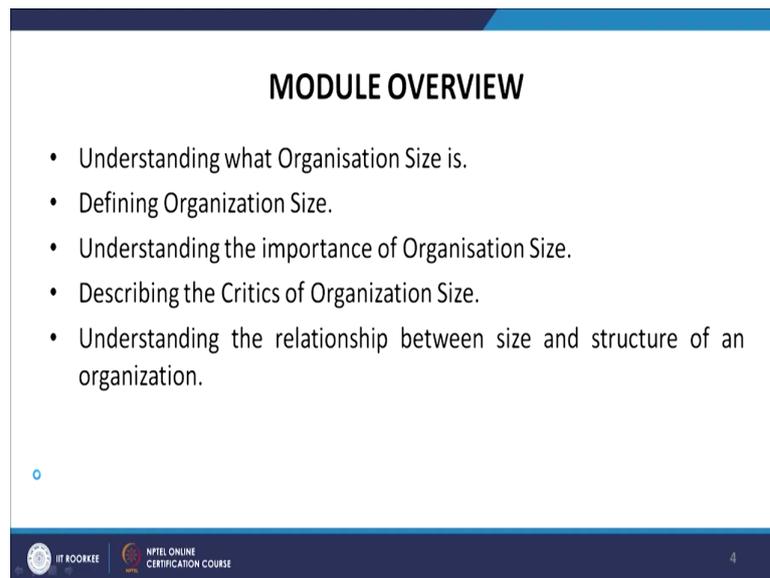


Organization Theory/Structure and Design
Prof. Zillur Rahman
Department of Management Studies
Indian Institute of Technology, Roorkee

Lecture - 14
Organization Size - I

Welcome to this course on Organization Theory/Structure and Design. Now we will talk about module 14. So, in module 14 and 15, we are to talk about Organization Size and we are talking of part 2 that is the determinants of organisation structure. In the earlier three modules that is module 11, 12 and 13 we have talked about strategy. So, now let us start with organization sizes, so that is module 14, and these are the things that we will talk about in this module.

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MODULE OVERVIEW

- Understanding what Organisation Size is.
- Defining Organization Size.
- Understanding the importance of Organisation Size.
- Describing the Critics of Organization Size.
- Understanding the relationship between size and structure of an organization.

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First is understanding what organization size is, then defining organisation size, understanding the importance of organisation size, describing the critics of organisation size and then understanding the relationship between size and structure of an organization.

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INTRODUCTION

- Do You Get The Picture?
 - Eastman Kodak has sales in excess of \$13 billion a year and employs 125,000 people.
 - These employees obviously cannot fit neatly into one building or into several departments supervised by a couple of managers.
 - It's hard to envision these 125,000 people being organized in any manner other than one that would be labelled as high in complexity.

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To introduce now to get the picture, Eastman Kodak has sales in excess of dollar 13 billion a year and employs 125,000 people. These employees obviously cannot fit neatly into one building or into several departments supervised by a couple of managers. It is hard to envision that 125000 people being organized in any manner other than one that would be labelled as high in complexity.

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INTRODUCTION

- Do You Get The Picture?
 - On the other hand, a local one-hour-photo-processing firm that employs six people and generates less than \$200,000 a year in sales is not likely to need decentralized decision making or extensive written documentation defining company policies and regulations.
 - Comparing these two photography-related firms suggests that an **organization's size influences its structure.**

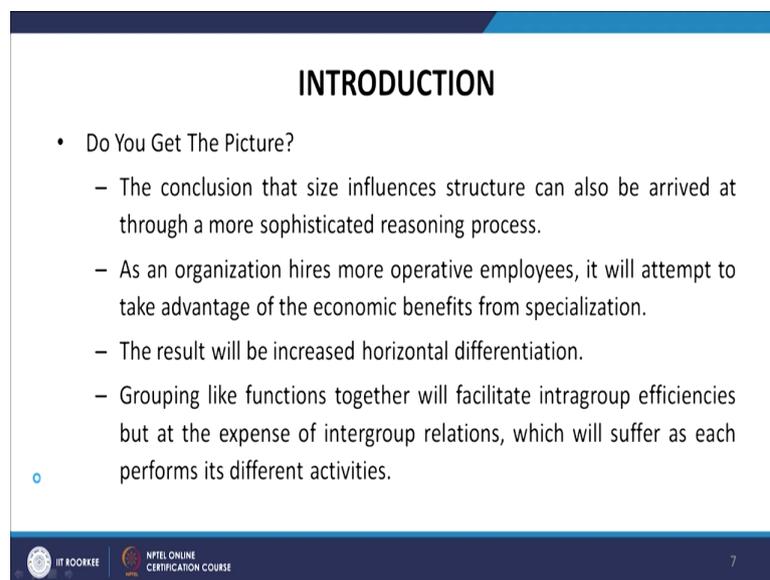
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On the other hand, a local one hour photo processing firm that employs six people and generate less than dollar 2,00,000 a year in sales is not likely to need decentralized

decision making or extensive written documentation defining companies policies and regulations.

Comparing these two photography related firms, suggests that an organisations size will influence its structure. The conclusion that size influence structure can also be arrived at through a more sophisticated reasoning process. As an organisation hires more operative employees, it will attempt to take advantage of the economic benefits from specialization. The result will be increased horizontal differentiation.

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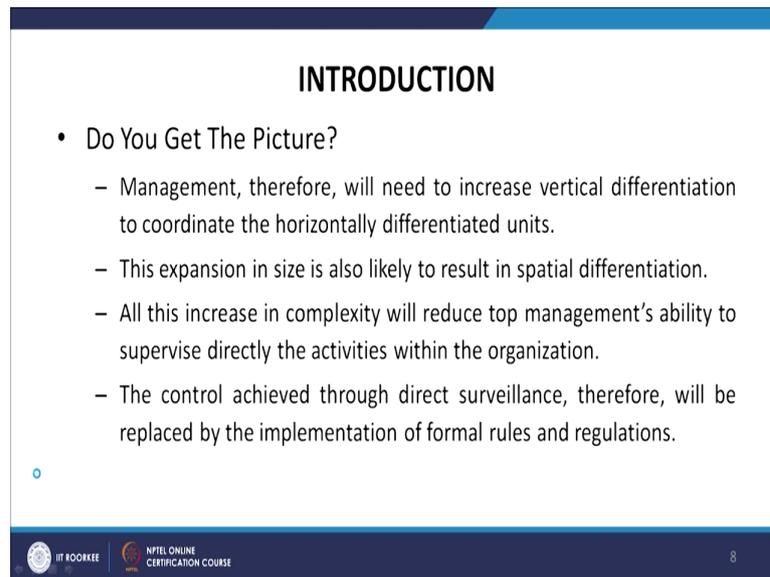


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- Do You Get The Picture?
 - The conclusion that size influences structure can also be arrived at through a more sophisticated reasoning process.
 - As an organization hires more operative employees, it will attempt to take advantage of the economic benefits from specialization.
 - The result will be increased horizontal differentiation.
 - Grouping like functions together will facilitate intragroup efficiencies but at the expense of intergroup relations, which will suffer as each performs its different activities.

Grouping like functions together will facilitate intragroup efficiencies but at the expense of intergroup relations, which will suffer as each performs its different activities. Management therefore will need to increase vertical differentiation to coordinate the horizontally differentiated units.

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INTRODUCTION

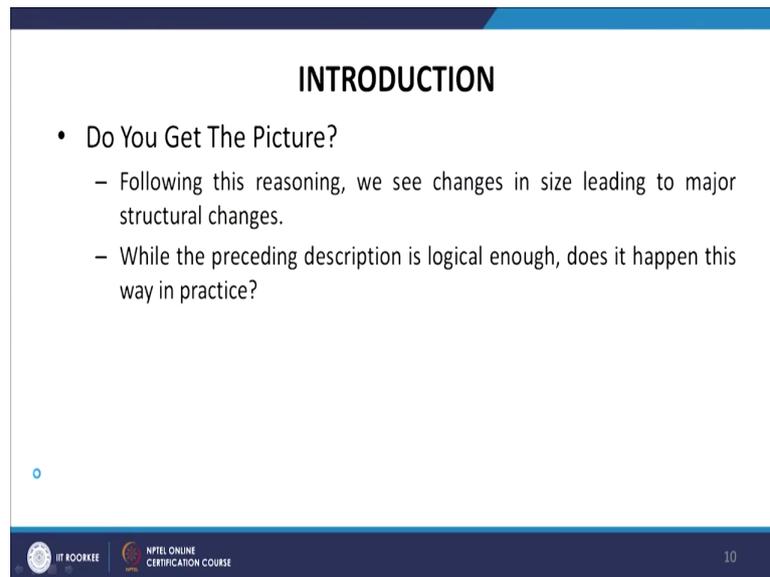
- Do You Get The Picture?
 - Management, therefore, will need to increase vertical differentiation to coordinate the horizontally differentiated units.
 - This expansion in size is also likely to result in spatial differentiation.
 - All this increase in complexity will reduce top management’s ability to supervise directly the activities within the organization.
 - The control achieved through direct surveillance, therefore, will be replaced by the implementation of formal rules and regulations.

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This expansion in size is also likely to result in spatial differentiation. All this increase in complexity will reduce top management’s ability to supervise directly the activities within the organisation. The control achieved through direct surveillance therefore will be replaced by the implementation of formal rules and regulations.

This increase in formalization may also be accompanied by still greater vertical differentiation as management creates new units to coordinate the expanding and the diverse activities of organizational members. Finally, with top management further removed from the operating level, it becomes difficult for senior executives to make rapid and informative decisions. The solution is to substitute decentralized decision making for centralization.

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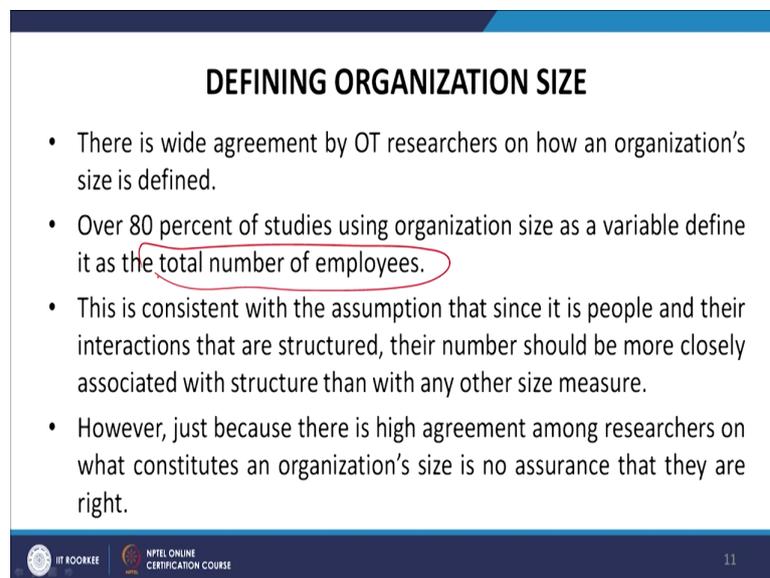
INTRODUCTION

- Do You Get The Picture?
 - Following this reasoning, we see changes in size leading to major structural changes.
 - While the preceding description is logical enough, does it happen this way in practice?

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Following this reasoning we see changes in size leading to major structural changes. While the description is logical enough does it happen this way in practice?

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DEFINING ORGANIZATION SIZE

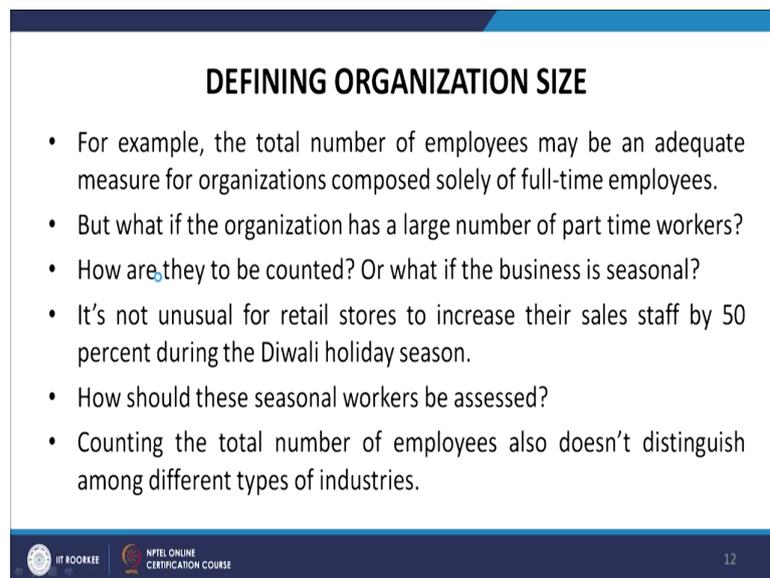
- There is wide agreement by OT researchers on how an organization's size is defined.
- Over 80 percent of studies using organization size as a variable define it as the total number of employees.
- This is consistent with the assumption that since it is people and their interactions that are structured, their number should be more closely associated with structure than with any other size measure.
- However, just because there is high agreement among researchers on what constitutes an organization's size is no assurance that they are right.

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Now, we will start with defining organization size. There is a wide agreement by organisation theory researchers on how an organisation size is defined. Over 80 percent of the studies using organisation size as a variable define it as total number of employees. So, over 80 percent of the studies they say that the total number of employee means organization size.

This is consistent with the assumption that since it is people and their interactions that are structured, their numbers should be more closely associated with structure than with any other size measures. However just because there is high agreement among researchers on what constitutes an organization size is no assurance that they are right.

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DEFINING ORGANIZATION SIZE

- For example, the total number of employees may be an adequate measure for organizations composed solely of full-time employees.
- But what if the organization has a large number of part time workers?
- How are they to be counted? Or what if the business is seasonal?
- It's not unusual for retail stores to increase their sales staff by 50 percent during the Diwali holiday season.
- How should these seasonal workers be assessed?
- Counting the total number of employees also doesn't distinguish among different types of industries.

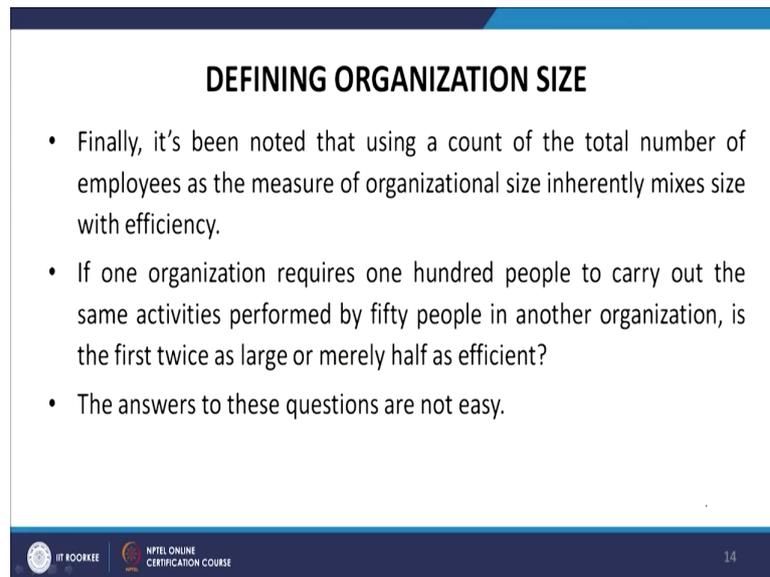
IT ROORKEE | NPTEL ONLINE CERTIFICATION COURSE | 12

For example, the total number of employees may be an adequate measure for organisations composed solely of full time employees. But what if the organisation has a large number of part time workers? How are they to be counted? Or what if the business is seasonal? It is not unusual for retail stores to increase their sales staff by 50 percent during the Diwali holiday season? How should these seasonal workers be assessed?

Counting the total number of employees also does not distinguish among different types of industries. A small beauty parlour may have three employees while one with 50 employees will be quite large.

On the other hand, a steel plant with 200 employees is small in an industry where average plants employ several thousand workers. Should the measure of an organisation size and the subsequent assessment of whether it is small or large be qualified to reflect industry norms?

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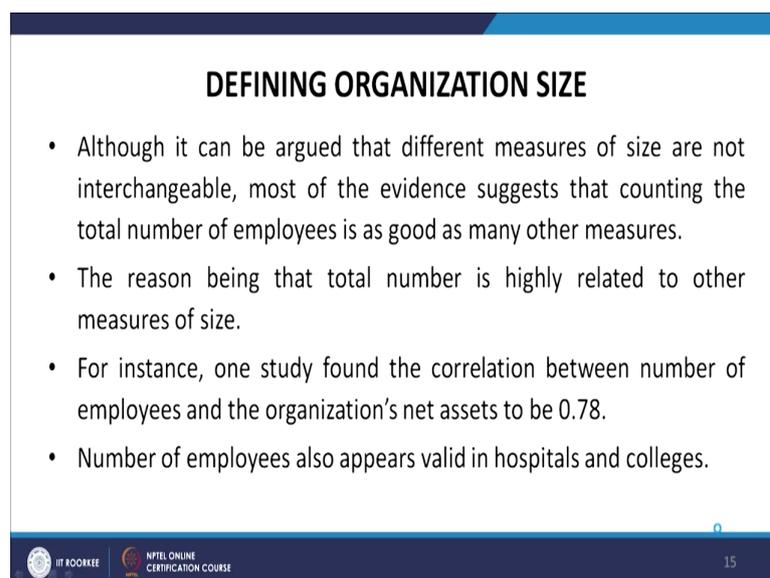
DEFINING ORGANIZATION SIZE

- Finally, it's been noted that using a count of the total number of employees as the measure of organizational size inherently mixes size with efficiency.
- If one organization requires one hundred people to carry out the same activities performed by fifty people in another organization, is the first twice as large or merely half as efficient?
- The answers to these questions are not easy.

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Finally, it has been noted that using a count of the total number of employees as a measure of organization size inherently mixes size with efficiency. If one organisation requires one hundred people to carry out the same activities performed by fifty people in another organization, is the first twice as large or merely half as efficient? The answer to these questions are not easy.

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DEFINING ORGANIZATION SIZE

- Although it can be argued that different measures of size are not interchangeable, most of the evidence suggests that counting the total number of employees is as good as many other measures.
- The reason being that total number is highly related to other measures of size.
- For instance, one study found the correlation between number of employees and the organization's net assets to be 0.78.
- Number of employees also appears valid in hospitals and colleges.

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Although it can be argued that different measures of size are not interchangeable, most of the evidence suggested that counting the total number of employees is as good as many

other measures; the reason being that total numbers is highly related to other measures of size. For instance, one study found the correlation between number of employees and the organizations net assets to be 0.78. Number of employees also appeared valid in hospitals and colleges. The correlation between total hospital labour force and average daily patient load was found to exceed 0.96.

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DEFINING ORGANIZATION SIZE

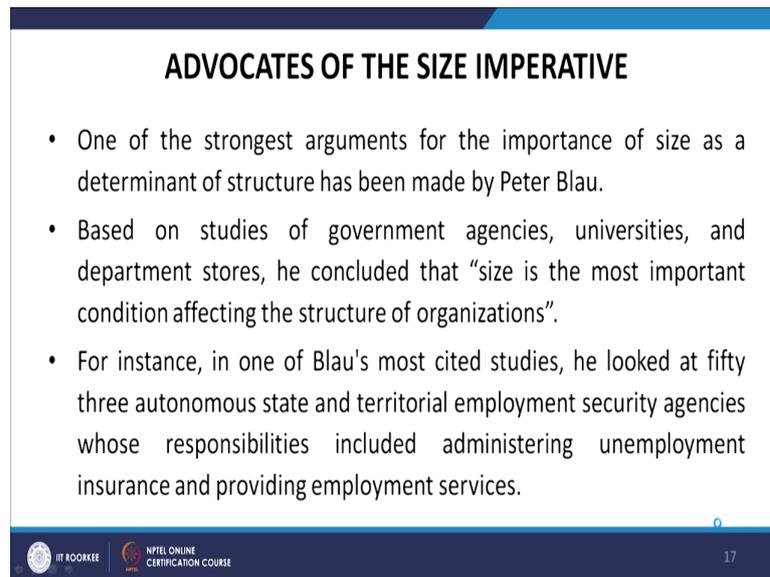
- The correlation between total hospital labour force and average daily patient load was found to exceed .96.
- Whereas size of fulltime and part-time faculty correlates with student enrolment at above .94.
- One can conclude from these studies that the total number of employees appears to be highly related to other popular gauges of size.
- As such, it should be a fairly accurate measure across organizations.

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Whereas size of full time and part time faculty correlates with student enrolment at above 0.94. One can conclude from these studies that the total number of employees appears to be highly related to other popular gauges of size.

As such, it should be fairly accurate measure across organisations. Now, let us look at what the advocates of the size imperative say. So, one of the stronger argument for the importance of size as a determinant of structure has been made by Peter Blau.

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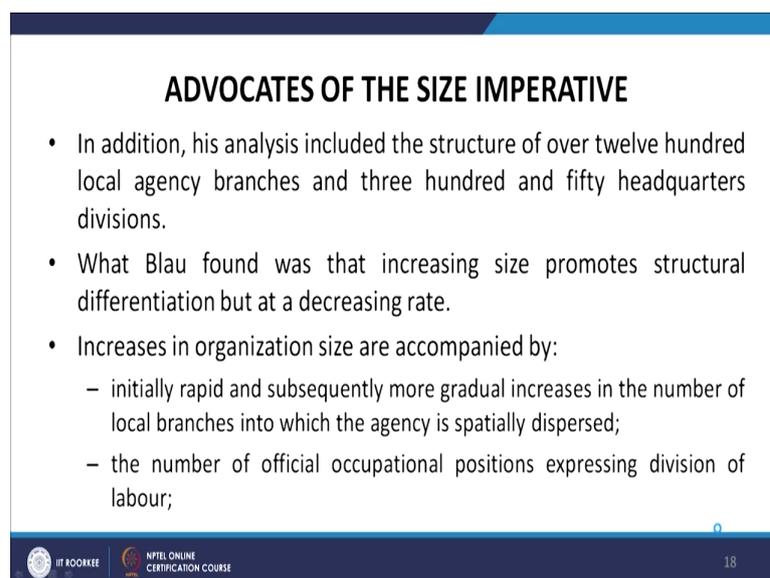
ADVOCATES OF THE SIZE IMPERATIVE

- One of the strongest arguments for the importance of size as a determinant of structure has been made by Peter Blau.
- Based on studies of government agencies, universities, and department stores, he concluded that “size is the most important condition affecting the structure of organizations”.
- For instance, in one of Blau's most cited studies, he looked at fifty three autonomous state and territorial employment security agencies whose responsibilities included administering unemployment insurance and providing employment services.

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Based on studies of government agencies, universities and department stores, he concluded that size is the most important condition affecting the structure of organization. For instance, in one of Blau’s most cited studies he looked at fifty-three autonomous state and territorial employment security agencies whose responsibilities included administering unemployment insurance and providing employment services.

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ADVOCATES OF THE SIZE IMPERATIVE

- In addition, his analysis included the structure of over twelve hundred local agency branches and three hundred and fifty headquarters divisions.
- What Blau found was that increasing size promotes structural differentiation but at a decreasing rate.
- Increases in organization size are accompanied by:
 - initially rapid and subsequently more gradual increases in the number of local branches into which the agency is spatially dispersed;
 - the number of official occupational positions expressing division of labour;

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In addition, his analysis included the structure of over twelve hundred local agencies branches and three hundred and fifty headquarter divisions. What Blau found was that

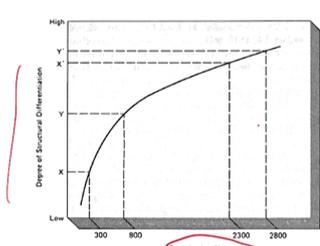
increasing size promotes a structural differentiation, but at a decreasing rate. Increases in organization size are accompanied by; one initially rapid and subsequently more gradual increase in the number of local branches into which the agency is spatially dispersed, two the number of official occupational positions expressing division of labour.

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ADVOCATES OF THE SIZE IMPERATIVE

- the number of vertical levels in the hierarchy;
- the number of functional divisions at the headquarters; and
- the number of sections per division.

- Blau's conclusions are visually depicted in Figure 14.1.



Organization Size

Figure 14.1: Increases in Organization Size Affect Differentiation at a Decreasing Rate

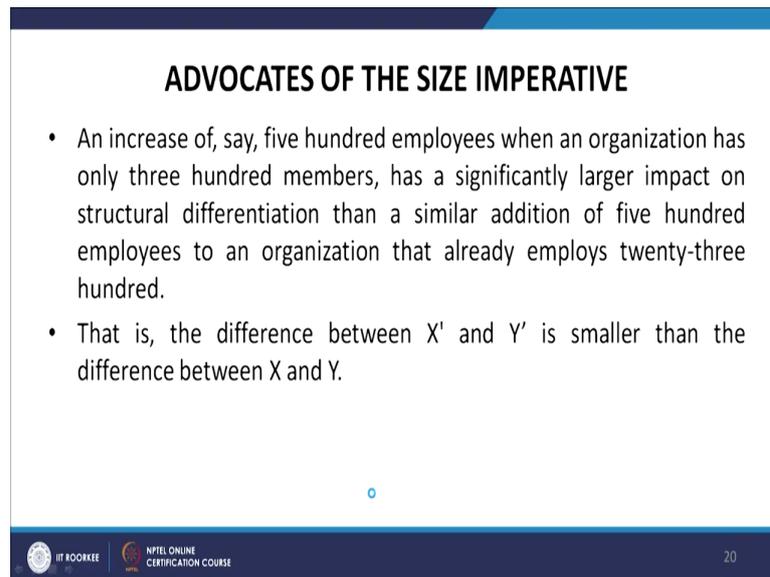
Source: Robbins, S. P. (1990). Organization Theory: Structures, Designs, and Applications. Pearson Education India.

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The third is the number of vertical levels in the hierarchy, the fourth is the number of functional divisions at the headquarters and the fifth one is the number of sections per division. Various conclusions are visibly depicted in this figure 14.1.

So, on the x axis we have organisation sizes, so it starts from 300, 800 to 2,800 and on the y axis we have degree of structural differentiation. And this is the graph that goes from low to high. So, you see that as the degree of structural differentiation moves up the number of employees they become high.

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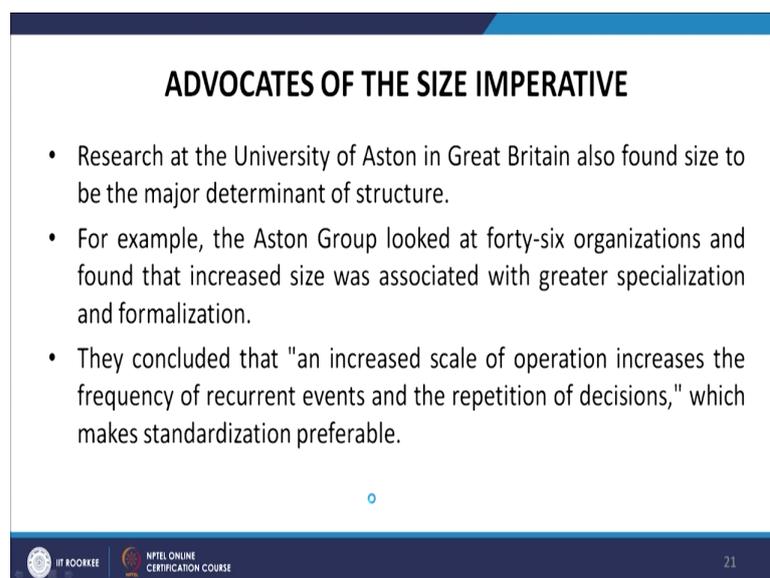
ADVOCATES OF THE SIZE IMPERATIVE

- An increase of, say, five hundred employees when an organization has only three hundred members, has a significantly larger impact on structural differentiation than a similar addition of five hundred employees to an organization that already employs twenty-three hundred.
- That is, the difference between X' and Y' is smaller than the difference between X and Y.

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An increase of say five hundred employees when organization has only three hundred members has a significantly larger impact on structural differentiation than a similar addition of five hundred employees to an organization that already employs twenty-three hundred. That is, the difference between X' and Y' is smaller than the difference between X and Y.

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ADVOCATES OF THE SIZE IMPERATIVE

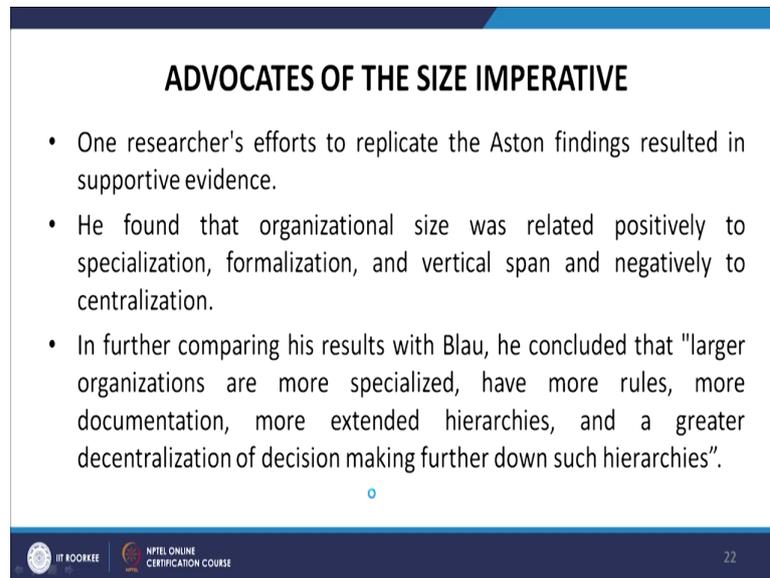
- Research at the University of Aston in Great Britain also found size to be the major determinant of structure.
- For example, the Aston Group looked at forty-six organizations and found that increased size was associated with greater specialization and formalization.
- They concluded that "an increased scale of operation increases the frequency of recurrent events and the repetition of decisions," which makes standardization preferable.

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Research at the University of Aston in Great Britain also found size to be the major determinant of structure. For example, the Aston Group looked at forty six organizations

and found that increased size was associated with greater specialization and formalization. They concluded that an increased scale of operation increases the frequency of recurrent events and the reputation of decisions which makes standardization preferable.

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ADVOCATES OF THE SIZE IMPERATIVE

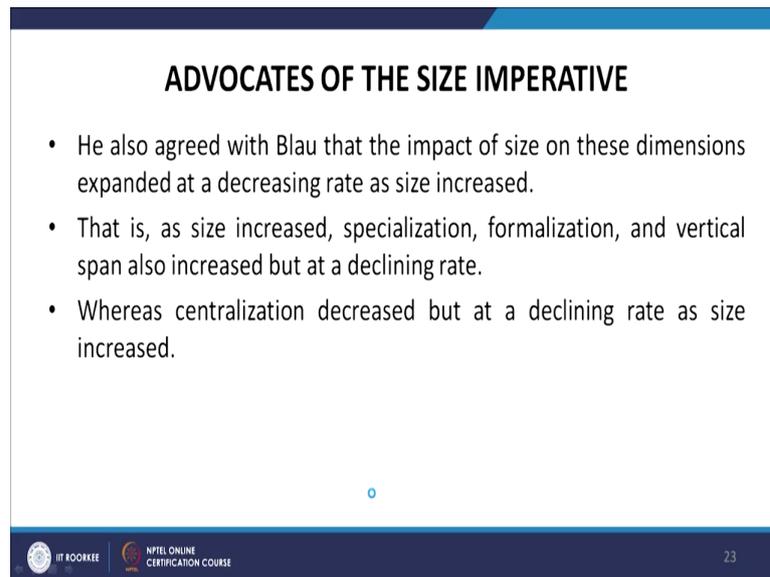
- One researcher's efforts to replicate the Aston findings resulted in supportive evidence.
- He found that organizational size was related positively to specialization, formalization, and vertical span and negatively to centralization.
- In further comparing his results with Blau, he concluded that "larger organizations are more specialized, have more rules, more documentation, more extended hierarchies, and a greater decentralization of decision making further down such hierarchies".

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In further comparing his results with Blau, he concluded that "larger organizations are more specialized, have more rules, more documentations, more extended hierarchies and a greater decentralization of decision making further down such hierarchie"s.

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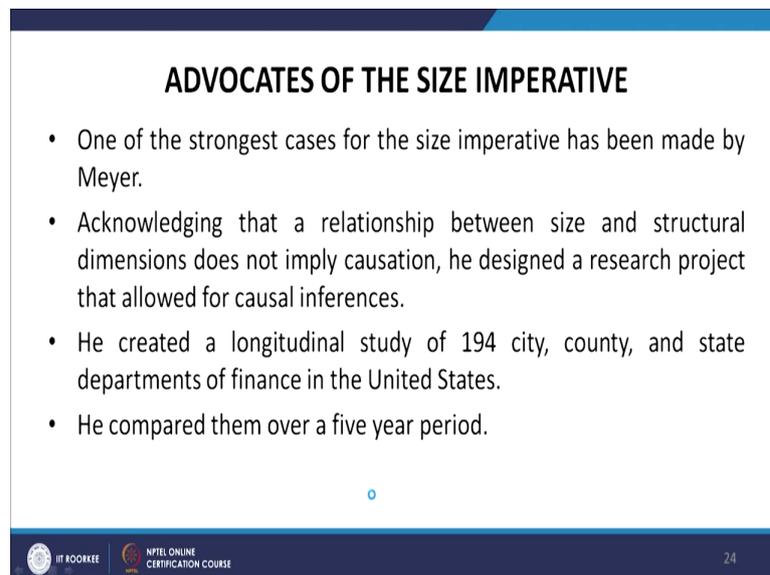
ADVOCATES OF THE SIZE IMPERATIVE

- He also agreed with Blau that the impact of size on these dimensions expanded at a decreasing rate as size increased.
- That is, as size increased, specialization, formalization, and vertical span also increased but at a declining rate.
- Whereas centralization decreased but at a declining rate as size increased.

ITR ROORKEE | NPTEL ONLINE CERTIFICATION COURSE 23

He also agreed with Blau that the impact of size on these dimensions expanded at the decreasing rate as size increased. That is, as size increased, specialization, formalization and vertical span also increased but at a declining rate; whereas, centralization decreased but at a declining rate, as size increased.

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ADVOCATES OF THE SIZE IMPERATIVE

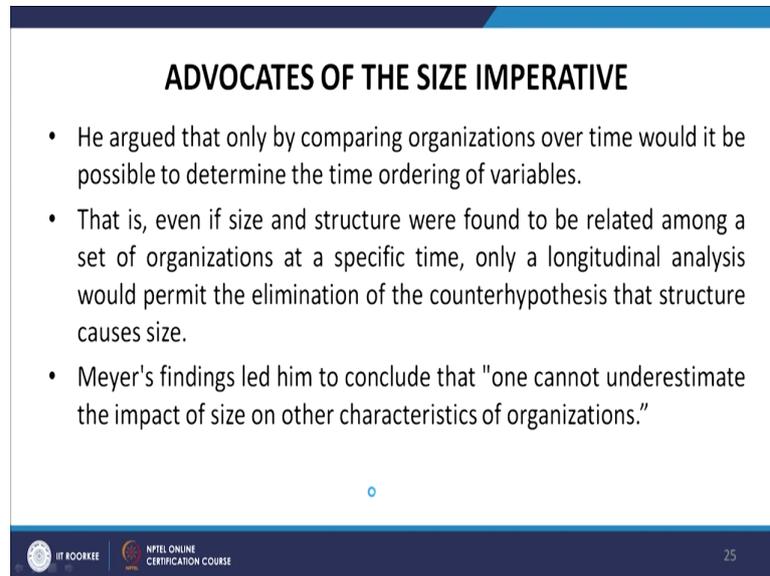
- One of the strongest cases for the size imperative has been made by Meyer.
- Acknowledging that a relationship between size and structural dimensions does not imply causation, he designed a research project that allowed for causal inferences.
- He created a longitudinal study of 194 city, county, and state departments of finance in the United States.
- He compared them over a five year period.

ITR ROORKEE | NPTEL ONLINE CERTIFICATION COURSE 24

One of the strongest cases for the size imperative has been made by Meyer. Acknowledging that a relationship between size and structural dimensions does not imply causation, he designed a research project that allowed for causal inferences.

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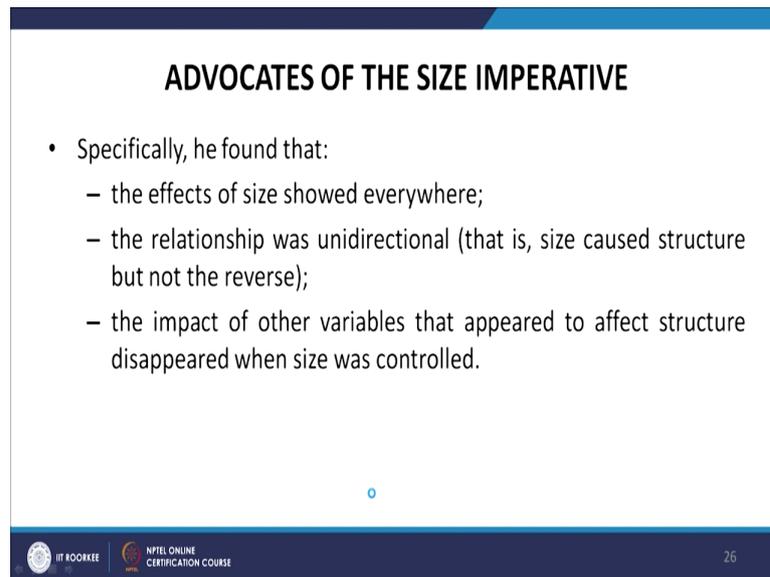
ADVOCATES OF THE SIZE IMPERATIVE

- He argued that only by comparing organizations over time would it be possible to determine the time ordering of variables.
- That is, even if size and structure were found to be related among a set of organizations at a specific time, only a longitudinal analysis would permit the elimination of the counterhypothesis that structure causes size.
- Meyer's findings led him to conclude that "one cannot underestimate the impact of size on other characteristics of organizations."

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He argued that only by comparing organizations over time would it be possible to determine the time ordering of variables. That is even if size and structure were found to be related among a set of organizations at a specific time only a longitudinal analysis would permit the elimination of the counterhypothesis that structure causes size. Meyer's finding led him to conclude that one cannot underestimate the impact of size on other characteristics of the organisation.

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ADVOCATES OF THE SIZE IMPERATIVE

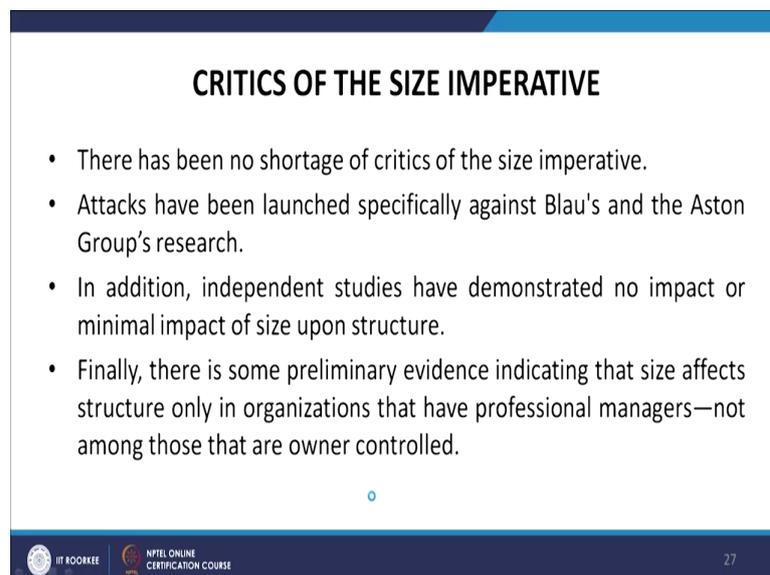
- Specifically, he found that:
 - the effects of size showed everywhere;
 - the relationship was unidirectional (that is, size caused structure but not the reverse);
 - the impact of other variables that appeared to affect structure disappeared when size was controlled.

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Specifically, he found that the effect of size showed everywhere. The relationship was unidirectional that is, size caused structure, but not the reverse. The impact of other variables that appeared to affect structure disappeared when size was controlled. So, that was about the advantages of the size imperative now we will talk about the critics of the size imperative.

There has been no shortage of critics of the size imperative. Attacks have been launched specifically against Blau and the Aston groups research.

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CRITICS OF THE SIZE IMPERATIVE

- There has been no shortage of critics of the size imperative.
- Attacks have been launched specifically against Blau's and the Aston Group's research.
- In addition, independent studies have demonstrated no impact or minimal impact of size upon structure.
- Finally, there is some preliminary evidence indicating that size affects structure only in organizations that have professional managers—not among those that are owner controlled.

IT KOOBEE | NPTEL ONLINE CERTIFICATION COURSE 27

In addition, the independent studies have demonstrated no impact or minimal impact of size upon structure. Finally, there is some preliminary evidence indicating that size affects structure only in organizations that have professional managers, not among those that are owner controlled.

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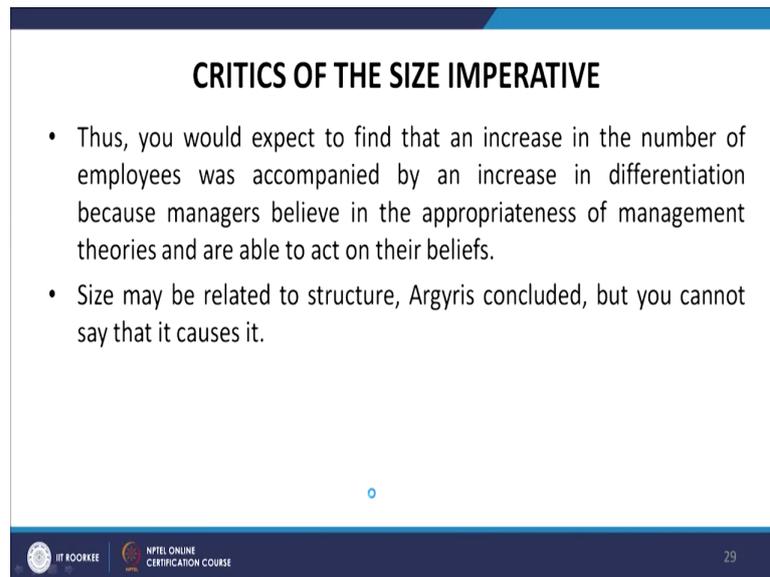
CRITICS OF THE SIZE IMPERATIVE

- Chris Argyris analysed Blau's data, questioned his measures, and argued that civil-service organizations are unique.
- On this last point, he noted that civil-service organizations have budget limitations, distinct geographical boundaries, predetermined staff sizes, and are influenced primarily by regulations.
- He also acknowledged the role of managerial discretion.
- Managers in government bureaus follow traditional management theories regarding task specialization, unity of command, span of control, and so forth.

IT ROORKEE NITEL ONLINE CERTIFICATION COURSE 28

Chris Argyris analysed Blau's data, questioned his measures and argued that civil service organisations are unique. On this last point he noted that civil service organisations have budget limitations, distinct geographic boundaries, predetermined staff sizes and are influenced primarily by regulations. He also acknowledged the role of managerial discretion. Managers in government bureaus follow traditional management theories regarding task specialization, unity of command, span of control and so forth.

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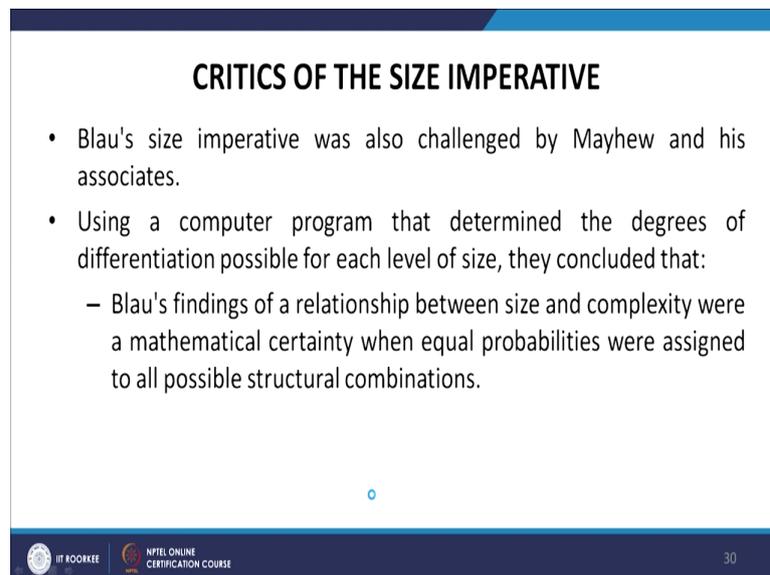
CRITICS OF THE SIZE IMPERATIVE

- Thus, you would expect to find that an increase in the number of employees was accompanied by an increase in differentiation because managers believe in the appropriateness of management theories and are able to act on their beliefs.
- Size may be related to structure, Argyris concluded, but you cannot say that it causes it.

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Thus you would expect to find that an increase in the number of employees was accompanied by an increasing differentiation because managers believe in the appropriateness of management theories and are able to act on their beliefs. Size may be related to structure, Argyris concluded, but you cannot say that it causes it.

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CRITICS OF THE SIZE IMPERATIVE

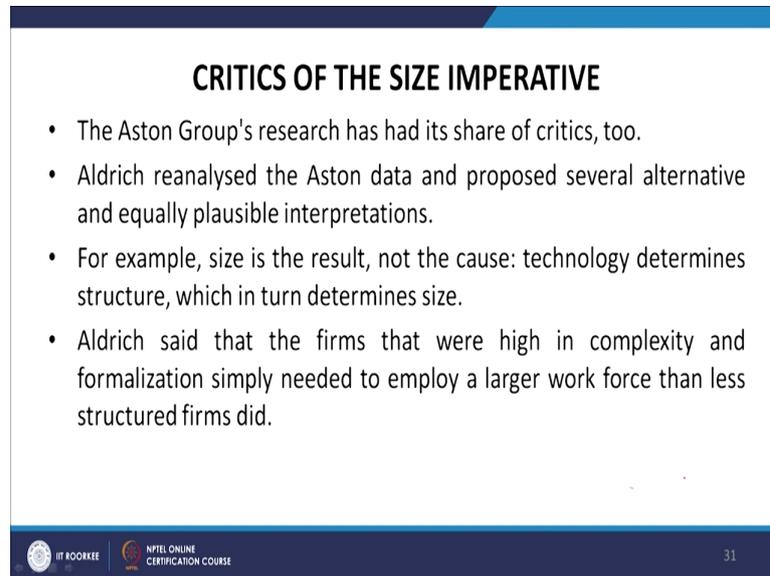
- Blau's size imperative was also challenged by Mayhew and his associates.
- Using a computer program that determined the degrees of differentiation possible for each level of size, they concluded that:
 - Blau's findings of a relationship between size and complexity were a mathematical certainty when equal probabilities were assigned to all possible structural combinations.

IT ROORKEE NPTEL ONLINE CERTIFICATION COURSE 30

Blau's size imperative was also challenged by Mayhew and his associates. Using a computer program that determined the degrees of differentiation possible for each level of size they concluded that, Blau's findings of a relationship between size and

complexity were a mathematical certainty when equal probabilities were assigned to all possible structural combinations.

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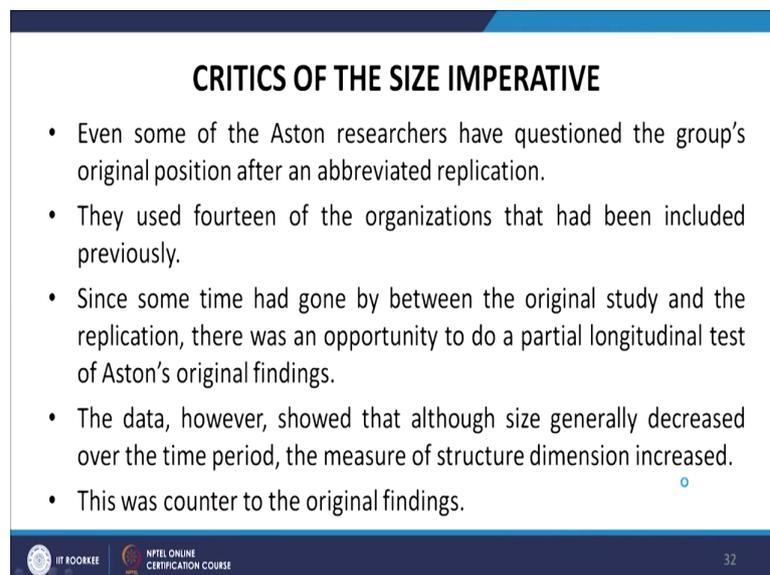
CRITICS OF THE SIZE IMPERATIVE

- The Aston Group's research has had its share of critics, too.
- Aldrich reanalysed the Aston data and proposed several alternative and equally plausible interpretations.
- For example, size is the result, not the cause: technology determines structure, which in turn determines size.
- Aldrich said that the firms that were high in complexity and formalization simply needed to employ a larger work force than less structured firms did.

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The Aston group's research has had its share of critics too. Aldrich reanalysed the Aston data and proposed several alternatives and equally plausible interpretations. For example, size is the result not the cause. Technology determines structure which in turns determines size. Aldrich said that the firms that were high in complexity and formalization simply needed to employ a larger workforce than less structured firms did.

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CRITICS OF THE SIZE IMPERATIVE

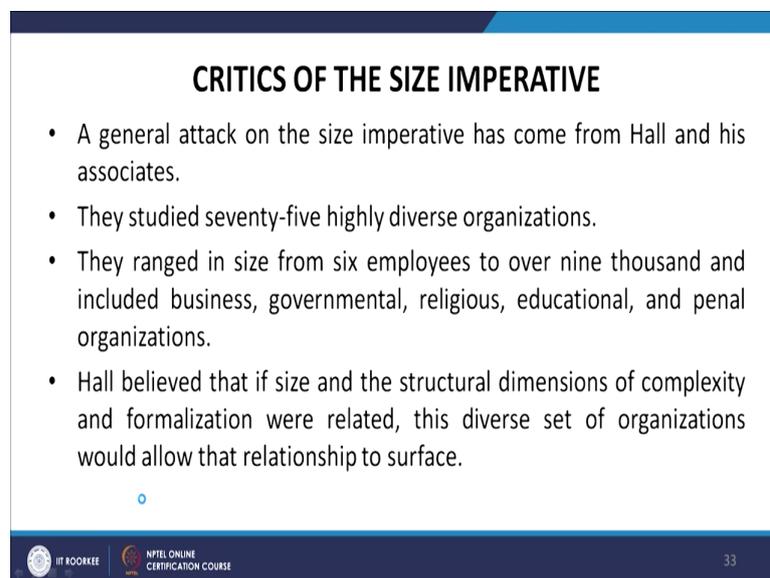
- Even some of the Aston researchers have questioned the group's original position after an abbreviated replication.
- They used fourteen of the organizations that had been included previously.
- Since some time had gone by between the original study and the replication, there was an opportunity to do a partial longitudinal test of Aston's original findings.
- The data, however, showed that although size generally decreased over the time period, the measure of structure dimension increased.
- This was counter to the original findings.

32

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The data however showed that although the size generally decreased over the time period, the measure of structure dimensions increased. This was counter to the original findings.

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CRITICS OF THE SIZE IMPERATIVE

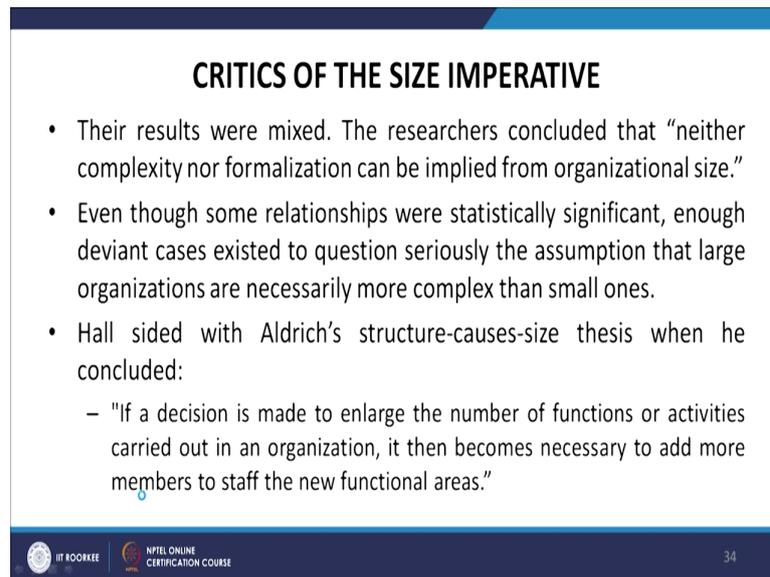
- A general attack on the size imperative has come from Hall and his associates.
- They studied seventy-five highly diverse organizations.
- They ranged in size from six employees to over nine thousand and included business, governmental, religious, educational, and penal organizations.
- Hall believed that if size and the structural dimensions of complexity and formalization were related, this diverse set of organizations would allow that relationship to surface.

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The general attack on the size imperative has come from Hall and his associates. They studied seventy-five highly diverse organisations. They ranged in the size from six employees to over nine thousand and included businesses, governmental, religious, educational and penal organizations. Hall believed that if size and the structure dimensions of complexity and formalization were related, this diverse set of organizations would allow the relationship to surface.

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CRITICS OF THE SIZE IMPERATIVE

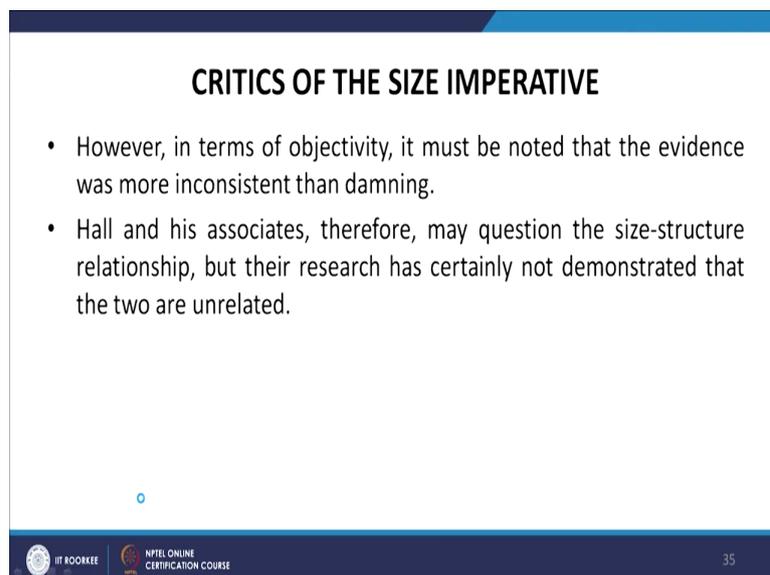
- Their results were mixed. The researchers concluded that “neither complexity nor formalization can be implied from organizational size.”
- Even though some relationships were statistically significant, enough deviant cases existed to question seriously the assumption that large organizations are necessarily more complex than small ones.
- Hall sided with Aldrich’s structure-causes-size thesis when he concluded:
 - “If a decision is made to enlarge the number of functions or activities carried out in an organization, it then becomes necessary to add more members to staff the new functional areas.”

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Hall sided with Aldrich structure-cause size thesis when he concluded; if a decision is made to enlarge the number of functions or activities carried out in an organisation, it then becomes necessary to add more members to staff the new functional areas.

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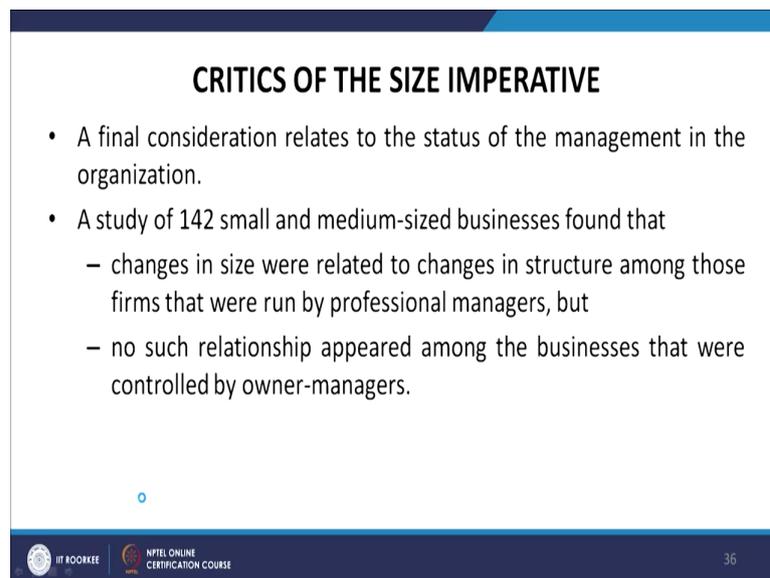
CRITICS OF THE SIZE IMPERATIVE

- However, in terms of objectivity, it must be noted that the evidence was more inconsistent than damning.
- Hall and his associates, therefore, may question the size-structure relationship, but their research has certainly not demonstrated that the two are unrelated.

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However in terms of objectivity, it must be noted that the evidence was more inconsistent than damning. Hall and his associates therefore may question the size structure relationship, but their research has certainly not demonstrated that the two are unrelated.

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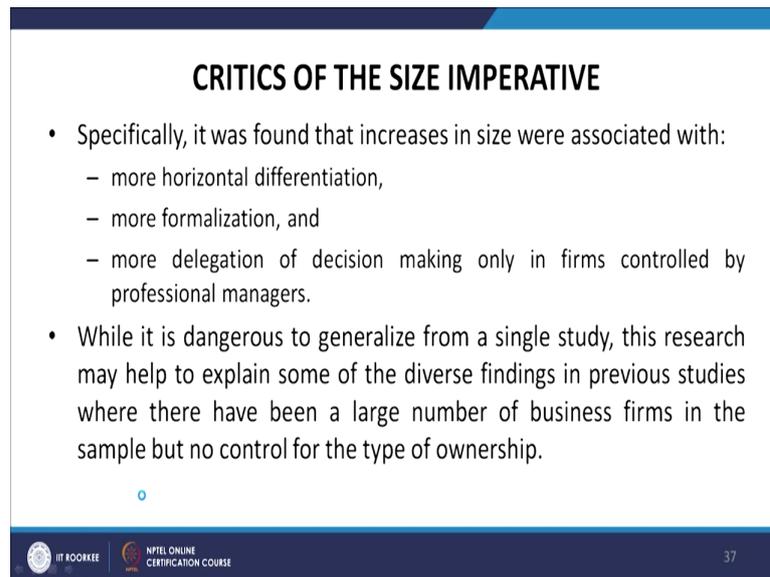
CRITICS OF THE SIZE IMPERATIVE

- A final consideration relates to the status of the management in the organization.
- A study of 142 small and medium-sized businesses found that
 - changes in size were related to changes in structure among those firms that were run by professional managers, but
 - no such relationship appeared among the businesses that were controlled by owner-managers.

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CRITICS OF THE SIZE IMPERATIVE

- Specifically, it was found that increases in size were associated with:
 - more horizontal differentiation,
 - more formalization, and
 - more delegation of decision making only in firms controlled by professional managers.
- While it is dangerous to generalize from a single study, this research may help to explain some of the diverse findings in previous studies where there have been a large number of business firms in the sample but no control for the type of ownership.

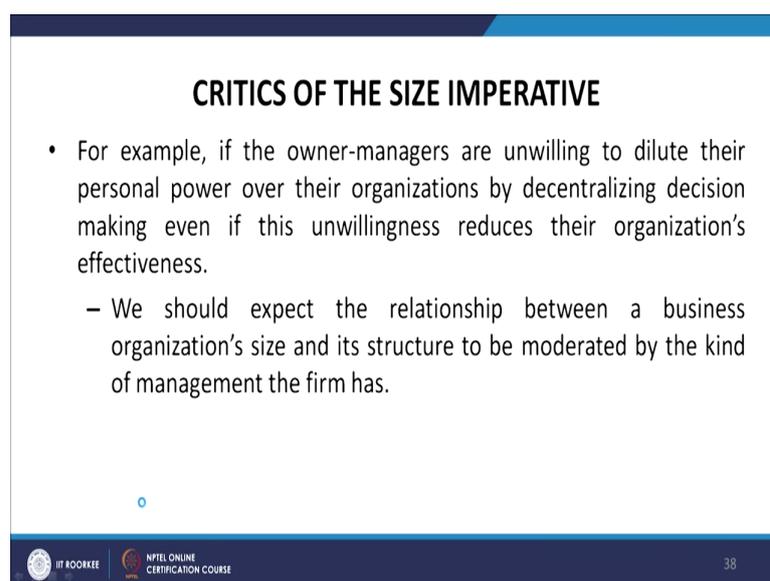
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Specifically, it was found that increases in size were associated with more horizontal differentiation, more formalization and more delegation of decision making only in firms controlled by professional managers.

While it is dangerous to generalise from a single study, this research may help to explain some of the diverse findings in previous studies where there have been large number of business firms in the sample, but no control for the type of ownership.

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CRITICS OF THE SIZE IMPERATIVE

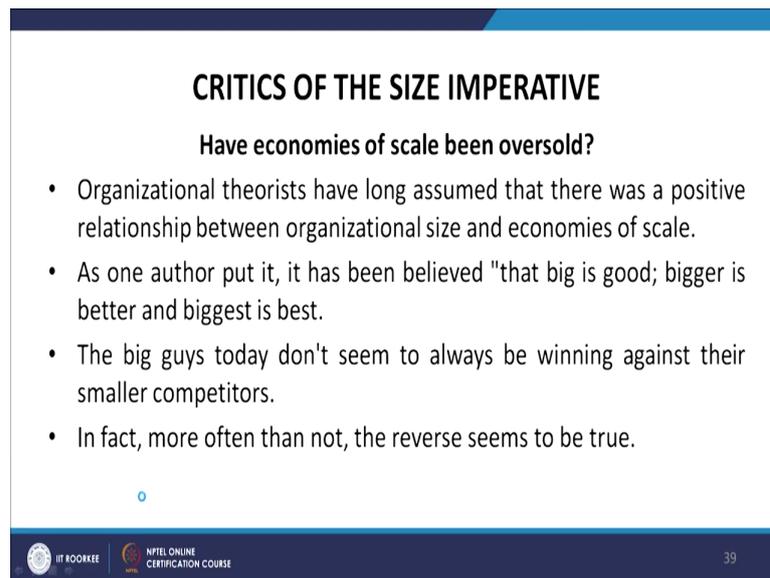
- For example, if the owner-managers are unwilling to dilute their personal power over their organizations by decentralizing decision making even if this unwillingness reduces their organization's effectiveness.
 - We should expect the relationship between a business organization's size and its structure to be moderated by the kind of management the firm has.

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For example, if the owner managers are unwilling to dilute their personal power over the organization by decentralising decision making even if this unwillingness reduces their organization's effectiveness. We should expect the relationships between a business organization's size and its structure to be moderate by the kind of management the firm has.

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CRITICS OF THE SIZE IMPERATIVE

Have economies of scale been oversold?

- Organizational theorists have long assumed that there was a positive relationship between organizational size and economies of scale.
- As one author put it, it has been believed "that big is good; bigger is better and biggest is best.
- The big guys today don't seem to always be winning against their smaller competitors.
- In fact, more often than not, the reverse seems to be true.

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Now, how the economies of scales been oversold in this debate on size? Organization theorist have long assumed that there was a positive relationship between an organization size and economies of scales. As one author puts it, it has been believed that big is good, bigger is better and biggest is best. The big guy today does not seem to always be winning against their smaller competitors. In fact, more often than not the reverse seems to be true.

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CRITICS OF THE SIZE IMPERATIVE

Have economies of scale been oversold?

- For instance, General Motors' size and its dependence on vertical integration puts it at a distinct disadvantage against the likes of a Chrysler.
- Why? Flexibility!
- Chrysler purchases 70 percent of its components outside the firm and can find the lowest-cost supplier.
- Whereas GM is able to go outside for only 30 percent of its components.

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For instance, General Motors' size and its dependence on vertical integration puts it at a distinct disadvantage against the likes of Chrysler. Why? And the answer is flexibility. Chrysler purchases 70 percent of its components outside the firm and can find the lowest cost supplier; whereas, general motor's is able to go outside for only 30 percent of its components.

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CRITICS OF THE SIZE IMPERATIVE

Have economies of scale been oversold?

- These results are not aberrations.
- Review of more than thirty studies, which covered a wide range of organizational types and assessed the size-efficiency relationship, found no economy-of-scale effects.
- But how can that be? Why isn't bigger more efficient? Why might the long-held assumption of economies of scale no longer be accurate?
- Certainly there have always been diseconomies associated with large size. But they didn't tend to matter much in more stable times.

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CRITICS OF THE SIZE IMPERATIVE

Have economies of scale been oversold?

- Foreign competition, deregulation, corporate raiders, and similar forces are putting a premium on flexibility and change.
- And in such times, large size can be a liability.

Additionally, many of the traditional advantages of size, such as access to low-cost capital markets and internal manufacturing efficiencies can now be achieved by midsize organizations through:

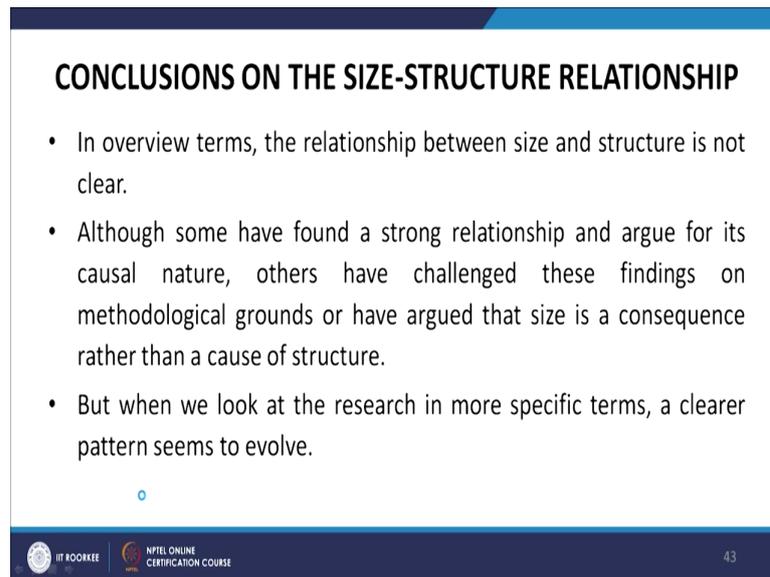
- issuance of junk bonds,
- subcontracting out of manufacturing and services,
- participation in joint ventures,
- use of franchising, and
- similar strategies.

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Now, the foreign competition, deregulation, corporate raiders and similar forces are putting a premium on flexibility and change. And in such times the large size can be a liability.

So, additionally many of the traditional advantages of size such as access to low cost capital markets and internal manufacturing efficiencies can now be achieved by midsize organizations through; issuance of junk bonds, subcontracting out of manufacturing and services, participation in joint ventures, use of franchising and similar strategies.

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CONCLUSIONS ON THE SIZE-STRUCTURE RELATIONSHIP

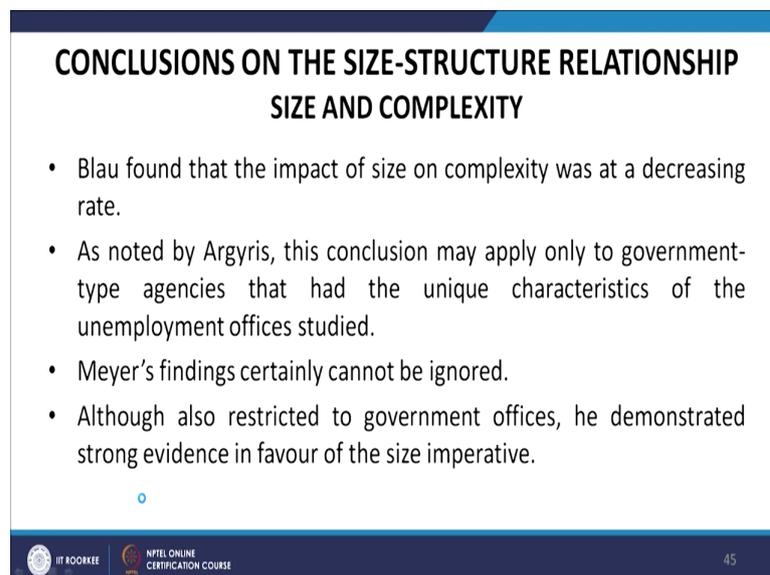
- In overview terms, the relationship between size and structure is not clear.
- Although some have found a strong relationship and argue for its causal nature, others have challenged these findings on methodological grounds or have argued that size is a consequence rather than a cause of structure.
- But when we look at the research in more specific terms, a clearer pattern seems to evolve.

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So, the conclusion on the size-structure relationship in overview terms, the relationship between size and structure is not clear. Although some have found a strong relationship and argue for its causal nature, others have challenged these findings on methodological grounds or have argued that size is a consequence rather than a cause of structure.

But when we look at the research in more specific terms, a clearer pattern seems to evolve. We will demonstrate that size certainly does not dictate all of an organization structure, but that it is important in predicting some dimensions of structure.

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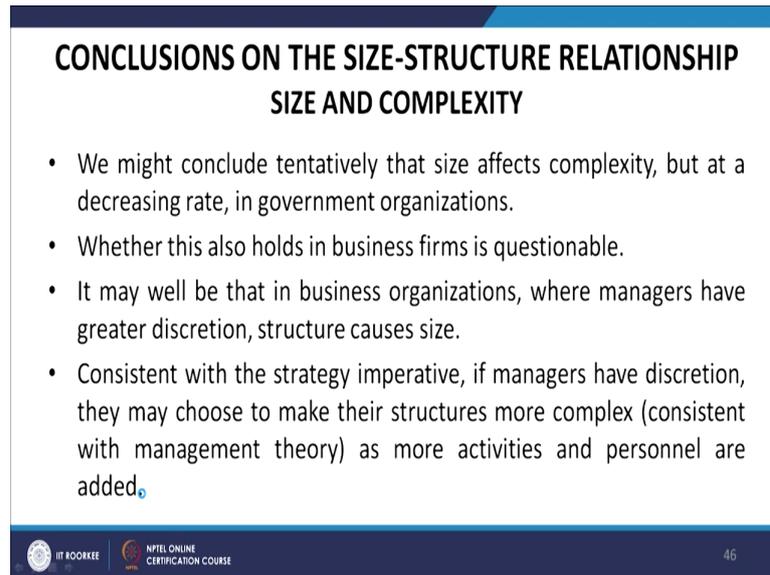
**CONCLUSIONS ON THE SIZE-STRUCTURE RELATIONSHIP
SIZE AND COMPLEXITY**

- Blau found that the impact of size on complexity was at a decreasing rate.
- As noted by Argyris, this conclusion may apply only to government-type agencies that had the unique characteristics of the unemployment offices studied.
- Meyer's findings certainly cannot be ignored.
- Although also restricted to government offices, he demonstrated strong evidence in favour of the size imperative.

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**CONCLUSIONS ON THE SIZE-STRUCTURE RELATIONSHIP
SIZE AND COMPLEXITY**

- We might conclude tentatively that size affects complexity, but at a decreasing rate, in government organizations.
- Whether this also holds in business firms is questionable.
- It may well be that in business organizations, where managers have greater discretion, structure causes size.
- Consistent with the strategy imperative, if managers have discretion, they may choose to make their structures more complex (consistent with management theory) as more activities and personnel are added.

ITR ROORKEE NPTEL ONLINE CERTIFICATION COURSE 46

So, we might conclude tentatively that size affects complexity but at a decreasing rate in the government organizations. Whether this also holds in business firms is questionable. It may well be that in business organizations where managers have greater discretion, structure causes size.

Consistent with the strategy imperative if managers have discretion they may choose to make their structure more complex, consistent with management theory as more activities and personnel are added. Neither can it be ruled out that the size structure relationship is circular.

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**CONCLUSIONS ON THE SIZE-STRUCTURE RELATIONSHIP
SIZE AND COMPLEXITY**

- Neither can it be ruled out that the size-structure relationship is circular.
- There is evidence indicating that size generates differentiation and that increasing differentiation also generates increasing size.
- The strongest case can be made for the effect of size on vertical differentiation.
- In fact, one study found that size alone was the dominant predictor of vertical differentiation, explaining between 50 and 59 percent of the variance.

IIT ROORKEE | NPTEL ONLINE CERTIFICATION COURSE 47

There is evidence indicating that size generates differentiation and that increasing differentiation also generates increasing size. The strongest case can be made for the effect of size on vertical differentiation. In fact, one study found that size alone was the dominant predictor of vertical differentiation explaining between 50 and 59 percent of the variance.

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**CONCLUSIONS ON THE SIZE-STRUCTURE RELATIONSHIP
SIZE AND COMPLEXITY**

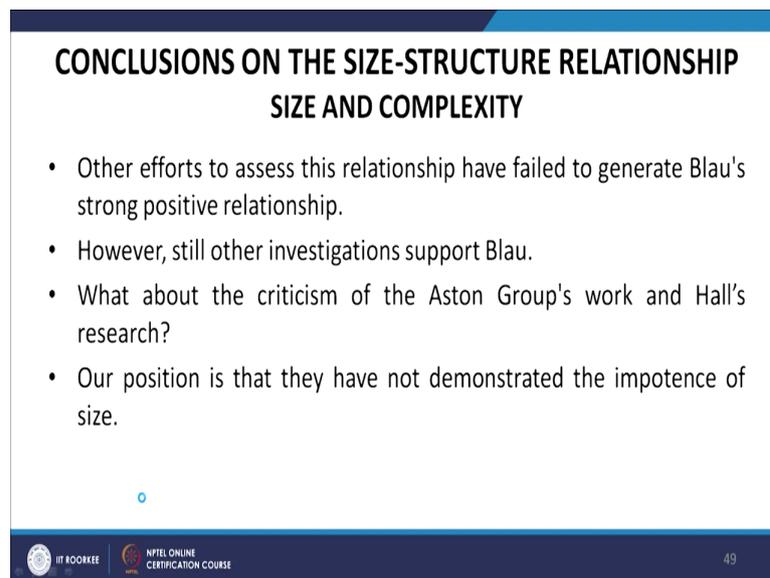
- A less strong but certainly solid case can be made for the size-horizontal differentiation relationship.
- That is, the larger the organization, the more pronounced (at declining rates) the division of labour within it, the same being true for the functional differentiation of the organization into divisions.
- The size-spatial differentiation relationship is problematic.
- Blau's high correlations are almost certainly attributable to the kind of organizations he studied.

IIT ROORKEE | NPTEL ONLINE CERTIFICATION COURSE 48

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the division of labour within it, the same being true for the functional differentiation of the organization into divisions. The size-spatial differentiation relationship is problematic. Blau's high correlation are almost certainly attributable to the kind of organizations he studied.

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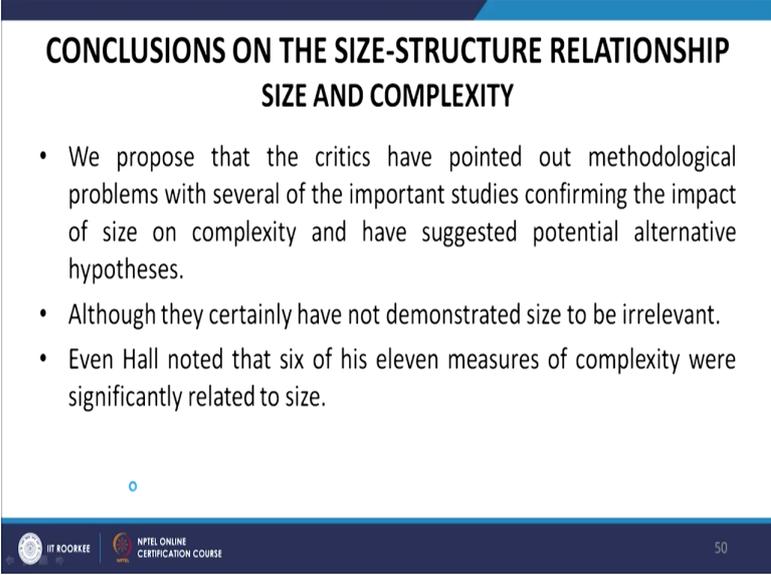
**CONCLUSIONS ON THE SIZE-STRUCTURE RELATIONSHIP
SIZE AND COMPLEXITY**

- Other efforts to assess this relationship have failed to generate Blau's strong positive relationship.
- However, still other investigations support Blau.
- What about the criticism of the Aston Group's work and Hall's research?
- Our position is that they have not demonstrated the impotence of size.

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Other efforts to assess this relationship have failed to generate Blau's strong positive relationship. However, still other investigations support Blau. What about the criticism of the Aston Group's work and Hall's research? Our position is that they have not demonstrated the importance of size.

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**CONCLUSIONS ON THE SIZE-STRUCTURE RELATIONSHIP
SIZE AND COMPLEXITY**

- We propose that the critics have pointed out methodological problems with several of the important studies confirming the impact of size on complexity and have suggested potential alternative hypotheses.
- Although they certainly have not demonstrated size to be irrelevant.
- Even Hall noted that six of his eleven measures of complexity were significantly related to size.

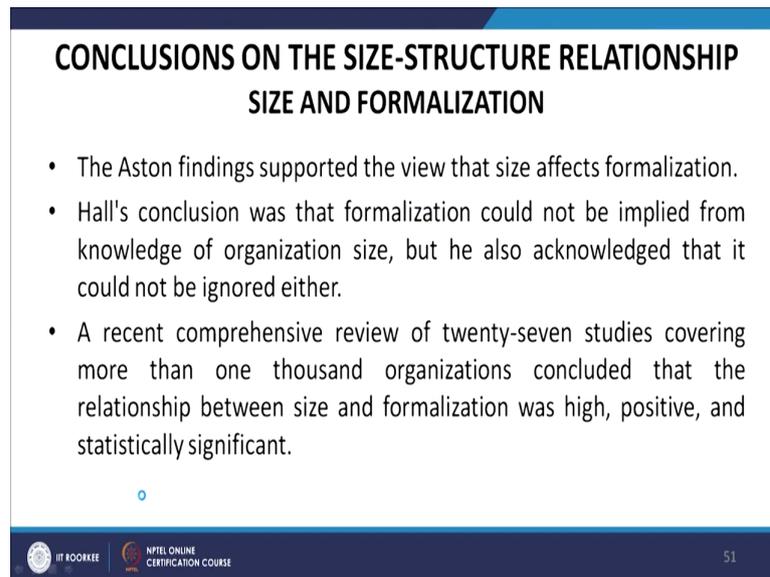
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IIT ROORKEE NPTEL ONLINE CERTIFICATION COURSE

We propose that the critics have pointed out methodological problems with several other important studies confirming the impact of size on complexity and have suggested potential alternative hypotheses. Although they certainly have not demonstrated size to be irrelevant. Even Hall noted that six of the eleven measures of complexity were significantly related to size.

The Aston findings supported the view that size affects formalization. Hall's conclusion was that formalization could not be implied from knowledge of organization size, but he also acknowledged that it could not be ignored either. A recent comprehensive review of twenty-seven studies covering more than one thousand organizations concluded that the relationship between size and formalization was high, positive and statistically significant.

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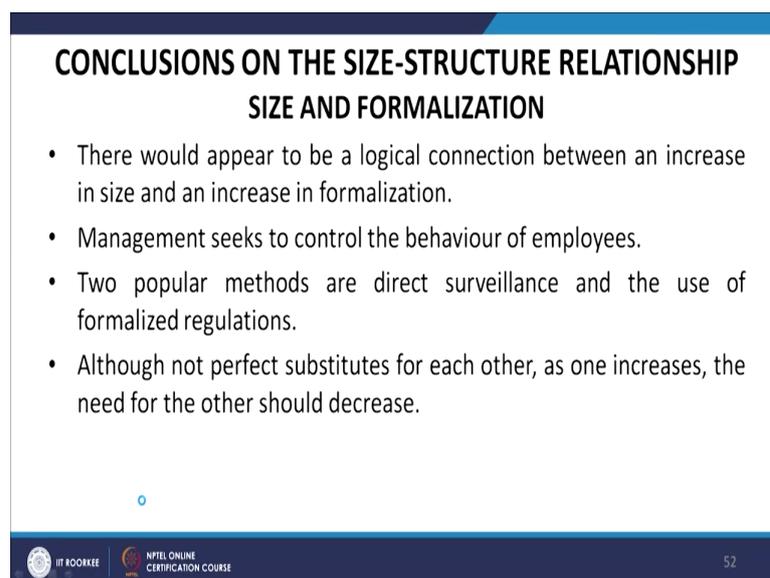


**CONCLUSIONS ON THE SIZE-STRUCTURE RELATIONSHIP
SIZE AND FORMALIZATION**

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**CONCLUSIONS ON THE SIZE-STRUCTURE RELATIONSHIP
SIZE AND FORMALIZATION**

- There would appear to be a logical connection between an increase in size and an increase in formalization.
- Management seeks to control the behaviour of employees.
- Two popular methods are direct surveillance and the use of formalized regulations.
- Although not perfect substitutes for each other, as one increases, the need for the other should decrease.

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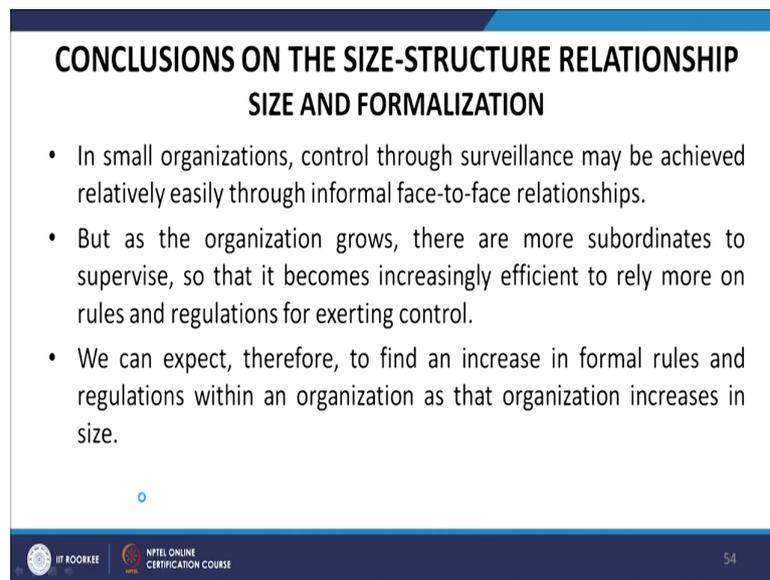
There would appear to be a logical connection between an increase in size and increase in formalization. Management seeks to control the behaviour of employees. Two popular methods are direct surveillance and the use of formalized regulations. Although no perfect substitute for each other, as one increases, the need for the other should decrease.

Because surveillance cost would increase very rapidly as organizations expands in size, it seems reasonable to propose that there would be economies if management substituted

formalization for direct surveillance as size increased. The evidence supports this contention.

Rules and surveillance are both aspects of control. The former is impersonal the later requires such activities as supervising, work closely and inspecting the quality and quantity of work done. In small organizations control through surveillance may be achieved relatively easily through informal face to face relationships.

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CONCLUSIONS ON THE SIZE-STRUCTURE RELATIONSHIP
SIZE AND FORMALIZATION

- In small organizations, control through surveillance may be achieved relatively easily through informal face-to-face relationships.
- But as the organization grows, there are more subordinates to supervise, so that it becomes increasingly efficient to rely more on rules and regulations for exerting control.
- We can expect, therefore, to find an increase in formal rules and regulations within an organization as that organization increases in size.

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IIT ROORKEE NITEL ONLINE CERTIFICATION COURSE 54

But as the organization grows there are more subordinates to supervise so it becomes increasingly efficient to rely more on rules and regulations for exerting control. We can expect, therefore to find an increase in formal rules and regulations within an organisation as that organization increases in size.

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**CONCLUSIONS ON THE SIZE-STRUCTURE RELATIONSHIP
SIZE AND FORMALIZATION**

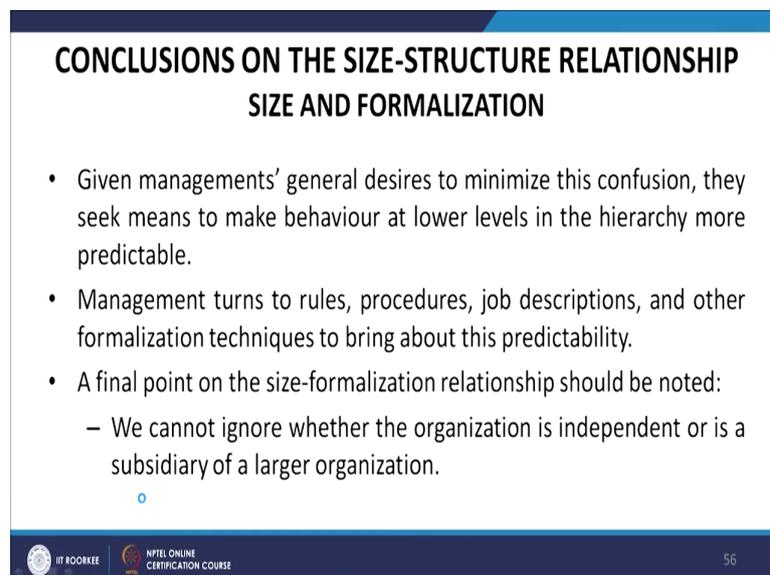
- After reviewing the size-formalization literature, one author proposed boldly that “the larger the organization, the more formalized its behaviour.”
- His explanation, however, emphasized that larger organizations formalize those activities that have a propensity to recur often.
- The larger the organization, the more that behaviours repeat themselves, and hence management is motivated to handle them more efficiently through standardization.
- With increased size comes greater internal confusion.

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After reviewing the size-formalization literature, one author proposed boldly that the larger the organization, the more formalized its behaviour. This explanation however emphasized that larger organizations formalize those activities that have a propensity to recur often.

The larger the organization, the more that behaviours repeat themselves, and hence management is motivated to handle them more efficiently through standardization. With increased size comes greater internal confusion.

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**CONCLUSIONS ON THE SIZE-STRUCTURE RELATIONSHIP
SIZE AND FORMALIZATION**

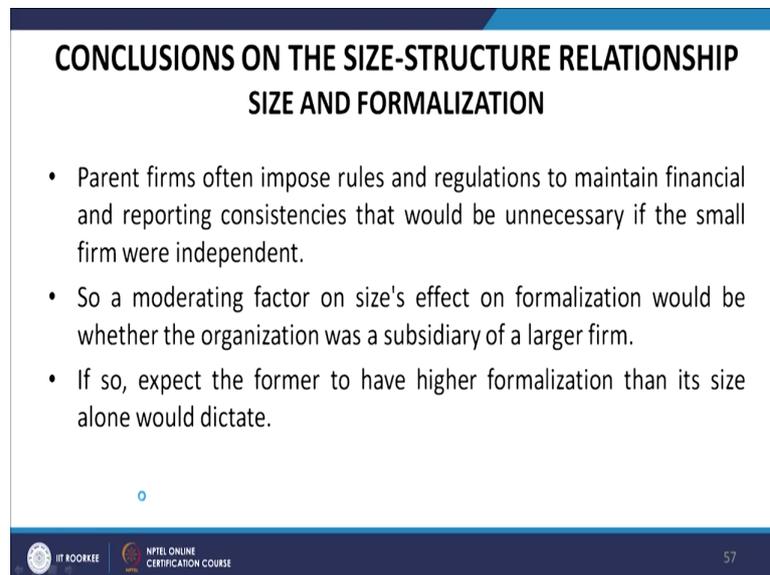
- Given managements' general desires to minimize this confusion, they seek means to make behaviour at lower levels in the hierarchy more predictable.
- Management turns to rules, procedures, job descriptions, and other formalization techniques to bring about this predictability.
- A final point on the size-formalization relationship should be noted:
 - We cannot ignore whether the organization is independent or is a subsidiary of a larger organization.

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Given managements' general desire to minimize this confusion, they seek means to make behaviour at lower levels in the hierarchy more predictable. Management turns to rules, procedures, job descriptions and other formalization techniques to bring about this predictability.

A final point on the size-formalization relationship should be noted. We cannot ignore whether the organization is independent or is a subsidiary of a larger organization. Parent firms often impose rules and regulations to maintain financial and reporting consistencies that would be unnecessary if the small firms were independent.

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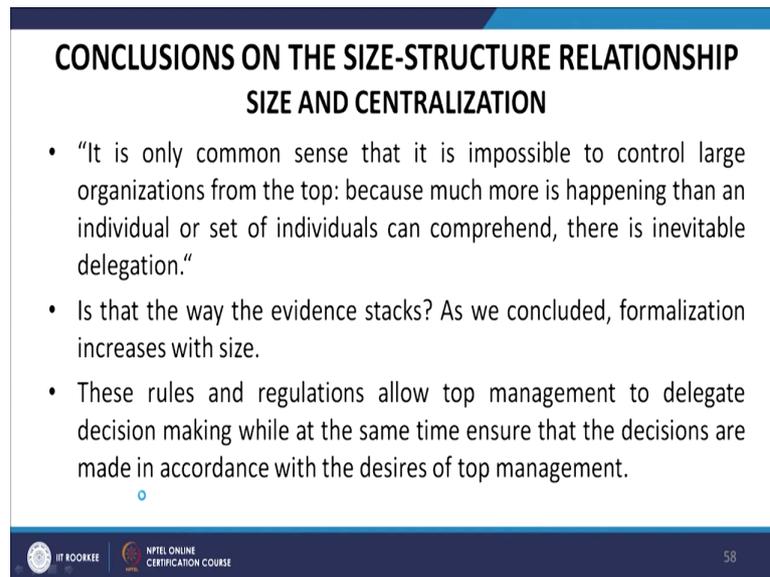
**CONCLUSIONS ON THE SIZE-STRUCTURE RELATIONSHIP
SIZE AND FORMALIZATION**

- Parent firms often impose rules and regulations to maintain financial and reporting consistencies that would be unnecessary if the small firm were independent.
- So a moderating factor on size's effect on formalization would be whether the organization was a subsidiary of a larger firm.
- If so, expect the former to have higher formalization than its size alone would dictate.

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So, a moderating factor on size's effect on formalization would be whether the organisation was a subsidiary of a larger firm. If so, expect the former to have higher formalization than its size would alone dictate. It is only common sense that it is impossible to control large organizations from the top because much more is happening than an individual or a set of individuals can comprehend, there is inevitable delegation.

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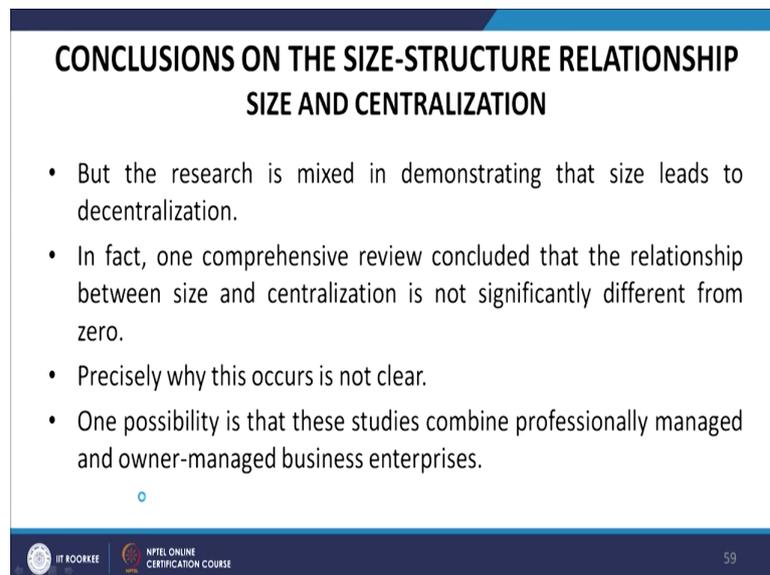
CONCLUSIONS ON THE SIZE-STRUCTURE RELATIONSHIP
SIZE AND CENTRALIZATION

- “It is only common sense that it is impossible to control large organizations from the top: because much more is happening than an individual or set of individuals can comprehend, there is inevitable delegation.”
- Is that the way the evidence stacks? As we concluded, formalization increases with size.
- These rules and regulations allow top management to delegate decision making while at the same time ensure that the decisions are made in accordance with the desires of top management.

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Is that the way the evidence stacks? As we concluded, formalization increases with size. These rules and regulations allow top managers to delegate decision making while at the same time ensure that the decisions are made in accordance with the desires of top management.

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CONCLUSIONS ON THE SIZE-STRUCTURE RELATIONSHIP
SIZE AND CENTRALIZATION

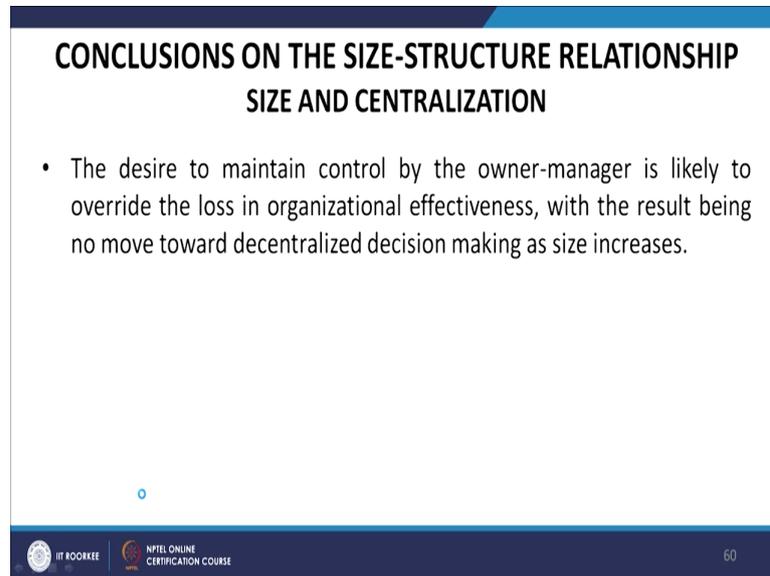
- But the research is mixed in demonstrating that size leads to decentralization.
- In fact, one comprehensive review concluded that the relationship between size and centralization is not significantly different from zero.
- Precisely why this occurs is not clear.
- One possibility is that these studies combine professionally managed and owner-managed business enterprises.

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possibility is that these studies combine professionally managed and owner managed business enterprises.

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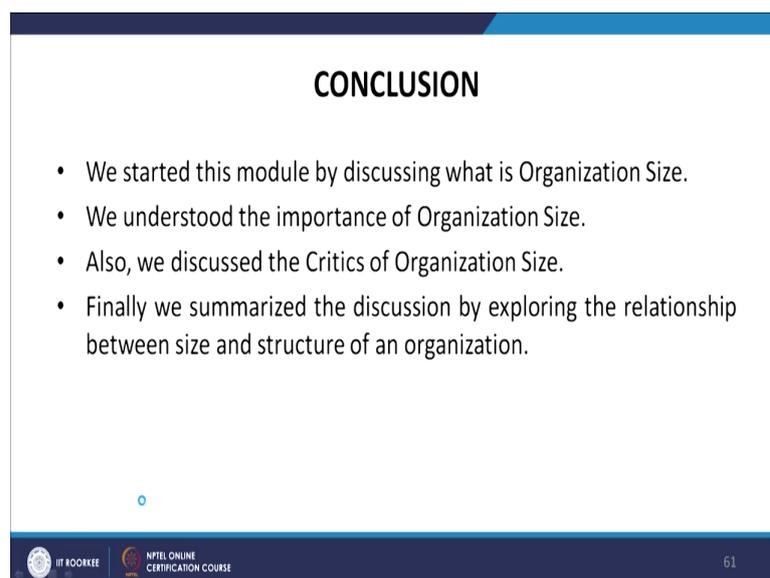
**CONCLUSIONS ON THE SIZE-STRUCTURE RELATIONSHIP
SIZE AND CENTRALIZATION**

- The desire to maintain control by the owner-manager is likely to override the loss in organizational effectiveness, with the result being no move toward decentralized decision making as size increases.

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The desire to maintain control by the owner-manager is likely to override the loss in organizational effectiveness, with the result being no move towards decentralized decision making as size increases.

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CONCLUSION

- We started this module by discussing what is Organization Size.
- We understood the importance of Organization Size.
- Also, we discussed the Critics of Organization Size.
- Finally we summarized the discussion by exploring the relationship between size and structure of an organization.

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So, in order to conclude, we started this module by discussing what is organization size. We understood the importance of organisation size. Also, we discussed the critics of

organisation size; and finally, we summarized the discussion by exploring the relationship between size and structure of an organization. And these are the four books from which the material for this module was taken.

Thank you.