

Guidelines for evaluation of exam paper in Organization Theory. August 2012.
Written Exam for the B.Sc. or M.Sc. in Economics summer school 2012: Organization Theory.
Master's Course. 24 hours take home exam from 22 August at 10 a.m. to 23 August at 10 a.m.

FORMULATION OF THE ASSIGNMENT TO THE STUDENTS.

Please note that the language used in your exam paper must correspond to the language of the title for which you registered during exam registration. I.e. if you registered for the English title of the course, you must write your exam paper in English. Likewise, if you registered for the Danish title of the course or if you registered for the English title which was followed by “eksamen på dansk” in brackets, you must write your exam paper in Danish (or in Norwegian or Swedish).

If you are in doubt about which title you registered for, please see the print of your exam registration from the students' self-service system.

The paper must be uploaded as one PDF document (including the standard cover and the appendices). The PDF document must be named with exam number only (e.g. '1234.pdf') and uploaded to Absalon.

Focus on Exam Cheating

In case of presumed exam cheating, which is observed by either the examination registration of the respective study programmes, the invigilation or the course lecturer, the Head of Studies will make a preliminary inquiry into the matter, requesting a statement from the course lecturer and possibly the invigilation, too. Furthermore, the Head of Studies will interview the student. If the Head of Studies finds that there are reasonable grounds to suspect exam cheating, the issue will be reported to the Rector. In the course of the study and during examinations, the student is expected to conform to the rules and regulations governing academic integrity. Academic dishonesty includes falsification, plagiarism, failure to disclose information, and any other kind of misrepresentation of the student's own performance and results or assisting another student herewith. For example failure to indicate sources in written assignments is regarded as failure to disclose information. Attempts to cheat at examinations are dealt with in the same manner as exam cheating which has been carried through. In case of exam cheating, the following sanctions may be imposed by the Rector:

- 1. A warning
- 2. Expulsion from the examination
- 3. Suspension from the University for at limited period or permanent expulsion.

The Faculty of Social Sciences
The Study and Examination Office
October 2006

Assignment

Discuss the concepts centralization/decentralization, the pros and cons of centralisation/decentralization and how the organization's environment, strategy, size and technology may affect centralization/ decentralization.

Maximum length of exam paper:

The maximum size of the exam paper is 10 standard pages. Front page(s), table of contents and list of literature, if any, are not included when the number of pages is counted. A standard page is a page with a 12 pitch-font, all margins set to 2.5 cm and line spacing set to 1.5. The students are welcome to use word processing packages like Scientific Workplace or a kind of Tex in which such a formatting is not natural. The student is then required to ensure that the formal requirements are met. Any tables, charts and footnotes etc. are considered part of the standard page and, consequently, form part of the total number of pages in the paper. If the requirement regarding the maximum number of pages is not adhered to, then the exam paper will be rejected and counted as one exam attempt. Each student writes his/ her own exam paper. Exam papers written by two or more students are not accepted.

GUIDELINES FOR EVALUATION OF EXAM PAPER.

The point of departure for evaluation is the academic aims of the course:

- Describe basic principles of the following theories: Classical Organization Theory, Human Relations, Human Resources, Contingency Theory, Institutional Theory, Resource Dependence Theory, Population Ecology, Transaction Cost Theory, New Public Management and Lean Production.
- Describe theories about: Strategy, structure, network, culture, leadership, groups, communication, power, decisions, motivation and learning.
- Analyse and compare the theories, their strengths and weaknesses with regard to obtaining an understanding of concrete organizations and organizational phenomena.
- Analyse the relevance of the theories, their strengths and weaknesses from the point of view of practical action and management of tasks and problems in organizations.
- Select, justify and apply relevant theory in analysis of organizational issues or themes described in a concrete case; and present analysis and proposed solution in a written essay in a grammatically correct, clear and coherent way.
- Describe differences and similarities between economic perspectives on organizations and perspectives from other social science disciplines.
- Describe the difference between Organization Theory as a scientific discipline and management literature.

To write the exam paper one may draw on several parts of the syllabus in particular text no. 1. Points from other texts, e.g. no. 2, 3, 4, 5 and 10 are also relevant to include in the exam paper.

The exam paper may be organized in different ways, for example as follows.

Discussion of the concepts centralization/ decentralization.

The concepts centralization/ decentralization are used to characterize one aspect of the structure of an organization alongside other concepts such as formalization and specialization. Centralization/ decentralization has to do with the organizational level at which decisions are made. An extreme centralized structure is a structure where all decisions are made at central level. Decentralization means that decisions are made at lower levels. Centralization and decentralization are a matter of degree; one can imagine a continuum from extreme centralization to extreme decentralization. Centralization/ decentralization should be distinguished from concentration/ deconcentration. The latter refers to the organizational unit(s) where certain activities are undertaken; the former refers to the level in the hierarchy where certain decisions are made. Example: In a research organization IT personnel may be employed in each department (deconcentration); alternatively the organization may have one specialized IT section employing all the organization's IT people (concentration). The latter situation is sometimes labelled "centralization".

Delegation means that a manager allocates the authority to make certain decisions to a subordinate; thus delegation leads to decentralization. The degree and type of centralization/ decentralization characterize the *vertical division of labour* in the organization. Often the concept *job-enrichment* is used to describe a situation where the job of a subordinate is "enriched" with managerial activities such as planning and control in addition to non-managerial activities subsumed under the term "doing". The similar concept *empowerment* refers to a situation where an employee is given autonomy to make decisions and to develop skills and potentials. Thus, job-enrichment and empowerment represent certain types of decentralization.

There may be a difference between the *formal* structure, the organizational level at which decisions are supposed to be made, and the *actual* structure - the organizational level at which decisions are made in practice. The formal and actual degree of centralization/ decentralization may be more or less legitimate i.e. accepted by different members of the organization. In a structure which is very centralized in a formal sense one top manager may in practice involve subordinates in the decision making process whereas another may make decisions alone. Thus, centralization in a formal sense may be combined with more or less *participation* of subordinates in the decision making process depending on the choice of the manager and/or the subordinates' wish or pressure.

Centralization/ decentralization may concern different *decisional areas*. Different concepts have been used here. One may distinguish between strategy, policies and operations where the two first areas typically are more centralized than the third one. Other concepts are the partial overlapping pairs: Routine versus non-routine matters, unimportant versus important issues and low risk versus high risk decisions. The classical administrative theory adhered to "a management by exception" principle implying that all routine matters should be delegated to subordinates to enable management to focus on the important non-routine matters where real choice is involved. Other specific types of decisions are e.g. a) decisions involving professional judgement versus non-professional decisions where the former typically are more decentralized than the latter, b) personnel decisions (e.g. hiring, firing, wage setting), c) decisions on external communication and public relations, d) decisions on structure and procedures, e) decisions involving use of organizational resources (e.g. buying, investment). Other things being equal: The more resources that are involved in a decision the more centralized will it be. The degree of (de)centralization within different decisional areas is determined by a complex set of factors.

Managing a subordinate (be it a non-manager, a manager or a unit) may focus on managing: A) *Activities*, that is telling the subordinate what to do; this can be done by orders (“do this or that”) or with more general rules telling subordinates what to do or not to do in specific situations. B) *Resources*, that is, determining the resources (e.g. time and money, budget) that the subordinate has at his/ her disposal. C) *Goals and objectives*, the results to be achieved by the subordinate’s using resources and performing activities. D) The subordinate’s *competencies and motivation* which may be managed by recruitment, training, culture and incentives. – Decisions concerning each of these four areas may be more or less decentralized. Change from A (managing activities) to managing primarily with some combination of B, C and D is sometimes described as “decentralization” because the lower level is given more decision making authority about which activities to undertake but such “decentralization” does not necessarily mean that management’s total power or control decreases.

This is one example of the general point that there is no perfect correlation between the dimension centralization-decentralization on the one hand and power on the other. *Power* means that a person is able to pursue his/ her interests even when facing resistance from others. *Authority* is legitimate power. Even in a very centralized structure the lowest level of employees may have considerable power e.g. by virtue of the organization’s dependence on its workforce. From the point of view of decision theory a decision is a process involving formulation of a decision problem, information gathering, evaluation of alternatives and final choice. The fact that the final choice is to be made at central level does not necessarily mean that the real power relies at that level. The decision premises in terms of the previous phases of the decision process may have been created by lower level employees who thus may be able to exert considerable influence on the outcome of decision processes which are centralized in a formal sense. Implementation of decisions depends on the cooperation, understanding and willingness of the lower levels. In a centralized structure top management decisions are not necessarily implemented as intended meaning that the contents of the decision may change during implementation. The reason is that the manager’s formal authority is not the only relevant power resource determining the actual influence of a manager.

Pros and cons of centralization/ decentralization

The pros and cons of centralization/decentralization may be discussed from different points of view e.g. legitimacy, equity and a stakeholder perspective. In the exam paper it will most relevant to focus on efficiency and effectiveness as evaluation criteria. The pros of centralization are the cons of decentralization and vice versa. Therefore, only the pros of centralization and of decentralization are indicated below.

Pros of centralization: A) *Coordination:* A fundamental argument for centralization is that certain decisions that has to do with *internal coordination* between different persons or units are most appropriately placed at central level which has the necessary overview, information and identification with overall goals and strategies of the organization/unit to make the most effective and efficient decisions aimed at coordinating efforts of persons/ units. And centralization means that central level has the necessary authority to get decisions implemented. Without such authority (centralization) coordination may suffer – e.g. because lower levels do not always have goals fully consistent with overall organizational goals. A similar argument for centralization is that decisions aiming at *coordinated action of the whole organization* (or unit) vis a vis its environment must often be placed at central level. Otherwise coordinated action may not be possible. This means that strategic decisions and actions will most often be placed at central level. A certain amount of centralization is one of the essential elements in any hierarchy. Therefore, the pros of centralization are to some extent the same as the pros of hierarchy. B) *Specialization:* Centralization may be seen as a certain type of (vertical)

specialization leading to classical efficiency benefits of division of labour. Management becomes good at making decisions; subordinates become good at adhering to the managerial decisions. C) *Speed of decision making and flexibility*: When decision making authority is centralised decisions can be made faster compared to a situation where management must involve lower level employees before making a decision. This may be important in situations where the organization has to respond quickly to external challenges or an internal crisis. Centralization may e.g. be one of the reasons behind the flexibility of a small entrepreneurial firm.

Pros of decentralization: A) *Preventing managerial overload*: One basic argument in favour of decentralization is that a manager is not able to make all decisions himself/ herself in particular in a situation when the organization or unit headed by the manager becomes larger. Thus, decentralization makes it possible for the manager to concentrate on the most important issues. The classical administrative theory adhered to “a management by exception” principle implying that all routine matters should be delegated to subordinates to enable management to focus on important matters where real choices are involved. Without a certain amount of decentralization management becomes overloaded leading to poor and slow decisions. Management becomes a bottleneck where subordinates are waiting for decisions to be made leading to a deterioration of efficiency and effectiveness in the whole organization. B) *Better decisions concerning decentral/ local issues*: A second argument for decentralization is that subordinates are often better at making effective and efficient decisions concerning local matters e.g. their own work because they have the detailed and concrete information. It is costly to transfer this information to management to enable management to have the same level of information as the subordinate. Thus, in particular in situations where subordinates’ activities are complex decentralization may be effective and efficient. C) *Subordinate motivation* is a third argument in favour of decentralization. Several theories of motivation imply that autonomy and decisional authority promotes work motivation both quantitatively (more effort) and qualitatively (more competent effort), cf. content motivation theories (e.g. McGregor, Maslow, Alderfer, Herzberg, Hackman and Oldham and the socio-technical theory) and some process theories e.g. goal setting theory. D) *Specialization*. Decentralization may be conceived of as one type of vertical division of labour implying benefits of specialization. Thus, in principle this argument is the same as mentioned in relation to centralization. The basic point is that a specialization adapted to the type work and personnel in the organization promotes efficiency and effectiveness. E) *Speed of decision making and flexibility*. This argument was also mentioned as a pro of centralization. The essential point is that speed of decision making is enhanced when certain decisions are to be made by one or a few person at one organizational level rather than by persons from more than one organizational level. In a large multidivisional form, for example, flexibility is achieved by giving autonomy to divisions (decentralization) thus enabling them to adapt quickly to their special circumstances and environments.

One of the challenges in relation to decentralization is that management somehow must ensure that the decentralized structure does not “fall apart”, the challenge is to ensure coordination with other mechanisms than centralized decision making. These mechanisms may include: a) development of competencies at decentral level to enable subordinates to make the relevant decisions, b) inducing loyalty (norms and values) at decentral level by value based management and organizational culture, c) making rules which the decentral level must adhere to in relation to the decisions, d) establishing incentives at decentral level, e.g. some type of performance related pay, e) increasing monitoring from central level (e.g. performance management) which thus may be able to take immediate action should the decentral level make “wrong” decisions or decisions with adverse consequences.

How environment, strategy, size and technology may affect centralization/ decentralization.

In the exam paper the student may draw on different theories in particular theories on how structure and variations in aspects of structure, e.g. centralization-decentralization, may be explained. According to a *Systems Model* there are mutual interdependencies between environment, strategy, structure, technology, size and persons (e.g. culture, management's conception of workers and worker's qualifications). *Contingency Theory* sees structure as a rational tool to perform the work of the organization as effectively and efficiently as possible. Of the factors (environment etc.) mentioned in the assignment Contingency Theory deals with all of them. *Transaction Cost Theory* views structure as a rational tool to economize on transaction (coordination) costs. According to *Institutional Theory* organizations design their structure to achieve legitimacy in their institutional environment which, for example, may include rules, norms and conceptions of "appropriate organization" as formulated implicitly or explicitly in e.g. management philosophies, national cultures or higher level authorities of some type. According to a *Political Model* organizations choose structure to promote the interests of the most powerful persons or groups in the organization. Structure is an instrument for management to promote its interests rather than the interests of the organization as such.

In the exam paper the student may include in particular the following points on how the organization's environment, strategy, size and technology may affect centralization/ decentralization.

Task environment (Contingency Theory): Two dimensions of task environment are stability (stable-unstable) and complexity (simple-complex). Daft combines these two dimensions to one single dimension called "uncertainty". To function effectively and efficient the organizational structure will have to adapt as uncertainty increases/ decreases. In a low uncertainty situation the structure will be mechanistic and centralized, in a high uncertainty situation the structure will become more organic and decentralized – if the organization behaves in a rational way. As uncertainty increases a mechanistic functional structure may change towards a more organic structure by establishing an increasing number of lateral cross-functional connections with the matrix organization, a combination of functional and divisional criteria, as the culmination. In this type of matrix organization more decisions are made at lower levels than in a pure functional organization meaning that a matrix structure is often more decentralized than a functional structure. The basic reason behind increasing decentralization with increasing uncertainty is that uncertainty put more demands on the organization with respect to quick and complex information handling. The avoid overload of management and high costs of information handling and exchange uncertainty leads to decentralization. This conclusion may also be derived from Transaction Cost Theory.

Another aspect of task environment is the extent to which the organization serves one integrated market or several markets delimited according to e.g. geographical criteria or type of products. Organizations serving one integrated marked will typical have a centralized functional structure whereas organizations serving different markets of some size will have a divisional structure which is more decentralized than a functional structure. A number of decisions concerning the divisions (e.g. Business Units) are made by the divisional managers rather than by top management in the corporate headquarters. A change from a (centralized) functional structure to a (more decentralized) divisional structure may be caused by increasing size of the organization, cf. below under size.

Institutional environment (Institutional Theory): According to Institutional Theory organizations react to coercive, normative and mimetic institutional forces. A coercive force is for example requirements and rules issued by a corporate headquarter in relation to the structure, e.g. centralization/ decentralization, of divisions. These kinds of forces are also important in the public sector where

Central Government often regulates organizational structures of lower level units in public administration and workplaces. Normative forces in this context are norms, e.g. professional norms, on how to distribute the decision making authority in organizations. Such norms may be formulated e.g. by management consultancies. Mimetic forces are processes where organizations conform to established orthodoxy concerning centralization- decentralization even unconsciously e.g. by adopting the same structures as organizations considered successful. In different countries there may be different conceptions of the “natural” degree of centralization or decentralization, cf. e.g. Hofstede’s investigations of cultural differences between countries concerning power-distance. In countries with high power distance centralization may be seen as more “natural” than in countries with low power distance.

Strategy. One thesis is that organizational structure follows from organizational strategy, cf. Contingency Theory. A change in strategy should therefore lead to a change in structure. One concrete example is that a diversification strategy may lead to change in structure from a functional one to a divisional one which is more decentralized, cf. also under size below. The Porter and the Miles-Snow approaches to strategy can also be related to centralization/ decentralization. Low cost leadership (Porter) and defender (Miles and Snow) strategies tend according to Daft to be correlated mechanistic and centralized structures whereas differentiation (Porter) and prospector (Miles and Snow) strategies lead to organic i.e. more decentralized structures. Efficiency oriented strategies tend to correlate with centralized structures (classical bureaucracy) whereas innovation oriented strategies tend to be associated with more decentralization.

Size. Very small, e.g. entrepreneurial organizations (Mintzberg’s simple structure) are often both centralized and organic with low formalization. All types of decisions, both strategic and operational, are taken care of by the head of the organization. As the organization hires more employees the structure becomes more formalized and differentiated and the top manager delegates more and more operational decisions to middle management which increases as the organization becomes larger. The structural developments may be characterized by a shift between long periods of evolution and short periods of revolution (qualitative changes).

One particular important qualitative change is a shift from a functional structure to a divisional structure i.e. a shift in the basic departmentalization of the organization, cf. models of stages of structural developments. Such a change implies more decentralization. In the functional structure (U-form) top management tends to be overloaded with internal coordination issues as the organization becomes larger and produces more and more different products/ services. The change to a multidivisional divisional structure (M-form) reduces the internal coordination workload of top management. A new vertical division of labour is established: Top management focuses on overall corporate strategy whereas the divisional managers run the divisions with high autonomy but controlled by the headquarters by performance management, quantitative performance indicators. This change may be explained both by Contingency Theory and Transaction Cost Theory.

Technology. The technology of an organization may be characterized along a number of dimensions, in particular: A) *Manufacturing technology:* Unit, mass and process production where the first (unit) and last (process) type lead to the most decentralized structures. Automation of mechanized manufacturing technology will move the organization from classical organization theory principles with high centralization to organic structures including more decentralization. B) *Service technology:* Organizations producing services, in particular services involving human face-to-face interaction are typically more decentralized at the lowest level (job enrichment, empowerment) than manufacturing

organizations. C) *Workflow technology* (Perrow): Routine technology is correlated with centralization; non-routine technology with decentralization. D) *Workflow technology* (Thompson): Reciprocal interdependence is more often correlated with decentralization than sequential and pooled interdependence which tend to be correlated with centralization. E) *Information and communications technology* (ICT): The organizational impacts of ICT include increasing decentralization, according to Daft.

In the exam paper the student may elaborate on the mechanisms that lie behind the indicated theses on how environment, strategy, size and technology may affect centralization/ decentralization. The possibility of conflicting forces and how conflicts may be resolved may be discussed in the exam paper. The student may also reflect on how and why other aspects of structure (e.g. formalization and span of control) may be correlated with centralization-decentralization. For example, one could argue that a larger span of control, *ceteris paribus*, promotes decentralization. Such a discussion may also draw on the concept of “structural types” where an assumption is that for an organization to function efficiently and effectively there must somehow be consistency between the different structural dimensions of an organization.

In the discussion of the impact of different factors on centralization/ decentralization Daft’s or Mintzberg’s structural types may be used as a point of departure. Mintzberg’s structural types are: Simple Structure (centralized), Machine Bureaucracy (centralized), Professional Bureaucracy (decentralized), Adhocracy (decentralized) and The Divisional form (more decentralized than Machine Bureaucracy). The different structural types have different contingencies. By including these and other characteristics of the structural types in the discussion the essential points on centralization/ decentralization from Contingency Theory may be elaborated on.

To place the impact of environment, strategy, size and technology on centralization/ decentralization in perspective other factors may be included in the discussion. This could be factors related to leaders’ attitudes and philosophies of management cf. for example theory X and Y, McGregor. A theory X manager will emphasize centralization whereas the theory Y manager will emphasize decentralization in terms of e.g. job enrichment and empowerment. Thus, the manager’s philosophy may be a separate force influencing the degree of centralization/ decentralization in the organization.

Evaluation

The exam paper should be well written and clear also concerning formal aspects. In the exam paper the student should demonstrate knowledge and understanding of essential concepts, theory and arguments concerning centralization/ decentralization in organizations and an ability to reflect on and analyze organizational issues related to centralization/decentralization with relevant concepts and theories. The exam paper is evaluated as a whole based on an assessment of the student’s description and discussion.

SYLLABUS:

- (1) Richard L. Daft, Jonathan Murphy, Hugh Willmott: Organization Theory and design. South Western. Cengage-Learning, 2010. Chapter 6 and cases/ exercises not included.
- (2) Penny Dick & Steve Ellis: Introduction to Organizational Behaviour. Third Edition. London: McGraw Hill Education. 2006. Chapter 1, 3-6 & 10.
- (3) W. Richard Scott & Gerald Davis: Classical Organization Theory. In: W. Richard Scott & Gerald Davis: Organizations and Organizing. Rational, And Open System Perspectives. New Jersey: Pearson Education. 2007. Page 41-50.
- (4) David Jaffee: Human Relations and Human Resources. In: David Jaffee: Organization Theory. Tension and Change. New York: McGraw-Hill Higher Education. 2001. Pages 65-73, 78-87.
- (5) Sytse Douma & Hein Schreuder: Transaction Cost Economics. In: Sytse Douma & Hein Schreuder: Economic Approaches to Organizations. FT Prentice-Hall. Pearson Education. 2008. Page 161-191.
- (6) Bruno S. Frey & Margit Osterloh (eds.): Successful Management by Motivation Balancing Intrinsic and Extrinsic Motivation. Berlin: Springer. 2002. - Chapter 1 and 3 except page 61-67.
- (7) John Child: Payment Systems. In: John Child: Organisation. Contemporary Principles and Practice. Malden, MA: Blackwell Publishing. 2005. Page 156-174.
- (8) Gary Yukl: Leading Change in Organizations. In: Gary Yukl: Leadership in Organizations. Sixth Edition. New Jersey: Pearson. 2006. Page 284-314.
- (9) Fiona M. Wilson: What Managers Do - Leadership. Chapter 8 & 14 in: Fiona M. Wilson: Organizational Behaviour and Work. A Critical Introduction. Oxford University Press. 2006.
- (10) Mary Jo Hatch with Ann L. Cunliffe: Organizational Culture. In: Mary Jo Hatch with Ann L. Cunliffe: Organization Theory. Modern, symbolic and postmodern perspectives. 2nd edition. 2006. Page 175-213.
- (11) Collection of slides with overview presented on day 15, cf. the plan for the course.