How to Make Corporate Hierarchy More Likable

By Phanish Puranam , INSEAD, and Eucman Lee , Nanyang Technological University

People clearly prefer flatter organisations, with less power distance between the tip and the base of the pyramid.

What would you say about a system that improves performance, but is disliked by a significant percentage of those participating in it? Conventional organisational hierarchy may be just such a system. Yet plenty of theorists – including, at times, ourselves – have concentrated on explaining the *existence* of hierarchy, rather than seriously examining how it could be made more likable.

How individuals feel about the structures they live and work in is just as important as the effectiveness or efficiency of these structures. In fact, the two are typically intertwined in a world where the unobservable motivation of employees matters (i.e. the real world). Therefore, we should try to accommodate people's preferences about structures – especially if we can do so without reducing effectiveness.

We surveyed **a diverse array of senior professionals** about their likes and dislikes regarding corporate hierarchies. Their chief complaint, by a wide

margin, was that hierarchies seemed to have too many layers, i.e. too many bosses between the most junior employee and the CEO. People clearly prefer flatter organisations, with less power distance between the tip and the base of the pyramid.

How to flatten a hierarchy

So, how can we deal with the problem of too many layers in hierarchies? Broadly speaking, there are only two possible approaches.

First, we can reduce the number of people in the organisation. Smaller organisations will necessarily have fewer layers. (See Figure 1.) But large size firms arise in part because opportunities for profitable scaling surface. Would you be willing to forego that? Icons of **non-hierarchical organisation**, such as the **videogame maker Valve**, are often privately held and their owners have resisted pressures to go public. This is unlikely to be an option for existing large organisations. One cannot fire some people merely to allow the rest of the firm to enjoy life in a flatter hierarchy. Note, we are not arguing against downsizing when necessitated by recession – only against downsizing merely to flatten hierarchy for the sake of flattening it. Perhaps automation and AI will produce the flattening, by enabling organisations to produce as much as they now do with far fewer numbers of employees. If automation removes existing jobs on a large scale, our dislike of layers in hierarchies may be the least of our worries…

Second, we can use the most important lever we have at our disposal to change the shape of a hierarchy (while holding its size constant), the span of control. This refers to the number of direct subordinates who report to a superior. The inescapable arithmetic of hierarchies tells us that the only way to reduce the number of layers in a hierarchy, while keeping the total size of the organisation constant, is to increase the span of control in as many layers as possible (it is rarely constant across layers).

What determines the span? Span of control reaches its limit when the number of subordinates exceeds the number over which a superior can exercise authority. That authority entails directing them, and resolving disputes and fruitless conflicts amongst subordinates. In general, as the number of direct subordinates for a supervisor rises, the number of possible interactions among them should increase quadratically. This is known colloquially as the "quadratic explosion" – the difficulty of managing a group increases exponentially with group size, as any manager knows. In order to

allow for greater span of control, we must increase either the manager's ability to manage employee disputes and the likelihood that employees will be able to resolve disputes on their own, or both.

How could this be accomplished? Redesigning work to make it more modular (thereby lowering interdependencies), using rules, procedures and technology to improve peer-to-peer collaboration as well as managerial supervisory capacity, and building a culture that enables better peer-to-peer collaboration are the most common levers available to us. Each can be useful in flattening hierarchies. For instance, in our survey we found evidence that even after accounting for size and industry, firms in Asia on average had more layers than those in Europe. Perhaps differences in culture play a role. But if this is true, than differences in organisational culture may have similar effects.

Softening the hierarchy

We can also attempt to decrease the negative effects of layers in a hierarchy while leaving the number of layers unchanged through a variety of softer measures. This translates into four key issues.

First, reduce the perception of distance from decision making by allowing greater opportunities for direct interaction across levels. As an **email from Elon Musk** to his employees underlines, the hiearchy of authority and the network of communication in a organisation need not be the same; while authority is necessarily an asymmetric layered relationship, in principle communication can be egalitarian and many-directional.
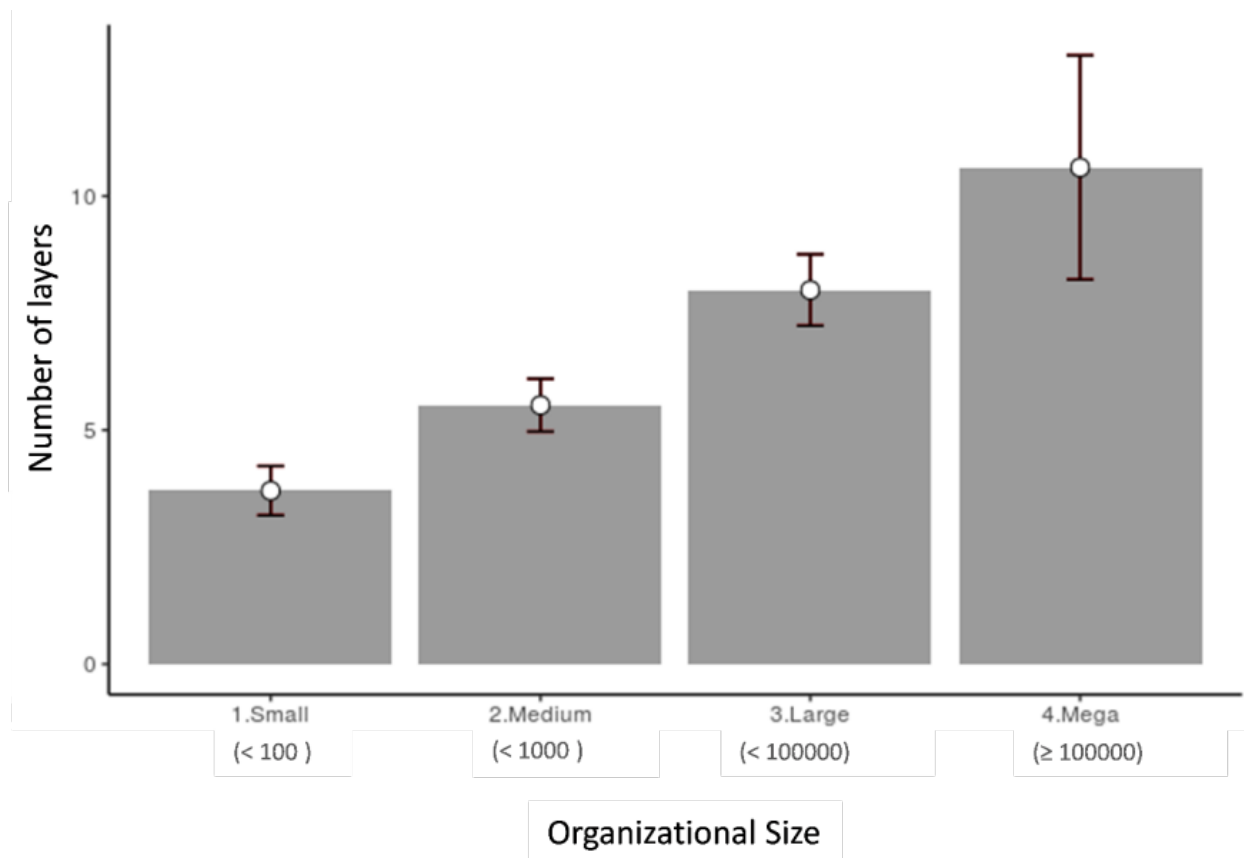
Second, reduce perceptions of inequity and status differences by promoting egalitarian norms.

Third, increase delegation where possible. A word of caution about delegation: In the legal structure of a firm, accountability ultimately rests with the top management. Authority everywhere else in the hierarchy is delegated, but legal accountability is not. This means that the well-known benefits of delegation – such as allowing decision making to reside closer to the locus of knowledge, positive motivational effects on subordinates and creating training opportunities – must all be carefully balanced against the loss of control and coordination created by delegation. Put simply, we should not be complacent about the costs of pushing authority downwards; they are real precisely because authority offers the benefits of control and

coordination, which delegation forces us to give up in some measure.

Last but not least, perhaps the most important impact we can have on perceptions of hierarchies is to educate people about how they work, why they work the way they do, and their pros and cons. A thorough understanding of concepts like control loss, span of control constraints, and the limits of delegation can turn critiques of hierarchies towards their real failings, rather than their imagined ones.

Figure 1

Find article at

https://knowledge.insead.edu/leadership-organisations/how-make-corporate-hierarchy-more-likable

About the author(s)

Phanish Puranam is the Roland Berger Chaired Professor of Strategy and Organisation Design at INSEAD.

Eucman Lee is an Assistant Professor in the Division of Strategy, Management and Organisation at Nanyang Technological University.