23
Organization Design

Key concepts and terms

- The dominant coalition
- Organizing
- Organizational choice
- Organization planning
- Strategic choice

- Law of the situation
- Organizations as systems
- Organizational dilemma
- Smart working

Learning outcomes

On completing this chapter you should be able to define these key concepts. You should also know about:

- The process of organizing
- Conducting an organizational review – analysis
- Conducting an organizational review – planning

- Aims of organization design
- Conducting an organizational review – diagnosis

Introduction

Organization design is the process of deciding how organizations should be structured and function.

The management of people in organizations constantly raises questions such as, who does what? How should activities be grouped together? What lines and means of communication need to be established? How should people be helped to understand their roles in relation to the objectives of the organization and the roles of their colleagues? Are we doing everything that we ought to be doing and nothing that we ought not to be doing? How can we achieve a reasonable degree of flexibility? Have we got too many unnecessary layers of management in the organization? How can we overcome what has been called by Huczynski and Buchanan (2007) 'the organizational dilemma', meaning the question of how to reconcile the potential inconsistency between individual needs and aspirations on the one hand, and the collective purpose of the organization on the other?

These are questions involving people that must concern HR specialists in their capacity of helping the business to make the best use of its human resources. HR professionals should be able to contribute to the processes of organization design or redesign, as described below, because of their understanding of the factors affecting organizational behaviour and because they are in a position to take an overall view of how the business is organized.

The process of organizing

Organizations exist to achieve a purpose. They do this through the collective efforts of the people who work in or with them. The process of organizing can be described as 'the design, development and maintenance of a system of coordinated activities in which individuals and groups of people work cooperatively under leadership towards commonly understood and accepted goals'. The key word in that definition is 'system'. Organizations are systems which, as affected by their environment, contain a set of practices or activities that fit together and interact to achieve a purpose.

The process of organizing may involve the grand design or redesign of the total structure, but most frequently it is concerned with the organization of particular functions and activities and the basis upon which the relationships between them are managed.

Organizations are not static things. Changes are constantly taking place in the business itself, in the environment in which the business operates, and in the people who work in the business. There is no such thing as an 'ideal' organization. The most that can be done is to optimize the processes involved, remembering that whatever structure evolves it will be contingent on the circumstances of the organization.

An important point to bear in mind is that organizations consist of people working more or less cooperatively together. Inevitably, and especially at managerial levels, the organization may have to be adjusted to fit the particular strengths and attributes of the people available. The result may not conform to the ideal, but it is more likely to work than a structure that ignores the human element. It is always desirable to have an ideal structure in mind, but it is equally desirable to modify it to meet particular circumstances, as long as there is awareness of the potential problems that may arise. This may seem an obvious point, but it is frequently ignored by management consultants and others who adopt a doctrinaire approach to organization, often with disastrous results.

Aims of organization design

Bearing in mind the need to take an empirical and contingent approach to organizing, as suggested above, the primary overall aim of organization design is to optimize the arrangements for conducting the affairs of the business. But another overall aim of organization design is to achieve the 'best fit' between the structure and the circumstances in which the organization operates.

The detailed aims of organization design are set out below.

Aims of organization design

- Clarify the overall purposes of the organization – the strategic goals that govern what it does and how it functions.

- Define how work should be organized to achieve that purpose, including the use of technology and other work processes.

- Define as precisely as possible the key activities involved in carrying out the work.

- Group these activities logically together to avoid unnecessary overlap or duplication.

- Provide for the integration of activities and the achievement of cooperative effort and teamwork.

- Build flexibility into the system so that organizational arrangements can adapt quickly to new situations and challenges.

- Provide for the rapid communication of information throughout the organization.

- Define the role and function of each organizational unit so that all concerned know how it plays its part in achieving the overall purpose.

- Clarify individual roles, accountabilities and authorities.

- Take account of individual needs and aspirations.

- Design jobs to make the best use of the skills and capacities of the job holders and to provide them with high levels of intrinsic motivation.

- Plan and implement organization development activities to ensure that the various processes within the organization operate in a manner that contributes to organizational effectiveness.

- Set up teams and project groups as required to be responsible for specific processing, development, professional or administrative activities or for the conduct of projects.

Conducting organization reviews

Organization reviews are conducted in the following stages.

Stages of an organization review

1. An analysis of the existing arrangements and the factors that may affect the organization now and in the future.

2. A diagnosis of the problems and issues facing the organization and what therefore needs to be done to improve the way in which the organization is structured and functions.

3. A plan to implement any revisions to the structure emerging from the diagnosis, possibly in phases. The plan may include longer-term considerations about the structure and the type of managers and employees who will be required to operate within it.

4. Implementation of the plan.

Organization analysis

The starting point for an organization review is an analysis of the existing circumstances, structure and processes of the organization and an assessment of the strategic issues that might affect it in the future. This covers the following areas.

The external environment

The economic, market, competitive, social and legal matters that may affect the organization. Plans for product-market development will be significant.

The internal environment

The mission, values, organization climate, management style, technology and processes of the organization as they affect the way it functions and should be structured to carry out its function. Technological developments may be particularly important, as well as the introduction of new processes such as just-in-time or the development of an entirely new computer system.

Strategic issues and objectives

As a background to the study it is necessary to identify the strategic issues facing the organization and its objectives. These may be considered under such headings as growth, competition and market position and standing. Issues concerning the availability of the required human, financial and physical resources would also have to be considered.

Activities

Activity analysis establishes what work is done and what needs to be done in the organization to achieve its objectives within its environment. The analysis should cover what is and is not being done, who is doing it and where, and how much is being done. An answer is necessary to the key questions: are all the activities required properly catered for? Are there any unnecessary activities being carried out, ie those that do not need to be done at all or those that could be conducted more economically and efficiently by external contractors or providers?

Structure

The analysis of structure covers how activities are grouped together, the number of levels in the hierarchy, the extent to which authority is decentralized to divisions and strategic business units (SBUs), where functions such as finance, HR and research and development are placed in the structure (eg as central functions or integrated into divisions or SBUs), and the relationships that exist between different units and functions (with particular attention being given to the way in which they communicate and cooperate with one another). Attention would be paid to such issues as the logic of the way in which activities are grouped and decentralized, the

span of control of managers (the number of separate functions or people they are directly responsible for), any overlap between functions or gaps leading to the neglect of certain activities, and the existence of unnecessary departments, units, functions or layers of management.

There are no absolute standards against which an organization structure can be judged. Every organization is and should be different. There is never one right way of organizing anything and there are no absolute principles that govern organizational choice. Never follow fashion. Always do what is right in the context in which the organization exists. The fashion for delayering organizations had much to commend it but it could go too far, leaving units and individuals adrift without any clear guidance on where they fit into the structure and how they should work with one another, and denuding the organization of key middle managers.

<div style="background:#cfe8f4;padding:1em;">

SOURCE REVIEW

A framework for organizational analysis, Kotter (1978)

- Key organizational processes – the major information gathering, communication, decision making, matter/energy transporting and matter/energy converting actions of the organization's employees and machines.

- External environment – an organization's 'task' environment includes suppliers, markets and competitors; the wider environment includes factors such as public attitudes, economic and political systems, laws, etc.

- Employees and other tangible assets – people, plant and equipment.

- Formal organizational requirements – systems designed to regulate the actions of employees (and machines).

- The social system – culture (values and norms) and relationships between employees in terms of power, affiliation and trust.

- Technology – the major techniques people use while engaged in organizational processes and that are programmed into machines.

- The dominant coalition The strategies and actions of the dominant coalition – those who control fundamental policy making and decision taking in the organization.

</div>

Organization diagnosis

The aim of the diagnosis is to establish the reasons for any structural problems facing the organization. The diagnosis should be made on the basis of the analysis of the external and

internal environment. The organizational guidelines set out below can be used to identify causes and therefore indicate possible solutions.

Organization guidelines

There are a number of organizational guidelines that are worth bearing in mind. But they are not absolutes. Their relevance is contingent on the circumstances. The days have long gone when the classical principles of organization (line of command, span of control, etc) as formulated by Urwick (1947) and others were seen as the only basis for organization design. These principles do, however, persist in the minds of many managers. Some time ago Lupton (1975) pointed out that: 'The attraction of the classical design from the point of view of top management is that it seems to offer control.' Managers like to think they are rational and this has all the appearance of a rational approach. But without falling into the trap of believing that classical design works as it is supposed to do, the following guidelines are worth bearing in mind at all stages in an organization study and can help in the diagnosis of problems:

Allocation of work

The work that has to be done should be defined and allocated to functions, units, departments, work teams, project groups and individual positions. Related activities should be grouped together. There will be a choice between dividing work by product, process, market or geographical area.

Differentiation and integration

As Lawrence and Lorsch (1969) emphasized, it is necessary to differentiate between the different activities that have to be carried out, but it is equally necessary to ensure that these activities are integrated so that everyone in the organization is working towards the same goals.

Teamwork

Jobs should be defined and roles described in ways that facilitate and underline the importance of teamwork. Areas where cooperation is required should be highlighted. The organization should be designed and operated in such a way as to facilitate cooperation across departmental or functional boundaries. Wherever possible, self-managing teams and autonomous work groups should be set up and given the maximum amount of responsibility to run their own affairs, including planning, budgeting and exercising quality control. Networking should be encouraged in the sense of people communicating openly and informally with one another as the need arises. It is recognized that these informal processes can be more productive than rigidly 'working through channels', as set out in the organization chart. As the highly original and influential thinker about management Mary Parker Follett (1924) stressed, the primary task of management is to arrange the situation so that people cooperate of their own accord.

Flexibility

The organization structure should be flexible enough to respond quickly to change, challenge and uncertainty. Flexibility should be enhanced by the creation of core groups and using part-time, temporary and contract workers to handle extra demands. At top management level and elsewhere, a 'collegiate' approach to team operation should be considered in which people share responsibility and are expected to work with their colleagues in areas outside their primary function or skill.

Role clarification

People should be clear about their roles as individuals and as members of a team. They should know what they will be held accountable for and be given every opportunity to use their abilities in achieving objectives that they have agreed and are committed to. Role profiles should be used to define key result areas but should not act as straitjackets, restricting initiative and unduly limiting responsibility.

Decentralization

Authority to make decisions should be delegated as close to the scene of action as possible. Profit centres should be set up as strategic business units that operate close to their markets and with a considerable degree of autonomy. A multiproduct or market business should develop a federal organization with each federated entity running its own affairs, although they will be linked together by the overall business strategy.

De-layering

Organizations should be 'flattened' by stripping out superfluous layers of management and supervision in order to promote flexibility, facilitate swifter communication, increase responsiveness, enable people to be given more responsibility as individuals or teams and reduce costs.

Organization planning

Organization design leads into organization planning – assessing the implications of structural changes on future people requirements and taking steps to meet those requirements. Organization planning determines structure, relationships, roles, human resource requirements and the lines along which changes should be implemented. There is no one best design. There is always a choice. This concept of organizational choice was developed by Trist *et al* (1963), the Tavistock researchers who explained that work organization (the social system) was not absolutely determined by the technology, although it would be influenced by it.

Logical analysis will help in the evaluation of the alternatives, but the law of the situation as described originally by Follett (1924) must prevail. This states that the work that people are

required to do depends on the objective requirements of the situation – not on the personal whim of a particular manager. The final choice will depend upon the context and circumstances of the organization – as Lupton (1975) pointed out, it is important to achieve best fit.

The concept of strategic choice, as developed by Child (1972, 1997), emphasized the significant contribution of leading groups (the dominant coalition) to influencing the structures of their organizations through an essentially political process. It was advanced by Child as a corrective to the view set out above that the way in which organizations are designed and structured is determined by their operational contingencies. Miles and Snow (1978) recognized how strategic choice identified the ongoing relationship between organizational agents and the environment, giving rise to what they termed the 'adaptive cycle'. They noted that: 'The strategic-choice approach essentially argues that the effectiveness of organizational adaptation hinges on the dominant coalition's perceptions of environmental conditions and the decisions it makes concerning how the organization will cope with these conditions.' In 1997 Child pointed out that strategic choice analysis regards debate and negotiation in the social networks existing in organizations as integral to decision making on organizational priorities, policies, structures and actions.

Organization structures are generally strongly influenced by personal and human considerations – the inclinations of top management, the strengths and weaknesses of management generally, the availability of people to work in the new organization and the need to take account of the feelings of those who will be exposed to change. Cold logic may sometimes have to override these considerations. If it does, then it must be deliberate and the consequences must be appreciated and allowed for when planning the implementation of the new organization.

It may have to be accepted that a logical regrouping of activities cannot be introduced in the short term because no one with the experience is available to manage the new activities, or because capable individuals are so firmly entrenched in one area that to uproot them would cause serious damage to their morale and would reduce the overall effectiveness of the new organization.

The worst sin that organization designers can commit is that of imposing their own ideology on the organization. Their job is to be eclectic in their knowledge, sensitive in their analysis of the situation and deliberate in their approach to the evaluation of alternatives.

Having planned the organization and defined structures, relationships and rules, it is necessary to consider how the new organization should be implemented. It may be advisable to stage an implementation over a number of phases, especially if new people have to be found and trained.

Smart working

Organization planning is not just about designing structures. It is also concerned with how people work, which includes how jobs are designed. This is the notion of 'smart working' in which the work environment is managed to release employees' energy and drive business performance. As defined by the Chartered Institute of Personnel and Development (CIPD, 2008d) smart working is: 'An approach to organizing work that aims to drive greater efficiency and effectiveness in achieving job outcomes through a combination of flexibility, autonomy and collaboration, in parallel with optimizing tools and working environments for employees.' The characteristics of smart working as established by the CIPD research include designing roles in which there is a higher degree of freedom to act, a philosophy of empowerment, flexible working arrangements, the development of high-performance working and the creation of high-trust working relationships.

Successful organizing

Research conducted by Whittington and Molloy (2005) identified the following steps to successful organizing:

- sustaining top management support, especially personal commitment and political support;

- avoiding piecemeal, uncoordinated change initiatives by making a strategic business case that anticipates implications across the entire organization;

- achieving substantive, rather than tokenistic, employee involvement in the change process, moving beyond communication to active engagement;

- investing in communication with external stakeholders, including customers, suppliers and financial stakeholders;

- involving HR professionals closely, right from the start – involving HR has been proved to positively impact on a range of performance outcomes;

- maintaining effective project management disciplines that are embedded in the organization;

- building skilled change management teams, with the right mix of experiences and abilities, that can work together.

Who does the work?

Organization design may be carried out by line management with or without the help of members of the HR function or internal consultants, or it may be done by outside consultants.

HR should always be involved because organization design is essentially about people and the work they do. The advantage of using outside consultants is that an entirely independent and dispassionate view is obtained. They can cut through internal organizational pressures, politics and constraints and bring experience of other organizational problems they have dealt with. Sometimes, regrettably, major changes can be obtained only by outside intervention. But there is a danger of consultants suggesting theoretically ideal organizations that do not take sufficient account of the problems of making them work with existing people. They do not have to live with their solutions as do line and HR managers. If outside consultants are used, it is essential to involve people from within the organization so they can ensure that they are able to implement the proposals smoothly.

Organization design – key learning points

The process of organizing

The process of organizing may involve the grand design or redesign of the total structure, but most frequently it is concerned with the organization of particular functions and activities and the basis upon which the relationships between them are managed.

Aims of organization design

The overall aim of organization design is to optimize the arrangements for conducting the affairs of the business. But another overall aim of organization design is to achieve the 'best fit' between the structure and these circumstances.

Conducting an organization review – analysis

The starting point for an organization review is an analysis of the existing circumstances, structure and processes of the organization and an assessment of the strategic issues that might affect it in the future.

This covers the internal and external environment, strategic issues and objectives, activities and structures.

Conducting an organization review – diagnosis

The aim of the diagnosis is to establish the reasons for any structural problems facing the organization. The guidelines for the diagnosis cover: allocation of work, differentiation and integration, teamwork, flexibility, role clarification, decentralization and de-layering.

Conducting an organization review – planning

Organization planning involves assessing the implications of structural changes on future people requirements and taking steps to meet those requirements. It determines structure, relationships, roles, human resource requirements, methods of working and the lines along which changes should be implemented.

Questions

1.   Are there any such things as principles of organization design?

2.   Jack Welch, when CEO of General Electric, was quoted by Krames (2004) as saying: 'The way to harness the power of these people is not to protect them… but to turn them loose, and get the management layers off their backs, the bureaucratic shackles off their feet and the functional barriers out of their way.' Critically evaluate this statement from the viewpoint of its practicality in your own or any organization.

3.   How do you judge the effectiveness of an organization?

4.   How do you ensure that a matrix organization works well?

References

Child, J (1972) Organizational structure, environment and performance: the role of strategic choice, *Sociology*, **6** (1), pp 1–22

Child, D (1997) Strategic choice in the analysis of action, structure, organizations and environment: retrospective and prospective, *Organizational Studies*, **18** (1), pp 43–76

CIPD (2008d) *Smart Working: The impact of work organisation and job design*, CIPD, London

Follett, M P (1924) *Creative Experience*, Longmans Green, New York

Huczynski, A A and Buchanan, D A (2007) *Organizational Behaviour*, 6th edn, FT Prentice Hall, Harlow

Kotter, J (1978) *Organizational Dynamics: Diagnosis and intervention*, Addison-Wesley, Reading MA

Krames, J A (2004) *The Welch Way*, McGraw-Hill, New York

Lawrence, P R and Lorsch, J W (1969) *Developing Organizations*, Addison-Wiley, Reading, MA

Lupton, T (1975) Best fit in the design of organizations, *Personnel Review*, **4** (1), pp 15–22

Miles, R E and Snow, C C (1978) *Organizational Strategy: Structure and process*, McGraw-Hill, New York

Trist, E L, Higgin, G W, Murray, H and Pollock, A B (1963) *Organizational Choice*, Tavistock Publications, London

Urwick, L F (1947) *Dynamic Administration*, Pitman, London

Whittington, R and Molloy, E (2005) *HR's Role in Organizing: Shaping change*, CIPD, London