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PROF. DR. DR. SANTIAGO GARCIA ECHEVARRIA

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**DECISION STRUCTURES VERSUS
ORGANIZATIVE STRUCTURES.
TOWARDS A NEW ORGANIZATIONAL
DESIGN OF INSTITUTIONS.**

Prof. Dr. Santiago García Echevarría
Universidad de Alcalá de Henares

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Consejo de Redacción :

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Susana Hita

Secretaría y Administración :

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Dirección del I.D.O.E. : Plaza de la Victoria, 3
28802 – Alcalá de Henares.
Teléfono : 885.42.00
Fax : 885.42.06

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I. INTRODUCTION

Life of a corporation organizational schemes, and of other public and private institutions will become progressively shorter. That is why, organization, which constitutes a very important strategic factor, has to become in a wheighty instrument, but with a great flexibility and change capacity. This organizational approach would facilitate a high speed change process with low material and human costs in the adapting processes. Without any doubt, we enter an era where we have to accustom ourselves to live within dynamic and changing organizations, not affecting these facts to institutional and individual capacity in their performance.

Organization has to give up remaining a rigid, complex and hierarchical structure to become into an organization where individuals "live" the institution where they work and where they may also develop their individual and team skills within permanent adapting processes to a continuously changing situation.

It is out of doubt that we are facing a changing historical moment, with a highly significant breakdown of the significance of labour division and the way the institutions and the people's behaviours involved in them have been determined. A whole industrial design, based in a taylorist approach, and which has been for nearly one hundred and thirty years the basis of the organizative design and,

therefore, of the decision making processes, comes to an end; moving forward to, what in my opinion, constitutes mainly an institutional design.

A functional approach, where behind has been developed the design both of the organizational processes and of the decision-making ones is being abandoned, passing to design a corporative orientation where the environment and its changing dynamics becomes fully a part of the industrial institution with the purpose of generating the answer of the organizative processes based mainly in the coordination capacity.

The change from that functional orientation to the institutional one implies a complete breakdown with the organizative designs and the frequent contradiction about the decision-making processes.

II . ORGANIZATIVE DESIGNS: EVOLUTION AND CHARACTERISTICS

We will analyze, briefly, which have been the basic components of the organizative designs in their relation with the decision structures.

The fields that have characterized the design of the organizations are two:

- * A *social economic dimension* that determines basically a power structure, and that with its socio-political characteristics have determined and determine permanently the decision structure.

- * The *technical dimension* is designed in front of this first social economic field. This one implies the appearance of a labour division that creates very change-resistant structures due to the high functional rigidity of all the elements that determine this technical field.

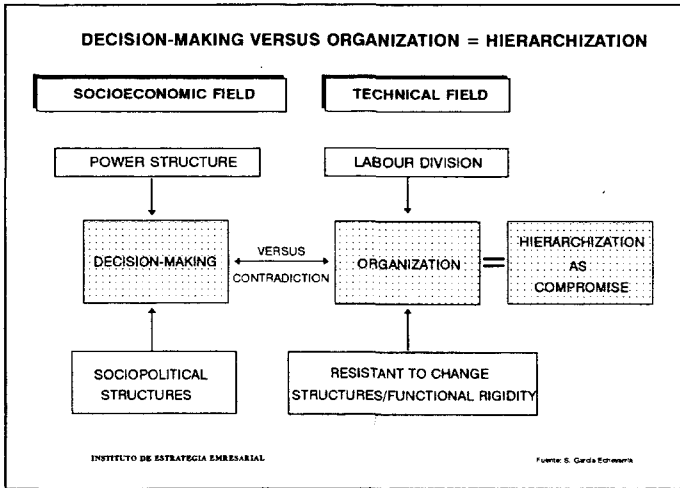


Figure 1

This situation, yielded by a power-based structuring of decision-making processes versus an organization influenced by a technical labour division, implies the development of hierarchic organizational schemes as compromise.

The organization, that reflects the design of rules and statutes that determine people's behaviour, derives or acts as a projection of the realized functional labour division and, consequently, possesses structures that makes the organization be seen from the field of

functional coordination. Given the permanence of those functional structures or because of a slow technological change of functions or even because of other socio-political or labour conditions, for decades organization has been taken as the institution. Or to put it other way, organization took the role of the institution.

Progressively, all the organizative elements coming from the man, and from the set of values where he extracts his performance and his decision making processes, have arisen increasingly. Therefore, organizative rules and estatutes have not only been a consequence of the labour's technical or functional interpretation; but they have also been taken into account values corresponding to the power-sharing structures and to the socio-political field of the organization. Values coming both from the institutional form as well as from the legislation and working conditions. We find an example in the industrial reform in the sixties, etc.

All the successively developed organizational models have presented interpretations in both these fields; functionality, as a consequence of labour-division and the value structure as a consequence of the impact of working, economic and power rules in the institutions.

Figure 3 shows how organizational design is determined based in the previous fields. All the developed organizative models have been characterized by a different way of interpreting and wheighting both elements.

Organization has always been identified, upon this functional design, as the institution. Nowadays many institutions, as the Spanish University through its "LRU" legislation, consider the institution as

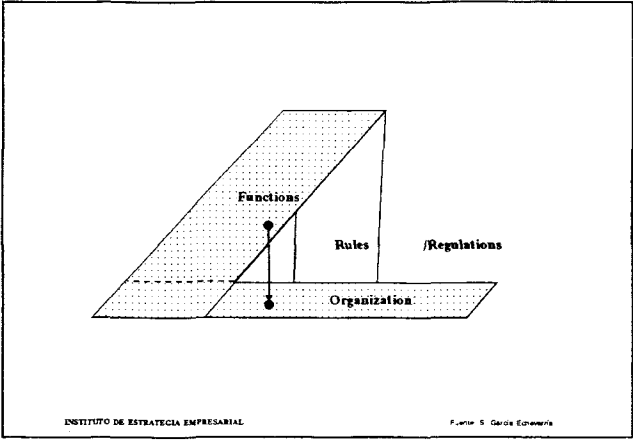


Figure 2

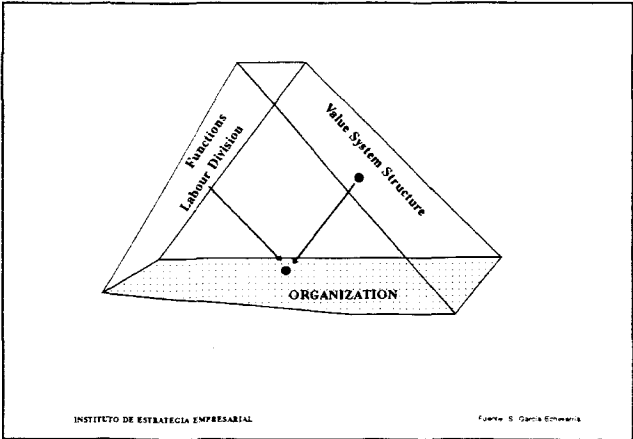


Figure 3

an organization based in codes and rules. The main consequence has been the generation of highly hierarchized organizations, and therefore, the high weight of the bureaucratic-administrative systems that armonize those both fields.

- * The technical field.
- * The power sharing or structure field.

This misunderstanding between the decision structures and the organizative structures has carried with it institutions-organizations where two main aspects are pointed up:

- * No "institution" has been created, asuming the organization the institutional role.
- * This identification between the institution and the organization has carried a rigid organizative structure that took the environment as additional data. Supposing stable environments both in:
 - The technical division of labour with few changes.
 - A stability in the power sharing relations supported by rules, codes, statutes or social status quos.

As Figure 4 shows, the corporation or any other institution reveals itself in an organization designed specifically to confront situations where no great alterations would take part, but as input data for this organization.

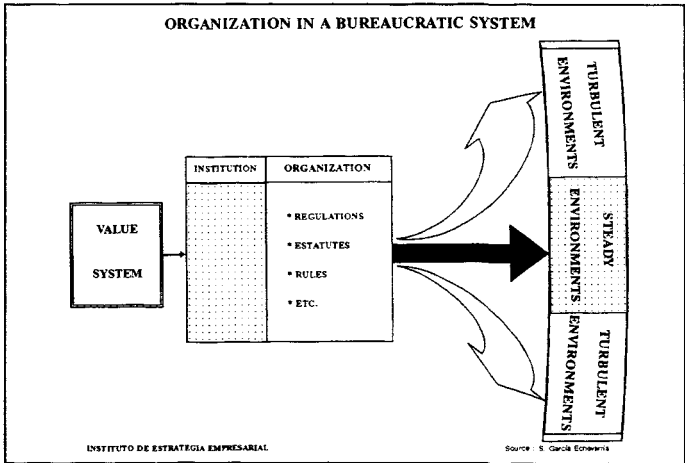


Figure 4

We perceive this traditional basic organizational design that collapses clearly in the moment when the premises of stability of the environmental elements break down.

In an open and competitive system, organization changes his role sharply. It becomes essential to distinguish between institution and organization. It is about picking up all about the power sharing and skill structures within the same institutional design, so that the value system shapes the institution, creating the strategic strengths to coordinate the existing skills with the reality of the turbulent environments. It becomes the source of the decision structures.

We define the institution, as we show later, since its three basic dimensions:

- * Defining the institution starting from the "*Corporate Philosophy*", which are the set of values that define the attitudes and behaviours in this institution in problem-solving situations.
- * People involved in it assume the institution, showing their assesment of it in the "*Corporate Culture*", which is the value system of the people related to the institution; which rules the behaviors and attitudes that define the decision making processes in it. These values are enclosed in the institutions.
- * "*Corporate Strategy*", as the key way of adapting the institution to the environment.

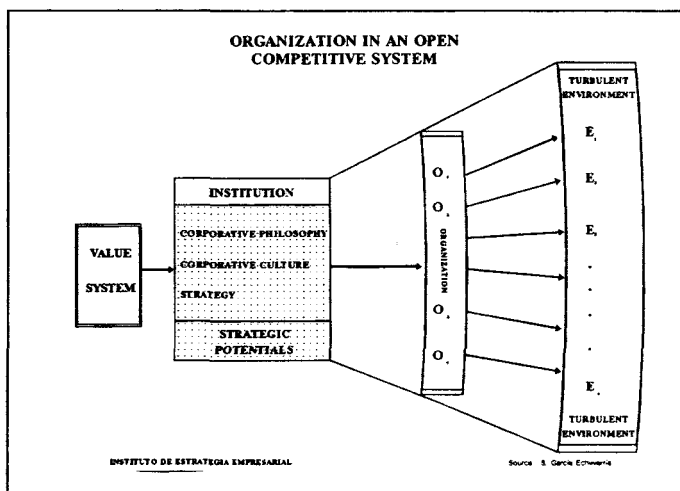


Figure 5

These three main principles that define the industrial dimension, conform the basic strategic potentials and imply the basis of the decision making processes. Decision making processes, interpreted through the value systems that rule both the criteria and the behaviors, are institutional pieces and therefore, innate elements of this institution.

And this institution, as we can see in Figure 5, has to play in turbulent environments $E_1, E_2, \dots E_n$. As a result, it has to choose and design organizations that best permit ordering and coordinating the values of that institution, as we have defined them, with the requirements of that environment. Consequently, organization is a *flexible, key strategic instrument*, which has to change its shape to assimilate quickly the changes in the environment reminding his institutional dimension. Organization can not be rigid but has to remind flexible, it has to fit to the requirements of the environments if it wants to arise his potentials with the skills or strengths of the institution.

These set of principles, in my opinion, constitute the starting point for the new organizational designs, as I consider that we are facing a very important institutional and organizational breakdown, with the appearing of new "*Lean Management*" designs and the clear trends to reduce or totally withdraw the hierarchic organizative schemes. The critical mistake arising, is the necessity of changing the classic institution-organization design by a new design where institution, as a basic reference for the decision-making processes, takes the lead. These decision-making processes that generate strategic strengths, have to be coordinated through the organization with the changing environments. This fact supposes a radical change in the institutional design, and in the aspects not defined yet as, how to configure these changeable organizative forms without affecting behavioral structures both of people or of labour divisions with costs that could challenge the existence of the firm.

III. THE NEW INSTITUTIONAL DIMENSIONS OF THE ORGANIZATION.

A corporation is defined by the following two big dimensions:

- * An internal dimension, which corresponds to the value system, that defines the "*Corporate Culture*".
- * An external dimension which implies the "*Corporate Image*" of the firm towards its environment.

All the corporate and organizational design is basically aimed to reduce "*coordination costs*" within each of the given dimensions, as well as the ones produced between them.

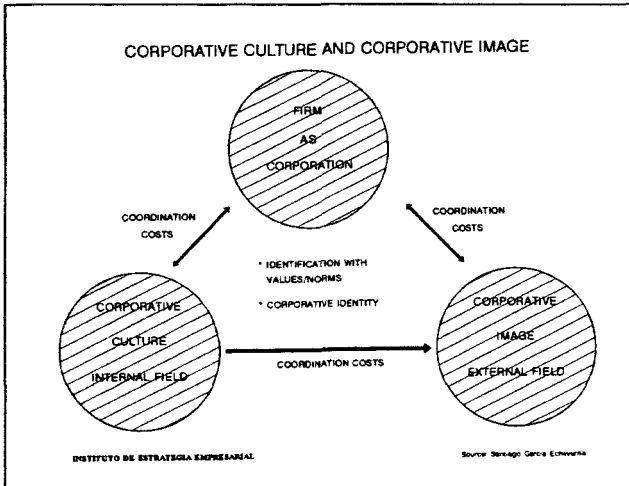


Figure 6

In the modern design of corporations, the management of the firm has to be guided upon two key criteria that rule all the decision making processes, as well as all the organizational structures:

- * What deals with the *identification with the values* and norms of the corporation on one side and on the other, the ones of the people involved in it.
- * "*Corporate Identity*", which produces an structure in the following decision-making and organizational processes.

Only following these patterns, traditional hierarchical structures, broadly based in organizational structures and usually far away from decision structures, can be reduced.

Therefore, we could interpret a firm also other institutions as a value system that defines the corporation by the terms we call:

- * "*Corporate Philosophy*" and
- * "*Corporate Culture*"

These two basic principles of the institution determine the institutional criteria coming from the institutional legitimacy of the behaviours as well as the performance criteria that rule each of the individuals.

For that reason, the whole decision structure is defined by the value systems and their relative importance which come from both the institution itself and the value systems of each of the individuals. Decision structure is assumed in the value systems, as the latest ones

exert a remarkable influence and determine the criteria that rule both institutionally and individually in each of the processes and functions.

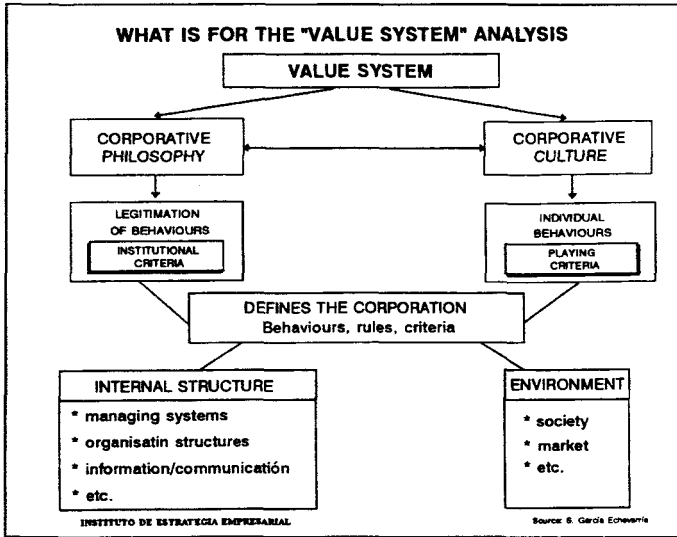


Figure 7

The whole development of rules, behaviour and criteria that determine the structure of management in the firm have to rely on the explained ideas.

Management, information, organizative and communication structures, among others, have to be coherent between them and with the value system of the firm. Identically the value system allows the environment to evaluate and considere future behavior patterns in the firm.

This scheme serves as a basis for a radical improving in the information flow for both the ones engaged in the management and human resource structure's design in the corporation as well as for the clients and suppliers to evaluate the behaviors and, therefore, the decisions of those firms. So, when this information flow improves clearly, "*credibility capital*" arise from people in and out the institution which allows a radical reduction of "*coordination costs*".

Only starting from a corporative approach where decision structure is assumed in the value system, so, information about future behaviour patterns improves and new lean organizative schemes could be developed, that is, organizative schemes where trust becomes the basic reference to eliminate hierarchic systems which are based on control systems.

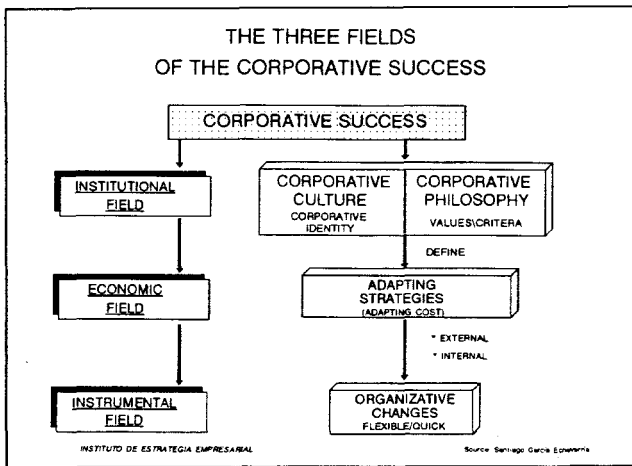


Figure 8

As we can see in Figure 8, this corporative approach puts the decision structure within what we have called the *institutional dimension* of the corporation. The decision structure involved in the individual and corporative values establishes the basis of the *economic dimension*, that is, the strategic way a process, a function or a firm want to adapt themselves to the changing of the environment.

The *instrumental dimension* characterizes the organization as an element for change or a reflect of changes both in the value systems, the strategy or the behaviors in the environment. That is why the organization's instrumental dimension appears as an opposing design to the one that traditionally has been assumed in the organizations where the decision structure was not included in the institutional value systems.

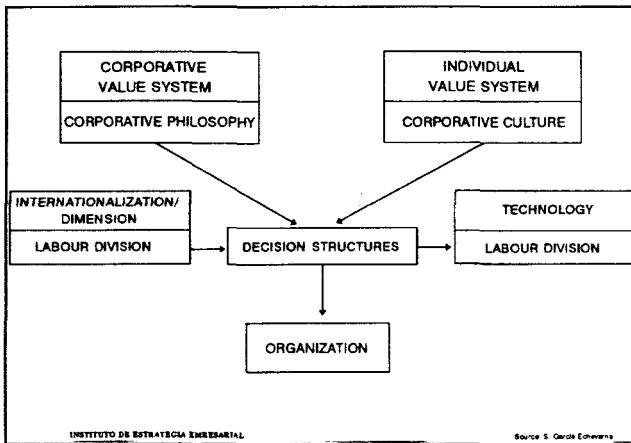


Figure 9

Therefore, as we can see in Figure 9, a relation could be established between the decision structure and the organizational structure, as a reflection of the corporate value systems –*Corporate Philosophy*– and the individual value systems –*Corporate Culture*–. These two elements, reinforced by other two dimensions corresponding to the new labour division created by the introduction of new technologies and the globalization of businesses, generate decision structures used as a basis for organizational design. Organization is a consequence, and therefore, it has to be considered that way from the decision structure.

Institutional design has to consider that the organizational structure of the corporation derives, from the firm perspective and from its relation with the value systems of the individuals. In this point, a management capacity arises that allows, through the identification with the corporation, the creation of a consistent coordination instrument minimizing costs, as it identifies with the value systems and the technological innovations that create new labour divisions.

We may conclude arguing how there is not an opposite situation between the decision and the organizational structures, but only a convergent dimension, as in order to reduce organizational structures and achieve the necessary flexibility, we start may from the "institution" and therefore the reference point of the individual is the institution and not the organization. The institution assumes the decision structure defining it and integrating the explained elements and the organization becomes in the instrument responsible for transforming the decision structure into norms and behaviors, that allow reducing coordination costs with the environments.

IV. VALUES DEFINING THE SPANISH CORPORATION ORGANIZATIVE STRUCTURE AND DECISION-MAKING PROCESSES' STRUCTURE

In the analysis we have completed about the Spanish Corporate Culture, it can be observed comparatively the relation between organizative structure and decision structure.

As we refer in Figure 10, the existing situation is characterized by very low excellent values. Labour relations are proper in a 12% of the cases, but team-working (19%), organizative flexibility, motivating organization (16%); and in the same time, a situation that characterizes a low centralization and a relatively low functional orientation. It means an organizative structure strongly desorientated, and with characteristics corresponding to non-competitive close organizations.

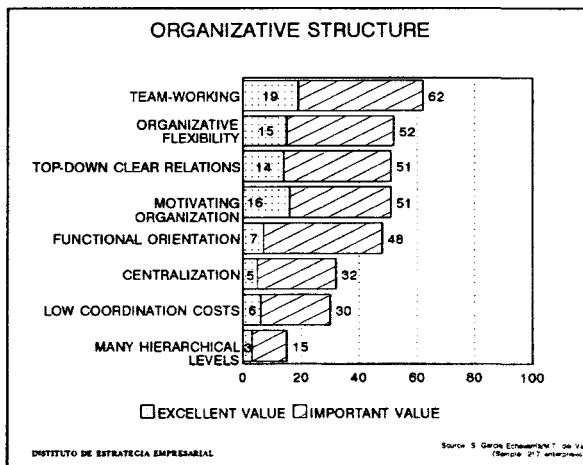


Figure 10

Analyzing the actual spanish managing structure in relation with the decision-making procedures, we can see in Figure 11 how the excellent values in participation in the decision process takes only place in 26% of the cases, achieving also a low standard of risk-taking (21%), of participation in power share (8%), and in results (9%). It means a strongly centralized decision structure with very low participation levels.

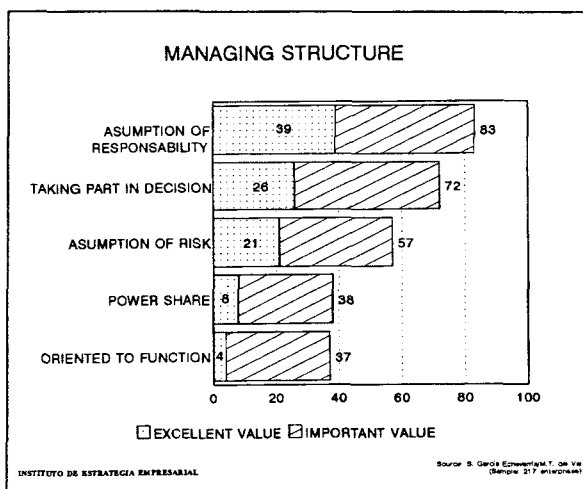


Figure 11

When the issue of the way to shape in a future the organizational structure arise, we can see in Figure 12, a radical change around what concerns to the main characteristics of the organization. Mainly, flexibility, delegation and all the ideas around lean and less bureaucratic structures and an improvement in the communication channels, appear as key pieces for the managers in the new organizational designs.

However, centralization still plays a very important role in the industrial context as a whole.

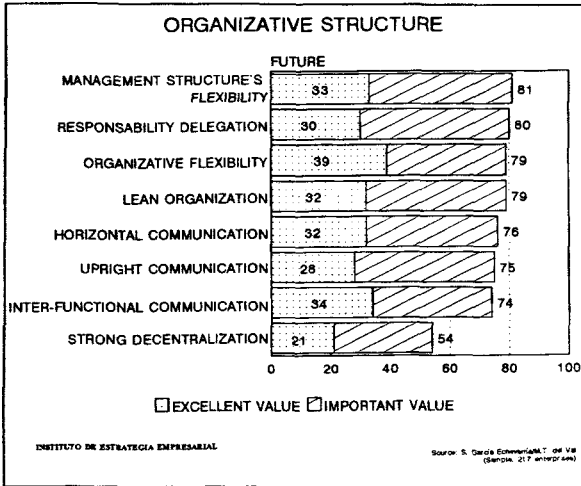


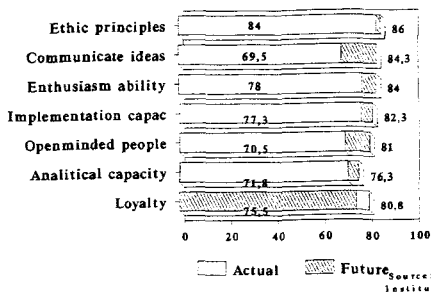
Figure 12

This structural change process in the organization and in the decisions can be observed when we analyze the basic values ruling both fields: the organizational and the decision one. As we can observe in Figure 13, in an international comparative review (including the Basque Country), Spanish values dominate mainly in those aspects related with the organizational changes. We can see very high values in the following ones:

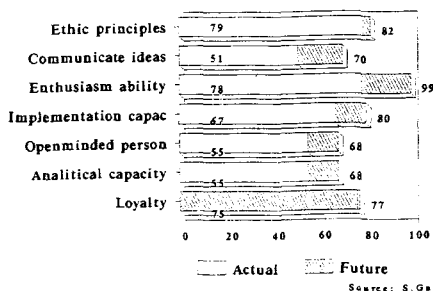
- * Ability to lead 99%
- * Ethical Principles 92%
- * Strength to complete the work 86%

These values are all basically about more dynamic organizations, more human-oriented, and therefore, one of the most significant changing processes in the Spanish context.

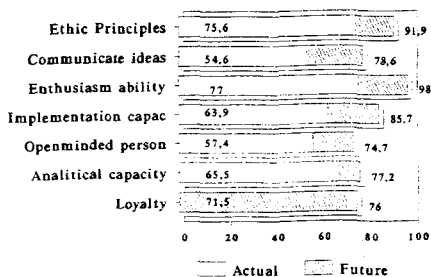
MANAGERIAL VALUES (International study)



MANAGERIAL VALUES (Basque country)



MANAGERIAL VALUES (Spain)



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Source: S. García Echevarría/M. T. del Val

Figure 13

Consequently, I think, that the whole analysis process of the organizational structures and decision-making structures have more to do with the value systems affecting the Corporate Culture that with those facts concerning to the technical labour division or to the power-sharing structure.

As we can see in Figure 14, when we compare two Corporate Cultures, the Spanish and the German ones, we observe clearly why the Spanish organizational and decision-making structure do not correspond to a flexible organization with low coordination costs.

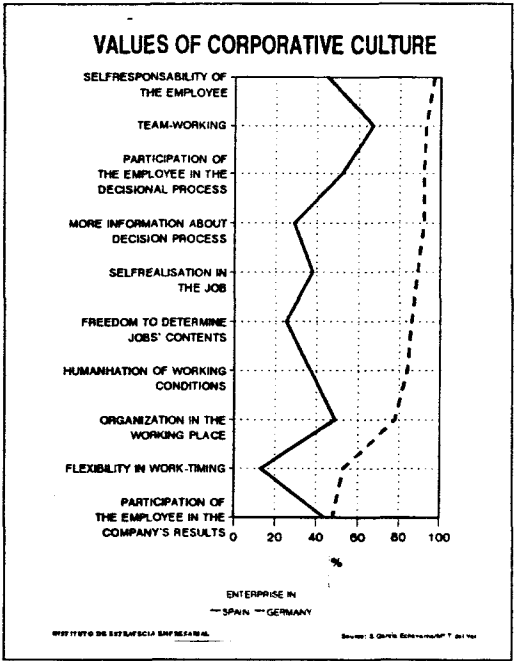


Figure 14

While the German Corporative Culture presents a set of values where the individual is highly integrated in all about the industrial process, the Spanish Culture shows a great resistance to offer the lead to the individual in the issues concerning to organization and decision-making structures. While this value system of the corporative culture is not corrected, hardly the organizative and decision making structure could be modified in order to make them integrated in the institution.

We consider the hipotesis that in a competitve structure, the integration of the organizative structure with the decision making one leaves to the definition of the value systems of that firm, to the Corporative Culture.

V. NEW PERSPECTIVES OF THE DECISION AND ORGANIZATIVE STRUCTURES

We may outline the existence of a direct relationship between organizative and decision-making structures respect to the level of competitiveness of an economy as well as to its level of globalization.

Organizative structure is clearly dependant on the competitiveness levels as far as its costs will influence its competitive position. In what affects to the growing globalization of the economy, it implies also, and at the same time, the need of much more changing and flexible organizations.

The strongest requirement to the organization in a high-competitive economy with a significant level of globalization is that the central reference is not the function but the human capacity, and this capacity will determine the disposal or not of flexible organizations which allow a permanent change.

The organizational and decision structure have to aim increasingly in competitive markets, towards the clients and also to the management capacity, the human resources in the firm and to the development of its potentials.

This fact implies necessarily a convergent process between the organizational structures and the decision ones, so that both components constitute an unique fact where organization and decisions are oriented to the individual and to the institution.

The orientation criteria of the organization and decision structures are mainly the value system in the firm as a reference where these both fields rely with the target of achieving the Corporate Philosophy.

The organizational structure has to be, then, convergent with the decision-making structure from the institutional point of view, aiming a reduction of disfunctionalities, and then, a reduction in the Coordination Costs.

Therefore the design process follows this path:

- * Value System
- * Decision Structure
- * Organizational Structure

That firm not able to design its organizational structure coherently with its value system, and the decision structure will suffer from high disfunctionalities and high coordination costs, coming mainly from rigidities in the changing processes and the difficulties to adapt to changing situations both of competitiveness as of globalization.

It could be said that we face the finishing of an era of conflictive organizative structures and high costs created by the hierarchized organizative structures corresponding to non competitive markets and, that, therefore, in the relationship between organization, decision making and competence, this last one defines the need to recover the firm as institution, and the definition of its values as a key piece of human's orientation and theirs abilities' development.

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