Understanding Organizational Design

Rich Batchelor

CAPLLARY learning
Change Thinking

Introductions

- Who you are?
- What do you do?
- Why are you here?
- What do you want to learn from today?

Agenda for Today

1. What is Organizational Design
2. Design Requirements
3. Organizational Structures
    1. Traditional
    2. Contemporary
    3. Evolving
    - Activity – Harry Welsh!
4. (re)Designing an Organization
    - Change Management for (re)Design
    - Activity – Designing an organization

CAPLLARY learning Change Thinking

Learning Experience Contract

- This is what I expect from you:
  - Respectful of others
  - Contributions
  - “Vegas Rules”
- What do you expect or ask of me?
- Expectations of Each other?

PAUSE

2 minutes

1. What is Organizational Design?

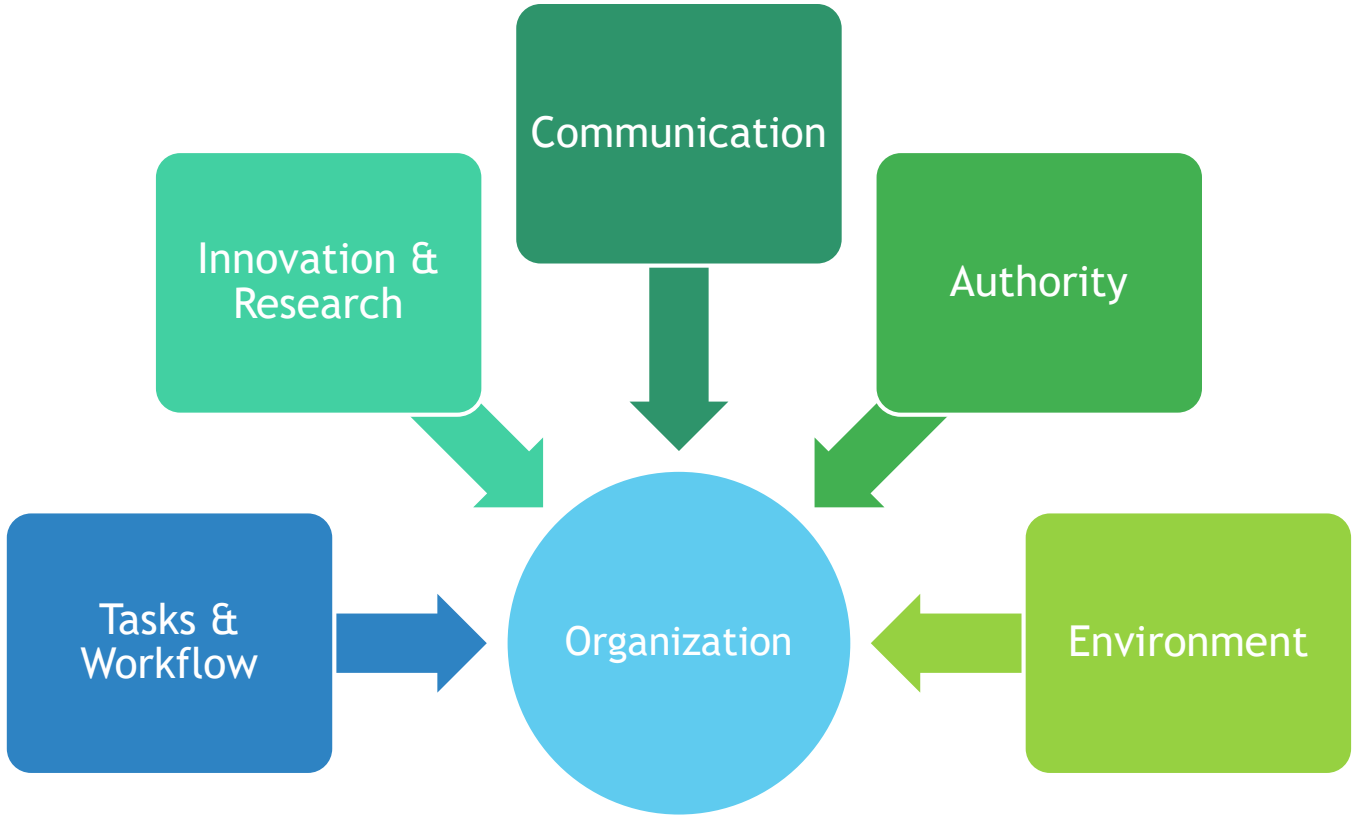
What is Organizational Design?

Organizational Design is not Organizational Structure

Organization design is the process of aligning an organization's structure with its mission

CAPLLARY learning Change Thinking

What is Organizational Design?



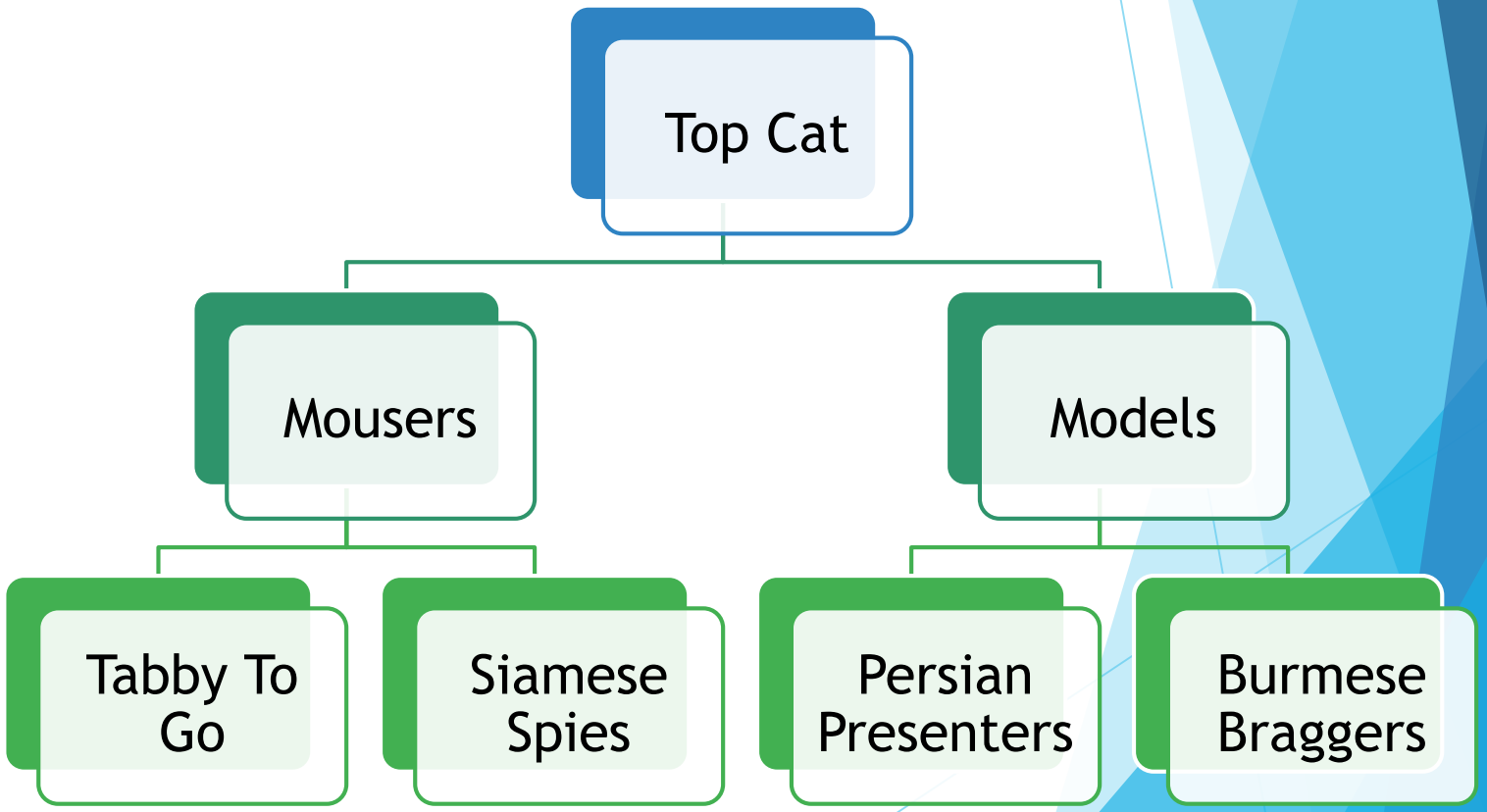
CAPLLARY learning Change Thinking

What is Organizational Design?

- How work is done, business processes, information sharing and how people are incentivized; all of these directly impact how well the organization performs.
- All of these factors are facets of the organization's design and each facet is important to organization's success.

What is Organizational Design?

- Without due planning, an organization's design often takes on a hierarchical structure.
- This structure is common because business executives and managers are often reluctant to relinquish control.
- However, such structures can lack flexibility, soak up resources and under-use key people and skills.



CAPLLARY learning Change Thinking

What is Organizational Design?

- Organizations often evolve rather than get designed.
- With little or no planning and intervention, the organization design that emerges is likely to be flawed with misaligned incentives, processing gaps and barriers to good communications.
- The Design is often then blamed for inefficiency and ineffectiveness?
- Nobody wants to do anything about it …

What is Organizational Design?

How many times have you questioned an Organization's Design?

Does the right person work in the right place, doing the right thing?

CAPILLARY learning Change Thinking

2. Design Requirements

CAPILLARY learning
Change Thinking

Design Requirements

Is your organization well-designed, and how do you know?

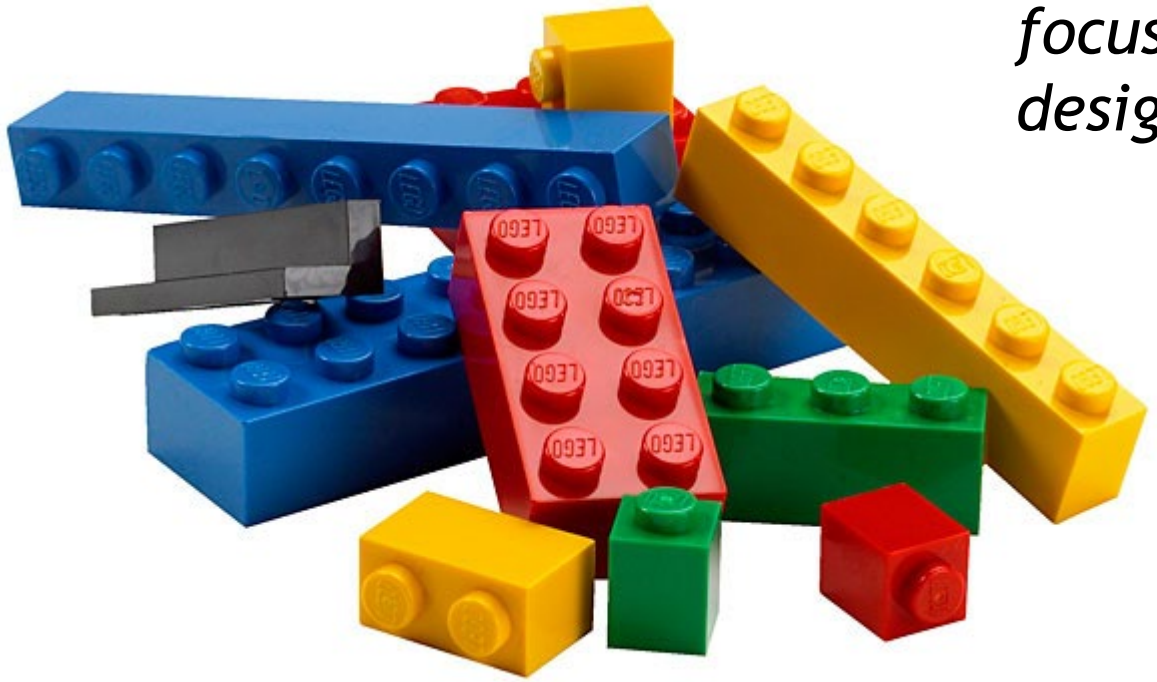
What does a well-designed organization look like?

How does it feel to work there?

And how is it different from a poorly-designed one?

Activity

Think of an organization that you know well.
Build a representation of this organization and focus on its organization design.



Design Requirements

- What matters is the overall organization design is aligned with the business strategy and the market environment in which the business operates.
- It must then have the right business controls, the right flexibility, the right incentives, the right people and the right resources.

Design Requirements

- Strategy – The organization design must support your strategy.
  - If your organization intends to be innovative then a hierarchical structure will not work.
  - If however, your strategy is based on low cost, high volume delivery then a rigid structure with tight controls may be the best design.

Design Requirements

- Size – The design must take into account the size of your organization.
  - A small organization could be paralyzed by too much specialization.
  - In larger organizations, on the other hand, there may be economies of scale that can be gained by maintaining functionally specialist departments and teams.
  - A large organization has more complex decision making needs and some decision making responsibilities are likely to be devolved or decentralized.

Design Requirements

- Environment – If the market environment you work in (customers, suppliers, regulators, etc.) is unpredictable or volatile, then the organization needs to be flexible enough to react to this.

Design Requirements

- Controls – What level of control is right in your business?
  - Some activities need special controls (such as patient services in hospitals, money handling in banks and maintenance in air transport)
  - Some are more efficient when there is a high degree of flexibility.

Design Requirements

- Incentives
  - Incentives and rewards must be aligned with the business's strategy and purpose.
  - When these are misaligned, there is a danger that units within the organization become self-serving.

"For a company that wants to grow by acquiring new customers, the sales team is incentivized on customer retention, and therefore is self-serving rather than aligned with the business purpose to ensure people are safe."

Design Requirements

- Strategy
- Size
- Environment
- Controls
- Incentives

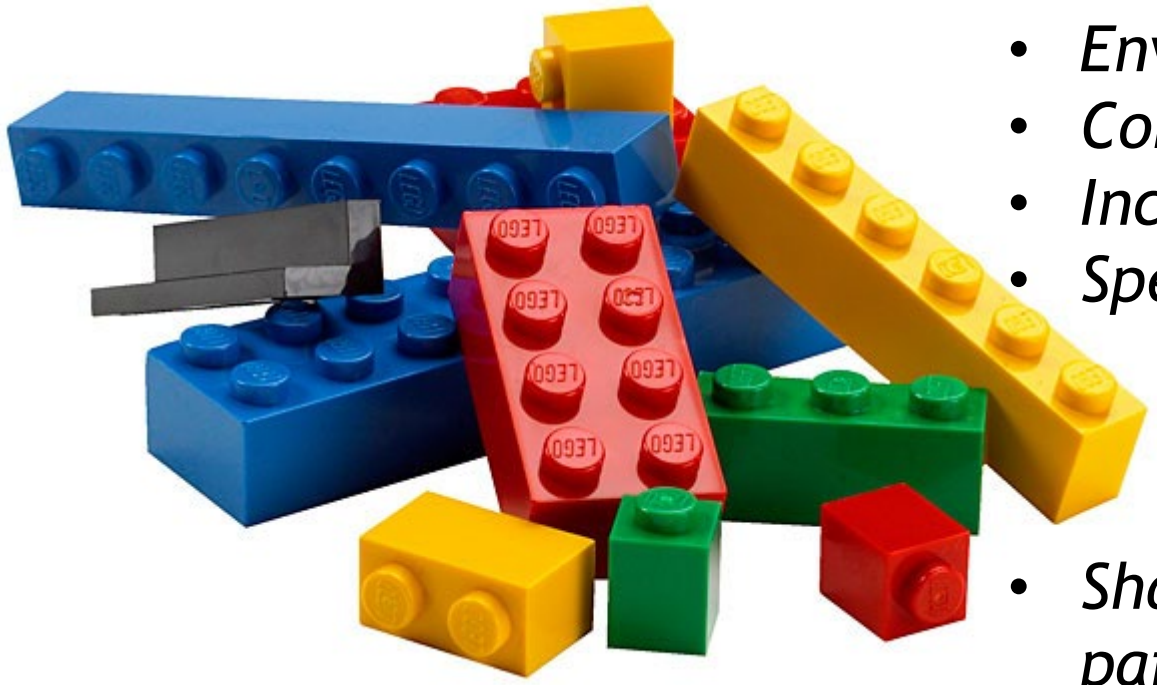
+ Specialism

CAPILLARY learning Change Thinking

Design Requirements

- Service/Product Evolution
  - A company may start off with a small line of products that cover a general part of the industry. As the company grows, the need to create specified departments for product development and manufacturing can have an effect on the company's organizational structure.

Activity



Return to the organization that you know well.
Where does it reflect-

- *Strategy*
- *Size*
- *Environment*
- *Controls*
- *Incentives*
- *Specialism*

- *Share your thoughts in pairs/threes and then reflect back to the group*

3. Organizational Structures

CAPLLARY learning
Change Thinking

Organizational Structures

Change Thinking

Organizational Structures

- In reality, organizations have elements of both hierarchy and flexible structures, often interconnected and intertwined
  - What characterizes a hierarchical structure?
  - How does it contrast with an organic structure

Organizational Structures

Characteristic	Hierarchical structure	Organic structure
Complexity	High – with lots of horizontal separation into functions, departments and divisions	Usually lower – less differentiation or functional separation
Formality	High – lots of well defined lines of control and responsibility	Lower – no real hierarchy and less formal division of responsibilities
Participation	Low – employees lower down the organization have little involvement with decision making	Higher participation – lower level employees have more influence on decision makers
Communication	Downward – information starts at the top and trickles down to employees	Lateral, upward, and downward communication – information flows through the organization with fewer barriers

Organizational Structures

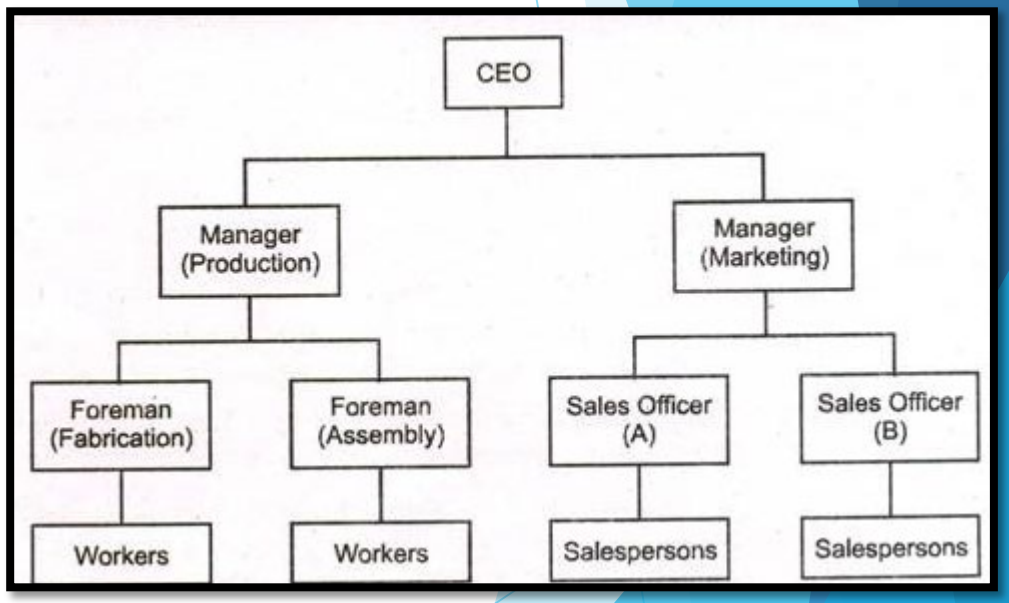
- Traditional Organizational Structures:
  1. Line organizational structure.
  2. Staff or functional authority organizational structure
  3. Line and staff organizational structure.
  4. Committee organizational structure.
  5. Divisional organizational structure.
  6. Project organizational structure.
  7. Matrix organizational structure and
  8. Hybrid organizational structure.

CAPLLARY learning Change Thinking

Organizational Structures

1. Line Organizational Structure

Features: Has only direct vertical relationships between different levels in the firm.



Advantages:

1. Tends to simplify and clarify authority, responsibility and accountability relationships
2. Promotes fast decision making
3. Simple to understand.

Disadvantages:

1. Neglects specialists in planning
2. Overloads key persons.

CAPLLARY learning Change Thinking

Organizational Structures

2. Staff or Functional Authority organizational Structure

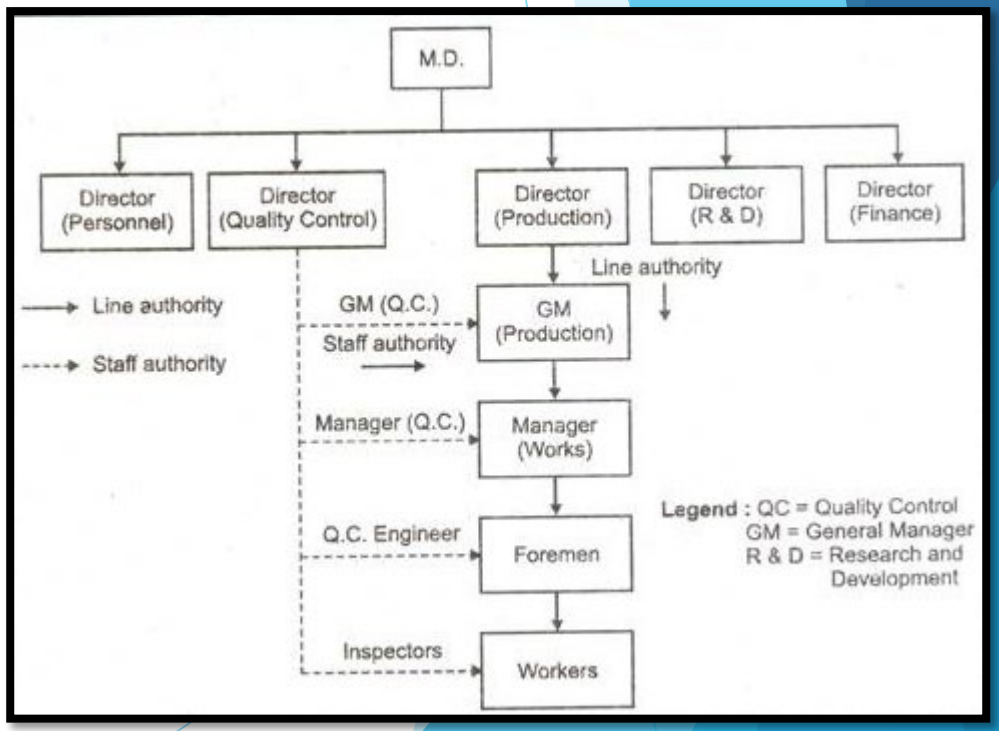
The jobs or positions in an organization can be categorized as:

(i) Line position: a position in the direct chain of command that is responsible for the achievement of an organization's goals and

(ii) Staff position: A position intended to provide expertise, advice and support for the line positions.

While this type of organizational structure overcomes the disadvantages of a pure line organizational structure, it has some major disadvantages:

(i) the potential conflicts resulting from violation of principle of unity of command and
(ii) the tendency to keep authority centralized at higher levels in the organization



CAPILLARY learning Change Thinking

Organizational Structures

3. Line and Staff organizational Structure

Most large organizations belong to this type of organizational structure.

Attributes: Direct, vertical relationships between different levels and also specialists responsible for advising and assisting line managers

Three types of specialized staffs can be identified:

(i) Advising,

(ii) Service and

(iii) Control.

CAPILLARY learning Change Thinking

Organizational Structures

3. Line and Staff organizational Structure

Advantages

Allows higher flexibility and specialization

Recognize the specialists' knowledge and expertise.

Disadvantages

Conflict between line and staff may still arise

Staff people may resent their lack of authority causing conflict

Co-ordination between line and staff may become difficult

CAPILLARY learning Change Thinking

Organizational Structures

4. Committee organizational Structure Features:

(a) Formed for managing certain problems/situations

(b) Are temporary decisions.

Advantages:

1. Committee decisions are better than individual decisions
2. Better interaction between committee members leads to better co-ordination of activities
3. Committee members can be motivated to participate in group decision making.
4. Group discussion may lead to creative thinking.

Disadvantages:

1. Committees may delay decisions, consume more time and hence more expensive.
2. Group action may lead to compromise and indecision.
3. ‘Buck passing’ may result.

CAPILLARY learning Change Thinking

Organizational Structures

5. Divisional organizational Structure:

In this type of structure, the organization can have different basis on which departments are formed. They are:

(i) Function,

(ii) Product,

(iii) Geographic territory,

(iv) Project and

(iv) Combination approach.

CAPILLARY learning Change Thinking

Organizational Structures

6. Project organizational Structure:

A project organization is a temporary organization designed to achieve specific results by using teams of specialists from different functional areas in the organization.

The project team focuses all its energies, resources and results on the assigned project.

Once the project has been completed, the team members from various cross functional departments may go back to their previous positions or may be assigned to a new project.

CAPLLARY learning Change Thinking

Organizational Structures

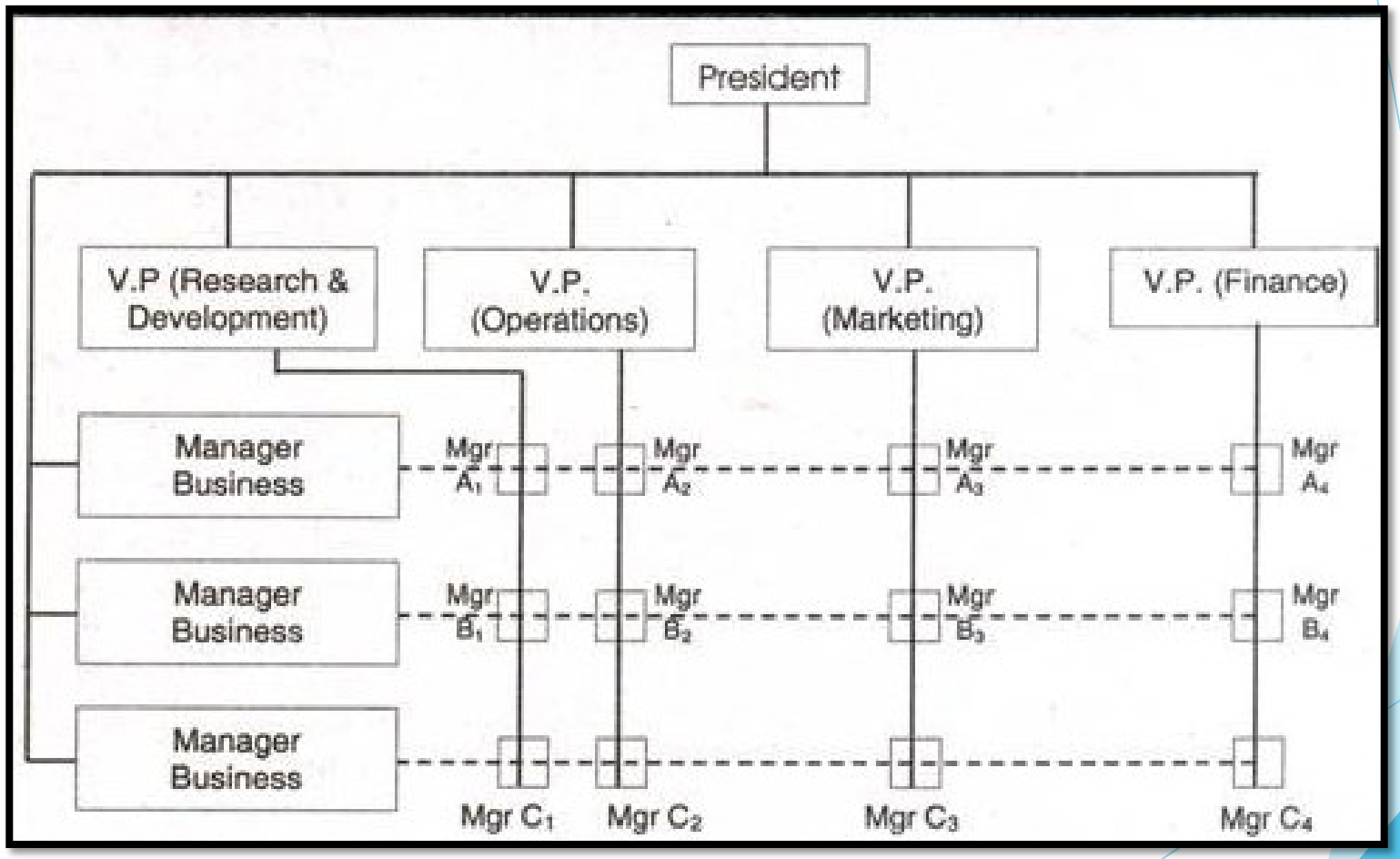
7. Matrix organizational Structure:

- It is a permanent organization designed to achieve specific results by using teams of specialists from different functional areas in the organization.
- Feature: Superimposes a horizontal set of divisions and reporting relationships onto a hierarchical functional structure.
- In matrix structures, there are functional managers and product (or project or business group) managers.
  - Functional manager are in charge of specialized resources such as production, quality control, inventories, scheduling and marketing.
  - Product or business group managers are in charge of one or more products and are authorized to prepare product strategies or business group strategies and call on the various functional managers for the necessary resources.

CAPILLARY learning Change Thinking

Organizational Structures

7. Matrix



Organizational Structures

7. Matrix Organizational Structure

Advantages:

1. Decentralised decision making.
2. Strong product/project co-ordination.
3. Improved environmental monitoring.
4. Fast response to change.
5. Flexible use of resources.
6. Efficient use of support systems

Disadvantages:

1. High administration cost.
2. Potential confusion over authority and responsibility.
3. High prospects of conflict.
4. Overemphasis on group decision making.
5. Excessive focus on internal relations.

CAPILLARY learning Change Thinking

Organizational Structures

8. Hybrid organizational Structure

Used in organizations that face considerable environmental uncertainty that can be met through a divisional structure and that also required functional expertise or efficiency.

This kind of structure depends on factors such as degree of international orientation and commitment.

Multinational corporations may have their corporate offices in the country of origin and their international divisions established in various countries reporting to the CEO or president at the headquarter.

While the focus is on international geographic structures, companies may also choose functional or process or product departmentation in addition to geographic pattern while at the head quarter's the departmentation may be based on function.

CAPLLARY learning Change Thinking

Organizational Structures

8. Hybrid Organizational Structure

Advantages:

1. Alignment of corporate and divisional goals.
2. Functional expertise and efficiency.
3. Adaptability and flexibility in divisions.

Disadvantages:

1. Conflicts between corporate departments and units.
2. Excessive administration overhead.
3. Slow response to exceptional situations.

CAPLLARY learning Change Thinking

Organizational Structures

- Contemporary Organizational Structures

9. Network Structures
10. Informal/Organic Structures

CAPLLARY learning Change Thinking

Organizational Structures

9. **Network Structure – [lean or agile structure]**

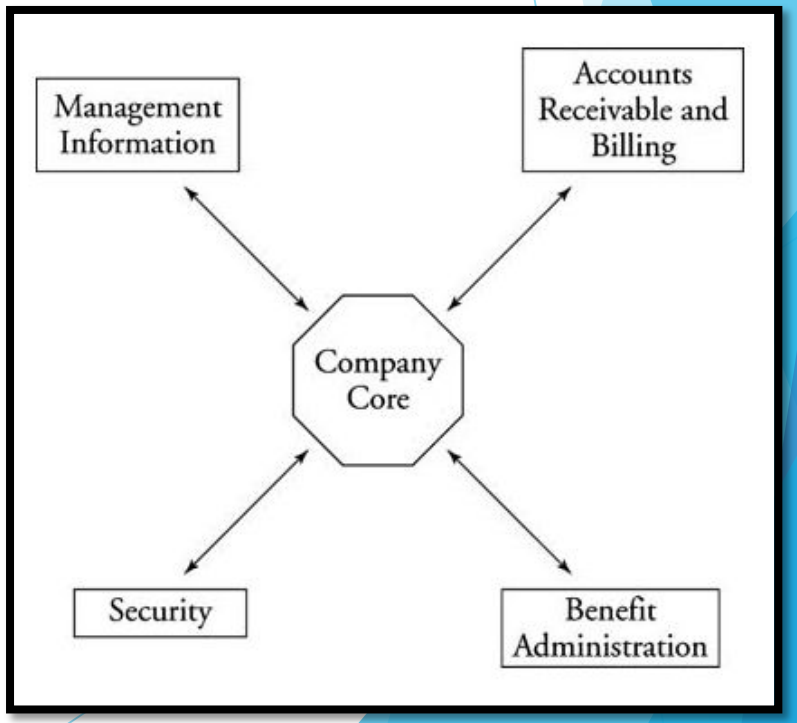
- Central, core functions that operate the strategic business.
- Outsources or subcontracts non-core functions
  - May include manufacturing, distribution, information technology marketing and other functions.

Advantages

1. Very flexible
2. Adapt to the market almost immediately.

Disadvantages

1. Loss of control
2. Dependence on third parties
3. Resources managing outsource and sub-contract suppliers.



Organizational Structures

10. Informal/Organic/Social Organizational Structure

- Set of evolving relationships and patterns of human interaction within an organization which are not officially presented.
- Alongside the formal organization, an informal organization structure exists which consists of informal relationships created not by officially designated managers but by organizational members at every level.
- Since managers cannot avoid these informal relationships, they must be trained to cope with
- Its members are joined together to satisfy their personal needs (needs for affiliation, friendship etc.)
- It is continuously changing and dynamic.
- It involves members from various organizational levels.
- It is affected by relationship outside the firm.
- It has a pecking order: certain people are assigned greater importance than others by the informal group.

CAPLLARY learning Change Thinking

Organizational Structures

10. Informal/Organic Structures

Advantages:

(i) Assists in accomplishing the work faster.

(ii) Helps to remove weakness in the formal structure.

(iii) Lengthens the effective span of control.

(iv) Compensation for violations of formal organizational principles.

(v) Provides an additional channel of communication.

(vi) Provides emotional support for employees.

(vii) Encourages better management.

Disadvantages:

(i) May work against the purpose of formal organization.

(ii) Reduces the degree of predictability and control.

(iii) Reduces the number of practical alternatives.

(iv) Increases the time required to complete activities.

CAPILLARY learning Change Thinking

Organizational Structures

- Evolving Organizational Structures

11. Flatarchy
12. Holocracy

CAPLLARY learning Change Thinking

Organizational Structures

11. Flatarchy

Opposing the traditionally tall structure. Common to see in smaller businesses and new start-ups.

Advantages

1. Open up the lines of communication and collaboration
2. Removing layers within the organization
3. Spreads power across multiple positions

Disadvantages

1. Can be confusing and cumbersome when everyone doesn't agree.
2. Removes promotion and development opportunities

Organizational Structures

12. Holacracy

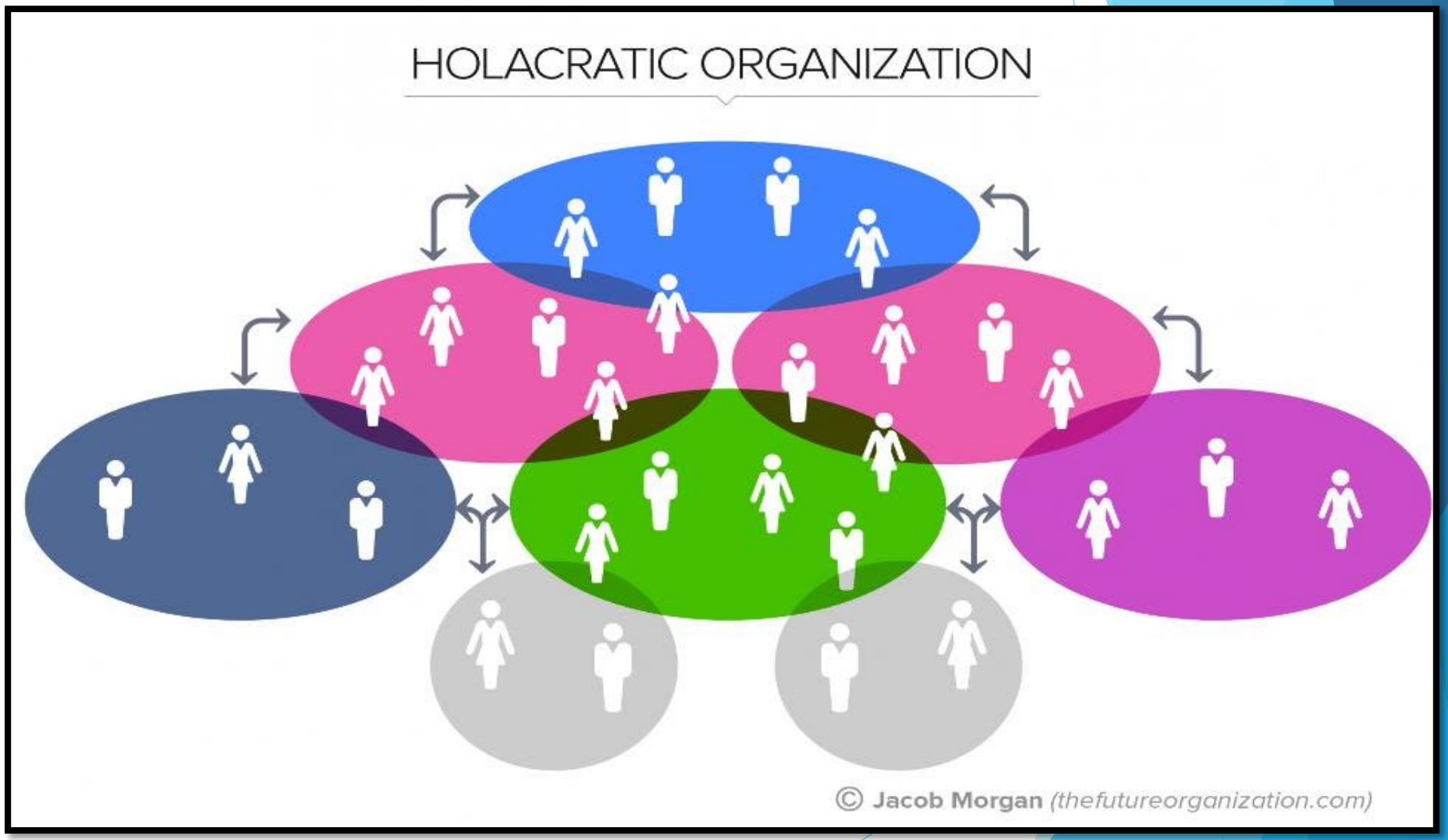
Zappos announced that they would be shifting to this new model of working.

Seen as a “boss-less” organization

- Allow for distributed decision making while giving everyone the opportunity to work on what they do best.
- There is still some form of structure and hierarchy but it’s not based on people as much as it based on circles or what most people would think of as departments.
- Information is openly accessible and issues are processed within the organization during special and ongoing meetings.

Organizational Structures

12. Holocracy



Organizational Structures

- Activity: Harry Welsh!

Harry Welsh had worked in the buying function of a major retailer for some years before seeing an opportunity to acquire one of its struggling suppliers. Harry was a great deal-maker who was outstanding in his ability to negotiate contracts, both with his former employer and other retailers.

The business grew and Harry took on more staff to service the contracts he had negotiated. However, as the owner-manager of the business, he always kept things close to his chest, even from other directors of the company. Despite repeated requests from his staff for more autonomy and trust, Harry continued to pull all the strings. Whenever there was a need for training or staff performance management, Harry's attention would always be distracted by any communication from a customer, with which he always insisted on dealing personally. In effect, Harry had made himself indispensable.

Eventually, Harry and his business partner sold out to a larger group, having never made the step to growing the company – and its people – to their full potential.

Organizational Structures

- Activity: Harry Welsh!

What type of Organizational Structures likely evolved for Harry?

What was good and bad about the evolution of the structures?

What type of structure did it likely move into?

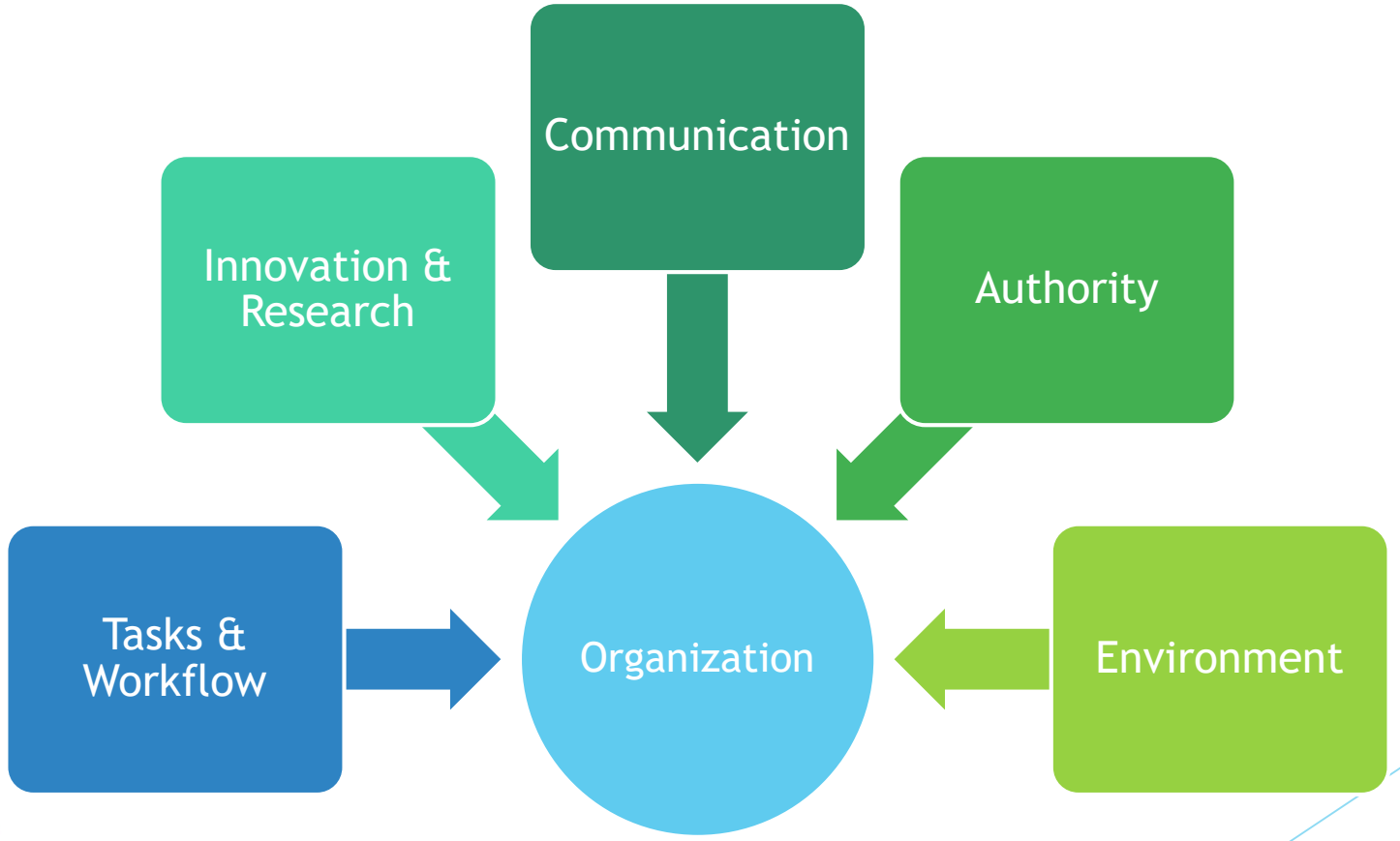
What structures may have served him better?

What else do we learn from his journey?

4. (re)Designing an Organization

(re)Designing an Organization

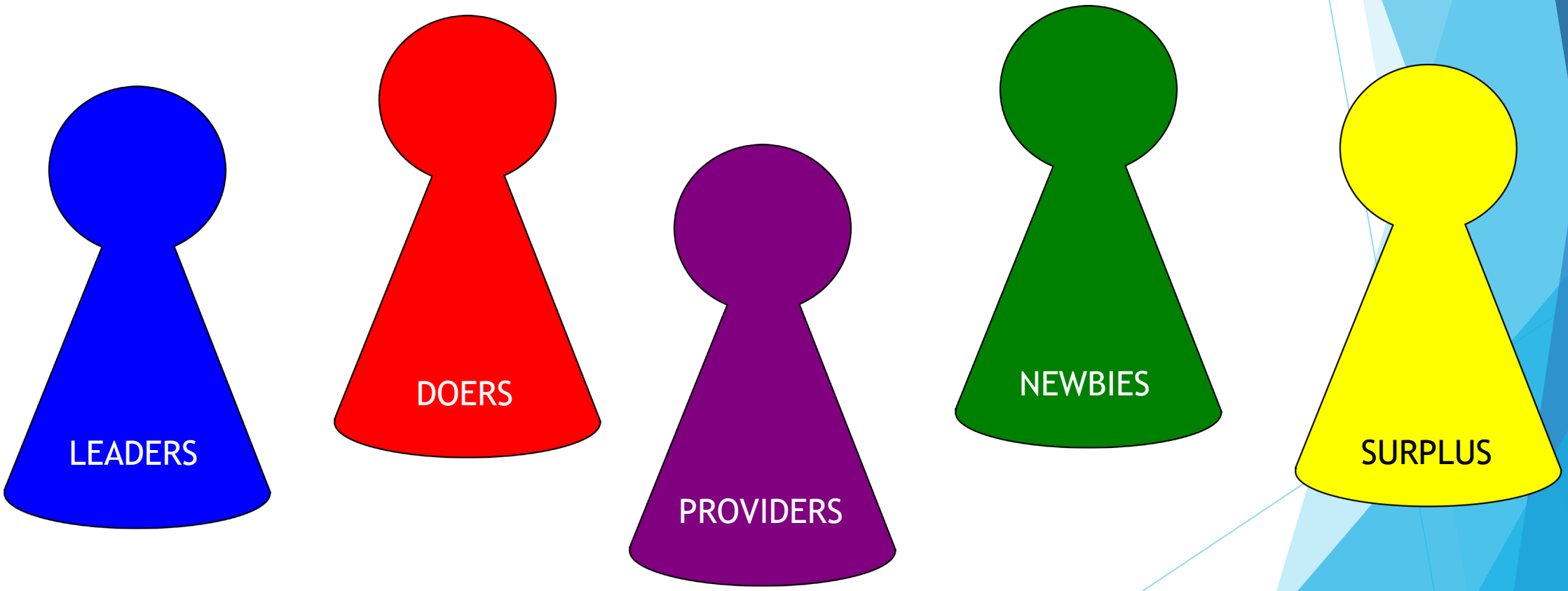
- Step One – Get to Know the Organization



CAPLLARY learning Change Thinking

(re)Designing an Organization

- Step two – Collect the Playing Pieces

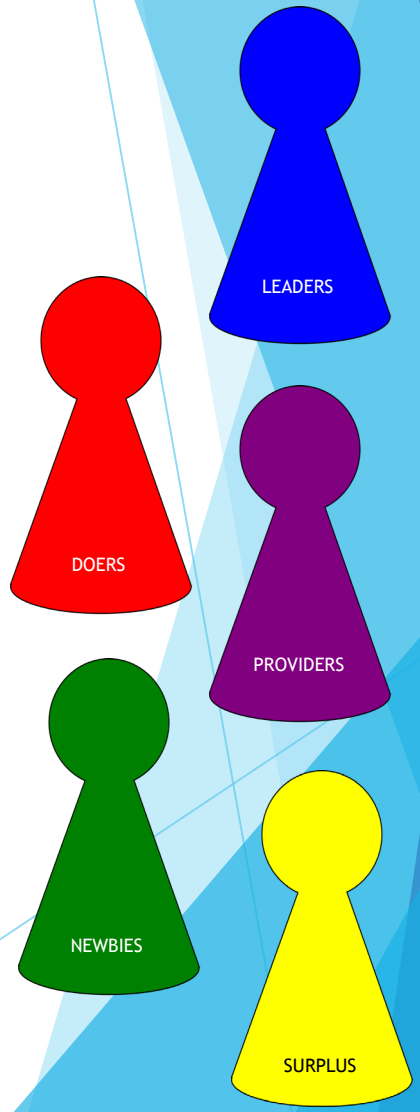


CAPLLARY learning Change Thinking

(re)Designing an Organization

- Step two – Collect the Playing Pieces

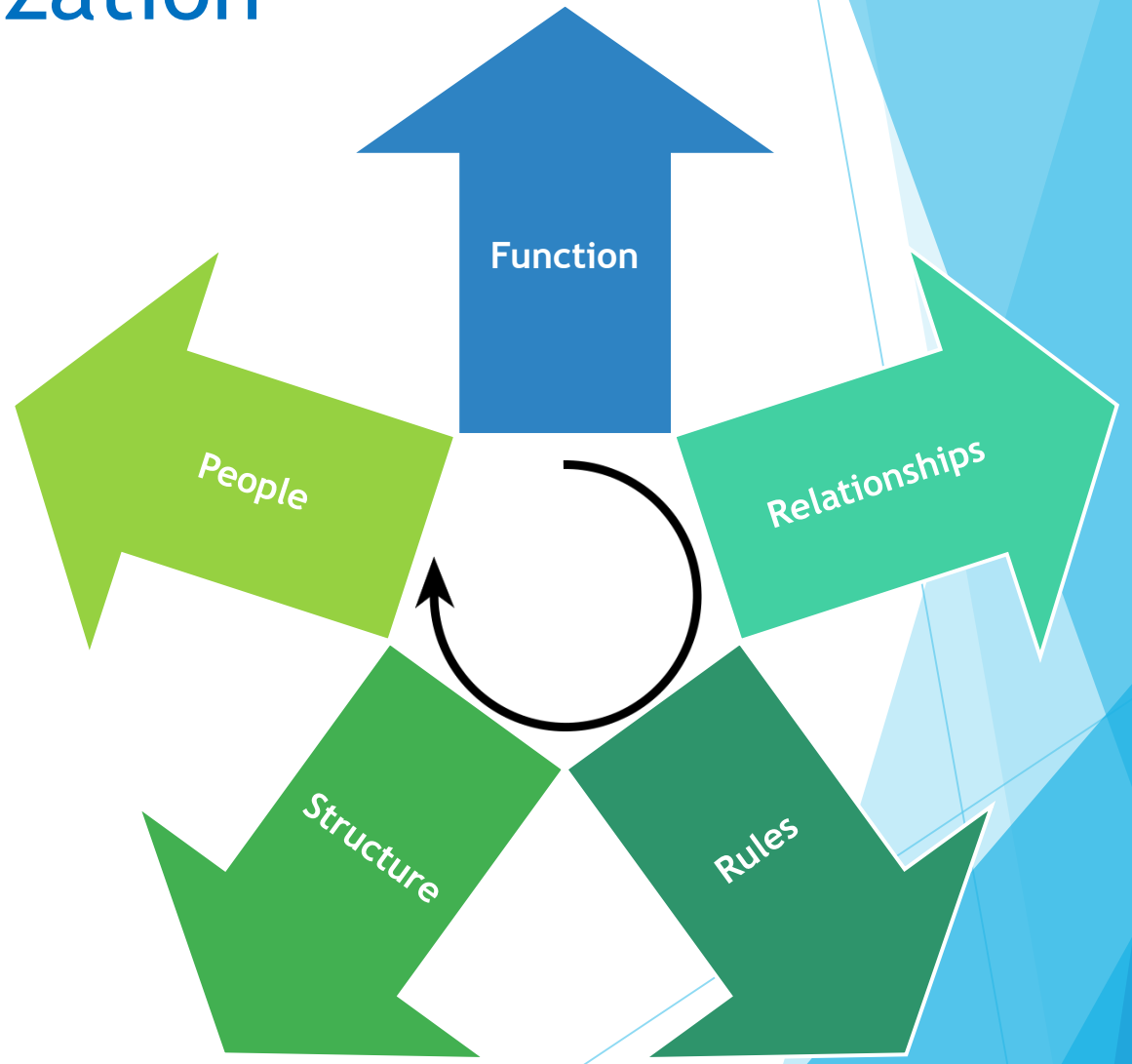
- Leaders inspire others and understand the strategy of the organization
- Doers make things happen and produce what you need
- Providers maybe internal or external and deliver added value to the organization
- Newbies are those that are not currently present
- Surpluses are those no longer needed



(re)Designing an Organization

- Step three – Build out

1. Confirm the functions needed
2. Determine the relationships between functions
3. Agree the rules for engagement
4. Develop the structure to deliver
5. Identify the people best placed to perform within the structure



CAPLLARY learning Change Thinking

(re)Designing an Organization

2015 Chicago Booth Strategy+Business

CAPLLARY learning Change Thinking

Change Management for (re)Design

- Much like any other change event …

People

Process

Technology

Change Management for (re)Design

	Awareness	Understanding	Implementation	Adoption	Sustainment
Outputs	• Broad based plan for communications • Marketing advertising • Organization change readiness assessments • Strategy review	• Learning needs assessment • Learning plan • Stakeholder analysis & engagement plans • Detailed communications plan	• Implementation readiness assessment • Discrepancy log	• Continuous learning plan • Stakeholder assessment reviews	• Benefits realisation • Stakeholder surveys
Outcomes	• Visibility of the change ahead • Strategic alignment • Change readiness • Personal value propositions achieved	• Regular effective information received and understand • Knowledge gained for the “new” point B	• The new is the now	• Knowledge is becoming habit forming • Focus is on the new not the old	• The new is no longer new but is now the way things are

Organizational Design

- Activity – (re)Designing an Organization
- Split into 2/3 groups and take a case study each
- Use the given case study to develop answers to the following
  1. What do you need to design your organization?
  2. Where will you get it?
  3. What is the current organizational structure?
  4. How are you building it? What will change?
  5. What CM plans do you need?
  6. What else do you need to consider?

Capture answers on flipchart/white board and then share with the group.

Reflection & Close

CAPILLARY learning
Change Thinking

Contact information

Web: www.capillaryconsulting.com

Email: rich@capillaryconsulting.com

Cell: 1-416-995-9717

Tweet: @capillarytweets @richbatchelor

CAPILLARY learning Change Thinking