

# Keeping Control in Nonhierarchical Organisations

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## EXECUTIVE SUMMARY

The archetypal formalistic bureaucracy is increasingly outdated. Flatter organisations are now the norm.

New organisational structures are constantly emerging that represent the antithesis of the traditional hierarchical form of organisation.

21st-century organisations must be in tune with the business environment and take on a multitude of shapes, from entrepreneurial firms with no fat to elephants of the old economy with thick layers of excess fat.

Keeping organisations controlled and focused is essential for an integrated, motivated, and effective organisation.

## INTRODUCTION

Nonhierarchical organisations have many advantages over their conventional, stratified counterparts. For example, experience and expertise are often shared; creativity and new ideas are fostered, tested and discussed. These organisations are more cohesive and collaborate; empowerment is a key feature; and it can be highly supportive of multiple stakeholders in global environments.

However, flatter organizations also have several potential pitfalls. 'Group think' or the herd mentality can prevail; implementing decisions can be difficult since flatter organizations serve multiple constituencies and stakeholders; and many flatter organizations are team-based organizations, often geographically dispersed and electronically networked.

## MANAGING IN HIERARCHICAL ORGANISATIONS

### **1. Understand the value of flatter organisations**

Traditionally control is achieved through a number of classical management principles, including division of labour, formalisation (the extent to which work rules are specified, written, and enforced), and centralisation (the decision-making authority in the hierarchy of the organisation). Centralisation for the purpose of tight control provides stability, continuity, and predictable career paths and reward systems. In addition, each manager has a clear, unambiguous span of control (the number of employees they can effectively supervise), which creates a set of obligations and role differentiation, with the manager as the brain and the worker the hand. Control is reinforced by a dictatorial top-down, command-and-control leadership style.

The sheer size of the hierarchies in large traditional organisations, coupled with top management's distance from the market, makes this type of structure unresponsive. The tyranny of vertical, status-driven boundaries, chain-of-command mentality, and lack of flexibility to respond to changing

mission needs (contrast Microsoft's flexibility, with the 'a PC on every desk' leitmotif giving way to 'empowering people through great software, on any device') makes this organisation a poor candidate for survival in a rapidly changing world. Many of the reasons for the failures of old-economy leaders in the steel, car, and consumer-electronics industries can be directly traced to the structure of fat organisations. Similarly, much of the renaissance of companies such as Xerox, Ford, and Hewlett-Packard can be attributed to throwing off the shackles of vertical integration. In the new economy speed is of the essence and the timeframe for decision-making has been dramatically reduced. Hence, bureaucratic hierarchies are being deconstructed. What will tomorrow's organisations look like? What radical surgery may be necessary to transform the vertically integrated structures of the industrial paradigm into designs of the future? How can organisations learn today the skills they need for tomorrow? Answers to some of these questions are found in flat, or nonhierarchical, organisations.

## **2. Building nonhierarchical organisations**

21st-century organisations tend to adopt the flatter structures that have become possible as more and more information within an organisation comes online. Instead of a managerial hierarchy with seven to ten or more layers of fat, flat organisations have three or four levels. Flat organisations are a cross between a spider's web (interconnected networks) and a leaping frog able to jump into innovations, reinvention, and renewal.

Flat organisations have been called boundaryless, networked, lattice, amoeba, and virtual organisations, or global heterarchies (the opposite of hierarchies). They are structured around self-directed or self-managed, multidisciplinary, cross-functional work teams in which power flows from expertise, not position. In flat organisations a decentralised approach to management is emphasised, as is high employee involvement in decision making. Flat organisations are structured around customers, teams, problems and opportunities, adaptiveness, horizontal connections, and networking. They decentralise authority, share information, diffuse and distribute competency, and use reward systems that are primarily team-based. Their strategies consistently emphasise growth, innovation, product customisation, and technological leverage, rather than cost containment and operating efficiency.

## **3. Exploit the benefits of networked organisations**

Worldwide networking within and across organisations, linking companies, suppliers, customers, designers, and sometimes even competitors, is common in building collaborative advantage and global connectivity. Although by definition competitors are fighting over the same bone, your competitors are probably the only people who know as much about your business as you do. Take Pomarfin, a Finnish shoe manufacturer that markets the Ten Toes brand. The linked company consists of five competitors that share their hidden knowledge in a way that strengthens their ability to compete. Similarly, Sony is in talks with Ericsson of Sweden over a deal that would merge the two companies' mobile phone businesses. Such partnerships and strategic alliances blur traditional hierarchies.

The joint ventures and partnerships established through interorganisational networks are less formal, nonhierarchical, less permanent, and more opportunistic, since the companies within a network band together to meet a specific market opportunity. For example, MCI, the long-distance telephone company, has allied itself with an array of collaborators to offer customers one-stop shopping for all their communication needs. Similarly, AOL Time Warner, Wal-Mart and Procter &

Gamble, and Disney's Celebration City have created conglomerates with fluid boundaries between the participating organisations for the purpose of sharing resources (financial, intellectual, and human) or inventing new businesses.

#### **4. Devolve responsibility and set parameters for action**

Control in flat organisations lies in the mutual agreements that establish the parameters of discretion and performance expectations. Control is dispersed throughout the organisation, with emphasis on self-control and problem solving. People own their work—they are self-managing, self-organising, self-designing. They take personal responsibility for work outcomes, continuously monitor their own performance, seek corrective action when necessary, and take the initiative to help others improve their performance. They also design and control their careers by defining the social contract with the organisation, as opposed to having the organisation determine individual career paths and progress. In short, in nonhierarchical organisations the main incentive of work is work itself.

Leadership in flat organisations constantly espouses the values of collaboration. It is shared, lateral (as opposed to top-down), and dispersed among organisation members. It is a reciprocal investment process between leaders and collaborators. Through the processes of leadership making and team making, individual employees are integrated into cohesive adaptive units at the work level and larger competence networks at organisation level. People take responsibility for the development of their leadership and collaborative skills, facilitate the leadership of others, and cultivate leadership processes, functions, and roles that maximise team performance. Leaders as designers, coaches, collaborators, and catalysts influence the workflow through coalition building and value consensus. In flat organisations the larger-than-life, omnipotent individual leader is often replaced by executive teams, which form a key mechanism for managing the organisation of the future.

#### **Mini-cases**

In the 1990s General Motors (GM), the world's largest car manufacturer, laid off 74,000 workers, closed 21 plants, and suffered from a staff bureaucracy that was in many places redundant. GM came to symbolise the bloated inefficiency of a contemporary hierarchical organisation.

Before restructuring, Motorola had 12 layers of management. Even when the company decided to cut some of the fat by reducing the levels of management, top management was concerned with how such efforts would affect the organisation's core values such as protecting employees who had served the company well in the past.

JCPenney has failed to reinvent itself, its management structure, strategy, store layouts, merchandise selection, and service policies. It comes as no surprise that the value of Wal-Mart is 14 times the value of JCPenney and Sears combined.

#### **5. Be careful, cautious, and realistic when building the organisation**

Managers must design effective organisations and create superstructures within which the company's work takes place. In today's flatter companies trust is the glue that holds organisations together. Trust is important, because decentralised discretion implies that managers can no longer

maintain the level of control they have been accustomed to in the past. When management does not control, but only monitors, it needs the trust of the workers, especially when they are geographically dispersed without face-to-face contact.

In both fat and flat organisations managers, as designers, must understand their industries' dominant technologies, economic prospects, and degree of organisational uncertainty. They must be capable of navigating in the fog, as Hewlett-Packard CEO Carly Fiorina put it, in order to make effective choices regarding organisational design. Effective organisational structures are aimed at enhancing and maximising the firm's capacity for innovation and change. Although the Internet is provoking companies to dynamically restructure their infrastructures, don't expect technology alone to radically change organisations and managerial practice. Old Navy, Virgin Atlantic, and the US National Science Foundation are not technology pioneers. Technology will change some practices of organisations, but many others rest on values that cannot be automated.

Put simply, there's no such thing as a one-size-fits-all organisational design. Organisations must instead be in tune with their environments. A hierarchical organisation will not work in a creative, rapidly changing e-commerce environment, although it may work in a standard business-as-usual environment. Similarly, large hierarchical organisations can be managed as if they were small, while mature conglomerates like General Electric can grow like start-ups. Organisational structures must change to facilitate growth.

### **Mini-cases**

IKEA, the high-volume Scandinavian retailer selling affordable furniture, built its structure on an obsession with customer relations and satisfaction, using a minimal number of salespeople and following a cart-it-home and assemble-it-yourself philosophy, complete with tools and instructions and including measures and clipboards.

Saturn plants consist of semi-autonomous teams of between 6 and 15 people, each of which is responsible for every aspect of its area. Showrooms guarantee no-pressure sales and eliminate haggling.

Many venture capitalists who nourished some of corporate America's great success stories when they were still in their infancy—FedEx, Intel, Sun Microsystems—are extremely flat, often consisting solely of partners and lower-level support.

At Quad/Graphics, a half-billion-dollar Wisconsin printing firm, just two layers of management separate the CEO and the hiring of a new employee.

Edward Jones financial services, has an organisational structure that has been called a confederation of highly autonomous entrepreneurial units bound together by a highly centralised core of values and services. The company is a network of thousands of brokers, each of whom works from a wired office.

### **Making It Happen**

- Learn everything there is to learn about organisational forms; as organisational designers managers must know their design options and the full range of probable and possible structures, from the centrally controlled hierarchy to a totally flat organisation with no control at all.

- Looking for a best-practice mentor can not only help to provide an example of a successful flat organisation, but can also serve to show how to manage effectively in such a structure.
- Build strategic relationships and nurture them through collaborative efforts to compete in global markets.
- Learn the basic skills of collaboration—in your family, team, within and across organisations, and in your community.
- Develop an innovation culture in your organisation.
- Write a job description for an alliance ambassador.
- Don't let the old dinosaur eat you up.

## **CONCLUSION**

Even the ageing dinosaurs have to change and adjust to the rugged landscape of the global economy. Businesses can do so by decentralising and splitting into smaller and smaller configurations and more adaptable units. Organisations of the future must innovate, therefore they must take risks. One of those risks is reinventing themselves when necessary. Leaders and managers must be able to create organisational environments that encourage out-of-the-box and contrarian thinking, cultural dexterity, knowledge sharing, and diffusion of ideas.

## **THE BEST SOURCES OF HELP**

### **Books:**

Kanter, R. (2004). Confidence: How winning streaks and losing streaks begin and end. New York: Crown Business.

Lipman-Blumen, J. (2005). The allure of toxic leaders. Oxford, Oxford University Press.

Duck, Jeanie Daniel. The Change Monster: The Human Forces That Fuel or Foil Corporate Transformation and Change. New York: Crown, 2001.

Myers, David G., and Martin E. Marty. The American Paradox: Spiritual Hunger in an Age of Plenty. New Haven, CT: Yale University Press, 2001.

### **Websites:**

[www.fastcompany.com](http://www.fastcompany.com): a monthly e-zine with timely articles on a wide range of organisational phenomena from work/life balance to virtual organisations.

[www.workteams.unt.edu/](http://www.workteams.unt.edu/): this site covers education and research in all areas of collaborative systems.

## **Biography**

Dr. Karin Klenke, Ph.D. has served on the faculty of Regent University as Professor of Leadership Studies and Director of Research, as a founding faculty member of the Jepson School of Leadership Studies at the University of Richmond, on the graduate faculty of the George Washington University and on the faculties of Old Dominion University, Averett University and the University of Pretoria. She currently serves as Senior Principal of the Leadership Development Institute (LDI) International, a consulting firm specializing in the development and design of customized leadership development and education programs as well as public leadership workshops and seminars. Dr. Klenke holds a Ph.D. in Organizational Psychology and has specialized in the study of leadership for the past 15 years. Dr. Klenke has published widely in leadership, management, psychological, and research methods journals. Her groundbreaking book entitled Women and Leadership received a national award. Dr. Klenke's current research interests include and leadership effectiveness and positive psychology, women in leadership, e-leadership, leadership and spirituality, and multiparadigm and multimethod research in the study of leadership.

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