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Size and Organizational Effectiveness: Maintaining a Balance

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Abstract

The paper reviews literature on the effect of size on organizational effectiveness. The paper concludes that the success of organizations to a very large extent depends on their ability to right size and combine the benefits of small and big companies**.** The paper therefore recommends that Organizations should have a "big company/small company hybrid" that combines a large corporation's resources and reach with a small company's simplicity and flexibility. Size should be managed effectively to empower workers and improve the competitiveness of organizations.

JEL classification numbers: M, MO, M1, M10
Keywords: organizational size, organizational effectiveness,

1 Introduction

The ability of organizations to cope, survive and make progress determines how effective they are. Skyrocketing health care cost, increasing workforce diversity, and an economic recession, for example, have forced organizations to "right size" (Cummings and Worley, 1993). Whereas structure is important in defining individual responsibilities within the workflow process, a congruent size ensures that individuals carry out these responsibilities with minimum resistance (Connel, 2001).
Organizations experience poor corporate productivity, grapple with low profitability; they struggle to maintain their market share, and suffer difficulties in expanding their market share. They strive for effectiveness and efficiency, the all time basics of all business

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problems. Several researches on how to improve organizational effectiveness have taken place in the past two decades (Moon- Gi, 2004, Barnes, 2007, Hofler, 2010). The difference in performance is often related to the strategy adopted by an organization to achieve its objectives. Right-sizing and the utilization of benefits it offers can help organizations achieve their goals.

2 Theoretcial Background

The focus of this paper is on the relevance of structure in organizations. The basic assumption underlying a large percentage of the research on the relationship between size and structure is that increases in size lead to increases in control and coordination requirements. Several observers have argued that the structure of an organization is closely related to its context, and that much of the variation in organizations might be explained by structural or contextual factors. Many such factors, including size, have been suggested as important determinants of organizational structure and functioning. Starting from this theoretical framework, the present study explores how differences in the effectiveness of business firms are related to their characteristics.

Over the past decade, a great deal has been written about size and the role it plays in influencing the successful performance of organizations (Judge, 1994). By exploring the effect of size on organizational effectiveness, organizations can enhance their competitive advantage and effectiveness.

3 Results and Discussion

Size is the organization's magnitude as reflected in the number of people in the organization. Organization size has often been described as an important variable that influences structural design. Organization size (as defined by the number of employees) has received substantial attention from researchers and management writers as a fundamental component affecting organizational design, structure and shape. Some researchers claim size influences organizational effectiveness and efficiency and some claim it does not. Of the various structural variables, size is perhaps the one most likely to be associated with other organizational characteristics (Shin and Suh, 1999, Hofler, 2010). Conceptual and empirical examinations of economies of scale have sought an optimum firm-size, one that results in the lowest cost per unit of production. In addressing the size-effectiveness relationship, some researchers find it a negative one, and others, a positive one. Despite their contrasting findings, each study holds that size may influence organizational effectiveness.

Organization design must take into account the size of the organization. A small organization could be paralyzed by too much specialization. In larger organizations, on the other hand, there may be economies of scale that can be gained by maintaining functionally specialist departments and teams. A large organization has more complex decision making needs and some decision making responsibilities are likely to be devolved or decentralized. Organizations have growth as one of their goals. Daft (2003) offered three reasons for the desire for growth. These include organization goals, executive advancement and economic health. Organizations merge to gain stronger market presence. There are many challenges and opportunities for advancement when the number of employees is expanding. Greater size gives marketing-intensive companies like banks, power in the market place and increased revenues (Treece, 1993, Amah, 2009).

Huge resources and economics of scale are needed for many organizations to compete globally. This is responsible for the mergers and acquisitions going on in the Nigerian banking sector. However, small and large organizations have their peculiar characteristics and effects on the culture and effectiveness of the organizations (Daft, 2003). Large organizations are standardized, often mechanistically run, and complex. The complexity offers hundreds of functional specialties within the organization to perform complex tasks and produce complex products (Geeraerts, 1984). Once established, large organizations can be a presence that stabilizes a market for years. It provides longevity, raises and promotions.

Large organizations are associated with vertical and horizontal complexity, more decentralized (Geeraerts, 1984). Founders and senior managers do not have sufficient time and expertise to process all the decisions that significantly influence the business as it grows. Therefore, decision-making authority is pushed down to lower levels, where incumbents are able to cope with the narrower range of issues under their control (Robey, 1991). They carry out more written communications and documentation. They have bureaucratic culture, which has an internal focus and a consistency orientation for stable environment. The culture supports a methodical approach to doing business (Daft, 2003). Symbols, heroes and ceremonies support cooperation, tradition and following established policies and practices as a way to achieve goals. There is high level of consistency, and collaboration among members. The organization succeeds by being highly integrated and efficient (Daft, 2003).

Small organizations are responsive and flexible and this guarantees them success in a global economy (Deutschmann, 1991; Daft, 2003). Research shows that as global trade has accelerated, smaller organizations have become the norm (Carroll, 1994). Huge investments are giving way to flexible manufacturing and niche marketing as ways to succeed. There is a decrease in average organization size, as most service companies remain small to be more responsive to customers (Carroll, 1994). Small organizations have flat structure and an organic, free-flowing managing style that encourages entrepreneurship and innovation (Daft, 2003; Deutschmann, 1991). Small size of firm encourages motivation and commitment, which are needed for effectiveness. In small organization's top managers can use their personal observation to control (Carter and Keon, 1989; Hsu et al, 1983; and Geeraerts, 1984). This implies that small size eases the problem of control.

The complexities of structural and cultural issues increase exponentially when firms expand their business activities to the international level (Cheah and Garvin, 2004). In this case, phases of cultural development have to be planned, and organizational structure has to be redesigned to absorb changes in control and coordination mechanisms (Barlett and Ghoshal, 1998) this is especially true given the nature of service operations that largely demand responsiveness to the local environment. Recent research on organizations shows that in rapidly growing organizations, administrators grow faster than line employees. In declining organizations they decline more slowly. This implies that administrative and staff personnel are often the first hired and the last fired (Marsh and Mannari, 1989). In large organizations, top administrators are a small percent of total employment. They, however, spend more on overhead because of the number of staff involved.

Organizational size is another contingency variable thought to impact the effectiveness of different organizational forms (Hofler, 2010). Small organizations can behave informally while larger organizations tend to become more formalized. The owner of a small organization may directly control most things, but large organizations require more complex and indirect control mechanisms. Large organizations can have more specialized staff, units, and jobs. Hence, a divisional structure is not appropriate for a small organization but may be for a large organization.

Jack Welch, Chairman of General Electric, called for a big company/small company hybrid" that combines a large corporation's resources and reach with a small company's simplicity and flexibility. Some big companies like Johnson, Hewlett-Packard, AT&T and Even General Motors are already effecting this suggestion. These companies have all undergone massive reorganizations into groups of small companies to capture the mind-set and advantages of smallness (Daft, 2003). Daft (2003) further argued that:

"A full-service, global firm needs a strong resource base and sufficient complexity and hierarchy to serve clients around the world. Large or growing companies can retain the flexibility and customer focus of smallness by decentralizing authority and cutting layers of the hierarchy" (pg. 165).

In a study, conducted in six Australian workplaces, it was found that organizational size affected a number of variables. For example, the organizational culture within the three small firms investigated was more positive; management was more consultative and employee morale was higher than in the three large firms investigated. As a result, the findings from this study indicate that in relation to a number of factors explained in the paper, larger firms may wish to emulate their smaller counterparts in order to achieve higher employee morale, and hence, organizational effectiveness (Connel, 2001).

Effectiveness is a broad concept and is difficult to measure in organizations (Daft, 2003). It takes into consideration a range of variables at both the organizational and departmental levels. It evaluates the extent to which the multiple goals of the organization are attained. Organizations are large, diverse and fragmented and tend to perform many activities simultaneously with various outcomes (Weick and Daft, 1982). It is difficult for managers to evaluate performance on goals that are not precise or measurable (Blenkhorn and Gaber, 1995). However, performance measurement that is tied to strategy execution can help organizations reach their goals (Rose, 1991).

Daft (2003) has identified two major approaches to measurement of organizational effectiveness – the traditional and contemporary approaches. The traditional approaches include the goal approach, the system resource approach and the internal process approach. The goal approach to organizational effectiveness which this study considers is concerned with the outputs, whether the organization achieves its goals in terms of its desired level of outputs (Strasser et al., 1981). It is based on the fact that organizations have goals they are expected to achieve.

Hall and Clark, (1980) argue that the important goals to consider are the operative goals and not the official goals. The official goals tend to be abstract and difficult to measure while the operative goals reflect the activities the organization is actually performing. The goal approach is used in business organizations because output goals can be readily measured (Daft, 2003). Top managers can report on actual goals of the organization since such goals reflect their values (Pennings and Goodman, 1979). Once goals are identified, subjective perceptions of goal achievement can be obtained if quantitative indicators are not available.

Effectiveness is measured by profitability, productivity, and market share in this study. Profit has been defined as the money a business earns above and beyond what it spends for salaries expenses, and other costs (Nickels et al., 2011). Profit is one of the major reasons for venturing into business. Profitability therefore, means a state of producing a profit or the degree to which a business is profitable. Profitability is the primary goal of all for-profit business ventures (Amah, 2006). Without profitability the business will not survive in the long run. Conversely a business that is highly profitable has the ability to reward its owners with a large return on their investment. According to Thompson and Strickland (2001:9, 42):

Achieving acceptable financial result is crucial… Achieving acceptable financial performance is a must, otherwise the organization's financial standing can alarm creditors and shareholders, impair its ability to fund needed initiatives and perhaps even put its very survival at risk.

This makes measuring current and past profitability and projecting future profitability a very important issue. Profitability has been identified as criteria for organizational effectiveness by many authors (Maheshwari, 1980). It takes a productive firm to be profitable; this brings us to our next measure of organizational effectiveness, which is productivity.

Productivity is basic to organizational effectiveness. Productivity is defined by Amah (2006) as "the measure of how efficiently and effectively resources (inputs) are brought together and utilized for the production of goods and services (out puts) of the quality needed by society in the long term". This implies that productivity is combination of performance and economic use of resources. High productivity indicates that resources are efficiently and effectively utilized and waste is minimized in the organization. Productivity balances the efforts between different economic, social, technical and environmental objectives (Amah, 2006). High productivity provides more profit for investors and promotes the development of the enterprise. Productivity measurement indicates areas for possible improvements and shows how well improvement efforts are fairing. It helps in the analysis of efficiency and effectiveness. It can stimulate improvement and motivate employees (Prokopenko, 1987).

Productivity is related to the amount of output produced relative to the amount of resources (time and money) that go into the production. Productivity is expressed in terms of cost for a unit of production; "units produced per employee" or "resource cost per employee" (Daft, 2003). Productivity improves, when the quantity of output increase relative to the quantity of input. It includes measures such as time minimization, cost minimization and waste minimization. Speed and time are important resources, organizations seek to maximize speed and minimize time. The way they do these indicates how efficient and productive they are. Effective organizations maintain and improve their market share.

Market Share refers to the company's sales as a percentage of the sales in its target market (Czinkota et al., 1997). This means that in strategic management and marketing, market share is the percentage or proportion of the total available market or market segment that is being serviced by a company. It can be expressed as a company's sales revenue (from that market) divided by the total sales revenue available in that market. It can also be expressed as a company's unit sales volume (in a market) divided by the volume of units sold in that market. Market share (or brand share) is the share of overall market sales for each brand. Market share can be quoted in terms of volume (e.g. the brand has a 10% share of the total number of units sold) or in terms of value (Czinkota et al., 1997).

According to Czinkota et al., (1997), the measure of share and concept of prospects are important because they describe the extra business that a producer can reasonably look for, and when to obtain it. Increasing market share is one of the most important objectives used in business. The main advantage of using market share is that it abstracts from industry-wide macro environmental variables such as the state of the economy or changes in tax policy. According to the national environment, the respective share of different companies changes and hence this causes change in the share market value; the reason can be political ups and downs, and disaster, any happenings or mis-happening.

Market share has the potential to increase profits. Small market share increases, mean very large sales increases. Studies have shown that, on average, profitability rises with increasing market share (Kotler and Armstrong, 2001). Because of these findings, many companies have sought to expand market shares to improve profitability. Market share is important because it enables one to know the strength of the organization whether they are leaders or minor players and also if the organization is still holding, gaining or losing share of its target market (Kotler, 1999).

Mahoney et al (1972) reported size influences coordination and performance. This prediction was confirmed by the positive and statistically significant effects of the size measures (assets and employees) on returns on sales. The arguments by Nan Weiner and Thomas A. Mahoney, and Heather A. Haveman, that size has a positive effect on organizational effectiveness, is supported, reflecting the benefits of economies of scale (Shin and Suh, 1999). Organization size is a frequently discussed, less often studied, characteristic of organization units. Two size dimensions, unit size and size of parent organization, were analyzed for independent and joint relationships with various dimensions of organizational behavior and managerial practice. Results suggest that managerial practices of delegation, staffing and direction vary with size and moderate expected size influences upon coordination and performance. Supporting his view (Judge 1994, Moon-Gi, 2004, Barnes and Webb, 2007) also found size to be related to measures of performance. A recent study by Amah (2009) also reported that size positively influenced organizational effectiveness among Nigerian banks. Banks in Nigeria have expanded and established several branches to enable them bring their services closer to the customers. They have also appropriated the advantage of the simplicity and flexibility associated with small companies in their branches (Amah, 2009). Similarly, Hofler (2010) also suggested that size could influence performance.

4 Conclusion

The size of organization can affect its effectiveness. The need for organizations to right size can not be over emphasized. Organizational effectiveness increases with increase in responsiveness and flexibility associated with small size. Big organizations can achieve this through the opening of several branches and the decentralization of activities in order to be more responsive to its customers.

5 Implication and Recommendations

Managers can achieve the goals of their organizations through ensuring that they draw from the gains of large size and small size. Organizations can increase in size and determine to retain the charateristics of small organizations that ensures responsiveness.
Organizations should have a "big company/small company hybrid" that combines a large corporation's resources and reach with a small company's simplicity and flexibility. Size of organization should be managed effectively to empower workers and improve the competitiveness of organizations. A well-designed organization ensures that the infrastructure of the organization matches its purpose and goals, meets the challenges posed by business realities and significantly increases the likelihood that the collective efforts of people will be successful. However, the best organizational size is one that fits the structure, management style, and overall marketing strategy.

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