



PART ONE
**Understanding
organization
design**

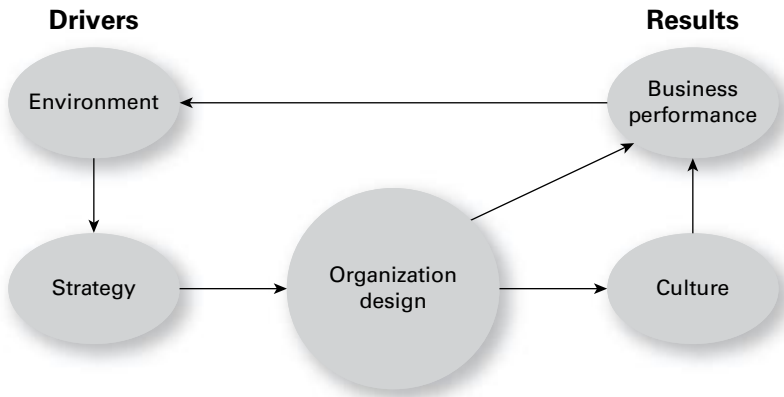
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Putting organization design in context

01

When the wind of change blows, some build walls, others build windmills. ANONYMOUS

Organization design: a guide to building effective organizations. What does that mean? Why should you be interested? How does organization design help you decide whether a wall or a windmill is right for your organization? The aim of this chapter is to answer the question, ‘Why design an organization?’ This chapter covers what organization design is, why organization design matters and what drives an organization to look at its design. Organization design is complex, with many facets: an understanding of all of these will help you carry out work in this arena and explain it to others. It is important to understand why organization design matters for many stakeholders, and in particular the strategic leadership of an organization and the triggers that make organization design an appropriate intervention rather than other transformation approaches. There is increasing recognition that organization design matters, as Tom Jasinski, AVP, Organization Effectiveness at MetLife Inc, New York said in 2009, ‘In good times or in bad, organization design matters!’ This is because, executed well, organization design can powerfully deliver business results and translate strategy into action. In addition, organization design matters because organizations have to deal with more significant and frequent change, the impact of which has higher visibility to organizations’ stakeholders. By reading this chapter you should gain an insight into the strategic context for organization design that will help frame the rest of this book. Figure 1.1 shows organization design in context.

FIGURE 1.1 Organization design in context

What is organization design?

To start with it helps to understand the nature of organizations and design. The *Oxford English Dictionary* defines an organization as ‘The action or process of organizing, ordering, or putting into systematic form; the arrangement and coordination of parts into a systematic whole; frequently in social organization’ and ‘an organized body of people with a particular purpose, as a business, government department, charity, etc.’ Putting that together; an organization is a community of people brought together for a purpose and structured so that the underlying parts are arranged to be interdependent and coordinated to form a systematic whole.

You can see this when you think of organizations that you know. Commercial companies are organizations that exist to deliver their goods and services to customers and make profit for their shareholders and owners. The public sector has organizations (in the UK there are hospitals, National Health Service Trusts, government departments and local authorities) that exist to deliver services and to provide government administration. The same is true for not-for-profit organizations such as charities and religious groups. They have all been created for a purpose; choices are made about their structure, the number of people needed and their skills, how work is organized, how tasks are performed, how they are run and what they value. This also holds true of organizations without a physical presence; for instance, social networks and communities of practice. An organization can refer to an entire enterprise including its many sub-units or just one part of a larger organization. It may be measured in many thousands or single figures.

It is easy to sense what design means; think of car design, fashion design, architecture and garden design. Take a minute to think what design and

designing means for you. When you think of design and designing, you may be thinking of many things, for instance: the sketch, 'the design'; or the end product, 'the design'; the blueprint, 'the design'; and the process of designing. If you are trying to understand design this can be very confusing, if it is not clear what you are referring to. Design can be used to mean many things at different times, both as a noun and as a verb. It helps to know this to understand what design (and therefore organization design) is about and what needs to be done in design work. To remove confusion it will help to understand in what form 'design' is being used at different times. Design is:

- the purpose, the aim or the intent;
- the preliminary concept or idea that will be taken forward;
- preliminary sketches of the end product, or any part of it, that forms the basis on which the actual structure or details can be completed;
- the combination of details or features that go to make up the end product and their arrangement;
- the result being aimed at (the blueprint);
- a plan intended to be executed;
- the idea as executed (the physical product delivered);
- the processes and action that allow the designer or other people to create all of the above in enough detail to deliver the blueprint or physical product.

While this explains how 'design' is defined it does not provide a sense of its power over us. Think of something that you love; something that you engage with, with strong emotions – not just something that you like or that you take for granted. Why do you love that MP3 player or those golf clubs so much? Now think about the car-washing kit or kitchen gadget that lies at the back of the garage or drawer – used once and never picked up again and maybe replaced by another item that fulfils the same function. As a customer why do you keep going back to the same company over and over again, when there are other companies out there that offer the same products or services and maybe even cost less? It is not blind loyalty; there are some companies that have an appeal, their products and services are pleasing to use and you have come to know and enjoy dealing with these companies. As an employee, why have you enjoyed working in some companies or one department but not another even when the work was similar? Design sets apart the OK from the great. Quality and function alone are not enough; it is the overall design of a thing that is a key differentiator. Something that is well designed is easy to use and it works, but above that it taps into our emotions and we enjoy it.

Organization design is:

- defining the organizational purpose and strategic intent;
- establishing the preliminary ideas and examining them (design concepts);

- producing the preliminary sketches of the future state organization or any part of it, which forms the basis on which the organization can be built (the anticipated future state, design outlines);
- defining the combination of details that will make up the organization and defining their arrangement (including the target capabilities and the characteristics of the organization);
- laying out the result being aimed at (the design blueprint);
- forming the implementation plan;
- realizing the idea (the future state organization as implemented).

It is also the processes and actions that allow the designer or other people to create all of the above in enough detail to deliver the design blueprint and future state organization:

- deliberately thinking through ideas for the organization;
- constructing the group in an ordered form so that its parts are arranged and coordinated into a systematic whole;
- making choices and decisions – for instance, choices of construct, choices of cost, many, many choices of ways to achieve the desired outcomes;
- conveying information about it in drawings and other representations covering the whole and/or parts of it and showing details and features of it;
- providing plans for it and producing them at a level of detail so that it can be constructed.

Organization design is the art, the science and the business of building effective organizations. The aim of organization design is to match the form of an organization as closely as possible to the purpose for which it exists. As with other types of design, good organization design is the big deal that separates the OK from the great. As with other design professions, theories and lessons from existing practice can guide you. In this book, we will show you how to build effective organizations, through organization design.

Why organization design matters

The nature of the change is not smooth; it is bumpy, discontinuous, emergent, episodic, fluctuating between big and small, revolutionary and evolutionary. Together with the dizzying pace of change in organizations this further complicates the already difficult existence of the manager and leader. The pace will increase yet further, and so will the volume of information individuals must manage. It will be essential for organizations to separate

the critical from the irrelevant, and quickly. Leaders need to align ongoing change to a clear vision of the future and a shared purpose. Change without purpose causes confusion, worry and mental exhaustion.

Organization design matters because it powerfully delivers results: it positively impacts an organization's business performance. There is a whole body of research showing that good organization design is important for many reasons. Benefits are multiplied and enhanced significantly when the organization is planned and managed as an integrated whole with parts working together to support the organization's overall goals. A well-designed organization has a unique form related to its needs; although building this requires long-term commitment to put it in place, it cannot be easily copied. A well-designed organization unlocks the potential of the organization, its employees and other resources: it runs smoothly. As Bryan and Joyce (2007) said, 'Redesigning an organization to take advantage of today's sources of wealth creation isn't easy but there can be no better use of a CEO's time.'

Organization design matters because it can lead to significant returns for any organization in any sector because resources are more effectively used. In the commercial sector, it delivers improved financial performance, improved competitive advantage and significant returns on investment. Organization design is an important leadership function: one that is critical to encouraging ethical behaviour as well as the pursuit of shareholder value. Research by Capelle Associates Inc across 210 Canadian companies in 2000 found a statistically significant relationship between organization design and employee satisfaction, customer satisfaction and financial performance. Companies with a stronger focus on organization design had better organizational performance on all three factors. Companies with weaker focus on organization design tended to have poorer performance on all three factors. Capelle found governance was similarly correlated against the three factors. Organization design impacts culture, which in turn plays a strong role in organization success. Strategy, values, leadership styles, organizational behaviour, work organization, structures and rules all contribute to the culture. Good organization design practice aligns all of these and so creates a strong and healthy culture.

Organization design matters because it enables a culture of accountability, as employees understand the organization's goals, and how they support these via their team's and their own accountabilities and authorities. There is clarity; demarcating the areas of ownership and control, employees feel well led. There are improvements to productivity and reduced waste because the organization and its people's goals are properly aligned, so that people can work effectively. This results in higher employee satisfaction. Because employees are better enabled to deliver high-quality services and products, they can better meet customer expectations leading to increased customer satisfaction. Suppliers up and downstream also find a well-designed organization easier to work with.

Organization design matters because it translates strategy into action. Many recent studies have shown that between 70 and 90 per cent of organizations that have formulated strategies, failed to execute them. The ability to execute strategy is widely acknowledged to be one of the ultimate differentiators and the ultimate challenge in today's business environment. But even where organizations are very good at strategy development, executives fail to enable the ownership, passion and excitement that they feel about the journey ahead to be transferred to their team, and their teams, and their teams. Everyone in the organization needs to be able to describe the strategy and explain what part they play in achieving it. Can you imagine the impact of being able to do this in your own organization? Can you imagine being able to make conscious choices as to how your organization responds, within a framework that contributes to the whole organization's success? Organization design can create the infrastructure to enable a strategy to be operationalized and for the organization to maximize their contribution.

Organization design matters because it can allow organizations to fulfil their strategic intent and be what they need to be; for instance, innovative, flexible, more responsive and attractive to talent. Innovative because certain designs encourage innovation and shorten development cycles without compromising growth. Flexible and able to respond to changing customer needs while bolstering organizational efficiency and effectiveness: because designs can create a well-aligned, flexible and productive organization, that is able to meet the demands of a shifting marketplace. More responsive: because organization design can enable quicker decision-making as some designs help accelerate information flow and streamline decision-making. Attractive to talent: through the provision of opportunities for personal growth by allowing people to take on different, challenging roles within the same organization. In contrast, in a poorly designed organization, productivity and performance issues are evident. Great mission, great people and great leadership all help but without a good organization design, the organization and its people will not perform at their best.

Organization design matters because it helps organizations deal with change and change is becoming more frequent and significant. Numerous academic and consultants' studies have found that the pace of change has never been greater than in the current business environment and there is a consensus that the change, being triggered by internal or external factors, comes in all shapes, forms and sizes and, therefore, affects all organizations in all sectors and industries. 'Corporations once built to last like pyramids are now more like tents. Tomorrow they're gone or in turmoil.' – Peter F Drucker. The CIPD/Saïd Business School, Oxford study 'Organising for Success in the Twenty-First Century' (2002–05) showed that, on average, UK big companies were experiencing major change about once every three years with more frequent localized changes. As economies become global, firms must respond to heightened competition, changing economic fortunes and shifting regulatory requirements. Today, organizations are either constantly

reorganizing or it can feel as if they are. The level and amount of change in organizations continues to accelerate rapidly while the complexity of issues that people are required to engage with continues to grow. This is being felt across all types of organizations whether they are businesses, government or not-for-profits.

Organization design is not the only response to change. Some proponents in recent years have argued that there has been a reduced need for organizational restructuring because soft evolutionary changes that operate in isolation can be used instead. Stéphane Girod's unpublished research report for the *Accenture Institute for High Performance* dispels that argument. When, for instance, the context is changing, the industry is changing and the organization is changing internally, evolutionary adaptive processes are not enough, organization design is called for. He looked at 50 of the largest American industrial multinational enterprises ranked by *Fortune* between 1985 and 2004 and found that in a context of rising internationalization, while evolutionary adaptive processes have certainly flourished within them, they had kept using and even increasingly used restructuring. Girod's statistical analysis indicated that multinational enterprises used restructuring when they faced a double increasing complexity caused by their strategic changes. He concurred with Henderson, Miller and Hambrick (2006) that the dynamic nature of environments such as internationalization requires more frequent restructurings due to the more frequent misalignments between the environment, strategy and structure.

Organization design matters because it is more widely recognized as a suitable response to change and essential to good change, particularly by senior leaders. As HR becomes increasingly more strategic, with a seat at many senior leadership tables, the requirement for an organization design intervention is more likely to be recognized. In addition, changes from the 1990s generated by business re-engineering and later SAP implementations both have elements of organization design within them.

Organization design matters because organizations are more open to external scrutiny and at the first signs of problems, commentary is available across the globe via the internet. Past misdemeanours by organizations are reflected in increased regulation, and legislation from local and global bodies. The banking crisis has led to the recognition of lack of oversight. As we write this book, BP is under close scrutiny following the oil spill in the Gulf of Mexico.

What drives an organization to carry out a design?

You may be asked the question, 'How do I know I need an organization design?' It is easier to recognize some triggers than others, but consider organization design as an appropriate intervention when:

- defining or redefining the organizational purpose;
- establishing or re-establishing the organization's strategic intent;
- there are significant changes to operations;
- faced with sustained evolution;
- the organization is not performing as expected.

Always consider organization design when the organizational purpose is defined or redefined. An organizational purpose, its intent, defines what the group is there to do and accomplish together. The purpose is always considered at an organization's creation, but it is not an eternal vision. From time to time the purpose may be reviewed and this is always a reason to reflect on the suitability of the organization's design. This is more frequent when you consider organizations within organizations; for instance, a department within a wider enterprise. It is not uncommon for the department's purpose to change even though the enterprise purpose remains. For example: Vertex was originally created as a business processing shared service organization within United Utilities plc. Vertex's purpose was then extended to the provision of business processing outsourcing for other organizations. In 2007 Vertex was acquired from United Utilities plc by a private equity consortium – it became an enterprise in its own right. United Utilities' own purpose did not change throughout this transformation. All organizations go through this type of thinking, not just commercial ones. Government departments in the UK separated policy-setting units (the retained 'Departments') from the executing arms 'the Agencies'. The National Trust, like other charities has had to separate its commercial, profit-making arm from its charitable foundation. A shared purpose provides the discipline to help a group 'pull together'. Communities of Practice also have to consider their drivers in terms of their purpose, strategy, operation and health. Changes to organizational purpose often drive changes to strategic intent, but the organizational purpose may outlive many incarnations of strategy and exist in organizations where there is no formal strategic thinking.

Always consider organization design when the organization's strategy and strategic intent has been established or re-established. Strategy is derived from an understanding of the external factors at work on the organization as well as the strengths of the organization itself. The forces of change may come from many directions: political, technological, social or competitive; they may be seen as challenges, problems or opportunities. Common examples are: entering a new business; restructuring; outsourcing; a merger or acquisition; a divestiture; to sustain planned growth or contraction; changing geographic presence; significant changes to product lines; or significant changes or pressures from the external environment; pressures to reduce cost or improve performance; or a change in legal structure or a change in leadership. If some of these are repeated patterns, ensure you have an organization designed to cope with that.

Always consider organization design when faced with significant operational changes; for instance, moving to shared services, outsourcing, significant reductions to costs, introducing new technologies, changing the role of the corporate centre, changing the supply chain, insourcing, merging departments and, through significant growth or contraction of work, changing the role of a function, as happened with HR as it has moved from an operational focus to a strategic business partner model.

During their lifetime organizations evolve. They grow, they change, they adapt and they flex in response to their environment and pressures they face. New leaders join and bring experiences from elsewhere. Technology evolves. People turn over. A myriad of subtle changes to the organization can sometimes accumulate and lead to an organization getting out of alignment or balance. Other parts of the organization can change around you, requiring your organization to realign. A well-designed organization should cope with degrees of change. Changes may appear small at first with latitude within the organization to absorb them, but when faced with sustained evolution consider whether it is time to review the organization design.

If an organization is not performing – not delivering the outcomes expected, not thriving or showing symptoms of organizational stress – is it now expected to do things that it was not designed for? Changes may have been unconscious or unrecognized; perhaps they have crept up or were a surprise, increases and decreases in workload can do that. Toyota's problems with car faults stem from a global expansion of an organization design that did not stretch with the volume of sales it reached and a different geographical presence. This is perhaps the most challenging area when considering whether organization design is the right intervention, because unlike changes to purpose, strategy or operations where it is clear that an organization design is needed at a particular time (even if not done) it is less clear when an organization is not delivering the performance expected. You can use some of the tools and techniques in Part Two to support further analysis and highlight whether organization design will help put in place a more effective organization.

Conclusion

In our many different roles in private, public and not-for-profit organizations, whether as leaders, as customers, as shareholders, as employees or as recipients of services, there are many reasons why we should care that organizations are designed well and redesigned appropriately to reflect change. 'A great wind is blowing, and that gives you either imagination or a headache' – Catherine the Great. Organization design can ease the headache and stimulate the imagination to build a more effective organization for the future.

Organization design is driven by defining or redefining the organizational purpose; establishing or re-establishing the organization's strategic intent; significant changes to operations; sustained evolution; and sometimes is an appropriate response when organizations are not performing as expected. Whatever the drivers, the considerations from an organization design perspective are the same:

- defining the organizational purpose and strategic intent;
- establishing the preliminary ideas and examining them (design concepts);
- producing the preliminary sketches of the future state organization, or any part of it, that forms the basis on which the organization can be built (the anticipated future state, design outlines);
- defining the combination of details that will make up the organization and defining their arrangement (including the target capabilities and the characteristics of the organization);
- laying out the result being aimed at (the design blueprint);
- forming the implementation plan;
- realizing the idea (the future state organization as implemented).

Organization design uses models, processes, tools and techniques that allow the creation of the above in enough detail to deliver the design blueprint and future state organization. Organization design matters because it delivers results by creating a culture of accountability, translating strategy into action that helps organizations to fulfil their strategic intent and deal with change. You should now have the strategic context for organization design. Now we will take a look at the model and process for organization design that will be used throughout this book.

Familiarize yourself with the Organization Design Compass and the OPTIMAL Way

02

Organization design and structure requires thinking, analysis and a systematic approach. **PETER DRUCKER**

So far you have learnt that organization design comprises: models; tools and techniques; and a process to carry out design that results in the definition of the future organization. We have also promised you a map and compass to help you navigate to your destination. The aim of this chapter is to familiarize you with the model and process that will be used in this book. This chapter looks at what organization design models are and why they are useful; a brief view of evolving thinking on organization design models and an introduction to the authors' model: and the Organization Design Compass. It also familiarizes you with our map (the OPTIMAL Organization Design Approach); the process to help you on your journey and also help you define your end point. There are also some insights into how to use the process. Using organization design models is important because they help people understand how organizations work today and how they could work in future. They make the complex easier to grasp, providing a basis for dialogues with people at all organizational levels throughout the design process. Using a good process is important because having control in design work comes from the confidence that the process will deliver the best outcomes for the organization rather than locking into predetermined outcomes. You need to be confident that you are using a solid approach. This chapter gives you an understanding of a robust organization design model and process that have been designed to work together.

Organization design models

A model is a way of representing a complex reality so that it is easier to understand. Models are used extensively in all design-based professions, including architecture, engineering and landscape design. These professions have a wide variety of models with associated styles and languages that designers adopt across their professions, spanning various practices, for different purposes and at different stages in their design work. Organization designers do the same.

Using models helps the designer and the group they are working with to think things through, generate new possibilities and ideas, and manipulate these as they develop their thoughts. They help with understanding, diagnosis and analysis, because they allow users to make connections, join up thinking and make links with what is already known. As Christopher Alexander said, ‘drawings help people to work out intricate relationships between parts’. They are powerful communication tools: allowing people to synthesize their ideas and express their thoughts so that information can be exchanged with or presented to others. This allows feedback and helps others to embrace new challenges and ideas. Working with models in a group allows the creation of shared understanding of what is required. They have benefits beyond the design stage as they allow you to predict outcomes from your design choices, translate ideas into action and put them into effect and ultimately deliver benefits that exceed the sum of parts.

For organization designers, models help identify meaning and share understanding of the current organization, how the organization needs to be in future and what needs to change. They capture more than thoughts, ideas and facts; they also help capture feelings, experiences and sensations. A good model can make the invisible, visible and the tacit, tangible. It pulls together all the key dimensions of the organization to make them accessible and usable. It can be used at various stages in the design process.

How organization design models have evolved

Since Fredrick Taylor in the early 1920s, people working in the organization design field have been developing models to help them think about how organizations work. Of the many organization design models available, those that we see most widely applied in practice are Leavitt’s Diamond, Galbraith’s Star Model, McKinsey’s 7-S and the Burke-Litwin model. These four also show how thinking on organization design models has evolved over time with later forms extending the range of elements described. Key strengths in all of them are their ability to represent some of the complexity found in organizations and their acknowledgement that the elements are all interdependent with important interactions between elements.

In 1964 Harold J Leavitt produced a model for analysing the management of change (Leavitt, 1964). This is generally referred to as Leavitt’s

diamond. It is based on the idea that it is rare for any change to occur in isolation. There are four elements of the diamond and they are interdependent: technology, tasks, people and structure. Leavitt argued that change at any one point of the diamond would impact some or all of the other elements and that any failure to manage their interdependencies at critical times of change could create problems. For example, a change in tasks in a core production process affects the people involved, the structure in which they work and the technology that they use; and needs adjustments throughout.

Later, the American academic and consultant Jay Galbraith advocated that the starting point of design is strategy and that the factors in his model must be internally consistent to enable effective behaviour, which in turn drives performance (Galbraith, 1973). Galbraith's Star Model contains five factors: strategy, structure, processes, rewards and people. It provides a useful tool that helps designers avoid overlooking these factors and their linkages in design work. Later work documented a process to apply this model in practice (Galbraith, Downey and Kates, 2001). The Star Model remains one of the most used models in practical organization design work.

In the late 1970s, consultants working at McKinsey & Company developed the 7-S model. The model appeared in two hugely successful and popular management books in the early 1980s when Richard Pascale and Antony Athos used it in their examination of why Japanese industry was so successful (Pascale and Athos, 1981) and the following year Tom Peters and Robert Waterman used it as they were exploring what made a company excellent (Peters and Waterman, 1982). In developing the model, they built on models like Leavitt's. Their significant breakthrough was the recognition that balancing hard and soft elements was vital. The model has seven internal variables of an organization: the hard elements are strategy, structure and systems; and the soft elements are shared values, skills, style and staff. Like Galbraith and Leavitt they also stress the interconnection of the variables and the need for alignment for an organization to be successful.

The Burke-Litwin model, developed in 1992, incorporates the elements of the McKinsey 7-S model and adds external environment and performance variables and shows how the variables interact (Burke and Litwin, 1992). A change in any one of them can eventually impact on the others. The model is useful in explaining both how organizations perform and how they can be changed to improve performance. The Burke-Litwin model describes how:

- transformational change happens in response to the external environment and how this directly affects mission, strategy, leadership and culture;
- in turn, the transactional elements are affected: structure, systems, management practices and work climate;
- both the transformational and transactional elements together affect motivation which in turn affects performance;

- feedback from the organization's performance can affect the external environment.

Using organization design models in practice

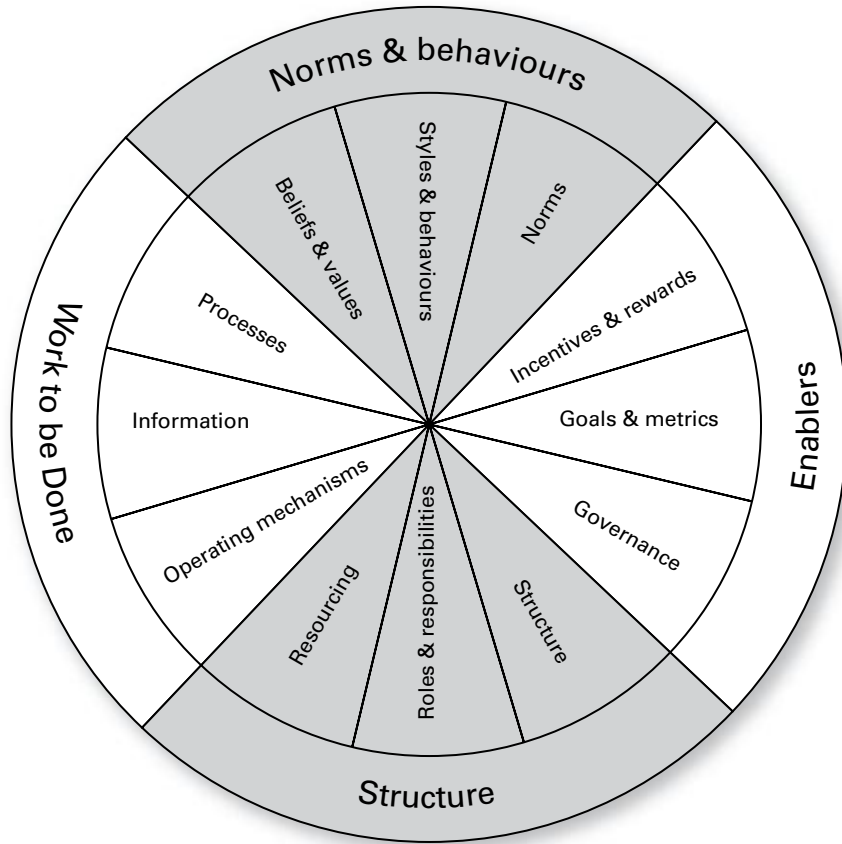
Different people use different models in practice and this is partly due to where both the people and models are taught, as well as where the models' strengths and limitations are. Some of the models are at very high level: which can be useful with the most senior executives, at early stages of exploring possibilities, to tease out thinking, and throughout a design process to explore understanding and for two-way communication. Other models have a lot more elements and interconnections, which are useful for capturing more detail; they have been designed for diagnosis and analysis, which needs deeper thinking. However, although this is attractive to some people it can appear overwhelming to others. So, in practice, what tends to happen is that:

- People use what they know.
- One model is picked for use across an organization.
- The model chosen is linked and biased towards the needs of the section who are responsible for organization design in an organization whether or not the model is appropriate to help other parts of the organization: McKinsey 7-S is often used by strategy groups and Burke-Litwin favoured by HR.
- More experienced organization designers tend to use different models at different stages in design work and for different purposes; as well as avoiding particular models in other circumstances.
- More experienced organization designers also adapt the models so that they are appropriate for the circumstances of the design they are working on and to make them more generically applicable.

All of this can be very confusing and even disruptive to the wider organization.

The Organization Design Compass

The Organization Design Compass shown in Figure 2.1 and which is introduced here is the authors' model. It has been developed over many years of practice, drawing on thinking from a wide range of academics, consultants, practitioners and both their and the authors' experiences to encapsulate the benefits of other models. It is built on the best features of many other models. It has a high-level view: simple enough for understanding and communication; and a more detailed view for diagnosis and analysis. The break-down into segments has enabled the model to be flexed for specific situations in different organizations and sectors at different times. In use and to aid reading, it is sometimes abbreviated to 'the Compass'.

FIGURE 2.1 The Organization Design Compass

The earlier definition of organization design showed that it was composed of a number of different components. Any of the organization design models above satisfies some of these as they are a means of deliberately thinking through an idea for a group, and a means of conveying information about it in covering the whole and/or parts of it and showing details and features of it. However, when it comes to a means of constructing the group in an ordered form so that its parts are arranged and coordinated into a systematic whole, both a model and a process are needed. Generally models have been designed in isolation from practice, which is where process is developed, tried and tested. So they can have limitations when used with an organization design process and associated toolsets. The Organization Design Compass, the OPTIMAL Organization Design Approach and the toolset used in this book are specifically designed to work together.

At the highest level the Compass is divided into quadrants: Norms and behaviours, Enablers, Structure and Work to be done. Each quadrant is sub-divided into three segments. All twelve segments are interdependent

and for the design to work the quadrants and segments have to be aligned. The quadrants with their segments are described below:

Work to be done:

- Processes
- Information
- Operating mechanisms.

Structure:

- Structure
- Roles and responsibilities
- Resourcing.

Enablers:

- Incentives and rewards
- Goals and metrics
- Governance.

Norms and behaviours:

- Beliefs and values
- Styles and behaviours
- Norms.

The ‘Work to be done’ quadrant

The ‘Work to be done’ quadrant covers the operation of the organization: what it needs to do to deliver the business strategy and how it produces and delivers products and services to its customers, clients and users. It is sometimes abbreviated to ‘Work’. This quadrant is also of relevance beyond ‘operations’. It covers the work to be done in any organization. It is as relevant for an internal or oversight function as it is for a frontline operation and as relevant for loosely connected organizations such as a community of practice or network-based organization as it is for a vertically integrated one. These organizations also produce and deliver products or services, and have customers, clients and users. The segments of the quadrant are as follows.

Processes

The work processes that the organization carries out to produce the deliverables for the customer. It includes their input and outputs. Processes include activity within and beyond the organization’s boundaries, by third-party suppliers or other parts of a broader organization.

Information

The customer and operational data, information and knowledge that is needed for the work processes to be completed. It includes flows of information within, into and out of the organization to reach relevant people.

Operating mechanisms

The mechanisms that describe how operational work is done, together with their support systems and the tools needed. It includes property, machinery, tools, equipment and how the supporting processes are articulated and disseminated; for instance through standard operating procedures, instruction manuals, practices and methods.

The ‘Structure’ quadrant

The ‘Structure’ quadrant covers the organization’s own internal structure and any external arrangements in organizations outside their own boundaries whether in other parts of a broader organization or through third-party arrangements that are critical to the delivery of services. For example, decisions to use an outsourcing arrangement rather than in-house capability are structural decisions where specific roles and responsibilities will be required for the management of the third parties to be defined. The segments of the quadrant are as follows.

Structure

The way the organization is formally structured internally and within its wider territory. It includes the hierarchy of authority and accountability; groupings of people for reporting purposes and the formal mechanisms necessary to link parts of the structure together such as cross-unit teams, meetings and communities of practice and processes to make the structure work. It includes temporary structures such as project groups and task forces that are assembled for a specific project or problem and disbanded when no longer needed. It can cover multiple dimensions; for instance a practice-based structure with a project overlay. For design purposes, it does not include informal or ‘hidden’ structures that so often make organizations work.

Structure is typically documented in organization charts and is easily recognizable, but this segment is more than this; it includes the associated information and annotated details that support these charts.

Roles and responsibilities

The formal specification of roles and responsibilities for groups and individuals in the organization. It covers the actual capabilities, skills and competencies of the group or individual. At lower levels of design it includes role profiles or job descriptions. It can also be helpful to cover any defined

rules of engagement: what the group or individual is responsible for versus what others are.

Resourcing

Resourcing covers the community of people that make up the organization whether within its internal boundaries (however they are supplied) or beyond them to fulfil the organizational purpose; for instance partnerships, suppliers, associates and third parties. The level of detail can vary significantly across these. Resourcing is about having the right number of people with the right capabilities who are skilled and trained for the roles identified, available at the right time and place. It covers having the right processes in place to manage resourcing; eg resource planning, talent planning, learning and development, recruiting and exiting.

The ‘Enablers’ quadrant

The ‘Enablers’ quadrant is all about the steerage of an organization and its people. It is akin to the bridge on a ship: the control room’s helm that adjusts the rudders. It is concerned with performance and conformance; direction and control; and running the organization ‘as a business’. Its nature is strategic rather than operational, focused on the future direction; risk appetite and oversight rather than management. ‘Enablers’ is about providing the organization with the resources, authority or the opportunity to do what it needs to do. This quadrant is the domain of the senior executives or directors and their specialized support teams in an organization. The segments of the quadrant are as follows.

Incentives and rewards

The way incentives and rewards operate at organizational level and cascade to individual levels. The financial and non-financial incentives and reward processes, mechanisms and content needed to reinforce the achievement of the defined accountabilities, responsibilities and capabilities, and the demonstration of the defined behaviours. It includes performance management systems, performance appraisal, reward and bonus schemes. It also covers any disincentives, penalties and consequence management processes used to dissuade inappropriate actions or behaviour.

Goals and metrics

The enabling processes, mechanisms and content needed to set, track and assess organizational and individual goals and objectives towards the organization’s strategic intent; both short and long term. These should be ‘balanced’, so that they cover both soft and hard characteristics. It includes the cascade of accountability, responsibility, capability and behavioural goals and objectives across the organization to people and teams. It incorporates historical patterns, trend analysis, learning from the past as well as

leaning towards the future; and feedback mechanisms for both the internal organizational processes and external outcomes in order to continuously improve strategic performance and results. At organization and team levels this is often associated with dashboards, scorecards, targets and portfolio management.

Governance

This covers governance frameworks, structures, processes and mechanisms that enable the organization to manage performance and conformance. It enables the leaders of the organization to direct and control the delivery of the strategy and manage the inherent risks and opportunities. It covers what is governed by whom and how it is governed. It includes, for instance:

- temporary governance as well as permanent;
- boards, committees, councils and other meetings;
- standards, policies, manuals and other practice guidelines;
- key processes, eg investment management;
- mechanisms for defining governance and keeping it up to date;
- the cascade of authority, decision making and controls.

The 'Norms and behaviours' quadrant

The beliefs, values and assumptions have a strong influence on how the organization operates and progresses. Organizational beliefs and values are powerful levers for design and effectiveness of an organization when they are pervasively communicated, shared and have buy-in. It is what is absorbed and assimilated rather than just written down that is powerful. The segments of the quadrant are as follows.

Beliefs and values

This segment covers what the organization believes in; the set of assumptions and mindsets held in common and taken for granted by the organization. Beliefs and values play an important role that goes beyond their information content; they shape how an organization behaves.

Organizational values define the acceptable standards that govern the behaviour of individuals within the organization. Without such values, individuals will pursue behaviours that are in line with their own individual value systems, which may lead to behaviours that the organization does not wish to encourage. An organization's values are sometimes stated, sometimes just desired. Cultural ones may include, for instance, professionalism, attitude to training and commerciality. The strategic ones are typically written down and include organizational purpose; an organization's values, strategic intent and mission. Assumptions and mindsets are typically so well ingrained that they are hard to recognize from within.

Styles and behaviours

These are the leadership and management styles and behaviours that significantly impact the way the organization works. The kind of styles the organization favours; eg autocratic, paternalistic or democratic, which impacts, for instance, control and decision making and whether the organization favours councils or boards or individual decision making. It plays out, for instance, in group dynamics, group and interpersonal processes, power and politics, and employee participation. Desired styles and behaviours can be specified and rewarded or disincentives put in place for undesired ones.

Norms

Norms indicate the established and approved ways of doing things; they are the customary rules of behaviour. These rules may be explicit or implicit. Failure to follow the rules can result in severe punishments, including exclusion from the group. Artefacts such as how 'we' dress, how 'we' speak, how 'we' interact with each other as well as rights and rituals, myths, metaphors, humour, trophies, celebrations, community support and what goes on the walls; can reveal organizational norms. They may be very easy to sense when you walk into an organization for the first time. Norms are often hard to recognize from within.

The OPTIMAL Organization Design Approach

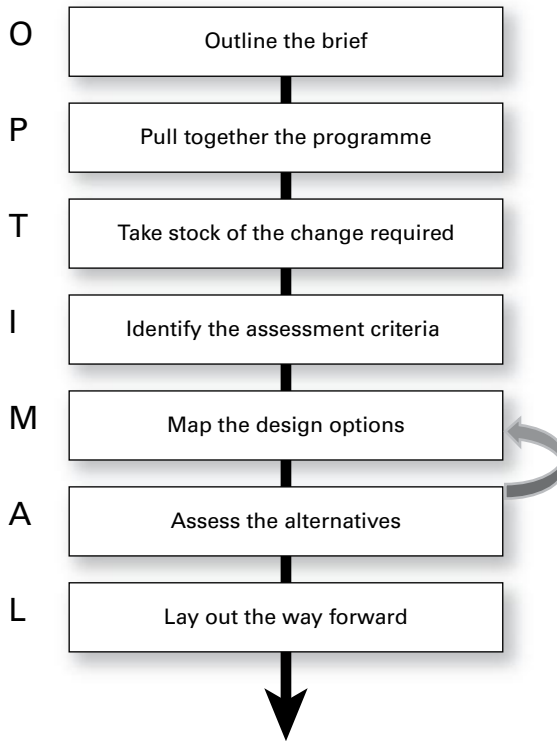
The OPTIMAL Organization Design Approach is a participative process intended to provide a systematic, step-by-step method for the high-level design of organizations. It is the process the authors have refined and developed to work with the Organization Design Compass and the toolset in this book. The approach follows these principles based on proven experience when designing organizations:

- design ethically;
- do not let pride drive decisions;
- ensure wide engagement and dialogue;
- adopt others' designs with care: solutions that work for others may not be appropriate;
- balance hard and soft skills;
- start well – design needs good foundations;
- understand the design problem before seeking solutions;
- factor in the organization's relationship with its environment and other entities;

- focus on outcomes: the experience afforded to those that touch the organization and the value it generates;
- challenge your thinking: look widely for inspiration and creating alternatives;
- manage your own and the organization's anxiety with an emergent approach;
- follow a structured approach, consciously completing all the steps (even if you only use a light touch);
- develop designs based on evidence and with attention to every detail;
- think holistically: investigate and decide on designs addressing multiple aspects at once;
- evaluate designs guided by criteria, principles and marking schemes;
- use project management disciplines and lock-in decisions as you go;
- ensure projects are 'business' owned;
- mitigate against risk (do not see risk assessment as just an exercise).

OPTIMAL is a mnemonic where each letter is a clue to the first letter of the activity for that step. We use OPTIMAL because not only does it help you to recall the steps in the order you need to carry them out; but also it describes the desired outcome: the optimal design for your organization. 'A good plan is like a road map: it shows the final destination and usually the best way to get there' – H Stanley Judd. If you follow this book we hope OPTIMAL will become as familiar to you as other mnemonics you may be more accustomed to: say, to remember the order of the planets or the colours of a rainbow. Figure 2.2 shows the main flow through the OPTIMAL Organization Design Approach, mapping OPTIMAL to each of the steps. In this book we sometimes use 'the OPTIMAL Way' as an abbreviation for the OPTIMAL Organization Design Approach.

Table 2.1 provides an overview of each of the steps in the OPTIMAL Organization Design Approach. Each chapter in Part Two of this book covers a step in the high-level design process. The OPTIMAL Way and the layout of the chapters appear to be largely linear towards a final destination: however, while there is progression through the steps, organization design will out of necessity require some repetition and some overlap in steps. Although the design process is structured and methodical it is not a mechanical process. Mechanical processes have predetermined outcomes. Good leaders of design programmes feel comfortable shepherding people through a process that is genuinely creative. The control is not in forcing the outcome towards predetermined views but in confidence that the process will deliver the best outcomes for your organization. We use the Organization Design Compass throughout the OPTIMAL Way to ensure all aspects of the organization are considered, making them clear and obvious. This enables you to keep checking for completeness, coherence, synthesis, alignment and balance.

FIGURE 2.2 The OPTIMAL Organization Design Approach

Vitaly, the OPTIMAL Way is used to prompt engagement and dialogues between the design programme team and others. Designing is a creative process: stimulating ideas and conversations that enrich the quality of the outcomes. Ideas will move from an embryonic concept in the early steps to take shape as the design helps the organization learn and reflect. Feedback gathered from the emerging outputs prompts further thoughts and refinement. Designing is a process of going through trial and error, testing and verification of the model until you get to the point where you have a number of alternative designs and insights into the routes for reaching them. The OPTIMAL Way allows for this: it is designed so that ideas can be explored, repeated, refined, practised, worked over, discarded, combined, where alternatives are sought and alternative possibilities explored. When you use it you will be able to produce the unique combination of elements to deliver your strategic intent.

When carrying out an organization design process, it may help you to think of the progression in terms of a journey. At the point you start to look at carrying out an organization design you will have already established some things. You know you are going somewhere, sometime (probably soon). You are going to set out what you need to find out more about and

TABLE 2.1 Overview of the steps in the OPTIMAL Organization Design Approach

OPTIMAL steps	The Organization Design Approach
Outline the brief	<p>Confirm the sponsorship for the design work, the context for change, the strategic intent and the capabilities required to deliver the change. Seek inspiration from other organizations. Set out the common understanding of this so there is a clear brief for the programme team who will carry out the organization design work to follow. Confirm the go-ahead for a design programme.</p> <p>Together these provide a firm foundation: the anticipation is energizing.</p>
Pull together the programme	<p>Assemble the leadership and team. Confirm the design model, approach and the tools and techniques to be used; tailor them if necessary. Establish the programme infrastructure and other workstreams; eg governance, management systems, environment, plans, change workstream. Ensure these are agreed and understood by the programme team and key stakeholders. Get formal approval for your chosen route.</p> <p>The programme team is ready to go: shared enthusiasm now can become infectious.</p>
Take stock of the change required	<p>Gather a body of evidence for use in design and implementation to understand more deeply the organization's history, context and current state. Learn from other organizations. Establish what the future state organization needs to look like to deliver its strategic intent and associated capabilities. What must be kept? What needs to change? Decide on the most important aspects of change required so that design effort can be focused on these. Get formal agreement to the direction and extent of the changes that are needed.</p> <p>The programme team now knows where to target their efforts and how big a challenge there is: a clearer idea of the destination helps all concerned.</p>

TABLE 2.1 *Continued*

OPTIMAL steps	The Organization Design Approach
Identify the assessment criteria	<p>Put in place an evaluation scheme based on design principles and criteria that is impartial, balanced and aligned to the organization's strategic direction.</p> <p>There is a basis for assessing the optimal design option for the organization that will reduce the politics and emotion from choices made later on: having the ground rules laid down can be comforting to all.</p>
Map the design options	<p>Seek alternatives and explore possibilities. Develop and refine a number of alternative design options for the organization to choose from. First, at a concept level and then develop selected options into more detailed, design outlines. Explore ideas, work through them, repeat, refine, discard some and combine some.</p> <p>This produces tangible images, descriptions and feelings to share and it is much less daunting once these are narrowed down to a few crafted choices.</p>
Assess the alternatives	<p>Assess individual design options at design-concept and design-outline level using the criteria identified earlier. Compare the alternative options. Provide feedback on the results of the assessments and comparisons to improve the development of further iterations or lower levels of design. Get confirmation and buy-in by sharing the results.</p> <p>It should be easy to see how closely the design options that are proposed meet the organization's strategic intent. Sharing these more widely can extend the buy-in.</p>
Lay out the way forward	<p>After the assessment of design outlines is complete, the optimal one is chosen. Finalize the high-level design work: turn the optimal design outline into a blueprint. Prepare for implementation: pass on the design team's knowledge and make a clean transition from design to implementation. Get agreement to take the design forward.</p> <p>With a chosen destination point that has detail across many dimensions, there is transparency on the target and the change required. The organization can move forward into implementation confidently.</p>

refine your plans before you go. You are designing both for the destination and for the journey itself. This preparation is the design phase for an organization's transformation to its future form. If you are like us, then you will have as much fun preparing for the journey, as you do travelling and being there! This is where the excitement begins.

Designing the OPTIMAL Way

Use of project management disciplines

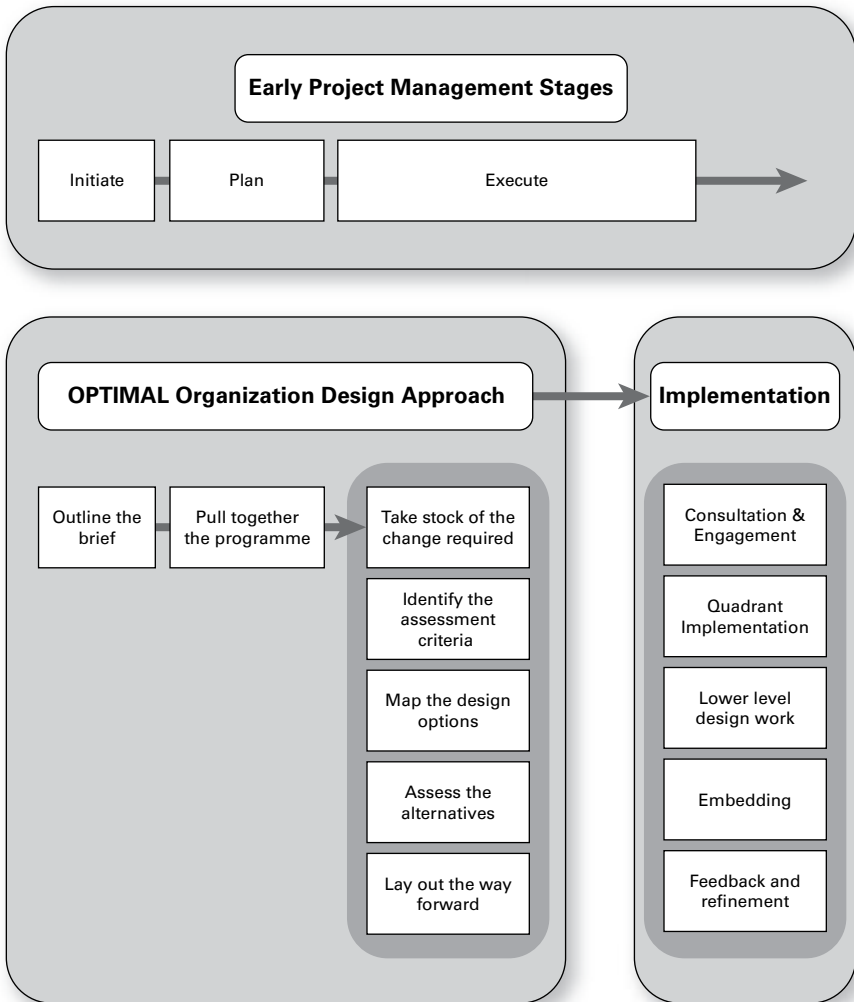
Whether the design you undertake is small or large, contained or spreading, strategic or operational, we recommend that you use project management disciplines to manage an organization design. In the CIPD report; *Re-organising for Success: A survey of HR's role in change* (CIPD, 2004), it was found that 'successful reorganizations typically draw on project management disciplines' but that 'project management skills were lacking in almost a half of all reorganizations'. Projects can be various shapes and sizes, from small and straightforward to extremely large and highly complex. Alongside an understanding of organization design, strong project management skills will be a key factor in reaching successful outcomes.

A word on what we mean by project management skills. Project management is the discipline of planning, organizing and managing resources to bring about the successful completion of specific goals and objectives. Any task that requires some preparation to achieve a successful outcome will probably be done better by using project management techniques as they can help in planning and managing an activity as complex as designing an organization. Programme management covers a group of related and somehow interdependent projects. Portfolio management covers a group of related and somehow interdependent programmes. All of these use project management skills.

The OPTIMAL Organization Design Approach is built to use with project management skills and disciplines, it:

- Maps to the early stages of most project methodologies and frameworks (see Figure 2.3). You may use an in-house set of tools, methodologies and frameworks or one of the increasingly globally recognized ones; for instance, PRINCE2, PMBOK. Rather than reference a particular methodology that may be alien to you, most have a standard process comprising five stages: initiation; planning; execution or production; monitoring and controlling systems; and completion. 'Outline the brief' maps to initiation. 'Pull together the programme' maps to planning. The balance of the OPTIMAL steps covers the first half of execution or production. Implementation of organization design typically extends beyond the execution phase of programmes.

FIGURE 2.3 OPTIMAL mapped against project management stages



- Is designed to work with your chosen project, programme and portfolio disciplines. So you can consider it to be a project in totality or a workstream/project/programme within a wider set of change. The size of the design influences whether your design is part of a project, programme or portfolio.

For the sake of simplification we look at the OPTIMAL Organization Design Approach as the inception and design phase of a programme within a wider

change arena. We will assume there is a wider context that has driven out the need for an organization design and that once the design is complete there will be an implementation and bedding-in of the chosen design. Although they are vital to the success of an organization design programme we will not cover areas that are very well established through books, teaching and experience elsewhere: such as leadership, communications, stakeholder management, organization development, change management and project management. This book focuses on filling the gap in information on good organization design practice.

Consciously complete all the steps

It may be tempting if you are short of time to miss steps; however, we caution against this. In our experience, this is unlikely to result in the best outcomes or even satisfactory ones. It can lead to confusion and poor buy-in; a semblance of progress built on poor foundations necessitating extra work in implementation and sub-optimal business results in operation. We strongly advise that you consciously complete all the steps, even if you only use a light touch at some points.

Lock-in decisions as you go

The OPTIMAL Organization Design Approach is divided into distinct steps each separated by an approval process. This provides a disciplined control mechanism for moving the design programme forward, and enables you to decide at key points whether it should proceed further or be adjusted. Each chapter in Part Two describes the activities that need to be completed within that step, what needs to be approved and by whom. The use of approval at each step within the approach:

- ensures a consistent and coordinated approach to reviews;
- establishes buy-in from key stakeholders along the way;
- accelerates the speed of the design and therefore the time taken to implement;
- increases the likelihood of a successful design and future organizational outcomes;
- introduces discipline;
- reduces re-work and other forms of waste;
- improves focus because poor projects are identified and killed quickly;
- achieves efficient and effective allocation of scarce resources;
- ensures a complete process so that no critical steps are omitted;
- maintains momentum through to implementation.

Look and listen; interpret, adapt and deploy

Part Two takes you step by step through the OPTIMAL Organization Design Approach, gradually increasing your knowledge, skills and confidence to carry out an organization design. We give you insights and information so you can customize your own programme. If you follow this approach you will have the knowledge to tailor your design process to meet your organization's needs, so that you can get the best possible results.

Fundamental to our approach is that the designer should work as an interactive consultant. Design is not simply about coming up with solutions or about producing and presenting reports or blueprints. In whichever organization a design is carried out there will be unique dynamics and ways of doing things. You may, for instance, decide to orchestrate the design rather than tightly specify it or work through the top level in detail allowing development of subsequent levels to be defined by their leaders within your framework. For the approach to work there needs to be a close relationship between the designer and the people and groups involved so that solutions are created with the active involvement of the clients. You will no doubt want to tailor what we have set out here to achieve your goals: we do. No two organization design programmes are exactly the same because each is to some extent shaped by the clients you and we work with and their ways of working. We have built in opportunities throughout the approach for dialogue with stakeholders, for building fora where information can be shared and where consensus can be reached. How this works in your organization will depend on your organization's culture and way of getting things done. However, to get to solutions that last, it is best to approach workshops and committees with an emphasis on discussion, challenge, openness and shared decisions.

Organization design and change can be a time for conflict and power plays. But we believe that if the OPTIMAL Organization Design Approach is used with clear rules of behaviour set by your own organization you can minimize the power agendas creating the space for problem solving and solutions. It is for this reason that organization design is so often seen in partnership with organization development and change management practices.

Conclusion

He who loves practice without theory is like the sailor who boards ship without a rudder and compass and never knows where he may cast.

(Leonardo da Vinci)

This chapter is fundamental to understanding Part Two of this book. In this chapter, we have covered what organization design models are and why they are useful and briefly looked at their evolution before examining how to complete an organization design. We have introduced you to the design

model and process that will be used throughout the book: the Organization Design Compass and the OPTIMAL Organization Design Approach. Although these are based in theory they have been tailored by practice. Once you have a grasp of the quadrants of the Compass and the steps that OPTIMAL stands for then you should find it easier to navigate an organization design programme using this book. You will be able to do this whether you are designing an entirely new organization or taking a current organization and realigning it. However, before we can move on to practice there are some essential building blocks from theory to understand and we turn to these next.

Some essential building blocks

Ideas are the building blocks of ideas. JASON ZEBHAZY

Here we look at some other useful organization design building blocks, to accompany the Organization Design Compass and the OPTIMAL Way. The aim is to ensure you have all the building blocks of ideas that you need to start generating your own organization design ideas. The chapter covers organizational archetypes and three frameworks from contingency theory. Archetypes are common forms of organization that are seen repeatedly, that have been well studied and that you can use to help you understand organizations. The frameworks provided are useful for examining aspects of organizations and to help you understand more about how different organizations work. Both the archetypes and the frameworks have been adapted from and built on earlier writers' versions so that they work with the Compass and the OPTIMAL Organization Design Approach to give you additional insights. Archetypes and frameworks are important to the organization designer because all designers need to know some basics about how organizations work before they can design effectively. Just as the dress designer needs to know about fabrics, as the architect needs to know about building materials or as the chef needs to know about ingredients, so these are basic building blocks of knowledge that an organization designer needs to know. This chapter will give you an understanding of some ideas that you can apply in your design work. You may find it easiest to use this chapter to get an overall understanding of the different ideas and then refer back to the detail as you need to use it in practice.

Organizational archetypes to get you started

Organizational archetypes are widely recognized patterns that are associated with particular structural arrangements in organizations. But they are more than structure. Each archetype has a specific successful mix of operating philosophies, work processes, information flows, operating technology, hierarchy, leaders, membership, control systems, decision-making processes,

values and behaviours, styles and norms. Organizational archetypes go beyond their objective descriptions of formal power and status relationships between individuals and groups; they also have implications on the informal structures.

Organizational archetypes are very useful models for designers and the groups they work with. They help you to understand and learn from other organizations; understand your own current organization; and design your new organization by providing a set of templates to choose from that are quick and easy to apply. We use them in OPTIMAL when mapping the design options for the new organization to give clues as to what the new structures might be. There is evidence to show that some types of structures are more appropriate to some types of organizational situations than others and the descriptions of the archetypes will help you understand what might be appropriate for you. Of course in practice, every organization is unique and you will adapt these templates as necessary and your design may be based on a hybrid mix of archetypes. They do, though, let you quickly narrow down the number of options for your design.

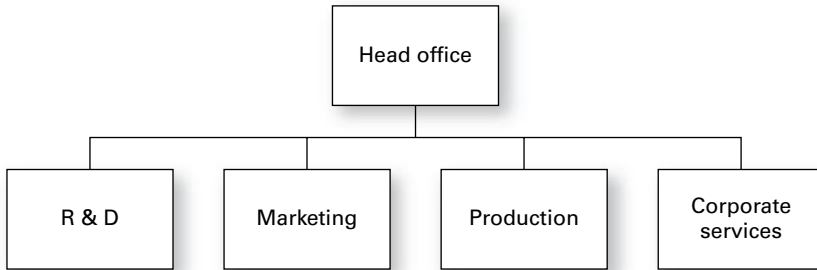
In a practical book we have not got the space to cover a full range of archetypes, but present here are some of those that we find most useful and frequently used; these are the classic ones. For each we set out a description of the archetype; an assessment of where it is best suited; where it is less helpful; and the kinds of organization where it is usually found. Those we cover are:

- functional;
- geographical;
- customer or market;
- product;
- process;
- matrix;
- network;
- structured networks.

Functional archetype

The functional archetype is based on separation of groups in terms of their specialties, skills and knowledge (see Figure 3.1). The functions themselves will depend on the organization types. Retailers may have buying, marketing/sales, customer care and finance. Hospitals may have medical services, house-keeping, ancillary services, human resources, finance, and research and development. The functional archetype is best suited for organizations:

- that need to maximize margins through economies of scale and functional expertise;
- at early stages of their development or that are relatively small;

FIGURE 3.1 Functional archetype

- in stable conditions: markets, work environment, products;
- with well-understood customer requirements;
- with narrow product lines;
- with long product development and life cycles;
- where specialists are needed.

The functional archetype is less helpful when organizations:

- are larger and/or more diverse in terms of customers, products, services, operations or geography because managers may become overburdened with everyday operational issues, or rely on their specialist skills rather than taking wider perspectives;
- have to change because problem solving and coordination across multiple functions is complex;
- want to innovate because functionalism can encourage narrow viewpoints;
- have work processes that cut across functions because there can be delays as one function waits for another to complete its work.

The functional archetype is found in:

- divisions of larger organizations;
- traditional organizations with strong command and control;
- processing utility type organizations producing a single product, eg electricity companies where competition is intense and the products offered by different suppliers are all alike and there is a need to maximize profit margins through economies of scale;
- organizations where technical skills are advantageous, eg hospitals; and in movie-making where the casting team, scriptwriters, editing team, sound track team, post production team and others all have specific, clearly defined expertise and functional roles.

TABLE 3.1 Advantages and disadvantages of the functional archetype

	Advantages	Disadvantages
Work to be done	<ul style="list-style-type: none"> • Efficiency through specialization and skills • Standardization of processes and procedures within functions • Ability to provide specialist tools 	<ul style="list-style-type: none"> • Limits business understanding • Lack of focus on customers and process • Difficult to manage diverse product and service lines • Problems with workflow across functions
Structure	<ul style="list-style-type: none"> • Clear definition of roles, responsibilities and tasks • Allows building of deep specialization and proprietary expertise • Clarity for specialist career paths • Attracts and facilitates development of experts • Delivers specialists at senior and middle level management 	<ul style="list-style-type: none"> • Only see cross-functional perspectives at the top of the organization • Narrows viewpoints of key people due to overspecialization • Moving people between silos can be difficult • Limits development of general managers
Enablers	<ul style="list-style-type: none"> • Straightforward performance management • Provides tight operational control at the top • Reduces and simplifies control mechanisms • Straightforward governance • Clear responsibility and authority lies with functions 	<ul style="list-style-type: none"> • Organization's goals get lost • Inhibits enterprise-wide decision making • Limits ability to delegate profit responsibilities

TABLE 3.1 *Continued*

	Advantages	Disadvantages
Norms and behaviours	<ul style="list-style-type: none"> • Maintains power and prestige of major functions • Values expertise • People 'speak the same language' 	<ul style="list-style-type: none"> • Job creation within power blocks • Lack of understanding of different perspectives • Lack of appreciation of other expertise • Becomes bureaucratic with increased size

Geographical archetype

The geographical archetype is based on the separation of groups in terms of the physical location where activities are carried out: regions, countries and territories (see Figure 3.2). Customers are geographically dispersed. Products and services are produced and used in the same geographic area, which may or may not have unique needs. This archetype is often adopted as organizations expand either internationally or in their domestic market where they need to recognize local cultures and operating conditions. The geographical archetype is best suited for organizations:

- that have a high degree of variation in operating environment in different locations;
- that need to be close to the customer for delivery and support;
- that need a fast response;
- that need to reduce distribution costs and provide 'just in time' delivery;
- with service delivery on site;
- with a low value-to-transport cost ratio;
- where products, services and/or delivery are tailored for local requirements;
- when growth makes it ineffective to manage from the centre.

The geographical archetype is less helpful when organizations:

- want consistency across geographies because of the local variations;
- need to co-locate production because of economies of scale or efficiency;

- are operating in an industry sector clustered together with supporting infrastructure.

The geographical archetype is found in:

- service industries, where the service is provided on site, eg supermarkets, railways, car servicing;
- organizations where goods need to be produced close to the customer, eg airline catering;
- manufacturing that is dependent on being near source materials, eg cement.

FIGURE 3.2 Geographical archetype



TABLE 3.2 Advantages and disadvantages of the geographical archetype

	Advantages	Disadvantages
Work to be done	<ul style="list-style-type: none"> • Can position processes close to suppliers • Can position processes close to customer • Can tailor to meet specific customers and regional differences in markets • Easier to coordinate sales of multiple products or delivery of multiple services • Can respond to local information 	<ul style="list-style-type: none"> • Can lead to duplication of resources across regions • Slow and difficult implementation of new product lines or changes across regions • Inconsistency • Difficult to apply global strategy to all units • Hard to coordinate across regions where cooperation is required, eg for sales
Structure	<ul style="list-style-type: none"> • Clear responsibility for regional performance • Resourced to serve the region • Regional units can serve as training grounds for senior general managers • Regional assignments provide development opportunities 	<ul style="list-style-type: none"> • Requires another layer of management • Difficult to share resources across regions • More difficult to move people across regions • Limits ability to grow deep specialist expertise • Top team is dispersed
Enablers	<ul style="list-style-type: none"> • Rewards tailored to market norms on salaries and wages • Rewards can be tailored to local preferences • Goals and metrics tailored to local factors • Faster and better decision-making as close to customer and market knowledge 	<ul style="list-style-type: none"> • Exchange-rate variation can affect both goals and rewards • Difficult to control group-wide policies and practices in each region • Control and coordination can be expensive • Conflicts can arise between regions and head office

TABLE 3.2 *Continued*

	Advantages	Disadvantages
Norms and behaviours	<ul style="list-style-type: none"> • Closeness to customer makes the organization focus on them • Think and act locally • People speak the same 'language' • Culturally aware • Diversity in management 	<ul style="list-style-type: none"> • Difficult to achieve shared organization-wide beliefs and values • Harder to instil global thinking and action • Conflict between regions and head office can arise • Can lead to regional 'fiefdoms'

Customer or market archetype

The customer or market archetype is based on the separation of groups in terms of their market segments: customers, clients or industries (see Figure 3.3). It is organized around segments that have specific and different requirements. The customer or market archetype is best suited for organizations:

- that need to respond to strong customer power and to respond quickly to customers or markets;
- with well-defined segments;
- with market- or customer-focused culture and knowledge;
- where after-sales service and advice are part of the offering;
- where deep knowledge of customer or market are essential to success;
- where relationship management and customer contact are key.

The customer or market archetype is less helpful when organizations:

- operate in a market that does not break naturally into segments;
- cannot respond to the customer or market because product or service innovation is slow;
- deliver products or services that are not differentiated across markets;
- have a customer base that is widely dispersed with different demands across regions because there may be a lack of responsiveness to local conditions.

The customer or market archetype is found in:

- service industries where there are extreme differences in customer or market demands, eg some large financial services organizations, management consultancy, many banks where there are separate divisions for retail customers, offshore customers, small business customers and large corporate customers;
- organizations that deliver the same product but with different after-sales service to different customers, eg telecoms.

FIGURE 3.3 Customer or market archetype

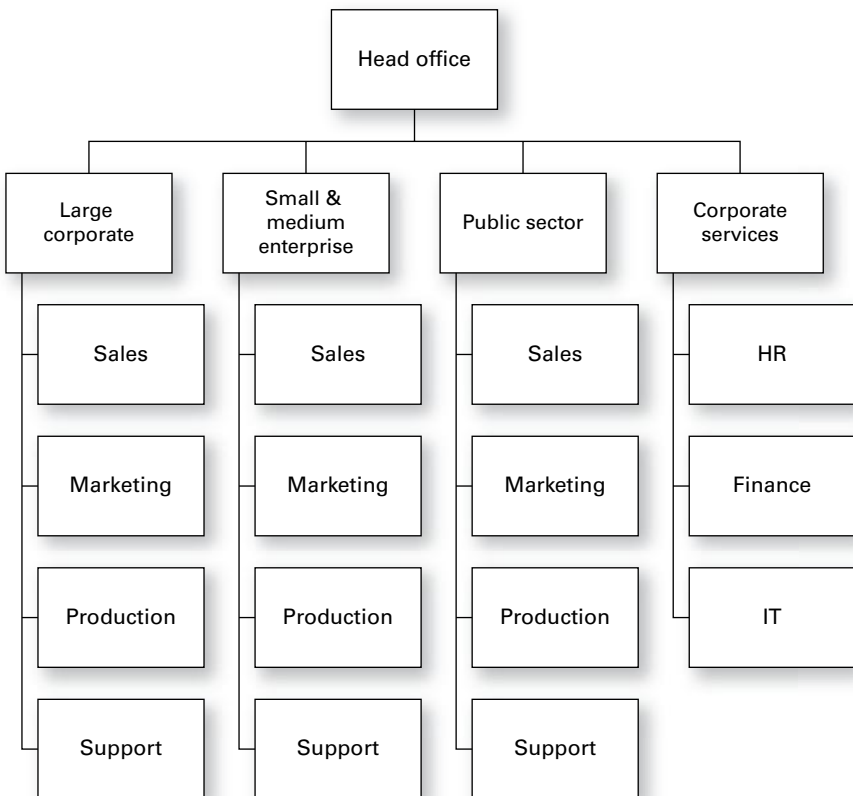


TABLE 3.3 Advantages and disadvantages of the customer or market archetype

	Advantages	Disadvantages
Work to be done	<ul style="list-style-type: none"> • Can tailor and 'bundle' specifically to particular segment needs • Rapid customer service and product development cycles • Strong customer knowledge • Improved ability to tailor process to customers • Supports coordination of delivery of diverse products or services to segment 	<ul style="list-style-type: none"> • Duplicates production and operating resources across segments • Diverging focus and standards across segments • Leads to incompatible systems • Difficult to share services resulting in increased costs
Structure	<ul style="list-style-type: none"> • Clear responsibility for customer profitability • Career paths built on segment expertise • Develops a strong segment knowledge and expertise • Develops customer-focused general managers • Attracts and retains staff whose values are aligned with market 	<ul style="list-style-type: none"> • Difficult to coordinate across geographic areas • Need to coordinate diverse resources to meet customer needs • Difficult to set priorities or allocate resources across segments
Enablers	<ul style="list-style-type: none"> • Allows profit responsibility to be delegated • Head office can exercise control through investment funding tied to profit centres 	<ul style="list-style-type: none"> • Lose sight of own organization's goals and over-concentrate on customers' • Adds costs to own organization by acting in customers' interests

TABLE 3.3 *Continued*

	Advantages	Disadvantages
Norms and behaviours	<ul style="list-style-type: none"> • Improves relationship management • Allows alignment with values in different markets • Responsive to how customers think and act 	<ul style="list-style-type: none"> • People become closer to customers than their own organization • Act and behave according to the customers' norms rather than own

Product archetype

The product archetype is based on the separation of groups in terms of their product or service categories (see Figure 3.4). Typically, each group in this archetype runs as an independent business. Below, we use 'product' as the umbrella term. The product archetype is best suited for organizations:

- with different customers, different competitive environments and different operating requirements and with low synergies between product lines;
- focusing on offering multiple products to separate customer groups;
- with high processing costs;
- with multiple distribution channels;
- with relatively distinct technologies, process and markets;
- that can take advantage of efficiencies of scale based on volume;
- whose markets and/or products are rapidly evolving.

The product archetype is less helpful when organizations:

- serve customers with complex product needs because they cannot tailor or bundle products easily;
- need to respond to different geographical demands because they cannot easily adapt to local requirements.

The product archetype is found in:

- Retail services where different brands are targeted at different customers and distributed through different outlets; eg the Arcadia group, the UK's largest privately owned clothing retailer with more than 2,500 outlets, organizes around seven different brands each with its own distinctive identity and market segment. Their brand

position includes Burton (mid-market menswear), Dorothy Perkins (women's fashion aged 25–35 market), Evans (women aged 25–45 who want to celebrate their curves), Topshop (young women's fashion) and Topman (young men's fashion). For them, the need to be close to their customer segments and respond quickly to fashion and demand is key.

- Large business-to-business-based companies; eg BASF (the global chemical company) organizes around products: oil and gas to chemicals, plastics, performance products, agricultural products and fine chemicals. For many years BASF has followed their 'verbund' strategy. In this they strive to make efficient use of resources. Production plants at large sites are closely interlinked, creating efficient production chains where outputs from one process become the feedstock of another process. This organizational response to their strategy enables BASF to efficiently make a product range from basic chemicals right through to high-value-added products.

FIGURE 3.4 Product archetype

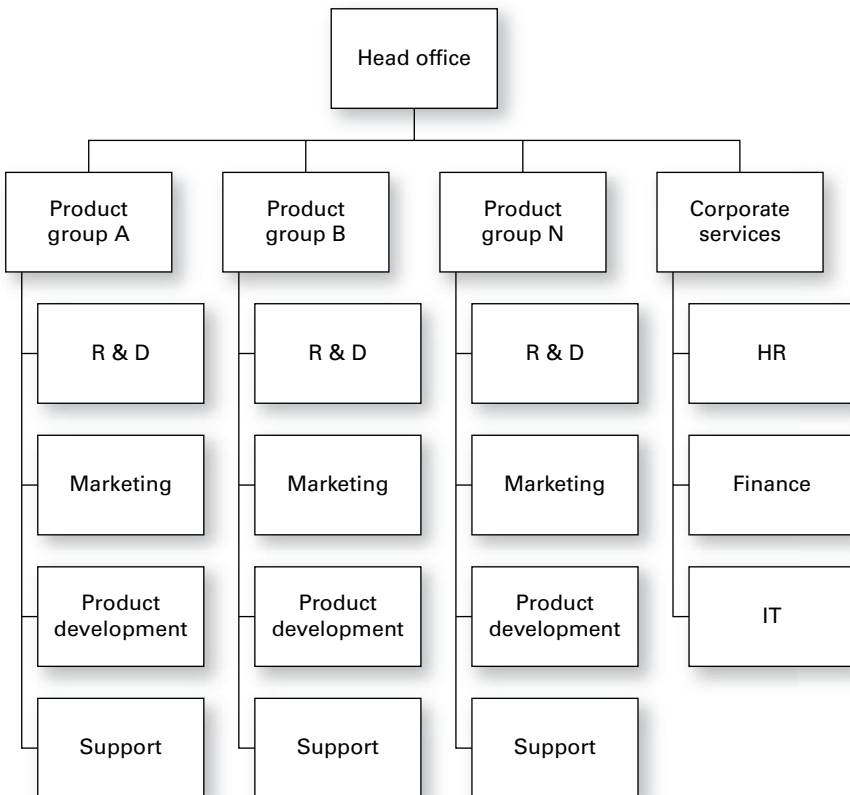


TABLE 3.4 Advantages and disadvantages of the product archetype

	Advantages	Disadvantages
Work to be done	<ul style="list-style-type: none"> • Clear product focus for both customer and organization • Good for product innovation • Shorter product development cycle times • Processing can be tailored to different product lines 	<ul style="list-style-type: none"> • High cost due to lost economies of scale • Difficult to tailor products to local geographic conditions • Leads to incompatibility and lack of standards across product lines • Sub-optimal use of suppliers
Structure	<ul style="list-style-type: none"> • Clear responsibility for product profitability • Easy coordination of resources within product line • Develops product expertise and knowledge • Easy to expand organization adding new product lines 	<ul style="list-style-type: none"> • Difficult to integrate business units • High Head Office and support overheads and duplication of resource • Does not appear integrated in the eyes of the customer • More difficult to coordinate marketing of multiple products to individual customers
Enablers	<ul style="list-style-type: none"> • Allows profit responsibility to be delegated • Head Office can exercise control through investment funding tied to profit centres 	<ul style="list-style-type: none"> • Difficult to control organization-wide policies and practices in each unit • Difficult to coordinate across functions • Difficult to coordinate across geographies
Norms and behaviours	<ul style="list-style-type: none"> • Can lead to a focus on quality • Often creates loyalty and pride among staff 	<ul style="list-style-type: none"> • Lacks responsiveness to local conditions • Not customer-focused

Process archetype

The process archetype is based around complete end-to-end core processes within the organization and the strategic focus is on process issues (see Figure 3.5). It has a horizontal design that cuts across traditional functions with key decisions made by process rather than functions. The process archetype is best suited for organizations:

- that have short product lives and need to focus on process innovation, faster times to market, reducing process cycle times, reducing cost and working capital through lower inventory costs;
- where clients and employees are inclined towards process thinking;
- with well-defined processes defined and managed across the whole organization;
- with little interdependency between core processes, eg customer service versus distribution;
- with different cultures and/or workforces between core processes.

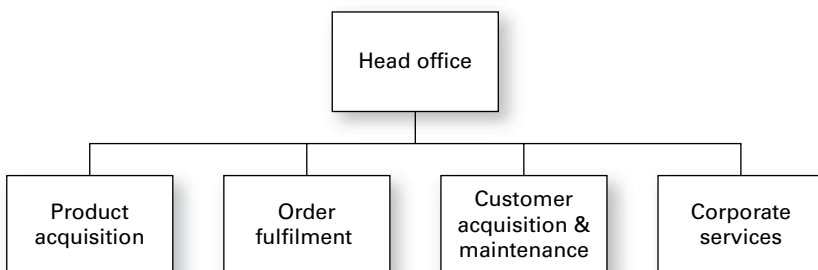
The process archetype is less helpful when organizations:

- are changing from an existing structure (because it is very difficult to implement);
- have difficulty identifying their key processes;
- have a lot of project-based work.

The process archetype is found in:

- manufacturing more commonly than in service industries as it needs an engineering mindset to make it work, eg Japanese car manufacturers in the 1990s such as Toyota and Honda brought this concept to their manufacturing operations across the globe;
- organizations that also have a strong quality management or lean-thinking focus;

FIGURE 3.5 Process archetype



- organizations seeking to radically reduce their operating costs;
- organizations that have a strong need to exercise and demonstrate compliance with statutory or regulatory requirements.

TABLE 3.5 Advantages and disadvantages of the process archetype

	Advantages	Disadvantages
Work to be done	<ul style="list-style-type: none"> ● Supports well-defined processes ● Reduces functional hand-offs by defining work in terms of customer-driven processes ● Often leads to 'lean' organizations and operational efficiency ● Good potential for new processes and a radical change to processes ● Improves coordination of similar efforts 	<ul style="list-style-type: none"> ● Requires significant coordination effort across processes ● Implementation is challenging ● Difficult to separate business activity into process
Structure	<ul style="list-style-type: none"> ● Process owners are accountable for the process across geographies and functions ● Tendency for low head office and functional overheads ● Supports differentiated skills/cultures/workforces between core processes ● Individuals develop broader perspective ● More flexible and empowered roles 	<ul style="list-style-type: none"> ● Can create horizontal silos ● Can neglect non-process parts of the business ● Prone to duplicate corporate services

TABLE 3.5 *Continued*

	Advantages	Disadvantages
Enablers	<ul style="list-style-type: none"> • Improved accountability for a process • Process performance is set by process owners • Measures are based on customer requirements or economic value added • Compensation is tied to measures • Key decision making is process rather than functionally driven • Easy to demonstrate statutory or regulatory compliance 	<ul style="list-style-type: none"> • Results in greater amount of change because it 'turns organizations on their side' • Difficult to implement in corporate services
Norms and behaviours	<ul style="list-style-type: none"> • Institutionalizes a customer-driven process focus at the highest levels of the organization • Responsive to customers • Quality focus 	<ul style="list-style-type: none"> • Need to redefine operating culture • Difficult to implement as existing cultures can constrain • People requirements are typically higher, eg in terms of breadth of knowledge, tolerance for ambiguity • Can be politically difficult with traditional departments

Matrix archetype

The matrix archetype is based on a combination of any two or more design approaches, eg product with function; or function with market. It balances these approaches to produce mutually beneficial allocation of resources (see Figure 3.6). The matrix archetype aims to provide innovative solutions through effectively using teams of highly skilled individuals from different disciplines. It has a dual authority structure, each equally responsible for the same decisions, hence in Figure 3.6 it is shown as two solid lines for reporting. It is extremely difficult to make matrix organizations work because individuals can suffer from conflicting role clarity and managers may have conflicting priorities, so they need to be highly skilled to make trade-offs.

The matrix archetype is best suited for organizations:

- that have obvious interdependencies between any two organizing dimensions;
- that have many interdependencies in their operations;
- that have people with well-developed interpersonal skills;
- where key skills are in short supply in the market;
- where operating costs are driven by people costs.

The matrix archetype is less helpful when organizations:

- do not have clearly articulated and shared organizational goals because both sides of the matrix are pulled in different directions driven by their own goals.

The matrix archetype is found in:

- medium-sized organizations with multiple products in manufacturing, in retail and some service organizations;
- multinationals that need to balance geography with any one other organizing dimension;
- temporary organizations, which are often based on the matrix archetype;
- many organizations in accessing corporate service/functional specialists, eg it is common to see finance teams located within business units reporting to both the head of the business unit and the central finance function or sales functions with a matrix reporting to a geographic area and to a product organization.

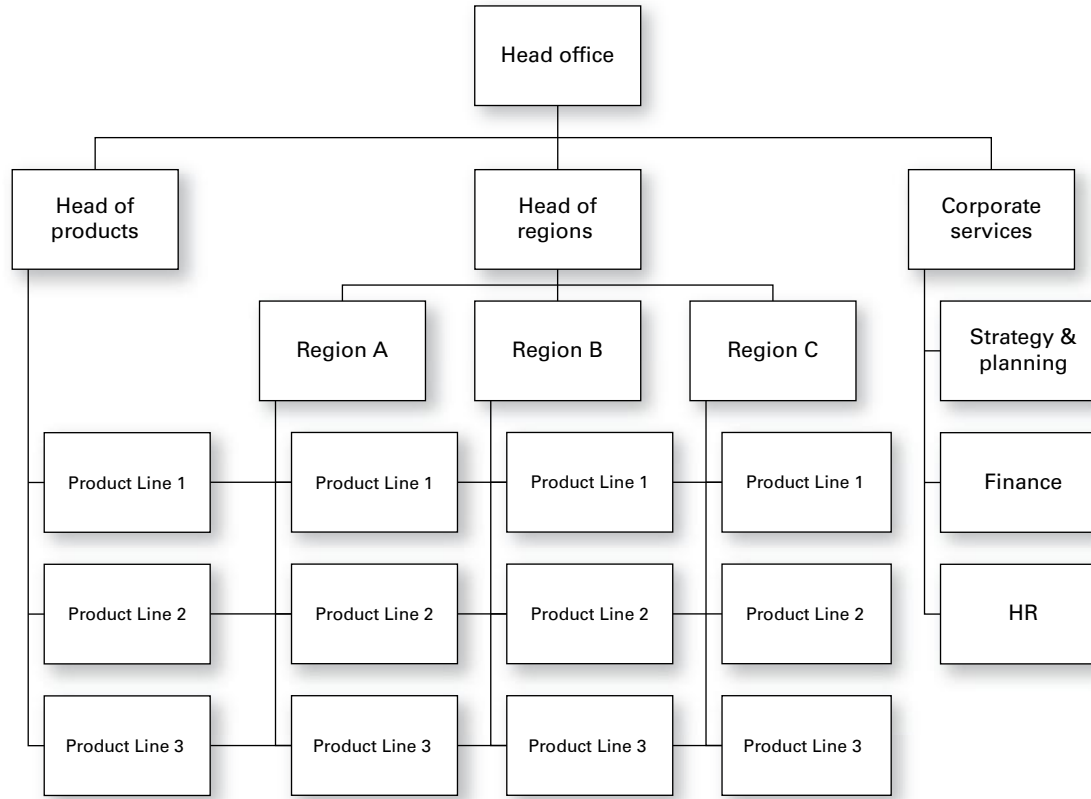
FIGURE 3.6 Matrix archetype

TABLE 3.6 Advantages and disadvantages of the matrix archetype

	Advantages	Disadvantages
Work to be done	<ul style="list-style-type: none"> • Achieves coordination necessary to meet dual demands from customers • Suited to complex decisions and frequent changes in unstable environment 	<ul style="list-style-type: none"> • Dilution of priorities • Requires integrated information systems and common processes
Structure	<ul style="list-style-type: none"> • Enables organizations to reconfigure around two dimensions • When well implemented can give the best of both worlds • Allows flexible people-sharing across products • Provides skill development in two dimensions 	<ul style="list-style-type: none"> • Known to be highly inefficient and difficult to manage • Leads to conflict and lack of clear accountability • Often leads to highly political organizations • Unclear job and task responsibilities • Unclear cost and profit responsibilities • Managers need good interpersonal skills and extensive training
Enablers	<ul style="list-style-type: none"> • Quality of decision making where interests conflict • Direct contact replaces bureaucracy • Understanding and sharing of organizational goals 	<ul style="list-style-type: none"> • Slow and inefficient decision making • Dual authority, which can be frustrating and confusing • Is time consuming; involves frequent meetings and conflict-resolution sessions • Typically represents a fundamental change in performance measurement and metrics

TABLE 3.6 *Continued*

	Advantages	Disadvantages
Norms and behaviours	<ul style="list-style-type: none"> • Develops managers through increased involvement in decisions • Increases managerial motivation • Promotes teamwork and problem solving 	<ul style="list-style-type: none"> • High degrees of conflict • Requires great effort to maintain power balance • Will not work unless participants understand it and adopt collegial rather than vertical-type relationships • Requires ongoing power sharing and collaboration

Network archetype

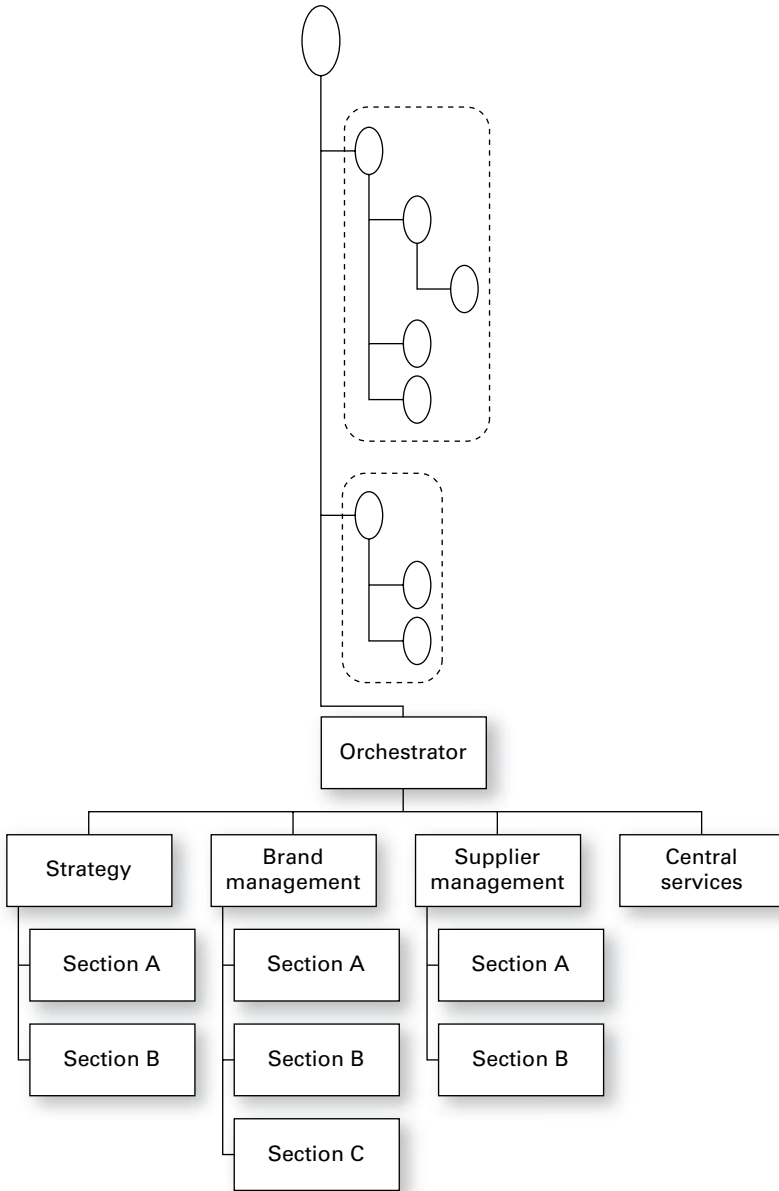
The network archetype is based on the separation of groups across traditional boundaries (see Figure 3.7). ‘The organization’ is a network of organizations held together by the products or services required and customers served. This archetype covers supply chains, networks of groups and virtual organizations. They are held together by partnership, collaboration and networking rather than formal structure and physical proximity.

Organizations may take on a number of different roles within the network. They may decide to be orchestrators, subcontracting out most of their work. Here they retain only a small core of staff to set strategic and managerial direction and provide the operational support necessary to sustain the network. In other cases, they may decide to be the suppliers to an orchestrator or suppliers of services to others in the network. Here they will be part of a network archetype and have to consider what archetype(s) are appropriate for their own organization.

The network archetype is best suited for organizations:

- that need greater efficiency in meeting customer needs;
- that need to reduce service costs or lead times;
- that need to integrate supply and demand;
- that want to make best use of it in, for instance, outsourcing, joint ventures, alliances;
- that are suppliers who want strategic relationships;
- that work in complex, rapidly changing environments;
- with a strong brand and identity so that customers do not see multiple sources;

FIGURE 3.7 Network archetype



- where grouping together provides either scale or enhanced product range;
- where specialization is cost effective.

The network archetype is less helpful when organizations:

- have an advantage through vertical integration;
- already have economies of scale.

The network archetype is found in:

- organizations where reliable forecasting of customer need is possible;
- professional service firms that partner with others to achieve scale or enhanced products;
- many organizations in the fashion industry where companies such as Nike benefit from strong branding but use network structures to access manufacturing suppliers.

TABLE 3.7 Advantages and disadvantages of the network archetype

	Advantages	Disadvantages
Work to be done	<ul style="list-style-type: none"> ● Lowers total delivered costs and lead times ● Increases flexibility/visibility/responsiveness ● Improves customer service ● Allows organizations to focus on what they do best 	<ul style="list-style-type: none"> ● Requires integrated information system and common processes ● Needs agreement on quality standards
Structure	<ul style="list-style-type: none"> ● Flattens hierarchies in the orchestrator ● Partners in the network can be changed and even experimented with as the needs of the centre and their customers change 	<ul style="list-style-type: none"> ● Constantly shifting ● Difficult to manage ● Managers need good interpersonal skills and extensive training ● Flattens career paths ● Need very experienced and astute people in bridge roles between organizations

TABLE 3.7 *Continued*

	Advantages	Disadvantages
Enablers	<ul style="list-style-type: none"> • Different parts of the network can use different reward systems 	<ul style="list-style-type: none"> • Represents a fundamental change in performance measurement and metrics • Requires strong liaison devices to facilitate horizontal integration between the activities across organizations
Norms and behaviours	<ul style="list-style-type: none"> • Improves trading partner relationships and value • Focuses on what each partner does best • Fosters team working 	<ul style="list-style-type: none"> • Requires high degrees of collaborative behaviour and fundamentally different ways of operating from hierarchical organizations • High degrees of trust and control are required to make these work

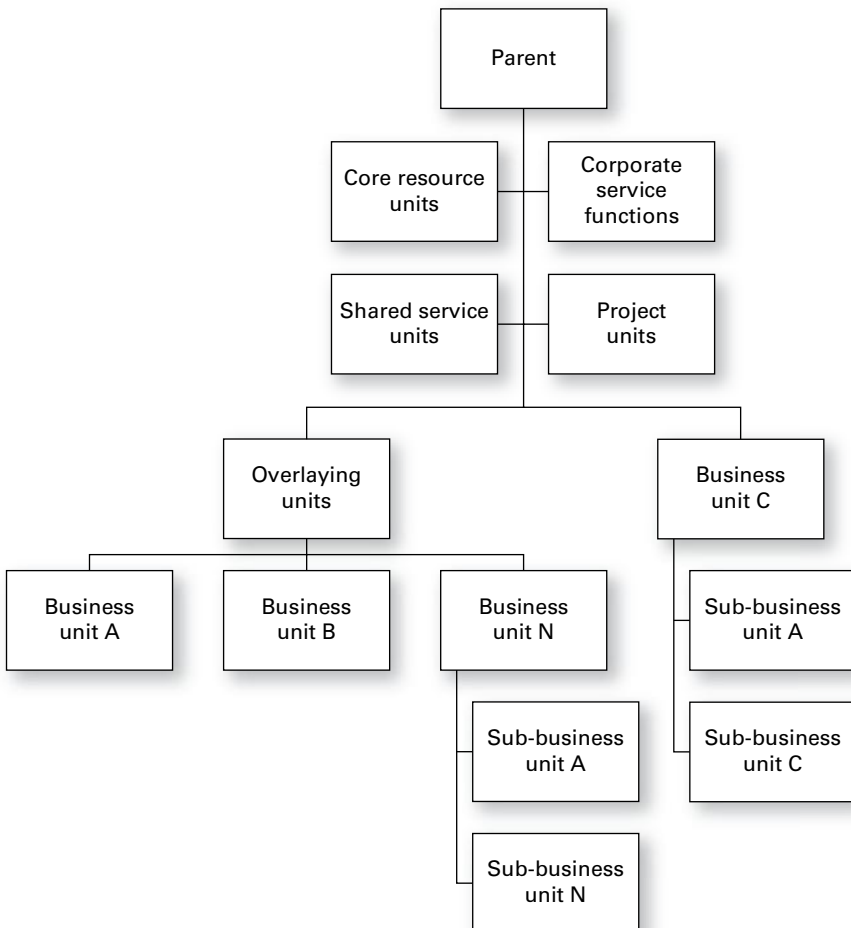
Structured network

This is a different type of archetype adapted from Goold and Campbell (2002), see Figure 3.8. It is a really useful adjunct to the other archetypes because the thinking is more about how different units within a whole organization work, individually and in relation to each other. It describes the differing roles and responsibilities they have. It is complementary to the other archetypes because in terms of thinking you still need to consider, for instance, whether business units are functional-, product-, geographic- or network-based. The components are:

- (Corporate) Parent: should have a clear value-adding rationale for its activities, in terms of obligatory corporate tasks and influence as well as adding value to other units. It can include several layers of management and groups as well as the corporate head office.
- Core resource units: which develop and nurture scarce resources and are key to competitive advantage to several business units, eg R & D.
- Shared service units: which provide services that are needed by several other units in the company, eg operational and IT services.

- Project units: which carry out temporary tasks or projects that cut across other units.
- Overlaying units: which is an umbrella organization used in larger organizations to manage groupings of other units.
- Business units and sub-business units: which are responsible for profits, have relatively high decision-making autonomy and generally adopt one of the archetypes discussed earlier. Sub-business units are subdivisions of business units.
- Corporate services (Functions): eg finance, HR, marketing and IT that may support Parents and/or act as core-resource and shared-service units and whose activities may overlap with overlaying and project units.

FIGURE 3.8 Structured network



Other useful archetypes

In addition to these, other archetypes you may come across include:

- **Front-back:** hybrid structures that often evolve over time rather than by being designed deliberately. They include customer-facing units at the front of the organization and product-line or manufacturing units at the back.
- **Customer-centric:** complex forms that align their entire structure around delivering the greatest value to the best customers at the best cost base. They go beyond just serving customers to creating complex packages of added-value product for their best customers and delivering these in a cost-efficient way.
- **Cellular:** network-like structures where strategy, structures and processes are fluid rather than fixed and they work best in innovation-centred knowledge businesses.
- **Multi-dimensional:** sophisticated, complex forms where the responsibility for a number of dimensions – say, turnover, cost, profit or market share – is distributed across different cross-sections of the organization; eg product category, geographical area, business unit or any other axis relevant for the organization. Management information on different aspects of performance is reported simultaneously on all dimensions. IBM operates this way.

Three frameworks to help you position an organization

In this section we present three frameworks that are helpful in understanding current organizations and future designs. These can be used to diagnose a current organization, to explore and learn from other organizations, to give clues to future design options and to help align the segments of a new design. These frameworks draw on contingency theory; this states that there is no one, universal, best way to organize and that what is effective in some situations may be not be effective in other situations. The best choices for any particular organization depend on various external and internal factors. In the frameworks shown here, the external factors are the environment that the organization operates in and the internal factors cover the nature of the work and the operating mechanisms.

Environmental complexity and stability framework

Here, environment covers all the elements outside the boundary of the organization being designed. All organizations operate within a sector,

geography and marketplace or a wider organization. Availability and need for raw materials, human resources and financial resources are elements of the environment. Further key elements include customers and suppliers that the organization interacts with and the types of regulatory frameworks or governmental influences on the organization. Many of these are interdependent and all vary in their significance for different organizations.

Environmental complexity is determined by the number of external influences that the organization has to deal with and the extent to which they are different. In a simple environment, the organization deals with few (three or four) external influences that are all similar in the way they influence it; for example, where the only external influence on the organization is the clients and they all want the same range of products or services. In a complex environment, the organization has to deal with a multitude of external influences that are all different; for example, a pharmaceutical company such as Astra Zeneca operates in a very complex environment dealing with many groups such as doctors, hospitals, patients, pharmacists, external research establishments, regulators, other government advisory bodies, health insurance providers, labour markets and many suppliers. Astra Zeneca deals with these groups in many countries with varying local economic conditions, health care arrangements and regulatory regimes.

Environmental stability refers to whether environmental influences are stable or unstable. In recent years there has generally been a decrease in stability. The environment is classified as stable if it remains the same over a period of months or years, for example, HMRC (Her Majesty's Revenue and Customs) in the UK: the regulatory regime for taxation is refined annually; major changes in the structure of UK tax collection are unusual; the client bases have minimal changes; and changes to systems are planned and carefully implemented. Under unstable conditions the environmental influences shift abruptly. Airlines are a good example: they frequently have to deal with unpredictable events such as volatile fuel prices, terrorist threats leading to security changes, vagaries of weather and other natural forces, worldwide health issues, and multiple countries' legal and regulatory controls.

The environmental complexity and stability framework shown in Table 3.8 allows you to consider the nature of the environment the organization operates in and the impact that the environment has on the organization design. The implications in practice are mainly felt by organizations that face high uncertainty. When an organization faces high uncertainty it needs to respond and it can:

- increase the ability for information to flow to those that need it, ensuring that all parts of the organization have the information they need to operate effectively;
- increase its ability to predict through planning and forecasting functions;
- create more boundary-spanning roles in the structure to sense and respond to the environment;

- create ‘buffer’ departments that separate its internal organization from the environment;
- formalize and strengthen the Enablers quadrant by specifying the mechanisms for incentives, rewards, goal setting, and the governance rules and frameworks to a greater degree.

For instance, in responding to uncertainty here are two examples of creating buffers: an IT department may create a strong relationship-management function to face the businesses it services; and a pharmaceutical company may create a department to deal with US health insurance companies and get its products on their approved/funded lists. Another common response to uncertainty is to model the organization on the current ‘best practice’ of other organizations. That may provide insights but may not be suitable to deliver the required organizational purpose and strategic intent.

Conversely, in more certain and simpler environments the information needed is more straightforward; planning and forecasting is simpler; the structure is less complex with fewer of the boundary-spanning roles and buffer departments; and the Enablers can be less formal.

FIGURE 3.9 Environmental complexity and stability framework

Environmental stability	Unstable	<p>Moderate to high uncertainty</p> <p>A few similar elements that change frequently and unpredictably</p>	<p>High uncertainty</p> <p>A lot of dissimilar elements that change frequently and unpredictably</p>
	Stable	<p>Low uncertainty</p> <p>A few similar elements that change slowly or not at all</p>	<p>Low to moderate uncertainty</p> <p>A lot of dissimilar elements that change slowly or not at all</p>
		Simple	Complex
Environmental complexity			

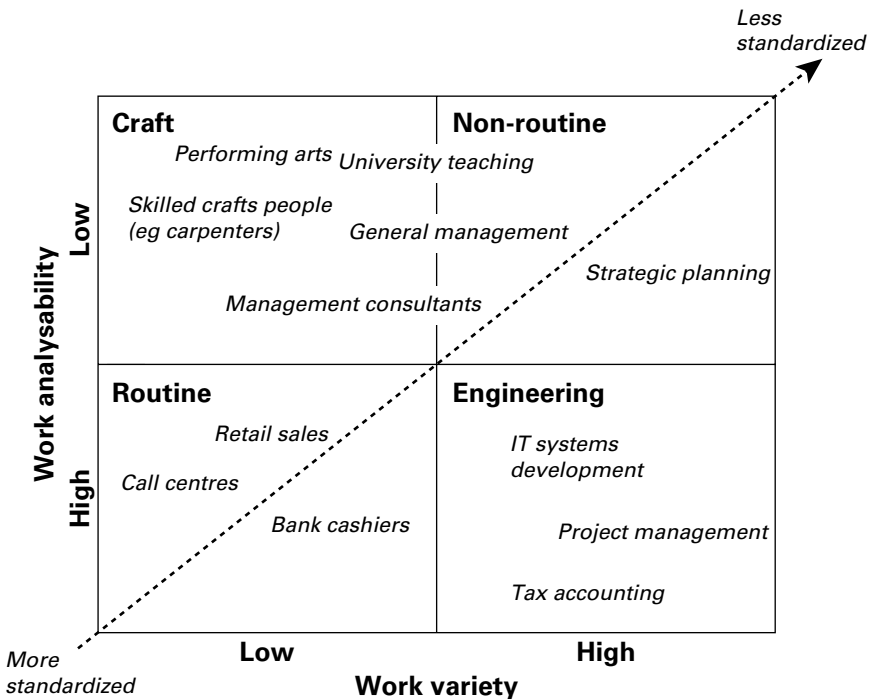
Work standardization framework

This framework is a way of examining the Work quadrant of the Organization Design Compass. Work standardization is the degree to which work processes within the organization are similar or varied and the degree to which the tasks that people carry out are analysable. There are two dimensions: work variety and work analysability. Work variety is the frequency with which unexpected or novel events occur in the work processes. When

day-to-day work requirements are repetitive with few unexpected situations then variety is considered low. When there are a large number of unexpected situations and there a few established rules or procedures developed to deal with these, variety is considered high. Work analysability is the degree to which people can follow a codified procedure to carry out the work. Standard procedures, use of manuals, checklists and handbooks are all signs of highly analysable work. When there is no store of techniques or procedures and people have to draw on their own experience, wisdom, intuition or judgement then the analysability is low. By codifying the organization design process in this book, the authors are moving the analysability of organization design work from low (rarely codified today) to higher. Figure 3.9 shows the work standardization framework where these two dimensions are plotted together giving four types of work (craft, non-routine, routine and engineering) with some jobs positioned on it for illustration. Understanding the work standardization framework helps design thinking because there are associated organizational characteristics. Where work is more standardized:

- information flows mainly vertically rather than horizontally and is via written communications and standardized reports rather than informally distributed;
- structures are more formally defined;

FIGURE 3.10 Work standardization framework



- organizations can have wider spans of control;
- organizations need lower skill levels among people and reduced costs;
- in Enablers, rules and governance arrangements are clear and highly defined;
- goals emphasize quantity and efficiency.

Conversely, where work is less standardized:

- information flows need to be horizontal across and between teams;
- structures are looser and less defined;
- there can be a lot of ad hoc project teams;
- generally people working in the organization need to have higher skill levels;
- training and experience are both valued;
- training programmes often emphasize communications skills, teamwork and problem solving;
- in Enablers, reward systems emphasize behaviours and high-level outcomes rather than adherence to processes and procedures.

Classification of operating mechanisms

Research by Woodward (1965) found that organizations are more effective when their ‘technology’ (the operating mechanisms in the Organization Design Compass), is aligned with the organization’s structure. The research classifies three successful ways of pairing operating mechanisms with structure. Although the names attributed to these draw on a manufacturing vocabulary they are applicable to service organizations too, as the examples below show:

- **Small batch and unit production:** these organizations act like ‘job shop operations’ with single outputs tailored and delivered to specific individual customer orders. Tools, techniques and actions also tend to be tailored to specific customer orders. Here the organization relies on individual people’s skills rather than on programmed machines or systems. Relatively flat organizations work best; usually there are no more than three levels to any hierarchy, with narrow spans of control for managers. Decisions are managed as they occur, through dialogues, and mutual adjustments are made. Typically, an organic structure fits small-batch technology. Organizational examples in this category include: small manufacturers, customized furniture makers and boutique management consultancy.
- **Large batch and mass production:** these are organizations that have assembly line characteristics, where the processes are typically long

production runs of standardized outputs. Tools, techniques and actions tend to be standardized and production is controlled. The structure needs to be taller and wider with four or more levels to any hierarchy. Managerial spans of control increase by about 30 per cent compared to small-batch organizations as rules and procedures act to coordinate more work processes. Organizational examples in this category include: car manufacturing, food packaging, call centres, helpdesks and accounts payable processes.

- **Continuous processes:** these are organizations where the start and end of processes are not easily identifiable and their processes run continuously. Production is highly automated and work processes are mainly concerned with monitoring the equipment and dealing quickly with irregularities. Managers tend to have narrow spans of control and teams work closely. Teams are made up of highly trained people who need to communicate freely about the work processes, any irregularities that are noticed and then problem solve quickly. This need for quick responses makes an organic structure desirable. Example organizations include: chemical engineering plants, data centre operations.

Conclusion

This chapter has covered some essential building blocks from organization design theory that can help you design organizations. It has described a number of commonly used organizational archetypes and three frameworks that are associated with particular characteristics which an organization may have, may require or want to avoid. The archetypes and frameworks can help you interpret organizations from various perspectives and give you insights into what might be appropriate for any organization you design or features you can use. These building blocks are ideas from which you can formulate appropriate ideas for many situations. Now we are going to put all these into practice, using the OPTIMAL Organization Design Approach. As Ludwig Mies van der Rohe said, 'Architecture starts when you carefully put two bricks together. There it begins.'

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