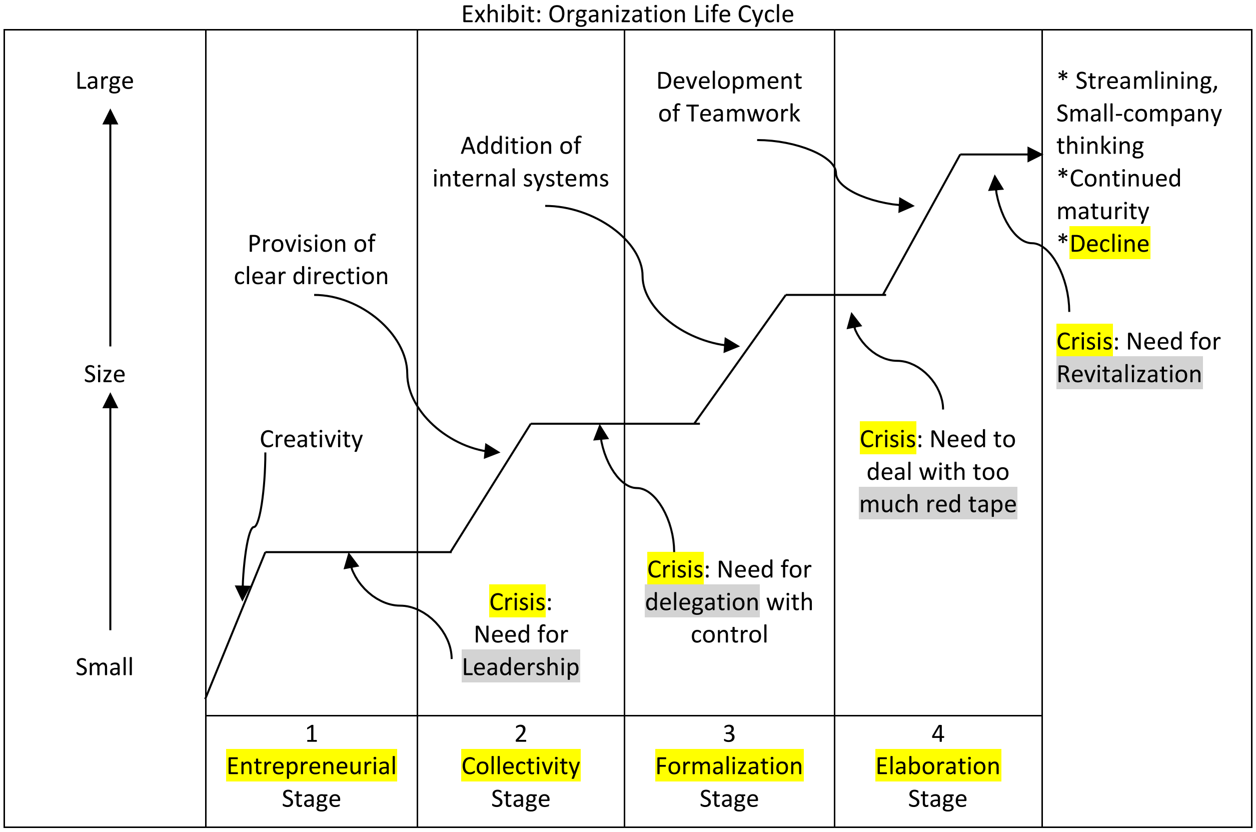
Big-Company /Small-Company Hybrid: The paradox is that the advantages of small companies sometimes enable them to succeed and, hence, grow large. Small companies can become victims of their own success as they grow, shifting to a mechanistic design emphasizing vertical hierarchy and spawning "organization men" rather than entrepreneurs. Giant companies are "built for optimization, not innovation." Big companies become committed to their existing products and technologies and have a hard time supporting innovation for the future.

The solution is called the "big-company /small-company hybrid. By reorganizing into groups of small companies, huge corporations capture the mindset and advantages of smallness. The development of new organizational forms, with an emphasis on decentralizing authority and cutting out layers of the hierarchy, combined with the increasing use of information technology is making it easier than ever for companies to be simultaneously large and small, thus capturing the advantage of each. Big companies also find a variety of ways to act both large and small.

II. Organizational Life Cycle

Organizations evolve through life-cycle stages as they grow and mature. Organization structure, internal systems, and management issues are different for each stage of development. Growth creates crises and revolutions along the way toward large size. A major task of managers is to guide the organization through the entrepreneurial, collectivity, formalization, and elaboration states of development. In Exhibit next, the organizational life cycle is well explained.

Exhibit: Organization Life Cycle



Organization Stages of Development

A. The Stage of Life Cycle Development

1. Entrepreneurial Stage: When an organization is born, the emphasis is on creating a product or service and surviving in the marketplace. The founders are entrepreneurs, and they devote their full energies to the technical activities of production and marketing. The organization is informal and no-bureaucratic. As the organization start to grow, the larger number of employees causes problems causing crisis, which requires outstanding leadership.

2. Collectivity Stage: If the leadership crisis is resolved, strong leadership is obtained and the organization begins to develop clear goals and direction. Departments are established along with a hierarchy of authority, job assignments, and a beginning division of labor. If the new management has been successful, lower-level employees gradually find themselves restricted by the strong top-down leadership. Lower-level managers begin to acquire confidence in their own functional areas and want more discretion. An autonomy crisis occurs, and top managers want to make sure that all parts of the organization are coordinated and pulling together - delegation with control.

3. **Formalization Stage** involves the installation and use of rules, procedures, and control systems. Communication is less frequent and more formal, and more likely to follow the hierarchy of authority. At this point, the proliferation of systems and programs may begin to strangle middle-level executives. Middle management may resent the intrusion of staff. The organization seems too large and complex to be managed through formal programs. Much red tapes challenge efficiency.

4. **Elaboration Stage**: The solution to the red tape crisis is a new sense of collaboration and teamwork. Managers develop skills for confronting problems and working together. Bureaucracy may have reached its limit. Social control and self-discipline reduce the need for additional formal controls. After the organization reaches maturity, it may enter periods of temporary decline. A need for renewal may occur every 10 to 20 years -need for revitalization.

B. Organizational Characteristics during the Life Cycle

Exhibit: Organization Characteristics during Four Stages of Life Cycle

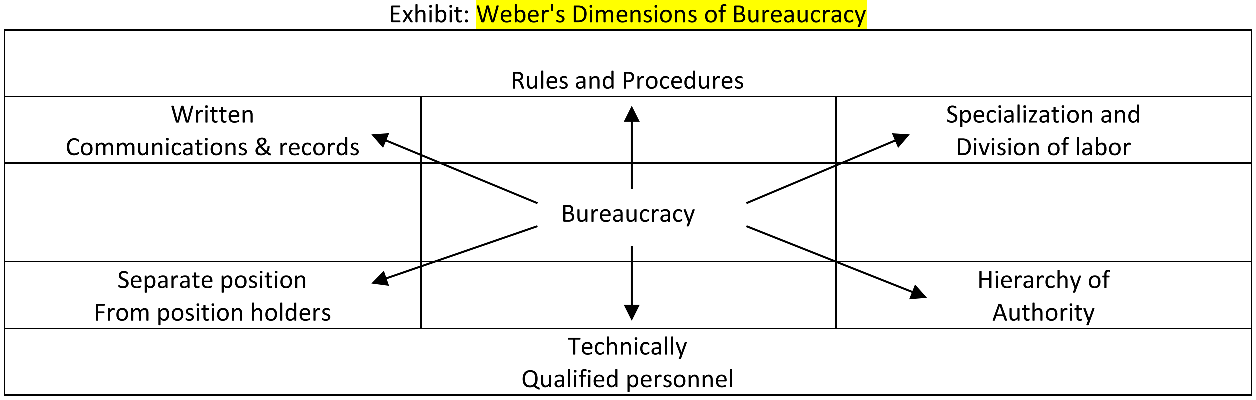
Characteristics	**Entrepreneurial** **Non-bureaucratic**	**Collectivity** **Pre-bureaucratic**	**Formalization** **Bureaucratic**	**Elaboration** **Very Bureaucratic**
Structure	Informal One-person show	Mostly informal, some procedures	Formal procedures, division of labor, new specialties added	Teamwork within bureaucracy, small-company thinking
Products or services	Single product or service	Major product or service, with variations	Line of products or service	Multiple product or service lines
Reward and control systems	Personal, Paternalistic	Personal, contribution to success	Impersonal, formalized systems	Extensive, tailored to product and department
Innovation	By own-manager	By employees and managers	By separate innovation group	B institutionalized R&D department
Goal	Survival	Growth	Internal stability, market expansion	Reputation, complete organization
Top management style	Individualistic, entrepreneurial	Charismatic, direction-giving	Delegation with control	Team approach attack bureaucracy

Growing organizations move through stages of a life cycle, and each stage is associated with specific characteristics of structure, control systems, goals, and innovation. The life cycle phenomenon is a powerful concept used for understanding problems facing organizations and how managers can respond in a positive way to move an organization to the next stage.

III. Organizational Size, Bureaucracy, and Control

As organizations progress through the life cycle and grow larger and more complex, they generally take on bureaucratic characteristics, such as rules, division of labor, written records, hierarchy of authority, and impersonal procedures. Bureaucracy is a logical form of organizing that lets firms use resources efficiently. In many large corporate and government organizations, however, bureaucracy has come under attack with attempts to decentralize authority flatten organization structure, reduce rules and written procedures, and create a small-company mindset. These companies are willing to trade economies of scale for responsive and adaptive organizations. Many companies are subdividing to gain small-company advantages. Another approach to overcoming the problem of bureaucracy is to use temporary systems, enabling the organization to glide smoothly between a highly formalized, hierarchical style that is effective during times of stability and a more flexible, loosely structured one needed to respond to unexpected or volatile environmental conditions.

Exhibit: Weber's Dimensions of Bureaucracy



A. What is Bureaucracy

According to Weber, Bureaucracy could be a threat to basic personal liberties, since its ability ensure more efficient functioning of organizations in both business and government settings. He identified a set of organizational characteristics as shown in Exhibit above.

B. Size and Structural Control: Large organizations are different from small organizations along several dimensions of bureaucratic structure, including formalization, centralization, and personnel ratios.

1. **Formalization and Centralization**: Formalization refers to rules, procedures, and written documentation, such as policy manuals and job descriptions, that prescribe the rights and duties of employees. Centralization refers to the level of hierarchy with authority to make decisions. In centralized organizations, decisions tend to be made at the top. In decentralized organizations, similar decisions would be made at a lower level.

2**. Personnel Ratios** are related to the numbers of administrative, clerical, and professional support staffs such as the administrative ratio and clerical or professional ratio.

IV. Bureaucracy and Forms of Control

Bureaucratic characteristics have many advantages and have worked extremely well for many of the needs of the industrial age. By establishing a hierarchy of authority and specific rules and procedures, bureaucracy provided an effective way to bring order to larger groups of people and minimize abuses of power. Impersonal relationships based on roles rather than people reduced the favoritism and nepotism characteristic of many preindustrial organizations. Bureaucracy also provided for systematic and rational ways to organize and manage tasks too complex to be understood and handled by a few individuals, thus greatly improving the efficiency and effectiveness of large organizations.

A. organizing Temporary Systems

1. One structural concept is to use temporary systems or structures to respond to n emergency or crisis situation. This approach is often sued by organizations such as police and fire departments or other emergency management agencies to maintain the efficiency and control benefits of bureaucracy yet prevent the problem of slow response.

2. The basic idea is that the organization can glide smoothly between a highly formalized, hierarchical structure that is effective during times of stability and a more flexible, loosely structured one needed to respond well to unexpected and demanding environmental conditions. The hierarchical side with its rules, procedures, and chain of command helps maintain control and ensure adherence to rules that have been developed and tested over many years to cope with well-understood problems and situations. During times of high uncertainty, however, the most effective structure is one that loosens the lines of command and enables people to work across departmental and hierarchical lines to anticipate, avoid, and solve unique problems within the context of a clearly understood mission and guidelines.

B. Other Approaches to Busting Bureaucracy

1. **The commitment of top leadership**: Many are cutting layers of the hierarchy, keeping headquarters staff small, and giving lower-level workers greater freedom to make decisions rather than burdening them with excessive rules and regulations.

2. **Professional Partnership**: Professionalism is defined as the length of formal training and experience of employees; and increased training substitutes for bureaucratic rules and procedures that can constrain the creativity of employees in solving problems and also enhances individual and organizational capability. A form of organization called the professional partnership has emerged in accounting firms, medical practices, law firms, and consulting firms.

C. Forms of Control - Bureaucracy, Market, and Clan Controls

All organizations, large and small, need systems for control. Managers can choose among three overall control strategies: bureaucratic, market, and clan. Bureaucratic control relies on standard rules and the rational - legal authority of managers. Market control is used where product or service output can be priced and competition exists. Clan control and self-control are associated with uncertain and rapidly changing organization processes. They rely on commitment, tradition, and shared values for control. Managers may use a combination of control approaches to meet the organization's needs.

1. Bureaucratic Control: Weber identifies three types of authority that could explain the creation and control of a large organization.

(a) **Rational-legal authority** is based on employees' belief in the legality of rules and the right of those elevated to position of authority to issue commands. It is the basis for both creation and control of most government organizations and is the most common base of control in organizations worldwide.

(b) **Traditional authority** is the belief in traditions and in the legitimacy of the status of people exercising authority through those traditions. It is the basis for control for monarchies, churches, and some organization in Latin America and the Persian Gulf.

(c) **Charismatic authority** is based on devotion to the exemplary character or to the heroism of an individual person and the order defined by him or her. Revolutionary military organizations are often based on the leader's charisma.

2. Market Control occurs when price competition is used to evaluate the output and productivity of an organization or its major departments and divisions. The idea of market control originated in economics. A dollar price is an efficient form of control because managers can compare prices and profits to evaluate the efficiency of the corporation. Top managers always use the price mechanism to evaluate performance in their corporations.

3. Clan Control is the use of social characteristics, such as shared values, commitment, traditions, and beliefs, to control behavior. Organizations that use clan control have strong cultures that emphasize shared values and trust among employees. Clan control is import when ambiguity and uncertainty are high. Managers act primarily as mentors, role models, and agents for transmitting values. Whereas clan control is a function of being socialized into a group, *self-control* stems from individual values, goals, and standards.

Exhibit: Three Organizational Control Strategies

Type of Control	***Requirements***
Bureaucratic Control	Rules, standards, hierarchy, legitimate authority
Market Control	Prices, competition, exchange relationship
Clan Control	Tradition, shared values and beliefs, trust

V. Organizational Decline and Downsizing

Many organizations have stopped growing, and some are declining. Organizations go through stages of decline, and it is the responsibility of managers to detect the signs of decline, implement necessary action, and reverse course. One of the most difficult decisions pertains to downsizing the workforce. To smooth the downsizing process, managers can search for creative alternatives to massive layoffs, communicate with employees and provide as much information as possible, provide assistance to displaced workers, and remember to address the emotional needs of those who remain with the organization.

A. Causes of organizational decline: Organizational decline defines a condition in which a substantial, absolute decrease in an organization's resources base occurs over time, which is associated with environmental decline in the sense that an organizational domain experiences either a reduction in size or a reduction in shape. In general, the following three factors are considered responsible for causing organizational decline.

1. Organizational atrophy: Atrophy occurs when organizations grow older and become inefficient and overly bureaucratized, while its ability to adapt to its environment deteriorates.

2. Vulnerability reflects an organization's strategic inability to prosper in its environment, which often happens to small organizations that are not yet fully established.

3. Environmental decline or competition: refers to reduced energy and resources available to support an organization. When the environment has less capacity to support organizations, it has to either scale down operations or shift to another domain.

B. A Model of Decline Stages: The decline, if not managed properly, can move through five stages resulting in organizational dissolution.

1. Blinded stage
2. Inaction stage
3. Faulty action state
4. Crisis stage
5. Dissolution stage.

C. Downsizing Implementation

1. Search for alternatives
2. Communicate more, not less
3. Provide assistance to displaced workers
4. Help the survivors thrive

(End of Lecture Notes #4)