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## Preface

## Asymmetry in structural adaptation: The differential impact of centralizing versus decentralizing team decision-making structures

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## ABSTRACT

This study tested predictions derived from Structural Adaptation Theory (SAT) on the longitudinal effects of centralizing and decentralizing decision-making structures in teams. Results from 93 four-person teams working on a command and control simulation generally supported SAT, documenting that it was more difficult for teams to adapt to a centralized decision-making structure after formerly working within a decentralized structure, than it was to adapt in the alternative direction. The negative effects of centralized shifts were mediated by efficiency and adaptability, in the sense that former decentralized teams experienced the negative aspects of centralization (lack of adaptability), but not the positive aspects (efficiency). The dangers of employing structural reconfiguration to solve certain problems in teams are discussed, especially if these changes are based upon expectations generalized from cross-sectional research that did not directly observe teams that experienced true structural change.

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## Introduction

Teams have been defined as small groups of *interdependent individuals* who share responsibility for specific outcomes (Sundstrom, De Meuse, & Futrell, 1990, p. 120). Team-based structures have played an increasingly important role in contemporary organizations, and longitudinal surveys of Fortune 1000 firms have shown a steady increase in the use of team-based structures moving from less than 20% in 1980, to roughly 50% in 1990, to over 80% in 2000 (Garvey, 2002). This has prompted a great deal of research on teams, much of which has focused on either the impact of various dimensions of team structure or team processes and outcomes (Ilgen, Hollenbeck, Johnson, & Jundt, 2005).

One of the most critical aspects of structure that has to be determined within any work group is where the locus of formal authority for decision-making is going to reside. Members of the group may have different ideas about what they each should be doing based upon variability in their experiences, preferences, knowledge, or information held. In centralized structures, authority is concentrated at the top of the team and a formal team leader has responsibility for making decisions. In contrast, in decentralized

structures, authority and decision-making responsibility are dispersed downward and outward through the hierarchy, and individual team members are empowered to make their own decisions (Pugh, Hickson, Hinings, & Turner, 1968).

A great deal of research has been conducted on the virtues and liabilities of alternative team decision-making structures (Bonaccio & Dalal, 2006; Ilgen et al., 2005), and several formal theories have been developed that describe why, when, where, and with whom various structures work well or work poorly (Burns & Stalker, 1961; House, 1971; Pennings, 1992; Vroom & Yetton, 1973). All of these theories emphasize that there is “no one best way” to structure decision-making in teams, and they all describe contingencies associated with why one structure or another is best depending upon the team’s goals and strategy. These theories have been supported by empirical research and are routinely incorporated into textbook treatments of this topic, as well as popular press accounts of management teams.

For example, if one were to peruse the popular press, it is clear that when it comes to centralization and decentralization, different organizations are moving in diametrically opposite directions for managing this aspect of structure. Within the United States government, the Department of Homeland Security represented a major centralization of formerly autonomous units (Peters, 2004) whereas the Veterans Administration’s new system of publicly supported, but regionally autonomous health centers reflected a move toward decentralization (Rogers, 2005). In the technology sector, IBM has moved in the direction of centralizing operations

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(i.e., creating a small number of super-regional centers that replaced a larger number of smaller and locally managed units; Flynn, 2000), whereas Microsoft has moved toward decentralizing operations (i.e., creating separate business units, such as Home Entertainment, Internet Services, Operating Systems, etc. that generate their own profit and loss statements; Greene, Hamm, & Kerstetter, 2002). In retail, Home Depot centralized purchasing operations that used to take place at nine different regional centers into one single location in Atlanta, while its primary competitor, Lowes, decentralized the same purchasing decisions to regional directors (Foust, 2003).

On the one hand, even though these organizations are moving in opposite directions, all this movement from one structural alternative to another could be rational in the sense that both formal theories and empirical evidence suggest there is “no one best structure” when it comes to centralization versus decentralization (e.g., Burns & Stalker, 1961; Pennings, 1992). At both the organizational level and the team level, one can find conceptual justification and empirical data from cross-sectional studies that suggest that each alternative has its own set of virtues and liabilities (e.g., Drazin & Van de Ven, 1985; Hollenbeck et al., 2002). If it is true that one structure is associated with one desirable outcome, whereas the other structure is associated with a different desirable outcome, then it might be tempting for an organization or work group to *change* their structure if there was a corresponding *change* in goals or strategies.

On the other hand, the cross-sectional and static nature of the current set of theories and data on this topic does not logically support the dynamic generalization that is often inferred in both the popular press and the academic literature. That is, one can accept the static conclusion that one structure is best for one outcome whereas the alternative structure is best for a different outcome, and still challenge the dynamic conclusion that if a group or organization has a *change in goals or strategies* they should *change their structure*. This dynamic generalization implies that “history does not matter” and that the experience of having worked within one structure has no impact on the ability of one to adapt to the alternative structure. However, emerging evidence suggests that in most group contexts, history does matter and past experience has a pronounced impact on future processes and outcomes (McGrath, Arrow, & Berdahl, 2000).

More specifically, when it comes to changes in team structure, research based on Structural Adaptation Theory (SAT) has shown directly that it is more difficult for teams to change their structures in some directions than in others. For example, the major dimensions of team structure work to create teams where the members are either highly tightly coupled or loosely coupled (Orton & Weick, 1990; Weick, 1976), and one of the major propositions of SAT is that it is easier for teams to shift into more loosely coupled structures relative to more tightly coupled structures. For example, research on SAT has found that it is more difficult to shift a team’s *task allocation structure* from a loosely coupled divisional scheme to a tightly coupled functional scheme than it is to change their structure in the alternative direction (Moon et al., 2004). Similarly, with respect to *reward structures*, the evidence suggests that it is more difficult for teams to change from a loosely coupled individually-based system to a tightly coupled group-based system than it is to make the shift in the opposite direction (Johnson et al., 2006; Beersma et al., 2009).

The purpose of this study is to extend this line of research to the dimension of *decision-making structure*, and we present conceptual arguments and empirical data that challenge the notion of symmetry in structural movement, documenting that it is more difficult for teams to shift from a decentralized to centralized structure than it is to shift in the opposite direction. This has theoretical implications for extending the breadth of Structural Adaptation

Theory, but also has practical implications for organizations that might be contemplating changing their structures, hoping to accrue benefits promised by current contingency theories that may never materialize.

### Structural Adaptation Theory

Contingency theories can be found throughout the applied social sciences (Miner, 1984). The underlying theme of every contingency theory is that there is no single correct answer to any complex problem. Whereas a certain approach may be effective in one situation, that same approach may be ineffective in a different situation. The static predictions from these contingency theories are plausible and generally supported by cross-sectional empirical research that takes a “fit versus misfit” approach to structural contingencies. However, in many organizations, the objectives of groups may change over time, and an organization may decide to place a greater emphasis on efficiency or adaptability relative to the past emphasis they placed on these objectives. This may prompt managers of those organizations to consider *changing* their structures, and as we showed in our opening to this manuscript, one can document many real world examples in the popular press of organizations moving toward greater centralization or greater decentralization in the hope of achieving enhanced efficiency or adaptability.

The longitudinal interpretation of these theories presumes, however, that structural movement is a symmetric process that proceeds in either direction with equal ease. That is, it implies that it is as easy to shift from a highly decentralized system that relies on delegation into a highly centralized system that relies on a hierarchical leader, as it is to shift in the opposite direction. Structural Adaptation Theory calls this assumption into question, and suggests that certain forms of structural movement are easier to execute relative to others.

Structural Adaptation Theory specifies three specific aspects of team structure that constitute tight versus loose coupling; task allocation structure (functional versus divisional), reward structure (group-based versus individual-based), and decision-making structure (centralized versus decentralized). As Ilgen et al. (2005) document, these are three independent dimensions of structure that have dominated past theory and research on teams. Many studies have examined the advantages and disadvantages of each of these elements of structure in a cross-sectional sense where each dimension is isolated. In general, tight coupling promotes efficiency (and related outcomes such as depth of knowledge, performance quantity, implicit coordination), whereas loose coupling promotes adaptability (and related outcomes such as breadth of knowledge, performance quality, flexibility, and personal responsibility).

A team is tightly coupled if the task allocation structure is functional (high task interdependence and specialization between members), the reward structure is group-based (all members receive the same reward based on the group’s overall outcome), and the decision-making structure is centralized (decisions are made by a team leader). In this configuration, when perceived by either members or outsiders, the team becomes the “figure” and the individual team members essentially become the “ground” in terms of the overall gestalt. In contrast, a team is loosely structured when the task allocation is divisional (members have broader and autonomous responsibility), the reward structure is individual-based (members, rewards are based only on their own performance), and the decision-making structure is decentralized (lower level members make their own decisions). Pushed to an extreme, totally decoupled teams start to resemble just a collection of individuals and cease being perceived as a team.

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