6 Structure, Strategy and Performance

The allocation and distribution of the authority to make decisions is a critical task of organizational design in the public and private sector. Classical theorists of bureaucracy regarded the relative degree to which decision-making is centralized as integral to understanding how managerial choices are conducive to greater organizational efficiency (Gulick and Urwick, 1937; Weber, 1947). Contingency theory suggests that the extent of centralization within an organization should be dependent upon other key characteristics, especially the strategy content of an organization. In this chapter, we conceptualize centralization in organizations; survey the existing quantitative evidence on the centralization–performance relationship in public organizations; and theorize and empirically assess the separate and combined effects of centralization and strategy on public service performance.

Herbert Simon (1976) stressed that an organization’s anatomy was constituted both by the allocation and the distribution of decision-making functions. The extent to which senior or middle managers are responsible for setting strategy and the degree to which other staff are involved in strategic decisions have profound implications for all aspects of organizational behaviour and outcomes. In particular, centralization within organizations may be likely to influence the success with which an organization can pursue its selected strategy. Miles and Snow highlight that organizations will perform better when their structure follows their strategy. If the relative degree of centralization is in close alignment with the content of an organization’s strategy, then, in theory, it becomes easier to realize the intended benefits of that strategy. Many recent public service reforms have addressed the allocation and distribution of decision-making in public organizations. Such prescriptions for internal change present an ideal opportunity for public management
scholars seeking to understand the relationship between organizational characteristics and performance. What organizational structures are conducive to better performance? How are these related to the strategic management of organizations? Does the interaction of structure and strategy matter? Does performance improve when decision-making within public organizations is tightly aligned with strategy? More precisely, do the effects of organizational structure depend on the content of strategies and how they are formulated and implemented?

In the first part of this chapter, the concept of centralization is outlined, before existing evidence on its relationship with public service performance is reviewed and summarized. We then develop hypotheses on the independent and combined effects of centralization and strategy content and process on performance prior to presenting the results of our statistical analysis of the performance of Welsh local service departments.

**What is centralization?**

The centralization or decentralization of decision-making within organizations is a key indicator of the pattern of social relationships within any organization. Alternative structures of command and control provide system stability and institutional support for a variety of different organizational values and routines (O’Toole and Meier, 1999). Broadly speaking, such structures reflect two key sets of characteristics. First, the broad ‘structural’ features that ‘define the physical milieu’ in which organization members interact, such as the overall size of an organization and the ratio of administrators to production workers. Second, the ‘structuring’ activities managers undertake in order to deliberately shape the behaviour of organization members (Dalton et al., 1980). Although these two characteristics apply to all organizational structures, in the public sector, managers generally have far less discretion than their private sector counterparts over ‘structural’ issues. For example, the size of public organizations often reflects statutory duties and responsibilities, and is typically only altered at the behest of overhead political authorities (see Rainey, 1989). By contrast, public managers are likely to have a similar degree of control over ‘structuring activities’, such as the relative levels of decision participation, as managers in private firms – if not always over where responsibility for the content of decisions ultimately lies.

All organizations are ‘a collection of social positions not an aggregate of individuals’ (Hage and Aiken, 1967, 77). Organizational structuring is