Chapter 3

EXAMINING THE RELATIONSHIP BETWEEN TRUST AND CONTROL IN ORGANIZATIONAL DESIGN

(How) Can Divergent Requirements be Reconciled?

Jens Grundei

Technology University of Berlin, Institut für Betriebswirtschaftslehre, Wilmersdorfer Str. 148, D-10585 Berlin, Germany

Abstract: Recently, organization design has been confronted with divergent demands. Whereas many organizational forms recommended to enhance organizational performance build on trust, control-oriented forms are suggested to assure compliance with an increasing number of regulatory norms. Companies face the challenge to meet both requirements concurrently. Against this background, this chapter examines whether the contrasting demands do in fact involve trade-offs and if so, whether and how they could be reconciled. Reconciling different demands may benefit from considering the following steps: Distinguish functional demands from concrete structural forms; analyze behavior which is critical for achieving the functional requirements; analyze contingencies of critical behavior and arrive at an informed behavioral assumption; design the organizational form by deliberating alternative structure building and structure flanking measures which are effective for facilitating critical behavior. If different demands have to be met simultaneously, the design elements must be thoroughly balanced.

Key words: Organization Design, Trust, Control, Configuration, Organizational Behavior

1. CURRENT APPROACHES TO ORGANIZATIONAL DESIGN: TRUST AND CONTROL

Organization design is a cornerstone for achieving corporate performance (Galbraith, 1994). More recently, firms have been confronted with several remarkably divergent demands concerning the appropriate design of

organizational structures. To prosper, firms need to combine, for instance, change and preservation (Volberda, 1996), exploratory and exploitive innovations (March, 1991) or alignment and adaptability (Gibson & Birkinshaw, 2004). Firms that successfully manage such tensions have been called ambidextrous (Gibson & Birkinshaw, 2004; Jansen, Van den Bosch, & Volberda, 2005). This chapter deals with a tension that is currently a particularly relevant issue in organizational design but has still received too little attention in the literature. On the one hand, associated with an emerging management paradigm (Daft, 2000) new organizational forms have been suggested in order to build efficient organizations able to cope with fierce competitive forces. Among the most salient, interrelated characteristics of these forms are, for instance, accentuated participation, delegation or 'empowerment' (Conger & Kanungo, 1988; Lawler, 1993; Spreitzer, 1996), lateral communication structures (Galbraith, 1994), self-contained autonomous units (Child & McGrath, 2001; Nadler & Tushman, 1997) and self-managed teams (Randolph & Sashkin, 2002). Especially in fast-changing, highly competitive environments, applying these principles to organization design may help to form an organization which is able to react more flexible to changing market requirements (Lampel, 2004) and which is more innovative as it supports 'intrapreneuring' (Pinchot, 1985). A common thread of (most of) the new design features is a high level of trust in employees' capabilities as well as their motivation to strive for higher company performance under these organizational conditions (cf. Child & McGrath, 2001; Forrester, 2000; Lewin & Volberda, 1999; Mayer, Davis, & Schoorman, 1995). The more trustworthy employees are perceived to be, the less an organization will monitor them (Langfred, 2004).

On the other hand, notably distinct organizational requirements have increasingly received attention. Driven by corporate scandals, especially writers on corporate governance have recognized the problem of ensuring that all employees of a company act in conformance with various norms at the legal ('hard law', e.g., the Sarbanes-Oxley Act of 2002) and sub-legal ('soft law', e.g., codes of good conduct) level (compliance). Since breaking laws can result in penalties of hundreds of millions of dollars, a loss in reputation, and liability of top managers (e.g., Dalton, Metzger, & Hill, 1994: 8-9; Paine, 1994: 109), conformance with all rules which are relevant for a particular company has become a crucial managerial task (Dalton, Metzger, & Hill, 1994). However, with an ever increasing number of regulations and daughter companies in various foreign countries operating in diverse legal settings, this task is anything but easy to accomplish. Strategies usually adopted for achieving compliance tend to reduce individual discretion and apply controls in combination with penalties to enforce rules (Banaga, Ray & Tomkins, 1995; Paine, 1994). An example would be the