Organization Design

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Organization design is a field that is of increasing interest to many organization development (OD) professionals. Businesses are developing ever-more-complex strategies that often require multi-dimensional global organizations to execute. In addition, constant technological improvements have created higher expectations for organizations to process information and make decisions faster.

As a result, business managers are looking for assistance in making smart decisions about the shape of their organizations. They expect that their HR generalists and specialists will be knowledgeable about organization design frameworks, methods, and tools. Business clients also expect that their HR partners will have the time and capability to help them sort through these complicated and high-value decisions.

This chapter will define organization design and its relationship to OD work. It will present key organization design concepts and principles to introduce the OD practitioner to the language of organization design and provide an essential tool—design criteria—for linking strategy to organizational capabilities. Finally, the chapter will highlight some of the competencies of organization design so that the reader can begin to assess his or her own interest in and aptitude for the field.

THE RELATIONSHIP OF ORGANIZATION
DESIGN TO ORGANIZATION DEVELOPMENT

The first question to address is, "What is organization design?" Organization design is what John Boudreau calls a "decision science" (Boudreau & Ramstad, 2007, p. 15). In many fields there is a decision science that focuses on setting frameworks and making sound choices among competing alternatives. Those fields often have a complementary "practice area" that is focused on implementing the appropriate tools and interventions to successfully execute on the selected framework. For example, *marketing* is a decision science: where and how we compete, how we differentiate our products and services. *Sales* is the complementary practice area, which identifies how we use our skills and tools to execute on our marketing plans. Another example can be found in the distinction between *finance*, which is the decision science for evaluating and making investment decisions, and *accounting*, the practice of ensuring that those decisions are based on accurate data.

Organization design is a decision science for selecting among competing alternatives in order to match the optimal organizational model to the strategy. Making good design choices is not enough, of course, to successfully carry out a strategy. *Organization development* can be thought of as the discipline (or "practice area") of implementing these design choices. Organization design constitutes the link between business strategy and OD, as illustrated in Figure 23.1.

Without organization design, there is no framework within which to determine what OD activities will have the most impact and when they should be carried out. Therefore, even if the OD practitioner is not involved directly in organization design decisions, adding this knowledge to his or her toolkit is useful. Understanding organization design concepts and options and being able to analyze existing designs and anticipate the predictable consequences of various choices will aid practitioners in making better decisions regarding what OD interventions will be most effective and how best to carry them out.

Business Strategy		Organization Design		Organization Development
What markets? What products? What formula for success?		What capabilities do we need? How do we best configure?		How do we change and improve the organization?

Figure 23.1. From Strategy to Organization

Many experienced OD practitioners are seeking to learn about organization design because it moves them up the value chain in their discussions with their business clients. Taking part in the discussion places them closer to strategic decisions and in a position to more fully influence OD work.

One can also define organization design by its relationship to talent. An analogy is that of city planning to architecture. Architecture is about individual buildings and their relationship to one another. City planning is about urban systems; it not only deals with the built environment, but with political, social, economic, and transportation networks as well. In the same way, organization design is about complex, interconnected systems that create the conditions in which individuals and teams—that is, "talent"—can succeed.

Finally, we should focus on the word "design." Organization design is a creative, integrative activity based on an understanding of patterns of organizational behavior. Good organization design embodies the same values of good design found in more common objects: balance, proportion, and unity. The key difference between organization and industrial design is that the organization being designed is invisible, yet everyone has to understand its intentions and their place in this unseen web of work relationships.

In most companies, organization design is considered an adjunct of OD work and is housed in the HR department. However, many people come to the field from a strategy, process, or business background. Given the close relationship of organization design to strategy and the discipline's focus on systems, some companies are examining the option of housing their organization designers in a strategy execution group along with specialists in project management, business process reengineering, systems requirements management, and change management. While there is debate about where organization design should reside within a firm (and whether it is even an HR activity), today it remains most often an HR offering and a part of the OD specialist's role.

KEY CONCEPTS IN ORGANIZATION DESIGN

The key elements to consider in organization design are illustrated in the Star Model, which was developed by Jay Galbraith in the 1970s and is shown in Figure 23.2. There are many versions of the Star Model in use, as well as similar models, such as McKinsey's "Seven S." We use the Star Model here because it has proven over the years to be both comprehensive enough for experienced practitioners to apply and clear enough for line managers to understand and use.

The Star Model provides the basic elements that must be considered in any organization design effort: strategy, structure, process, metrics, and people. Notice that, although culture is an essential part of an organization, it is not
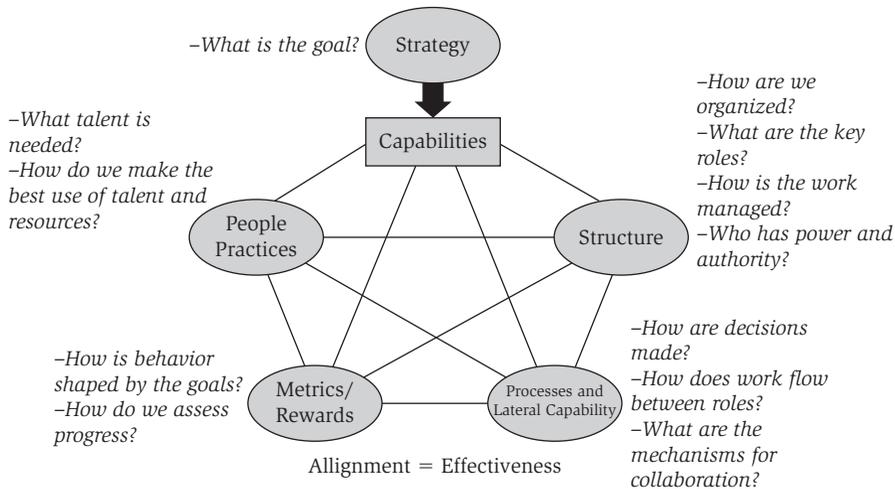
Figure 23.2. The Star Model

Adapted from Galbraith, 2002, p. 15

an explicit part of the model, as the leader cannot design the culture directly. An organization's culture consists of the common values, mindsets, and norms of behavior that have emerged over time and that are shared by most employees. It is a product of the cumulative design decisions that have been made in the past and of the leadership and management behaviors that result from those decisions. Only those a leader has direct influence over are included in the model.

In addition to the "what" of organization design summarized by the Star Model, there is also a "how to" that is emerging as a core design methodology in the field. A decision that is made early in a process will constrain the choices that can be made later, foreclose avenues of exploration, and eliminate alternatives. Making good decisions at early, critical junctures requires both a sound theoretical framework and a process that makes use of all the data and experience available to the decision-makers. Figure 23.3 summarizes the core organization design process.

The process of organization design starts with *design criteria* to determine differentiating capabilities upon which the strategy is built. The next step is an *assessment* to identify gaps between the current state and the future envisioned by the strategy. The assessment is followed by *option generation and evaluation* to test scenarios and make tradeoffs. The final stage of the process is the selection among various identified design alternatives and implementation.
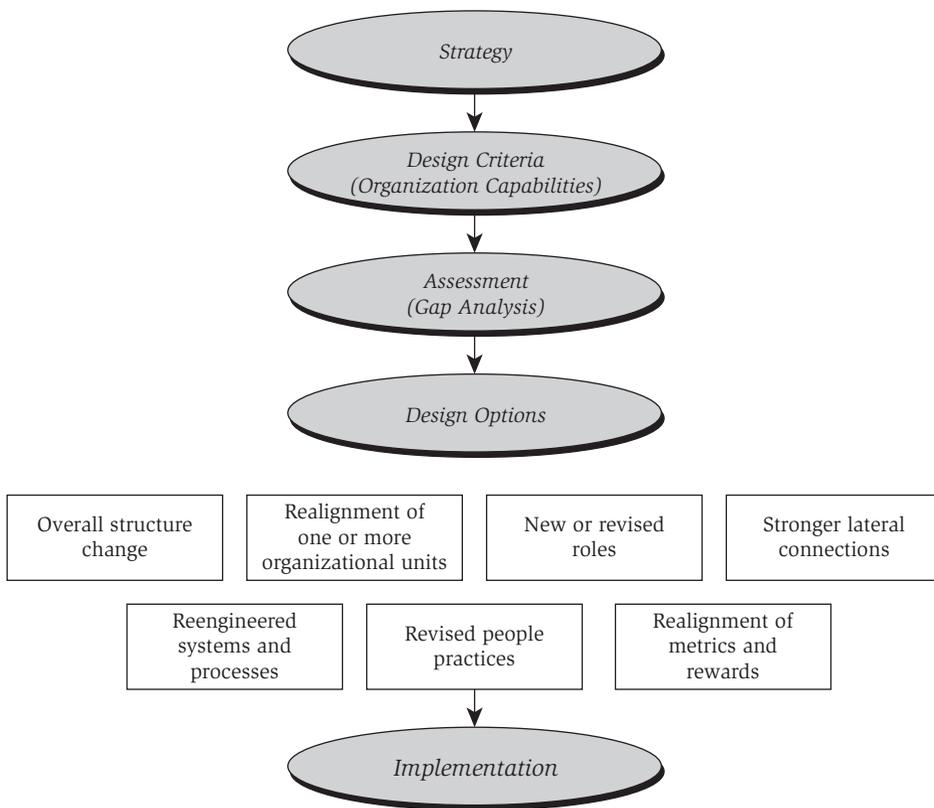
Figure 23.3. The Organization Design Process

ORGANIZATION DESIGN PRINCIPLES

All good organization design follows a set of core principles. Those that provide the broadest guidance are summarized below:

- *Alignment*. The idea of alignment is fundamental. Each component of the organization should work to support the strategy. The more that the structure, processes, rewards, and people practices reinforce the desired actions and behaviors, the better positioned the organization is to achieve its goals.

- *Reconfigurability*. Just as important as initial alignment is the ability to realign as circumstances change. An organization's internal rate of change has to match the rate of change in its external environment. But the larger the organization, the harder it is to change. Leaders' first instinct is often to change structure, as that is the most visible and tangible action. However, structural changes are frequently disruptive,

distracting, and excessive. Rather, an organization's ability to quickly assemble the right people around risks or opportunities is its most powerful means for changing direction. Through robust project teams, cross-organization processes, and lateral collaboration, management decisions and actions can be rerouted to shift priorities and redirect organizational energy. The underlying structures can stay the same.

- *Requisite complexity*. An organization should be as complex as its business requires (Ashby, 1952). Business leaders are pulled between responding to the increased demands of the market and the speed of competition while keeping their organizations manageable. The organization designer has to challenge the desire of managers to oversimplify. Designers must ask business leaders some hard questions:
  - Have we simplified too much in a desire to make the leadership task easier?
  - Have we failed to build an organization that can achieve all aspects of our strategy?

  Conversely, some questions may arise about whether an organization is too complex:
  - Have we exceeded human limitations?
  - Have we created too many interactions and interfaces for our people to manage?
  - Can we achieve the same outcomes more simply, and only introduce complexity when absolutely necessary?

- Organizations can be designed so that managers have simple roles in a complex structure, or, alternatively, so that managers work in a simple structure but end up with highly complex jobs. Complexity cannot be avoided—it is a fact of the modern business environment—but it can be intelligently designed and managed.

- *Complementary sets of choices*. There exist numerous choices among structures, processes, rewards, and people practices. However, once a strategic path is set, the number of suitable choices for each design element will be reduced. The organization designer learns what sets of complementary choices work best together and assists the organization's leaders in building, aligning, and optimizing these alternatives.

- *Coherence, not uniformity*. A large, complex organization—particularly one that spans geographic boundaries—rarely has a simple or single structure. Leaders can make their organizations responsive to local conditions and at the same time remain coherent by differentiating where appropriate and then using integrative mechanisms to link the organization into one cohesive system. Beware of a desire by managers to create uniform structures when they are not called for simply because they make the management task easier.

- *Clear interfaces*. To manage complexity, spend time designing and clarifying interfaces. When interfaces between units are numerous and unclear, the amount of communication that takes place can become overwhelming, and coordination suffers. Help the people who will be working at the interfaces understand the intentions and implications of the design. Role clarity happens not at the core of the work but at the interface between one role and another.

- *Organize, rather than reorganize*. Successful companies are continually evaluating and adjusting their organizations. Leaders of these firms form and communicate a picture of the envisioned future state and move toward it continuously. Rather than periodic reorganization events that lurch the organization forward, leaving employees with whiplash, aim for 80 percent initial alignment, with a plan for how to continue organizing toward the ideal.

HOW TO USE ORGANIZATION DESIGN
TO BUILD STRATEGIC CAPABILITIES

As was noted above, the organization design process is made up of a series of choices and decisions. In any decision-making process, clear criteria serve the purpose of allowing alternatives to be evaluated against agreed-upon standards. The criteria that should be used to make organization design decisions are the organizational capabilities that will differentiate the organization and help it execute its strategy. Therefore, the terms *organizational capabilities* and *design criteria* can be used interchangeably.

Organizations compete on the basis of different strategies and different capabilities. For example, a pharmaceutical company developing novel prescription drugs requires a strong research and development capability and an ability to build relationships with physicians. On the other hand, a pharmaceutical company that specializes in selling over-the-counter medicines needs efficient manufacturing processes and a strong consumer marketing capability.

In general, strategic organizational capabilities are

- Unique, integrated combinations of skills, processes, and human abilities; these are not simple programs or technologies that can be copied from other companies.

- Created by and housed within an organization; they are not bought or conferred by regulation or location or monopoly position. Rather they are developed, refined, and protected internally.

- Factors that differentiate the organization and provide competitive advantage. This is important, as there are many areas in which a company needs to match its competitors, but just a few for which it truly needs to be significantly better.

Different strategies require different capabilities, and therefore different organization designs. The process of identifying the most important organizational capabilities is the first step in drawing connections between the firm's strategy and the decisions about the form of its organization. Once the capabilities have been identified, then a set of organizational implications can be generated to form the basis for a discussion of alternatives. Each design decision can be tested against the design criteria to determine whether it will be helpful in creating the desired strategic capabilities. Metrics can then be set as a way to gauge progress.

Design criteria serve another purpose, however: they focus the organization on developing strengths, not just on correcting flaws or gaps. Organizational capabilities are fundamentally positive attributes of the organization. They embody what the organization can and must do better than its competitors. When the design criteria have been clearly articulated, employees at every level can understand why the organization will be configured in a certain way, why various investments will be made, and why resources are allocated as they are. To continue with the pharmaceutical example, one would expect to see a large and well-resourced consumer marketing group in the over-the-counter company and a large and well-resourced direct sales group in the prescription-based company that sells primarily through physician influence. These are the organizational manifestations of the capabilities that are required by the two companies' very different strategies.

The identification of organizational capabilities is carried out by the leader or leadership team that has ultimate responsibility for the design decisions. This is not an activity that can be delegated, as it requires the broad strategic perspective that is available only at the leadership level. These organizational capabilities will become the criteria against which all subsequent design decisions are judged, so they must be agreed on at the highest level of the organization being designed.

Once the design criteria are in place, there is a question that can be asked at each step in the design process: Which option will better help us preserve or build the organizational capabilities we have said are critical to our success? We suggest that the leaders identify no more than five organizational capabilities to serve as design criteria. It is the act of generating possible capabilities and then narrowing them down into those that can truly differentiate the company that creates healthy discussion and debate about what direction is truly most important to the organization. The *Developing Design Criteria* tool located on this book's website provides detailed guidance on identifying, selecting, and using organization capabilities in the design process.

What Makes a Good Organization Designer?

As OD practitioners seek to add organization design to their service portfolios, it is worth reflecting on what defines a skilled organization designer. The good news is that the field has matured and coalesced in the past ten years. Designers can draw upon a robust set of models, tools, guides, and methodologies that are readily available (see the list of suggested resources at the end of this chapter). But, as in any field, knowledge is not enough. Organization design requires a particular set of competencies and skills.

Diagnostic and Analytic Skills. The organization designer must have the ability to ask the right questions and make sense of the answers. Like a physician who sorts through symptoms that may have many causes and determines the correct underlying disease, the organization designer has to be able to determine the root causes of performance issues in the system. The designer then analyzes what changes will have the most impact with the greatest likelihood of success in this particular context.

Deep Curiosity About Organizations as Systems. Effective organization designers are fascinated by the complexity of business and organizational life. They like to solve multi-faceted problems and do not stop at easy answers or one-dimensional solutions. It is important to be able see an organization as more than a collection of individuals and to be able to discern the interconnected political, social, and information networks that have formed. Organization designers tend to be wide-ranging in their personal interests, read on a broad range of topics, and be inquisitive about how things work below the surface.

Design Mindset. Designers—whether of organizations, buildings, information technology systems, or functional objects—share a common ability to conceive of and articulate how their designs will work. They take problems and frame them so that the right questions are asked, a wide range of options is generated, and the best solutions are chosen. They know that the process is rarely linear, but rather iterative and enhanced by contributions from different perspectives. Designers are often ambidextrous thinkers, comfortable with solving for both the possible and the practical.

Pattern Recognition. Organization design is not for the neophyte. One must have enough hands-on, personal experience working with a variety of organizations to build the expertise to recognize and sort patterns. While one can become familiar with frameworks from training programs and reading, pattern recognition cannot come from a book. It grows from experience and structured reflection that turns data into wisdom. Organization design is typically a field

that one comes to from another, because the discipline rests on so many different pillars of analysis. This is a field in which age can be an asset!

Consulting and Enabling Skills. Successful organization design requires a high level of confidence and competence to guide leadership teams through a design process, which is another reason why organization design is a field for the seasoned professional. All of the core consulting skills—contracting, assessment, facilitation, written communication, and presentation abilities—are used in the organization design process. One has to be comfortable with surfacing and managing conflict, because the core process of design is to debate options and differences before choosing a solution. Handing down expert answers from on high does not work in design. The leader and leadership team have to discover and own the solution themselves; the designer is there to educate the team about the realities and possibilities, to provide them with the language and tools to make decisions, and to challenge and guide them to make implementable solutions.

SUMMARY

Organization design is a complex field, but it is an area that is of growing importance. As mergers, integrations, and partnerships increase—particularly within the context of globalization—organization design will come to play an increasingly critical role in enabling these constantly reconfiguring business structures to achieve and maintain operational efficiency. Regardless of the size of the organization, the business it is in, or the region of the world where it operates, the key elements of designing an effective organization—strategy, structure, process, metrics, and people—remain the same. An understanding of how these aspects of an organization relate to its key differentiating capabilities represents the first step on the path of organization design.

The coming decades will determine whether organization design becomes part of the core work of human resources or remains a specialist pursuit. In the meantime, the importance of setting the framework within which OD takes place makes organization design an essential discipline for today's OD practitioner to understand.

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