

**DECISION-MAKING STRUCTURES VS. THE NEW  
ORGANIZATIONAL STRUCTURES:  
Toward an Organizational Design of Institutions**

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# **Decision-making structures vs. the new organizational structures: Toward an organizational design of institutions<sup>1</sup>**

## **I. INTRODUCTION**

Life span of organizational schemes within a firm, and in other public and private institutions, is becoming shorter upon shorter. That is, the organization, which, doubtless, is a very important strategic element, must turn into a tool to achieve flexibility and develop the ability to change and in order to assume the globalization. The aim is to be able to change fast, and with low economic and human costs. There is no doubt that we are reaching a point after which we should get used to live in ever-changing, very dynamic organizations; and that this should be achieved without negatively affecting either the institutional, nor the individual's abilities.

The organization should stop being a rigid and hierarchical structure, to start being a "structure" of individuals living the firm in which they act, and a "structure" allowing the development of individual and collective strengths within processes of continuous adaptation to change situations.

There is no doubt we face a historical moment of change, breaking off with the current way of thinking in terms of division of labor, and configuration of organizations and human behavior within those organizations. A whole industrial design, based on taylorist principles, that has being used for more than 100 years, and its related decision making processes, are giving way, in our opinion, to what we call an institutional design.

The functional orientation, serving as a foundation for the design of both the organization and the decision making process, is being replaced by a new corporate orientation. This latter integrates the environments and the dynamic of change with the business institution, in order to face processes which are dependent on the ability to coordinate.

The change from a functional orientation to an institutional orientation implies breaking with the traditional organizational designs, and the end of the contradictions lying within the traditional decision making processes.

## **II. ORGANIZATIONAL DESIGNS: EVOLUTION AND CHARACTERISTICS**

Briefly, we are going to analyze which have been the basic elements of organizational designs in relation with decision-making structures.

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<sup>1</sup> Throughout this work, we have used the term *institution* (indicating economic institution) following the definition used by Rutherford, D. in his Dictionary of Economics (1995, Routledge, London). He states that: an economic institution is, 1) an organization which is a component of an economy, 2) a system of property rights, 3) a norm of economic behavior, 4) a decision making unit, and 5) a type of contract, e.g. a form of insurance to cover a particular sort of risk. In this article, *institution* regards mainly to the first, third, and fourth types of organizations, but never forgetting the traditional second and fifth types.

There are two elements characterizing the design of organizations:

- The social and economic dimension, shaping the structure of power, and whose political characteristics have an immediate effect on the decision-making structures;
- The technical dimension opposed to the prior dimension. It implies a division of labor that produces very resilient, opposed-to-change structures, due to the functional stiffness of all elements forming this dimension.

These characteristics – i.e. 1) a structuring of decision making processes based on power, and 2) a technical division of labor - support the development of organizational designs of the hierarchical type.

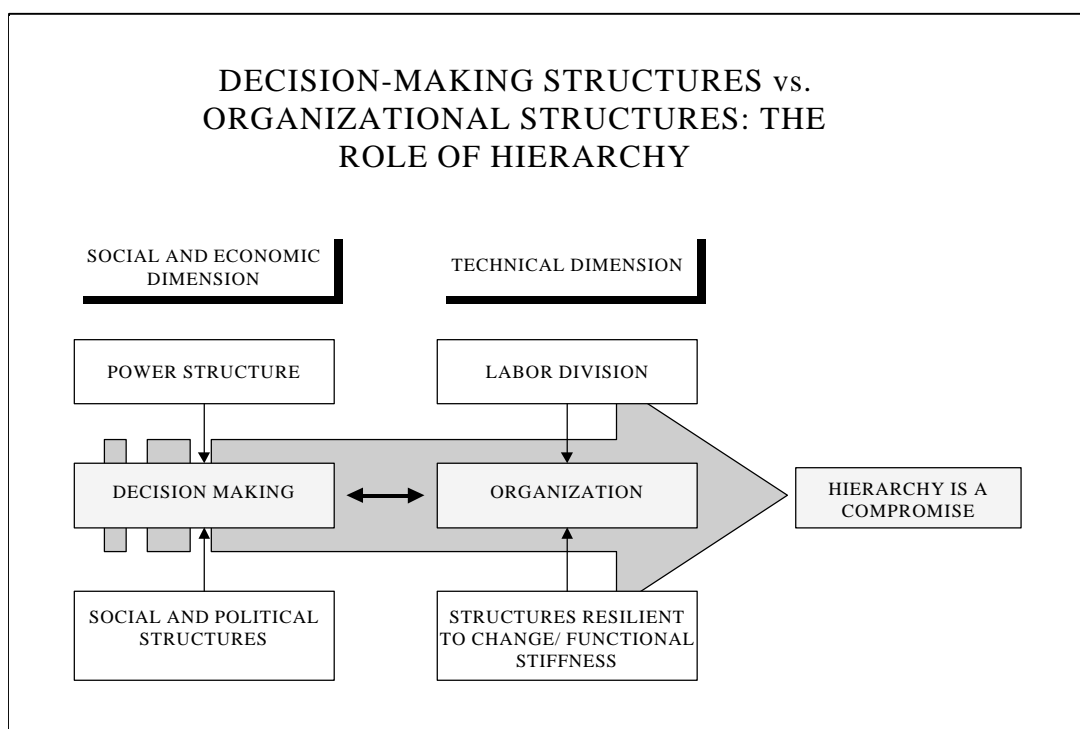


Figure 1

We would say that the organization, featured by rules shaping the behavior of individuals, is mirroring the division of labor of typical organizational structures based on functionality. This has been the case of our business, and public (i.e. government), organizations through decades. So we can say that deregulation of the economy coupled with privatization efforts are, doubtless, in a global environment key to the strengthening of the competition, which on its part will force in the processes of change and the need for a new business culture. This latter will influence both managerial and personnel behaviors and the organizational designs of the firms.

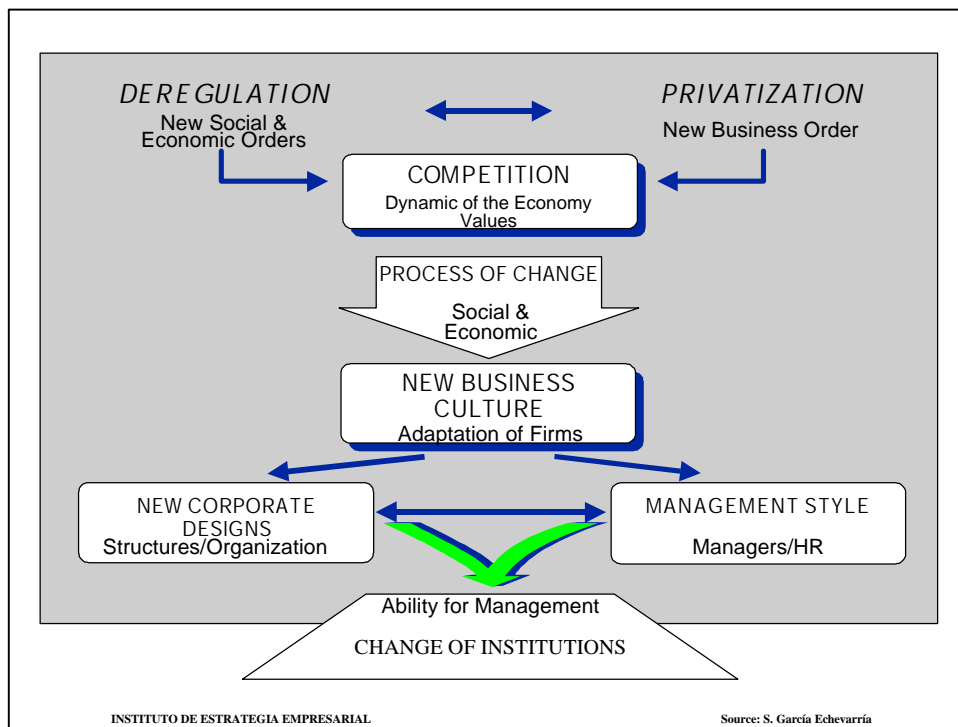


Figure 2

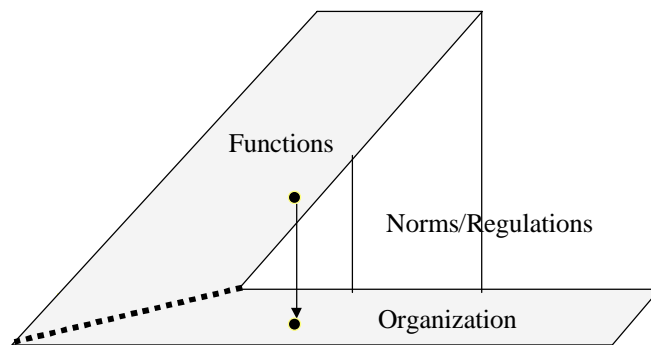
Due to the durability of these functional structures, either consequence of a slow technological transformation of functions, or of certain social and political decisions, the organization ended up being identified with the institution. In other words, the wider institution concept was constrained within the framework of the narrower organization concept. And the organization, in practical terms, took the roles of the institution.

Steadily, due to the events and processes we have witnessed in the last years, there is a rising of the importance of those organizational elements derived from the individual, and from the values in which the person bases her behavior and decisions. The evolution of organizational rules today is not mere consequence of a technological interpretation (i.e. functional), but is also considering values related to the social and political situation of the organizations - values which come from the institution, the legal environment, the labor market conditions, etc.

Figure 4 shows that the organizational design is shaped after the two mentioned dimensions: functionality, consequence of the technical division of labor; and value structure, consequence of the impact of work, economic and power rules. All organization models developed to date are characterizations of different interpretations of these two elements.

As mentioned previously, among these interpretations, the prevalent one to date was the functional interpretation of the organization – being identified as the institution itself. Today there are many institutions, like the Spanish Universities, configured as organizations based on administrative rules and bureaucratic regulations, i.e. traditional organizations contributed to the expansion of the business-administration hierarchy. And this explains the strength of bureaucratic-administrative systems, and their particular balance of the two dimensions.

## ORGANIZATION: NORMS AND FUNCTIONS

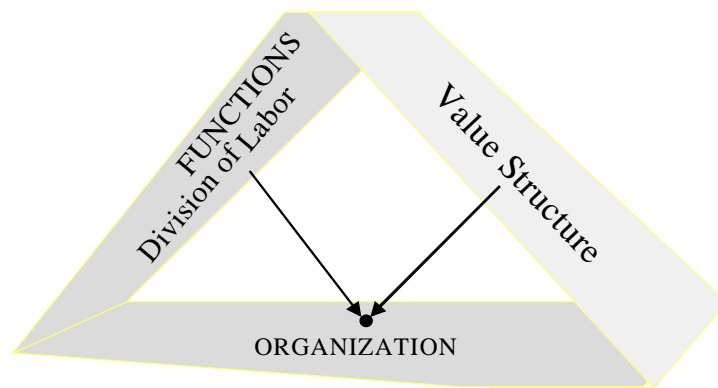


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Source: S. García Echevarría

Figure 3

## Organization: Division of Labor and Value Structure



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Fuente: S. García Echevarría

Figure 4

Currently, the opposing concepts of decision-making structures and traditional organizational structures are generating institutions/ organizations that approach the two key characteristics in a dramatically opposite way. This allows us to deduce some conclusions:

- There has been no independent evolution of institutions since the organization assumed the institutional role;
- The identification of institution and organization has generated a rigid organizational structure that treated the input from the environments as known. That is, it assumed stable environments regarding:
- Technical division of labor, of little variations (e.g. few product lines);
- Stability in the power hierarchy – due to the guarantees coming from the law, official rules and regulations, and social status quo.

As shown in Figure 5, the firm, as any other institution, was constrained to exist within an organization designed for situations with no alterations - situations that were assumed as known data.

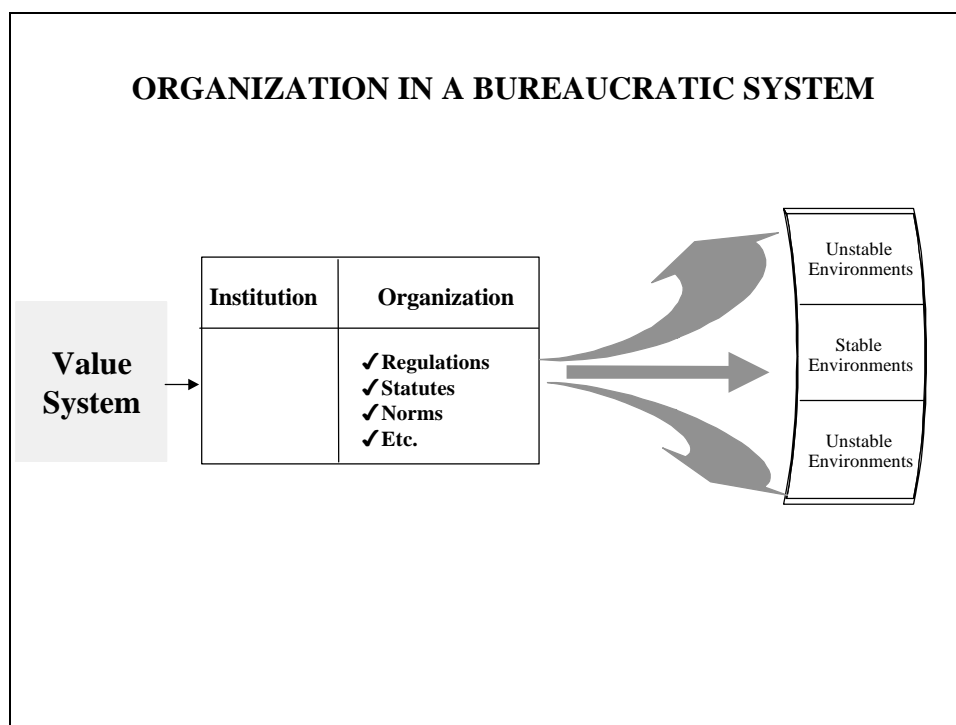


Figure 5

From Figure 5, it is also clear that this basic traditional design was death-wounded from the moment that continuity, and stability, of the social and economic environments broke down. In an open and competitive environment, the organization completely must change its role (and keep on continuously changing its role). It is required to clearly differentiate between institution and organization.

The aim of this rupturing is to group all elements regarding power structures, and abilities, within the framework of an institutional structure. The value system of the people then will shape the institution,

coordinating all these strategic strengths, and the reality of unstable environments. And this value system will constitute the source of the decision structure.

Three basic elements would then define the institution:

- Corporate philosophy, i.e. values that define attitudes and behaviors of that institution against problems;
- Business, or corporate, culture; i.e., values of the people involved in the institution that lead behaviors and attitudes, and that define decision making processes;
- Corporate strategy, which is key when trying to adapt the institution to the environment. It implies also a number of values, which hierarchically align the decisions, within a firm that tries to adapt to the changing situations of its environment.

Those three keys shaping the institutional dimension of the firm are the basic strategic strengths, which constitute an actual sound foundation of the decision-making processes.

The institution (see Figure 6) has to deal with several unstable environments, thus it has to chose and design organizations to coordinate its own values and the demands of each environment. Consequently, the organization cannot be rigid, but flexible; it has to adapt to the demands of the environments if it is to use all the strengths of those environments, with the own abilities and strengths of the institution. The organization, therefore, is the key strategic tool – it should contribute with its flexibility - since it has the ability to quickly change in shape to adapt to variations of the environments, according to the institutional values.

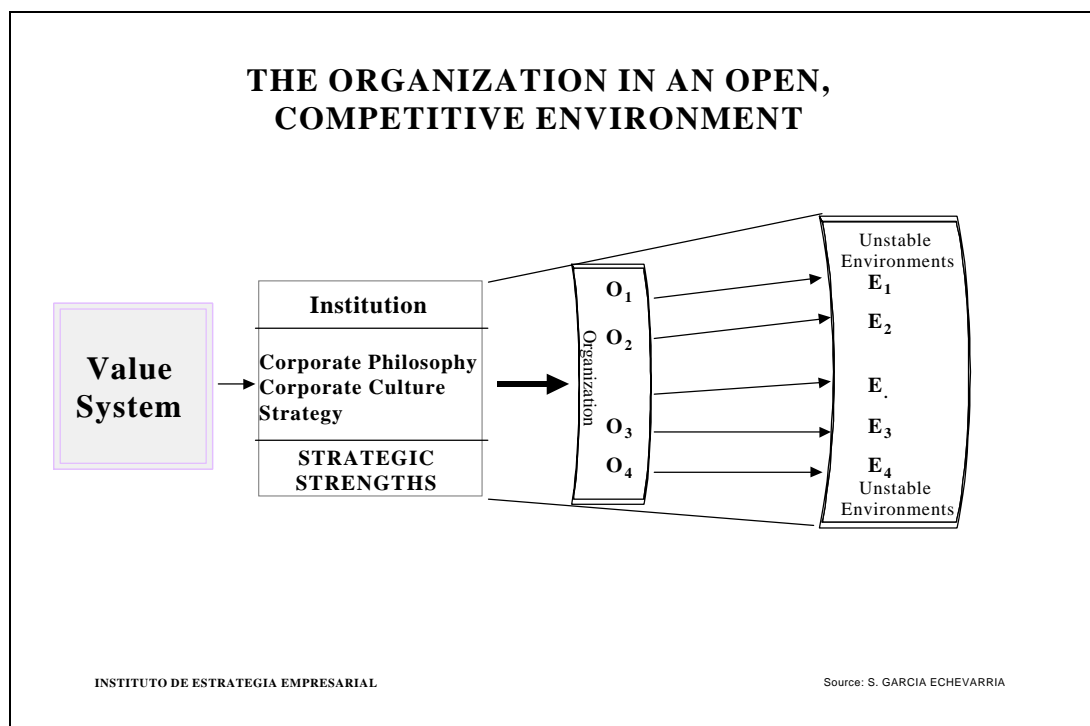


Figure 6

We believe that with this interpretation we are setting the foundation for the new organizational designs, since we believe we are facing an institutional and organizational break. This our conclusion from the popularity, both in practice and in the literature, of new designs like lean management (del Val 1995), or the shift to eliminate, or minimize, the organization's hierarchical schemes. We are headed to a steady – in some cases, very quick - substitution of hierarchical designs with new designs whose primary reference is the institution, toward building decision-making processes that allow a better coordination between the organization and the changing environments. This means major changes of the institutional design, the coordination style, and the entire firm design. It is not clear though, how to shape new organizational forms that are able to change quickly, without negatively affecting the behavior of the people or the bottom line – as a consequence of the required change of the division of labor.

## NEW INSTITUTIONAL DIMENSIONS OF THE ORGANIZATION

A firm has, basically, two big dimensions:

- An internal dimension regarding the value system that defines the Corporate Culture;
- An external dimension regarding the corporate image of the firm in its related environments.

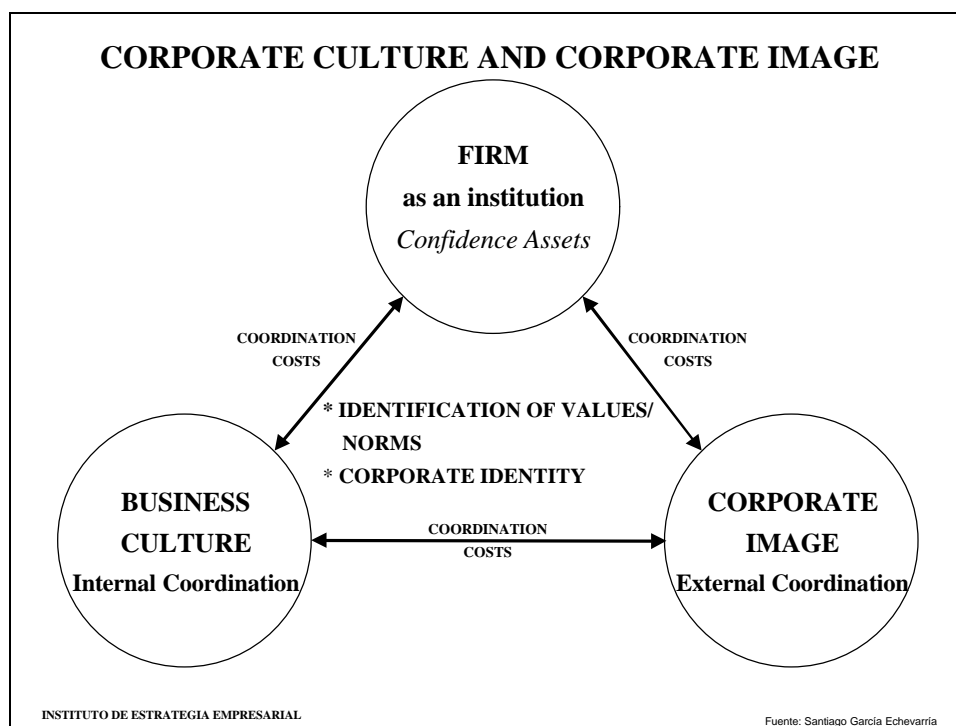


Figure 7

All business and organizational designs are oriented to diminish coordination costs between those dimensions.



These modern designs of a firm imply a management style defined under two basic criteria – these will set the foundation for the decision-making processes, and the organizational structures:

- Value and rule identification, for the firm and the individuals involved;
- The search for a corporate identity that produces a similar structure for both decision making and organizational processes.

Only through this means can the traditional hierarchical structures, mostly based on rigid administrative structures, be reduced. Those structures were often far away from the required decision-making structures.

Therefore, a firm, like any other institution, can be interpreted as a value system. And this interpretation forms the basis for building:

- A corporate philosophy;
- A corporate culture (i.e. value systems) of the persons involved within the institution.

These two will support the institution configuring both institutional criteria to legitimate corporate and individual behavior, and performance criteria of each individual.

Every decision-making structure is constrained by the hierarchy of the value systems of the institution and of related individuals. Thus, both value systems should be reflected in the decision-making structure. Thus, it will be legitimated to regulate both the institutional and the individual processes and functions.

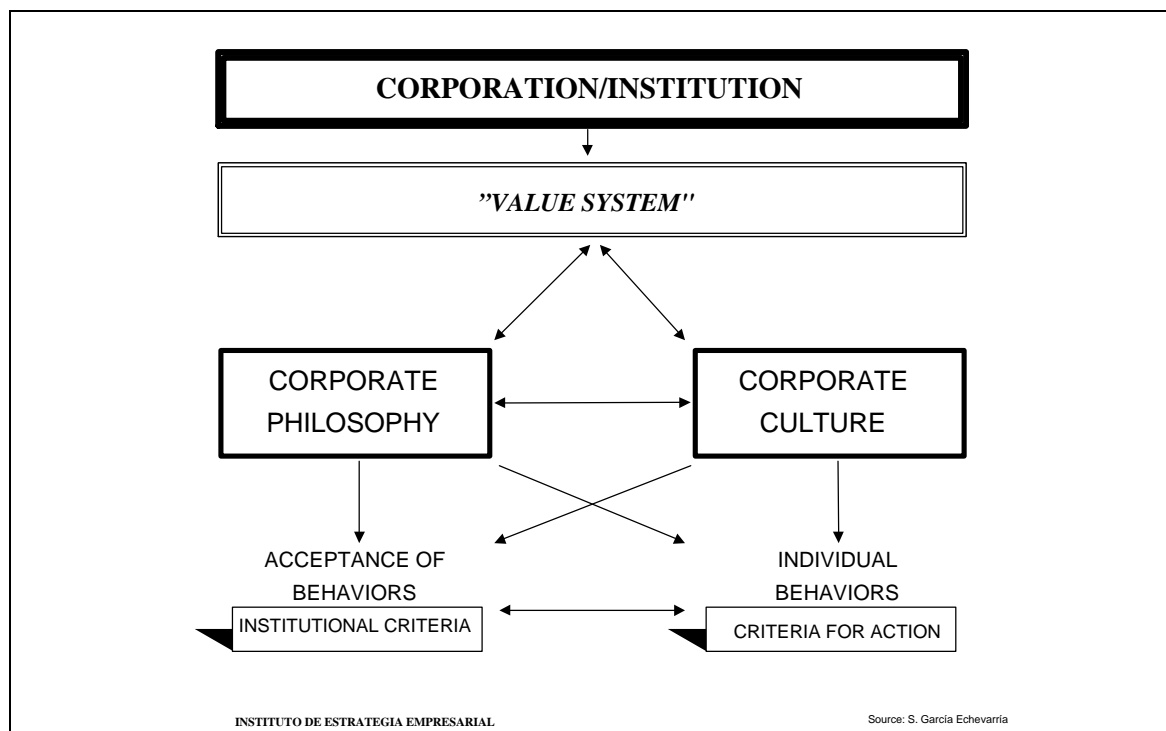


Figure 8

It is on those corporate values on which the configuration of norms, behaviors and criteria characterizing the management structure has to rest on. Besides, managerial, organizational, information, and communication structures, among others, should be aligned with each other, and with the value system of the firm.

The company's value system also allows the assessment of the environment, and of future behaviors. It constitutes the basis for a rise of the quality of the information shared with foremen, lower-rank employees, and customers and vendors. (Values of these people result from their assessment of past and present behavior and decisions of firms – only when the degree of information reaches a certain point, confidence assets are generated, in and outside the firm, thus allowing a dramatic reduction of coordination costs.)

In this sense, only if a firm's decision-making structure is generated after the firm's value system, which allows a better information sharing, can flat organizational schemes (e.g. lean organizations) be developed. We are hold onto the idea of organizational schemes whose foundation is confidence, and that should be configured after the firm's value system in order to generate that confidence.

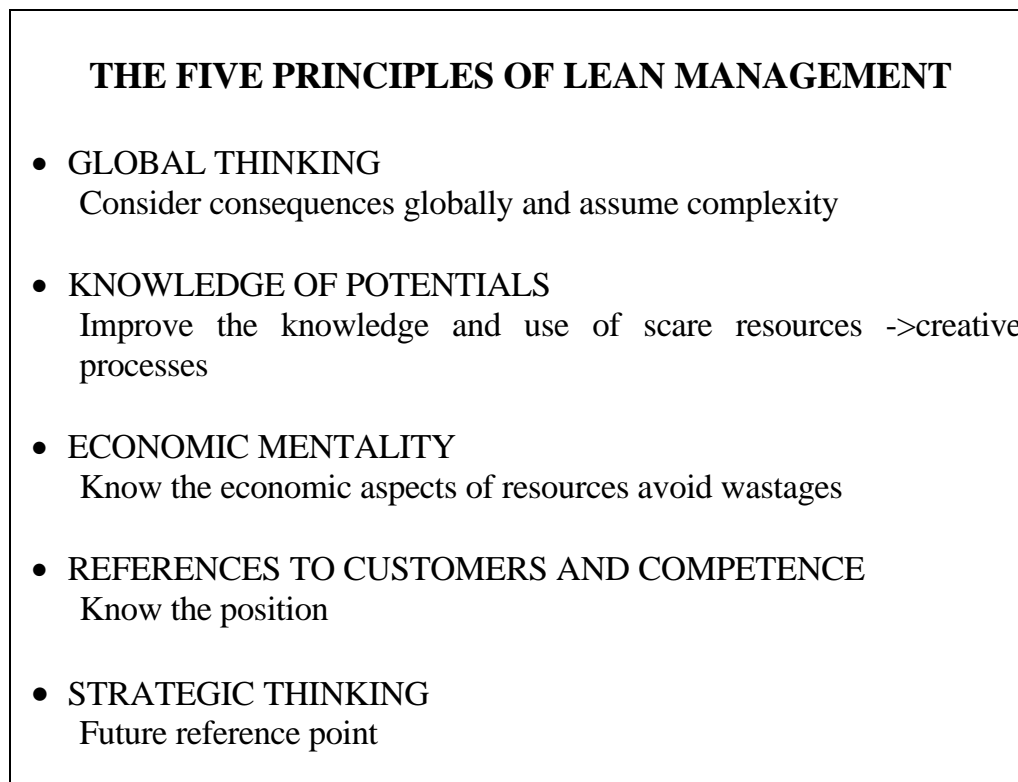


Figure 9

Indeed, and following this new business concept, the decision-making structure should be included in what we have called institutional dimension of the firm (Figure 10). It will form, together with the individual and corporate values, the basis of the economic dimension, i.e. the selection of the strategies to adapt business processes and functions.

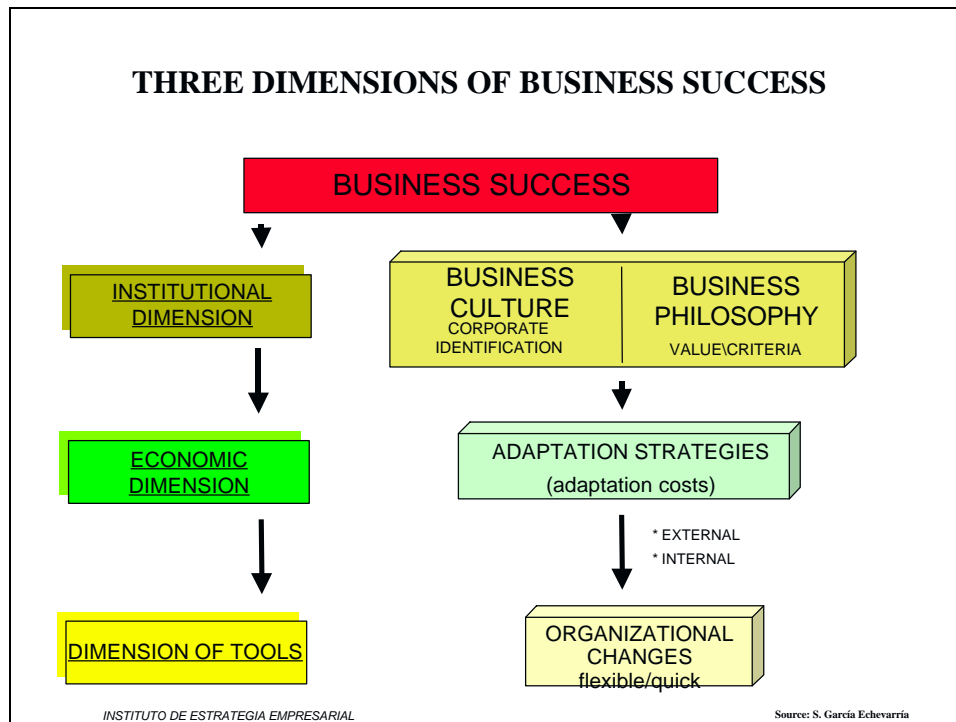


Figure 10

The economic dimension is translated into a dimension of tools which characterizes the particular way each organization changes its value system, and its strategies, according to the different environments, and their evolution. This dimension of tools is opposed to the traditional understanding that did not integrate the decision-making structure with the institutional value systems.

The relation between decision-making structure and organizational structure (see Figure 11) is also drawn out from the corporate value systems (Business Philosophy) and the individual value systems (Corporate Culture). It should be supported by a modern division of labor, according to the evolution of technology, and by the internationalization of the environments.

The decision-making structure is basic in the definition of the organizational design since this latter stands as a “consequence” of the decision-making structure – the organization should, therefore, be drawn out from the decision-making structure, and not opposed to it.

The institutional design must also take into account that the organizational structure of a firm is derived from a business concept, and from its relationship with the value system of individuals. Thus, it will allow the alignment of managerial strengths allowing the development of a consistent coordination tool, which accounts for the identity of the firm, the lowering of coordination costs when identifying value systems, and the technological requirements of the division of labor.

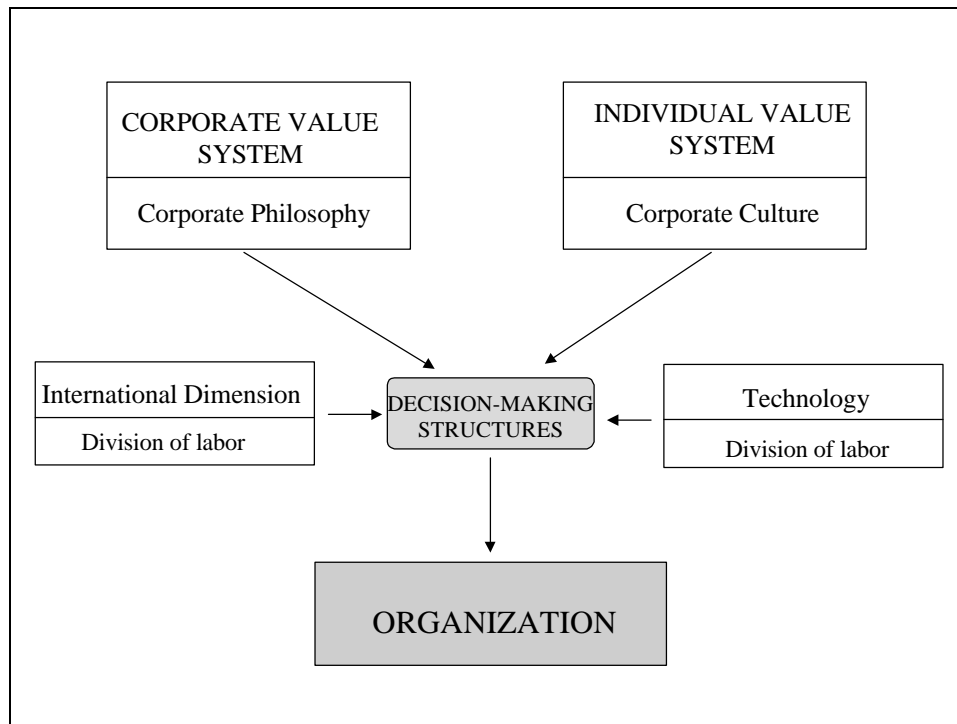


Figure 11

We can conclude that between the decision-making structures and the organizational structures there should be no divergent or non-functional relationship. Only a convergent, fluent relationship can fit here, since the aim is to reduce the organizational structures to achieve flexibility to develop an institution formed after its value system -the reference is the institution and not the organization. Thus, the institution defines and integrates the decision-making structure, and the organization is the tool responsible of transforming that institutional framework in norms and behaviors, allowing the lowering of coordination with the environments.

## VALUES THAT DEFINE THE ORGANIZATIONAL AND DECISION-MAKING STRUCTURES IN THE SPANISH FIRM

The analysis of the Spanish business culture points out the relation between the organizational and the decision-making structure. As shown in Figure 12, the current situation in Spain is characterized by very low reference values: labor relations are somehow normal with 12%, but organizational characteristics like teamwork (19%), flexibility (15%), motivation (16%) shape a scenario which, at the same time, is characterized by decentralization, and functional orientation. This situation means that the organizational structure lacks a determined orientation, with features corresponding more to close, non-competitive organizations.

If the current situation of management is analyzed (Figure 13), the figure corresponding to participation in decision making shows a very low value (of only 26%), being also low the assumption of risks (21%), the participation in the distribution of power (8%). This resembles a highly centralized decision making configuration, with low levels of participation.

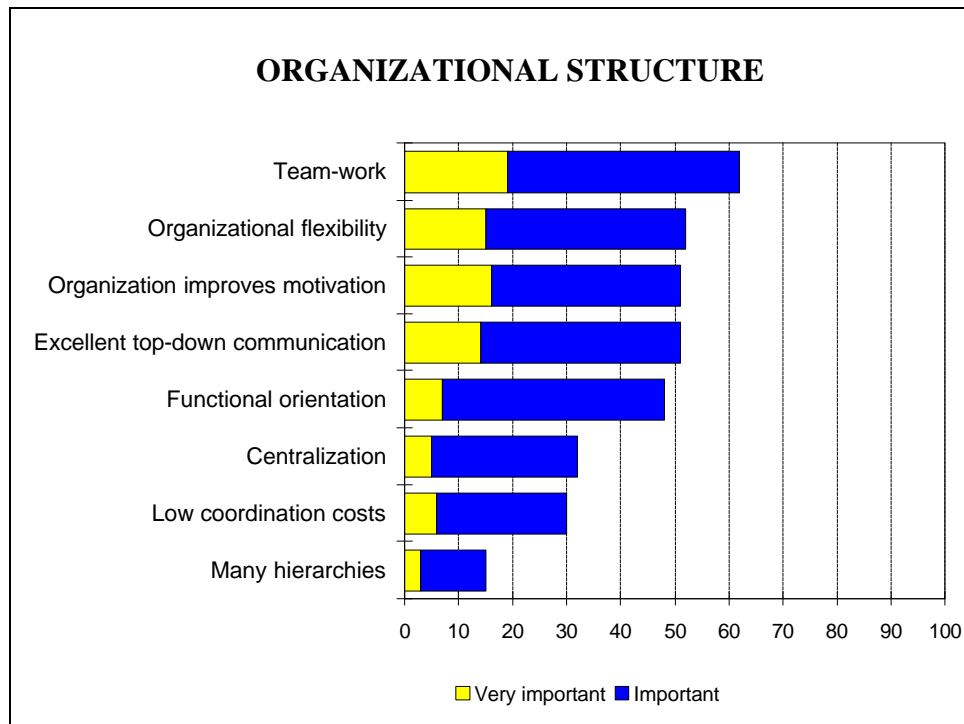


Figure 12

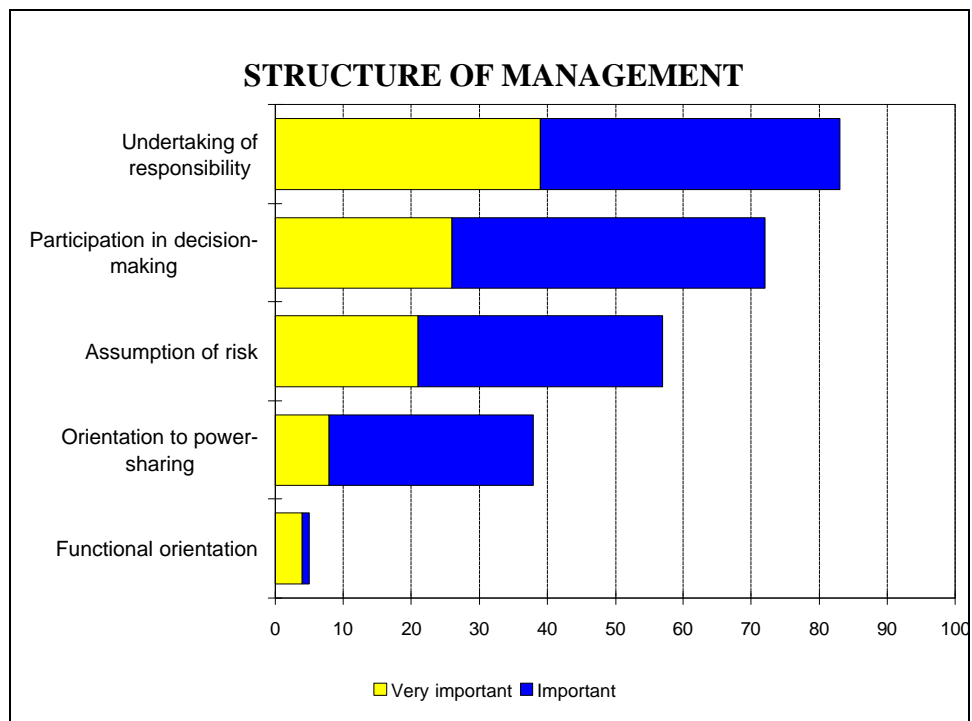


Figure 13

Asking how the organizational structure could be configured in the future then (responses are shown in Figure 14), a remarkable change of the key characteristics of the organization becomes apparent. Mainly, values like flexibility, power delegation, and whatever produces leaner, less hierarchical structures, as well as what has to do with a substantial improvement of communication, are key for the manager in the new organizational designs. Nevertheless, centralization still plays an important role in the entrepreneurial environment.

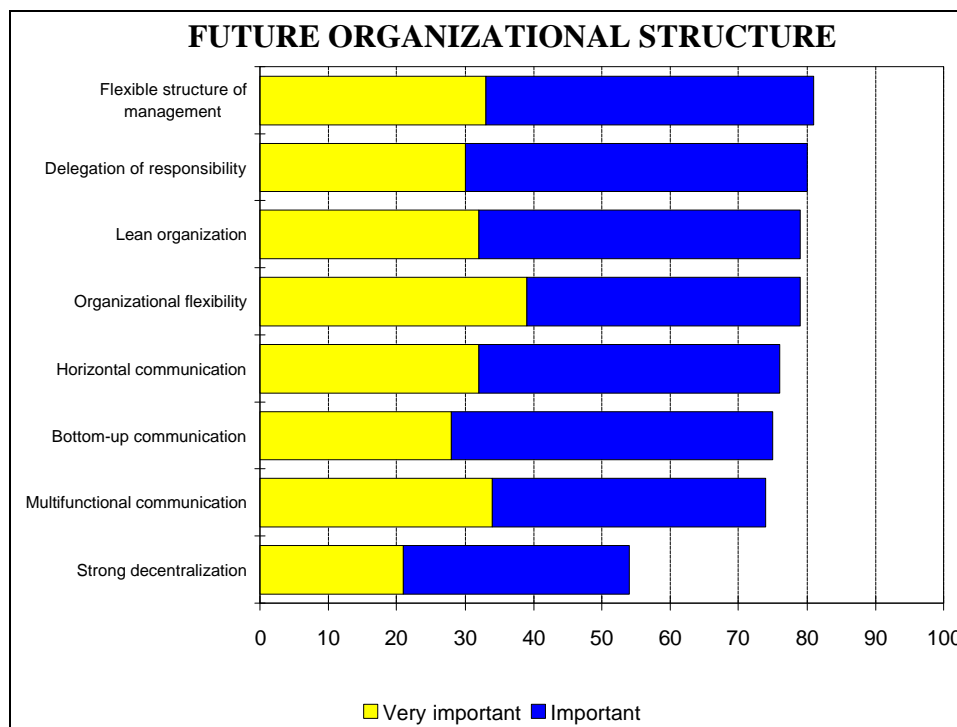


Figure 14

The process of structural change of both the organization and decisions can be noticed when the basic values, driving the two dimensions -organizational, and decisional-, are analyzed. As shown in figure 15, Spanish values are biased by this shift toward a deep organizational change, the most relevant figures for the future being:

Ability to motivate (generate enthusiasm)	99%
Need of ethic principles	92%
Ability to deploy	86%

And these refer to more dynamic, person-oriented organizations, and, consequently, to one of the more meaningful changes in the Spanish economic and business environments.

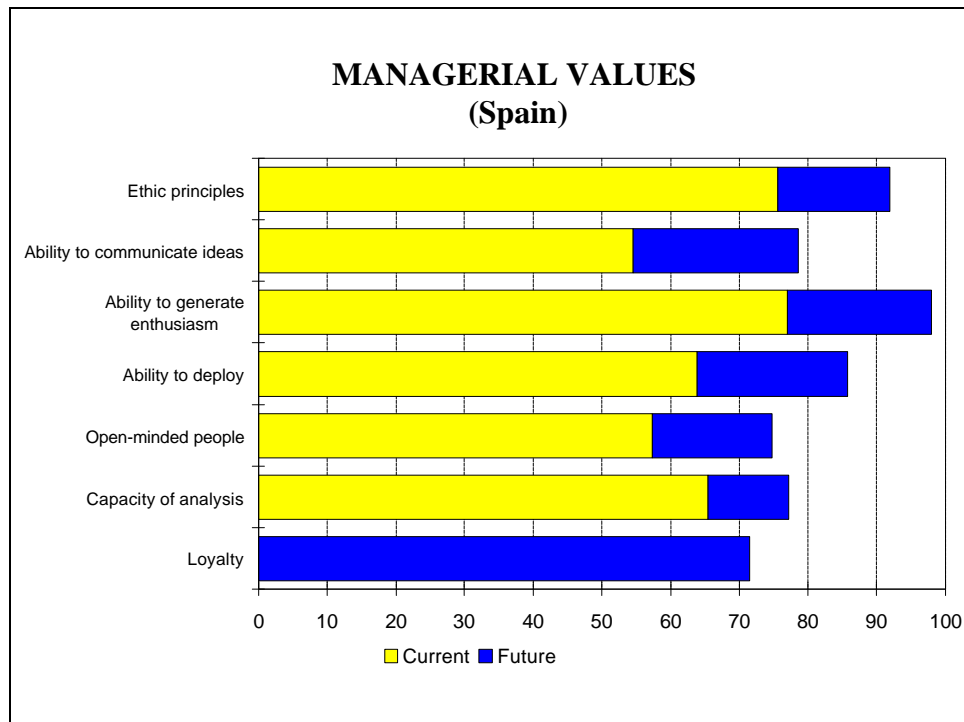


Figure 15

The comparison between Spanish and German business cultures states clearly why the organizational and decisional Spanish structure is not that of a flexible, low-coordination-cost culture yet. While the German business culture shows values that integrate the human being in the business processes, the Spanish culture is set against giving any the importance to the human being in the organizational and decisional structures. If the underpinning value system behind the current Spanish organizational and decisional structures stays unchanged, it is going to be very difficult to modify the latter, and to make them converge, and integrated, with the institution.

Therefore, in our opinion, the whole analysis of the organizational and decision-making structures of a firm rests, primarily, on the analysis of the value system that shape the Corporate Culture of that firm, instead of on the analysis of its technical division of labor, or the power structure.

So we think that, in a competitive environment, the integration of the organizational structure and the decision-making structure would help to shape the value system of a firm and, therefore, its Corporate Culture.

## NEW APPROACHES TO THE ORGANIZATIONAL AND DECISION-MAKING STRUCTURES

It is clear that between the organizational and decisional structures there is a direct relationship, which depends on the level of competition of the economy, and its degree of globalization - globalization points out the need for more flexible, adaptable organizations.

The greatest demands to the organization, in a high-competitive, global-oriented economy, refer not to the functions, but to the human abilities, since the possibilities of having flexible, ever-changing organizations lie, doubtless, on those abilities. Those should be configured in specific organizational

and decision-making structures. In high-competition markets, the orientation of those two should be to the customer, on the one side. It must also consider the management skills and abilities, and the human resources - and their strengths - available to the company.

The competitiveness of the firm depends on the organizational and decisional structures, since organizational and decision making costs impact directly on the firm's competitive position. This means, necessarily, a convergent process between the organizational and decisional structures, especially if the aim is to achieve consistency when the two structures deal with the person, and the institution.

The configuration of the organizational and decisional structures is based on the value system of the firm. This latter is the reference, and foundation, for the design of the above structures, and the Corporate Culture. Therefore, the organizational structure and the decisional structure must be aligned with each other, from the institutional point of view, in order to diminish any functional gaps, and coordination costs.

Design of those structures has the following sequence:

1. Determination of the Value System;
2. Setting of the Decision-making structure accordingly;
3. Setting of an Organizational Structure consistent with the two above.

Any firm not able to design its organizational structure consistently with the value system, and therefore, with the decisional structure, will have huge functional gaps, and will have high coordination costs - derived from the lack of flexibility of its processes of adaptation to changing environments.

We believe that a period of conflict between organizational and decisional structures is coming to an end. That the high costs originated from hierarchical organizational structures refer to non-competitive markets. And that, that time is over. Now is time to address the relevant interrelation among organization, decision making, and competition. This latter is the one 1) demanding the recovering of the firm as an institution, and 2) defining the values of the firm required to foster the development of the person and her abilities.

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