Organisational Design: Everything You Need To Know

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An organization does not simply appear on its own; in fact, organizations are contrived social systems that are created by like-minded groups of persons to pursue and hopefully achieve a stated goal; and this process of creation is known as *organizational design* (Gutterman, 2015). *Organizational Design* is a sequential method of identifying the performing aspects and liabilities in a system so that they can be re-aligned as per the needs of the company, such as current goals and implementing new business changes (Tutorialspoint.com, 2019). It focusses on improving the technical and interpersonal side of the workplace. Implementing an efficient organizational design leads to a more effective organization, a more focused workforce, and a workplace of better productivity by improving internal operations, inter-departmental relationships, working efficiency, all of which leads to better productivity and customer satisfaction (Tutorialspoint.com, 2019).

During the implementation of *Organization Design*, management may enforce numerous strategic changes as per their strategy to deliver the desired results. In this process, there are chances of clashes between work-processes and the occasional trade-offs (Galbraith, 1995). Sometimes, there will be situations where the management realizes that they have to sacrifice smaller benefits to ensure larger benefits in the future.

Definition

Organization design is a framework architecture for an organization according to which an organization runs its business. It structures the workforce and the management in the most efficient working method through which they can realize their company's mission statement (Galbraith, 1995).

A successful and comprehensive *design process* is defined by the holistic approach it envisions for organizational improvement. To design such a framework that addresses all the vital areas of a company, the management will have to draw objectives that ensure the following:

- Business Growth Model
- Improved Efficiency and Profits
- Outstanding Customer Service
- Improved Process Management
- Improved Workforce Productivity
- Decreasing Operational Expenses
- Improved Employee Engagement

***Many people mistake *Organization Design* for **Organizational Structure**.

Organizational Structure

Organizational Structure is related to mapping out the different departments of an organization and the different teams working in each department, their hierarchical order, their goals, and objectives. It also illustrates the roles and responsibilities given to different responsibilities (Gutterman, 2015).

A typical Organization Structure illustration looks like the following illustration:
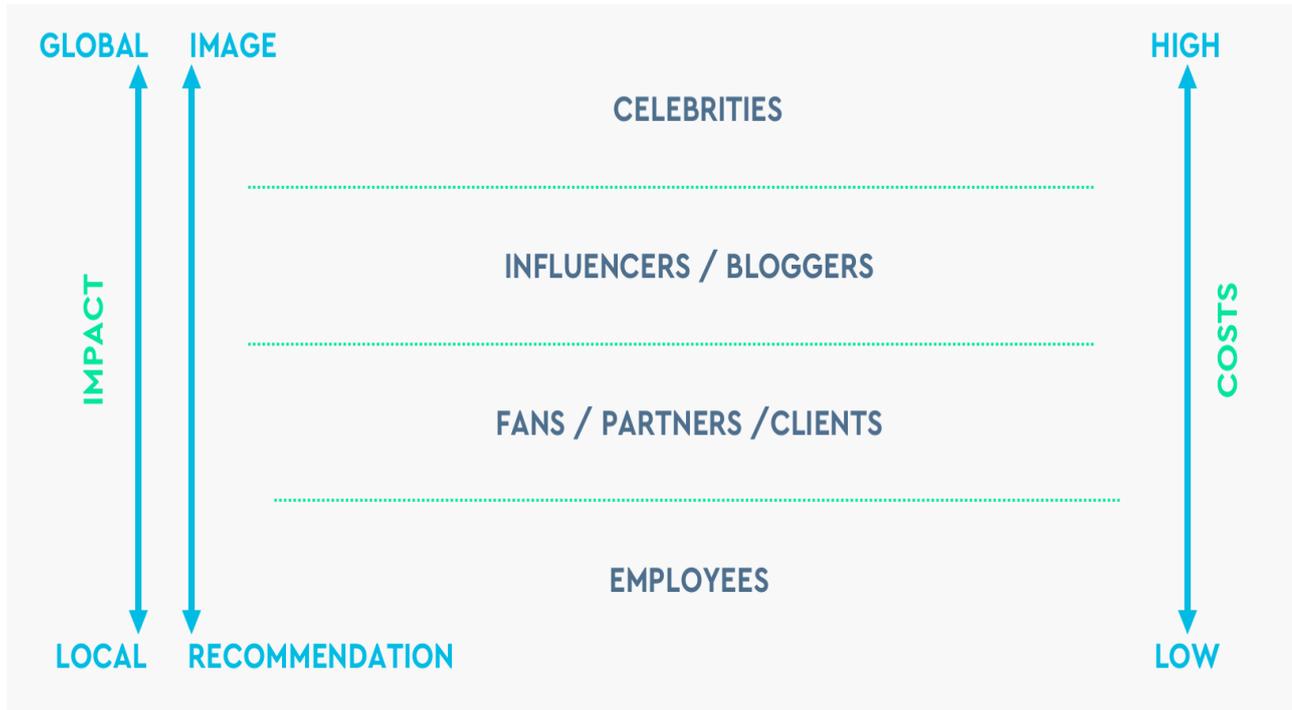
While…

On the other hand, Organizational Design is related to aligning functions, processes, strategies, responsibilities, and roles to different members of the team and departments within the context of the various processes and products that the company produces.

Organisational Design Planning

Designing changes in any organization is a step-by-step process and involves focusing on different phases of planning (Galbraith, 1995).

- In the first phase, people develop a vision for their company for the future. Once that's done, they identify their goals and the areas that they need to bring changes in to reach these goals.
- The next step involves drawing out a clear set of objectives and what changes to implement so that these objectives are realized.
- This is followed by a crucial phase called **Organizational Grouping** during which the management decentralizes their workforce and divides them into separate groups that take care

of different departments with enough autonomy to make their own decisions, with clear and timely communication with interlinked departments.

Organisational Design **Common Forms**

Some of the most common strategies along which **Organizational Grouping** is done are behavior, function, product, customer, market, and matrix. People are assigned teams based on these lines of functioning and are given instructions and their objectives and the managers are entrusted with the successful implementation.

After delegating work to different departments, the management then decides the hierarchy of reporting of the departments and selects the ones whose managers will report to them directly regarding progress and areas of concern. All these types of the organization represent a structure for an *organization's design*, where there is a clear chain of hierarchy and flow of communication.

Some of the most important design models are given below:

- *Functional Organizational Design Model*
- *Geographical Organizational Design Model*
- *Product-oriented Organizational Design Model*
- *Market-oriented Organizational Design Model*
- *Matrix Structure Organizational Design Model*

- **Functional Organizational Design Model**

Organizations that implement the functional model of organizational design divide their functioning into different fields. For example, there will be different boxes for different departments like marketing, finance, sales, legal, R&D, and HR, etc. These departments will have their separate board-level departments and sub-departments. This structural arrangement is reminiscent of the military line of command, where a strict pyramidal hierarchy and chain of action was observed. The size and sub-divisions of each department vary according to the business needs. For example, if it is a law firm, their legal department will be more populated and sub-divided as compared to their R&D Department. Some organizations merge their Sales Department with the Marketing Department so that the managers can work in-sync and bring ideas that support each other's functioning. Functional organizational structures are best for self-contained working units, such as a small company or a freelance-assignment team. The downside to this structure is that because of the strict hierarchical framework, issues tend to escalate to the vertical reporting authority, rather than getting sorted out by mutual understanding between two lateral units.

- **Geographical Organizational Design Model**

As long as organizations remained localized, it was considered that the functional design is best suited for running a business. However, when companies expanded and started operating beyond international boundaries, there was a need felt for a globalized model, which considers all the geography-influenced

factors like local festivals, culture, communication style, way of conducting business, etc.

- **Product-oriented Organizational Design Model**

In such models, the organization designs itself are based on its products. For example, a company that manufactures domestic electrical appliances may divide its business model on its prime-selling products, such as fans, water pumps, etc. Each product will have its own set of operations, employees, offers, etc. This model works best in organizations that provide entrepreneurial opportunities to people with good business ideas. These people are made managers and an entire unit is assigned to them. In such a competitive environment, where different product lines are being run by separate teams dedicated to its marketing, promotion, and sales; rivalry is sure to develop. This rivalry is healthy for business. However, if not nurtured healthily, it can lead to bitter conflict after a particular stage.

- **Market-oriented Organizational Design Model**

In a market-oriented organization model, the focus of the company is in addressing the needs of the customers, as opposed to manufacturing products and creating the market for them, which the food industry often does. These models revolve around the logistics of serving a small number of customers, who can give them the business they need to be profitable. In such cases, it is very often to find an entire plant dedicated to manufacturing just a single line of products.

A few notable examples of organizations that adopt this model are from the automobile industry. Companies like BMW, Ferrari, Ducati, etc. have a niche customer base. These companies cater only to their customer base. The less number of customers gives a good opportunity for the sales managers to build strong business relationships with their clients. The customers also appreciate the personalized touch and enhanced customer service. Such models work best when high-quality assurance is given and the business growth depends more on interpersonal skills and relationship-building, as opposed to heavy advertisements and promotion.

- **Matrix Structure Organizational Design Model**

Matrix Structures are used when there is a high demand from the customers as well as a fundamental need to ensure efficiency and bureaucracy. This structure is used when projects employing many people are implemented and the clients want one organization whom they can entrust for the successful implementation of their plan. A few such sectors are construction, architecture, civil engineering, etc. In this model, an employee reports to two bosses at the same time – one, an immediate supervisor, and the other one the manager of the process. This results in role conflict and authority-related issues. If the supervisor and manager end up giving two conflicting or opposing instructions, then the employee gets stuck between two authorities.

Organizational Design and Strategy

While all of the elements in the various models discussed above are important and challenging in their own right, the starting point in the organizational design process should always be the strategy of the

organization. Galbraith (2007) suggests that strategy includes the selection of the distinctive competence, or domain, of the organization and the identification of the goals and objectives of the organization. The domain of an organization is determined by the choices that are made concerning the products and/or services to be offered by the organization, the customers or clients to be served by the organization, the technology to be used by the organization in performing its activities, and the locations at which the work of the organization will be performed. Among other things, the choices made in establishing the domain of the organization will lay out the boundaries of the organization and the points at which the organization will become depending on others outside of the organization such as investors, unions, customers, clients, and governments. The goals and objectives of the organization are based on decisions about how the organization intends to relate to the others identified during the domain selection process. Whatever decisions are made, the goals and objectives must be understood and shared by those members of the organization holding positions of influence, such as the directors, officers, and principal owners (Galbraith, 2007).

While there is an almost limitless number of variables to be considered in formulating the strategy of the organization, among the most commonly emphasized elements are the development of a statement of the overall mission or purpose of the organization, identification of the core competencies of the organization and other organizational capabilities that can be effectively deployed to achieve and sustain competitive advantage and the external environment of the organization (Galbraith, 2007). The byproducts of the strategic planning process include a vision of the future for the organization which is based on effective implementation of the strategy as well as specific goals and objectives and a description of the tasks and activities that need to be completed to achieve them. Strategic planning becomes increasingly complex as the organization grows and matures and should be supported by an internal infrastructure that continuously collects relevant information about the organization and its external environment and monitors the progress of the chosen strategy against objectively defined goals and measures.

Principles of organisational design
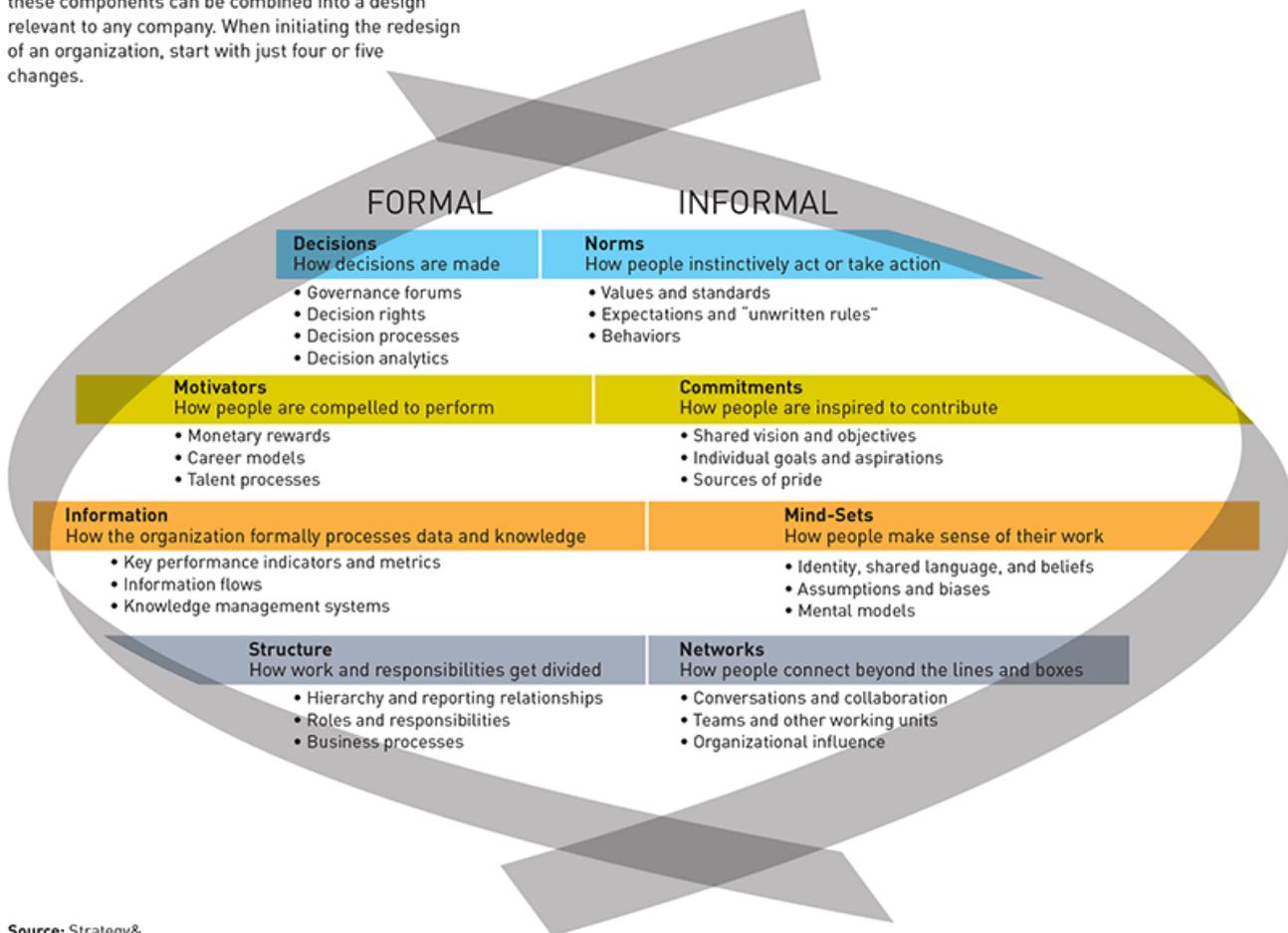
- **Declare amnesty for the past.**

Organization design should start with corporate self-reflection (Neilson, Estupiñán and Sethi, 2015): What is your sense of purpose? How will you make a difference for your clients, employees, and investors? What will set you apart from others, now and in the future? What differentiating capabilities will allow you to deliver your value proposition over the next two to five years?

- **Design with "DNA."**

Organization design can seem unnecessarily complex; the right framework, however, can help you decode and prioritize the necessary elements (Neilson, Estupiñán and Sethi, 2015). We have identified eight universal building blocks that are relevant to any company, regardless of industry, geography, or business model. These building blocks will be the elements you put together for your design (see below illustration).

Exhibit 1: The Eight Elements of Organization Design

Grouped into complementary pairs (the four rungs), these components can be combined into a design relevant to any company. When initiating the redesign of an organization, start with just four or five changes.

FORMAL	INFORMAL
Decisions — How decisions are made • Governance forums • Decision rights • Decision processes • Decision analytics	**Norms** — How people instinctively act or take action • Values and standards • Expectations and "unwritten rules" • Behaviors
Motivators — How people are compelled to perform • Monetary rewards • Career models • Talent processes	**Commitments** — How people are inspired to contribute • Shared vision and objectives • Individual goals and aspirations • Sources of pride
Information — How the organization formally processes data and knowledge • Key performance indicators and metrics • Information flows • Knowledge management systems	**Mind-Sets** — How people make sense of their work • Identity, shared language, and beliefs • Assumptions and biases • Mental models
Structure — How work and responsibilities get divided • Hierarchy and reporting relationships • Roles and responsibilities • Business processes	**Networks** — How people connect beyond the lines and boxes • Conversations and collaboration • Teams and other working units • Organizational influence

Source: Strategy&

The blocks naturally fall into four complementary pairs, each made up of one tangible (or formal) and one intangible (or informal) element. Decisions are paired with norms (governing how people act), motivators with commitments (governing factors that affect people's feelings about their work), information with mind-sets (governing how they process knowledge and meaning), and structure with networks (governing how they connect). By using these elements and considering changes needed across each complementary pair, you can create a design that will integrate your whole enterprise, instead of pulling it apart (Neilson, Estupiñán and Sethi, 2015).

- **Fix the structure last, not first.**

Company leaders know that their current org chart doesn't necessarily capture the way things get done — it's at best a vague approximation. Yet they still may fall into a common trap: thinking that changing their organization's structure will address their business's problems. One can't blame them because after all, the org chart is seemingly the most powerful communications vehicle around. It also carries emotional weight, because it defines reporting relationships that people might love or hate. But a company hierarchy, particularly when changes in the org chart are made in isolation from other changes, tends to revert to its earlier equilibrium. You can significantly remove management layers and temporarily reduce costs, but all too soon, the layers creep back in and the short-term gains disappear

(Neilson, Estupiñán and Sethi, 2015).

In an *org redesign*, you're not setting up a new form for the organization all at once. You're laying out a sequence of interventions that will lead the company from the past to the future. The structure should be the last thing you change: the capstone, not the cornerstone, of that sequence. Otherwise, the change won't sustain itself (Neilson, Estupiñán, and Sethi, 2015).

- **Make the most of top talent.**

Talent is a critical but often overlooked factor when it comes to *org design* (Neilson, Estupiñán, and Sethi, 2015). You might assume that the personalities and capabilities of existing executive team members won't affect the design much. But in reality, you need to design positions to make the most of the strengths of the people who will occupy them. In other words, consider the technical skills and managerial acumen of key people, and make sure those leaders are equipped to foster the collaboration and empowerment needed from people below them. There is a need to ensure that there is a connection between the capabilities you need and the leadership talent you have.

- **Focus on what you can control.**

Make a list of the things that hold your organization back: the scarcities (things you consistently find in short supply) and constraints (things that consistently slow you down). Taking stock of real-world limitations helps ensure that you can execute and sustain the new *organization design* (Neilson, Estupiñán, and Sethi, 2015).

- **Promote accountability.**

Design your organization so that it's easy for people to be accountable for their part of the work without being micromanaged. Make sure that decision rights are clear and that information flows rapidly and clearly from the executive committee to business units, functions, and departments.

- **Benchmark sparingly, if at all.**

One common misstep is looking for best practice (Neilson, Estupiñán and Sethi, 2015)s. In theory, it can be helpful to track what competitors are doing, if only to help you optimize your design or uncover issues requiring attention. But in practice, this approach has a couple of problems.

First, it ignores your organization's unique capabilities system — the strengths that only your organization has, which produces results that others can't match (Neilson, Estupiñán, and Sethi, 2015). You and your competitor aren't likely to need the same distinctive capabilities, even if you're in the same industry. For example, two banks might look similar on the surface; they might have branches next door to each other in several locales. But the first could be a national bank catering to millennials, who are drawn to low costs and innovative online banking features. The other could be regionally oriented, serving an older customer base and emphasizing community ties and personalized customer service. Those different value propositions would require different capabilities and translate into different

organization designs. The national bank might be organized primarily by customer segment, making it easy to invest in a single leading-edge technology that covers all regions and all markets. The regional bank might be organized primarily by geography, setting up managers to build better relationships with local leaders and enterprises. If you benchmark the wrong example, the copied organizational model will only set you back.

Second, even if you share the same strategy as a competitor, who's to say that its organization is a good fit with its strategy? If your competitor has a different value proposition or capabilities system than you do, using it as a comparison for your performance will be a mistake (Neilson, Estupiñán and Sethi, 2015).

- **Let the "lines and boxes" fit your company's purpose.**

For every company, there is an optimal pattern of hierarchical relationship — a golden mean (Neilson, Estupiñán, and Sethi, 2015). It isn't the same for every company; it should reflect the strategy you have chosen, and it should support the critical capabilities that distinguish your company. That means that the right structure for one company will not be the same as the right structure for another, even if they're in the same industry.

In particular, think through your purpose when designing the spans of control and layers in your org chart. These should be fairly consistent across the organization.

You can often hasten the flow of information and create greater accountability by reducing layers. But if the structure gets too flat, your leaders have to supervise an overwhelming number of people. You can free up management time by adding staff, but if the pyramid becomes too steep, it will be hard to get clear messages from the bottom to the top (Neilson, Estupiñán and Sethi, 2015). So take the nature of your enterprise into account. Does the work at your company require close supervision? What role does technology play? How much collaboration is involved? How far-flung are people geographically, and what is their preferred management style?

- **Accentuate the informal.**

Formal elements like structure and information are attractive to companies because they're tangible. They can be easily defined and measured. But they're only half the story. Many companies reassign decision rights, rework the org chart, or set up knowledge-sharing systems — yet don't see the results they expect.

That's because they've ignored the more informal, intangible building blocks. Norms, commitments, mind-sets, and networks are essential in getting things done. They represent (and influence) the ways people think, feel, communicate, and behave (Neilson, Estupiñán and Sethi, 2015). When these intangibles are not in sync with one another or the more tangible building blocks, the organization falters.

- **Build on your strengths.**

Overhauling the organization is one of the hardest things for a chief executive or division leader to do, especially if he or she is charged with turning around a poorly performing company. But there are always strengths to build on in existing practices and the culture. Suppose, for example, that your company has a norm of customer-oriented commitment. Employees are willing to go the extra mile for customers when called upon to do so (Neilson, Estupiñán, and Sethi, 2015). They deliver work out of scope or ahead of schedule, often because they empathize with the problems customers face. You can draw attention to that behavior by setting up groups to talk about it and reinforce the behavior by rewarding it with more formal incentives. That will help spread it throughout the company.

Perhaps your company has well-defined decision rights, wherein each person has a good idea of the decisions and actions for which he or she is responsible. Yet in your current org design, they may not be focused on the right things (Neilson, Estupiñán and Sethi, 2015). You can use this strong accountability and redirect people to the right decisions to support the new strategy.

Organizational Design Checklist

Below are some questions to ask yourself when conducting organizational design:

- What is the organization's strategy? The organizational strategy includes the vision and mission of the organization and its short and long-term goals. A strategy is determined by the organization's external environment (e.g., competitors, suppliers, customers, technologies, and regulators) and the strengths and weaknesses of the organization to the factors in play in the external environment.
- What superior organizational capabilities can be developed and used to create a competitive advantage for the organization? Organizational capabilities are the unique combination of skills, processes, technologies, and human abilities that differentiate an organization. Competitive advantage is the ability to offer better value to the customer than competitors through lower pricing and/or more highly-valued benefits and services.
- What is the business portfolio of the organization? The business portfolio includes each of the product lines and/or business units within the organization.
- What is the business model of the organization? Elements of the business model include the value proposition, target customer segments, distribution channels, cost structure, and the model for generating revenues.
- What steps must be taken to develop and exploit the organizational capabilities necessary to effectively and successfully execute the chosen strategy? For example, if the organizational strategy calls for positioning products and services to meet the specific needs of local markets around the world the elements of the Star Model must focus on creating and maintaining expertise and presence in each local market.
- What metrics should be used to determine whether the steps taken to develop and exploit the organizational capabilities have been successful? If presence in new local markets is the goal the metrics should track retention and expansion of relationships and accounts in target markets.
- What is the structure of the organization? The structure determines where formal power and authority is located within the organization. Organizations are generally structured around one of the following key dimensions—functions, products, geographies, or customers.

- What are the key roles in the organizational structure, how is worked managed, and how are important decisions made? Related issues include centralization and decentralization, the use of rules and procedures, and coordination.
- Does the execution of the organizational strategy require high levels of collaboration across internal boundaries that exist within the organizational structure? If so, particular attention must be paid to processes and lateral connections.
- What processes should be put in place to make sure that necessary information moves efficiently up and down and across the organization? Processes can be work-related, such as the development of a new product, and management-related, such as planning and forecasting.
- What lateral connections should be created to make sure that structure boundaries do not restrict or destroy needed collaboration? Examples of lateral connections include networks, teams, integrative roles, and matrix.
- What metrics and rewards should be used to make sure that the behavior and performance of individual members of the organization are aligned with the organizational strategy and goals? When designing the reward system consideration must be given to the level at which performance should be measured: the locus of measurement; the behaviors and activities that should be measured; and the evaluation process.
- What human resource policies should be implanted for recruiting, training, and developing people with the skills necessary for the execution of the organization's strategy?
- What are the key characteristics of the organizational culture and do they support that strategy and goals of the organization? Elements of the organizational culture include common values, behavioral norms, and the mindset that members of the organization are expected to have when dealing with other members and with parties in the organization's external environment.
- How effective is the leadership of the organization in actively communicating the strategy and goals of the organization? Guidance from organizational leaders can assist other members in learning and practicing the behaviors that are needed to effectively carry out activities, make decisions, and resolve conflicts at all levels within the organizational hierarchy.
- How adept is the organization at quick re-configuring its structure, processes, and lateral connections to take advantage of new opportunities in its external environment that dictate an unforeseen change in strategy? While it is difficult for an organization to change as it grows larger and matures it is possible to build in tools for flexibility in advance.

Note: The questions in this checklist have been adapted from A. Kates and J.R. Galbraith, Designing Your Organization: Using the STAR Model to Solve 5 Critical Design Challenges (San Francisco: Jossey-Bass, 2007).

Conclusion

In a world of exponential size, *organizational design* isn't pleasant to have, it's mandatory. In this world, organizations continually drift toward the edge of chaos as they interact with their environment. Leaders aren't responsible for that chaos, but they are responsible for steering in response; both through their actions and by empowering those closest to the customer. *Organizational design* can help you see your environment with fresh eyes. It can rally your people behind a purpose that genuinely inspires them. It can unlock new strategic opportunities. It can make structures clearer and less political. It can simplify

systems and knit together the organization under one unified culture.

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