Boundary conditions for effective delegation in flat structures

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Abstract

For flat structures to succeed, managers need to delegate decision-making authority to their employees and grant them more autonomy. However, for such high-delegation regimes to work, certain boundary-setting parameters or guardrails must be put in place to guide employees’ decisions and actions. The literature has already identified several guardrails that can be used by any organization facing the challenge of delegating decision-making authority without losing control. In this essay, we discuss two that are especially suited for flat structures.

**Keywords**: autonomy, delegation, hierarchy, strategy, decentralization

JEL classification: M10

Funding: Not applicable

Conflicts of Interest: Not applicable

Availability of data: Not applicable

Code availability: Not applicable

Authors contributions: Not applicable

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In his essay, Reitzig (2022) explores a number of issues that need to be resolved if flatter structures are to succeed. He defines flatter structures as ones with fewer hierarchical layers than traditional hierarchies. One of these issues is to decide what boundary conditions to set for effective and efficient self-organization. In this essay, we explore this challenge further by discussing two boundary conditions that are especially suited for flatter structures—the organization’s values and the organization’s clearly communicated strategy.

A key characteristic that all flat structures share is that management needs to delegate decision-making authority to lower levels (Aghion & Tirole, 1997; Colombo & Delmastro, 2004; Lee and Edmondson, 2017, Reitzig, 2022). Although more delegation does not necessarily mean more autonomy to the employees, the whole purpose of delegating—which is to reduce the workload of the remaining executives in a flat organization—will be defeated if managers do not also provide employees with more autonomy. As Reitzig points out: “…All else remaining constant, notably the number of employees, removing a layer in a grown hierarchy means that the span of control for each remaining manager increases. Unless management changes its way of working, this creates an impasse, because the workload of the remaining executives increases non-linearly with each person directly reporting to them. To avoid ending up in this scenario management must therefore delegate more work to their employees than they would in an alternative scenario…” This raises the broader question: “*how can we give autonomy to employees to carry out the additional tasks that we delegate to them without losing control?”* (Ancona and Isaacs, 2019). This is a critical question to ask because in high delegation regimes the potential exists for someone to decide something (or do something) that may end up having disastrous consequences on the whole organization.

The famous example of Stanislav Petrov springs to mind (Aksenov, 2013). Petrov was the duty officer at the Soviet Union’s early warning center when in the early morning of 26 September 1983, the systems detected an incoming missile strike from the United States. The protocol for the Soviet military would have been to retaliate with a nuclear attack of its own. But Petrov took it upon himself to not report the alarm, deciding instead that it’s probably a mistake. It turned out that he was right, and he is now known as “the man who saved the world.” However, putting aside the outcome for a minute, the question needs to be asked if this is the kind of behavior we would want from our employees? One would think that decisions of this magnitude should be the responsibility of senior management to make and that the average employee should not have the autonomy to be making them—otherwise disasters may ensue. We therefore return to our original question: “how can we give autonomy to people in flat hierarchies without losing control?”

Reitzig (2022) provides a few possible answers to this question. For example, he recommends that management should explicitly decide what decisions to delegate to employees and what not to. He also proposes that organizations with flat structures should hire employees that can thrive in a high delegation regime and then create a working environment that facilitates self-organization. There is no question that these ideas can help, but they are most certainly not enough. For one, given imperfect information, it is almost impossible to define ex ante all the decisions that employees could make with autonomy. This implies that there will be many instances when employees will have to decide on things that have not been defined for them—how can we ensure that they make optimal decisions in these cases? Similarly, having employees that are comfortable operating in a high delegation regime is obviously a good start but even these people will make mistakes if there is no or limited guidance from the top. This suggests that additional boundary-setting parameters—beyond what Reitzig recommends—need to be put in place in flat organizations to minimize the risk that something goes wrong without anybody noticing until it’s too late. What could these guardrails be?

Autonomy within a frame

Several boundary-setting parameters or guardrails have already been proposed in the strategy literature. These include mechanisms such as peer monitoring, peer-driven performance reviews, linking one´s performance to rewards, self-selection into projects, and having a powerful mission to guide people’s behaviors (Ancona and Isaacs, 2019; Eisenhardt and Sull, 2001; Hamel, 2011; Mankins and Garton, 2017; Stone, Deci and Ryan, 2009). These are all good suggestions that apply to any organization—not just a flat one—facing the challenge of giving autonomy without losing control. The question is: “are there any guardrails that are particularly suited to flat organizations?” One way to answer this question is by examining other flat organizations to learn from their success. One such organization is the family unit. It is not the only example of a flat organization and lots of other examples have been mentioned in the literature (eg. Bernstein, Bunch, Canner, & Lee, (2016); Hamel, (2011); Laloux & Wilber, (2014); Lee & Edmondson, (2017); Puranam & Håkonsson, (2015). However, new insights may emerge if we go beyond “the usual suspects” and examine a non-traditional, non-business organization such as the family unit.

 The family is not a totally flat organization, but it becomes flatter as children grow older. At the same time, the need to provide autonomy increases as children grow up. As all parents know, there comes a time when children demand and expect some autonomy from their parents—for example, going out with their friends without parental supervision. By allowing them to go out on their own, we are in effect giving them autonomy to make decisions on their own. How, then, do we ensure that this autonomy is not abused or that our children do not end up making decisions that are less than optimal? The short answer is that within the family unit, certain guardrails are especially important. These include: (i) the values that we teach our children that, we hope, will guide them in making difficult decisions as they grow older; (ii) a few simple and accepted rules—for example: “you can go out with your friends but you need to be home by 10pm”; and (iii) a sense of ownership and belonging in the family that gives us the confidence that individual members will make decisions with the collective (i.e. family) interest in mind.

Therefore, of the many guardrails proposed in the literature, these three can be particularly effective in flat organizations. In business language, they have come to be known as organizational values (Posner and Munson, 1979; Meglino and Ravlin, 1998); simple rules (Eisenhardt and Sull, 2001); and the purpose of the organization (Hamel, 2011; Mourkogiannis, 2014). There is no question that business organizations are employing these guardrails, but for at least two of them—values and purpose—questions have been raised as to their effectiveness outside the family organization (Markides, 2021). The reason is simple—for values or purpose to be effective guardrails, people need to buy into them at an emotional level. This is why we spend years trying to instil these things in our children’s hearts, primarily through our day-to-day actions. By contrast, organizations spend their time developing beautiful-sounding statements of purpose and values but fail to win the emotional buy-in from their employees. As a result, they are not as effective as they are within the family unit.

Strategy as a guardrail

One of the guardrails that is being used within the family organization is simple rules. In a business context, this could be seen as the clear strategy choices that the organization has made. They can act as guardrails in the following sense: decisions that employees need to make that fall within these choices, can be made with full autonomy. On the other hand, decisions that fall outside these choices cannot be taken by employees. For example, employees do not and should not need permission to attempt to improve the quality of the product or to offer additional service to the customers. However, they cannot and should not have the freedom to change the products being offered or the customers being targeted without the direct input of their leaders. Nor should they have the freedom to change the organization’s business model, no matter how convinced they might be that this needs to be changed. Put another way, employees can have full autonomy to act on operational issues—things that improve what the firm is already doing—but cannot have autonomy to decide or act on strategic decisions that define the organization’s direction (Markides, 2021). The use of strategy as a guardrail has become increasingly more popular in today’s fast-changing environment (e,g, Ancona and Isaacs, 2019; Hamel, 2011).

Obviously for employees to tell the difference between operational and strategic issues, they must first know the strategy of the organization. By this we mean the difficult choices that the organization has made on *who* to target as customers, *what* to offer these customers and *how* to play the game relative to competitors (Abel, 1980). For example, if employees know that their organization is targeting customer X, then they will know that it’s not up to them to decide whether they should also start selling to customer Y, even if this customer keeps knocking on the door asking to become a customer. That decision resides with top management. Similarly, if employees know that their organization is selling product A, then they will know that it’s not up to them to decide whether to start offering product B simply because customers are asking for it. That decision is also the province of senior management.

This sounds simple enough but there is overwhelming evidence that shows that employees in most organizations do not know the strategic choices their company has made. For example, a study by Devinney (2013) reported that even in high-performing companies with clearly articulated strategies, only 29% of employees knew what their company’s strategy was. Similarly, Schiemann (2009) found that only 14% of the organizations that he surveyed could say that their employees had a good understanding of their company’s strategy and direction. In short, the majority of employees are not even aware of the strategic choices their organization has made.

Many reasons have been proposed for this sad state of affairs. It could be that leaders fail to make the difficult choices that strategy requires and communicate instead platitudes and good-sounding goals and ambitions to employees (Vermeulen, 2017). It may be because senior managers communicate the strategy choices in a way that is not clear—by, for example, failing to communicate the strategy choices relative to the alternatives considered and rejected, something that we know from psychology that makes the choices clearer (Northcraft and Neale, 1986). Or it may be that the strategy choices get diluted over time as the organization responds to changes in its external environment (Markides, 2021). Whatever the reason, the end result is that employees are left in the dark as to what their organization’s strategic choices are. The problem is that without knowing what these choices are, they cannot tell the difference between operational and strategic issues; and without knowing this, they have no guidance how to exercise the autonomy granted to them. Strategic mistakes will inevitably follow.

Autonomy without chaos

Autonomy does not mean that employees can do whatever they want. That could lead to chaos. Autonomy has to be given within some clear parameters. The principle is simple: if the decision that the employee is about to make falls within these parameters, then the employee has autonomy to make it; if the decision falls outside these parameters, then they have no autonomy to make it. They need to ask their managers to make that decision.

It should be obvious that these parameters must be clear and known by the employees. They will not be offering guidance to employees if nobody knew about them. And yet, that is exactly the situation in many organizations when it comes to the most important of these guiding parameters—the organization’s strategy. The logical implication that flows from this is straightforward: if employees do not know the organization’s strategic choices, leaders will not be confident enough to give them autonomy. This, in turn, implies that a key element for well-functioning flat structures—delegation and autonomy—will be missing. Any attempts to implement flat structures without this element will inevitably fail.

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