The
Economist

GUIDE TO ORGANISATION DESIGN

Creating high-performing and adaptable enterprises

Second edition

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Contents

List of case studies viii
List of figures ix
List of tables xi
Acknowledgements xiii
Preface xiv

1 Introducing organisation design 1
Organisation design: what it is and is not 5
Organisation design is driven by strategy and operating context 10
Organisation design requires holistic thinking 12
Designing for the future is better than designing for now 17
Organisation design happens as much through social interactions as planning 18
Organisation design is always resource intensive 19
Organisation design is a fundamental process, not a repair job 22
Summary 24

2 Models, approaches and designs 26
Models 26
Approaches 34
Designs 38
Reflections on the case study 48
Tools for the case study 50
Summary 52

3 Organisational structures 53
Functional structure 57
Divisional/product structure 58
Divisional/geographic or market structure 58
Divisional/process structure 59
Divisional/customer structure 60
Matrix structure 61
Network structure 62
Cluster structure 62
"Life-form" structure 63
Structure decisions 65
Layers and spans 67
Reflections on the case study 76
Tools for the case study 78
Summary 81

4 Planning and sequencing the organisation design 82
High-level design plan and sequence 84
The business case for change 85
The organisation design programme 86
The four phases of the design process 88
Reflections on the case study 114
Tools for the case study 119
Summary 120

5 Measurement 121
Choosing measurement tools 123
Measurement principles 140
Reflections on the case study 147
Tools for the case study 149
Summary 150

6 Stakeholder engagement 152
Five steps of the stakeholder engagement process 154
Factors indicating stakeholder engagement 159
Reflections on the case study 179
Tools for the case study 182
Summary 185

7 Leadership and organisation design 187
Formal leadership in organisation design 192
Informal leadership 202
Working together 206
Reflections on the case study 215
Tools for the case study 217
Summary 219

8 Culture and group processes 220
Organisational culture 222
Group processes 232
Reflections on the case study 252
Tools for the case study 253
Summary 254

9 Continuous design 256
Why continuous design capacity is required 257
Building the capability for continuous design 278
Reflections on the case study 288
Tools for the case study 288
Summary 290

Notes and sources 292
Organisation design models 305
Glossary 311
Index 324

1 Introducing organisation design

> *Design is a plan for arranging elements in such a way as best to accomplish a particular purpose.*
>
> Charles Eames, 1969

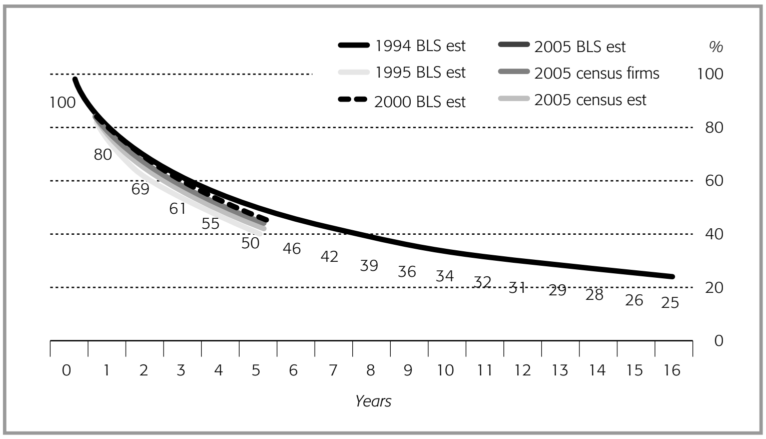
STORIES ABOUT COMPANY START-UPS run like this: "We had a great idea. We got the funding. We hired people. We did well for a bit. Something happened. We fell apart." This story is sadly typical. In the US, for example, a new business is unlikely to be running five years after being started, as Figure 1.1 illustrates.[1]

The picture for start-ups in the UK is similarly risky. In 2013, the Office for National Statistics reported that the five-year survival rate for businesses born in 2007 and still active in 2012 was 44%, with a higher survival rate for those in the health sector (56.1%) and a lower rate for those in hotel and catering (37%).

Business failure is not limited to start-ups. For example, in the UK retail sector during 2013, 49 retailers (all having traded for more than five years) declared bankruptcy. Overall this meant 2,500 stores closed and 25,140 employees were affected. In 2014, the Centre for Retail Research reported: "The period from Christmas 2012 to March 2013 was horrid with retailers like Blockbuster, HMV, Jessops and Comet going into administration."

Most businesses – established or start-up – fail. This failure is not necessarily total but is evident in some aspects: the businesses do not control costs, they let their customers defect, or they bring the wrong products or services to market. These failures result in low business

FIG 1.1 **The survival of start-ups**



Sources: Created from data from Longitudinal Business Database 1977–2010, Census; Business Employment Dynamics 1994–2010, Bureau of Labor Statistics

performance and all-round stakeholder dissatisfaction.

Risk of failure in these and other aspects can be minimised or even completely avoided by consciously designing a new organisation or redesigning an existing one in such a way that it performs well and adapts readily to changing circumstances. This means assessing all the elements of an organisation and its operating environment and acting to bring them into alignment as far as is possible given that an organisation is in a continuous state of flux.

Organisation design, as defined in this book, is how people and work are organised to carry out an organisation's strategy and achieve its aims. Intrinsic to the strategy and aims of any well-run organisation will be ensuring the experience for customers and employees is of high quality. This involves aligning the organisation with the strategy and creating coherent designs, while building trust among the principal stakeholders. This definition covers both the formal (for example, policies) and the informal (for example, what the gossip is) aspects of the organisation.

The outcome of shaping and nudging all the components of an enterprise towards the achievement of an agreed mission is a business process that "is so critical it should be on the agenda of every meeting in every single department".[2] Curiously, however, executives rarely talk about it as an everyday issue, and even more rarely reflect on the interactions between the complex social dynamics and the organisational frameworks in order to redesign their business for success. What they often do instead is act from a position where they can control their environment and reorganise or restructure. But as will become clear later in this chapter, a focus simply on organisation structure (the organisation chart) seldom has the desired effect. Peter Senge, in his book *The Fifth Discipline*, points out why intentional organisation design work is uncommon:[3]

> *Part of the reason why design is a neglected dimension of leadership: little credit goes to the designer. The functions of design are rarely visible; they take place behind the scenes. The consequences that appear today are the result of work done long in the past, and work today will show its benefits far in the future. Those who aspire to lead out of a desire to control, or gain fame, or simply to be "at the centre of the action" will find little to attract them in the quiet design work of leadership.*

The premise of this book is that organisation design matters and that an organisation has a better chance of success if it is reflectively designed. If its design is not being improved all the time – the British cycling team that won a gold medal at the 2012 Olympics called it "the aggregation of marginal gains" – the organisation will not be successful. Six principles underlie effective and reflective organisation design:

- Organisation design is driven by the business strategy and the operating context (not by a new IT system, a new leader wanting to make an impact, or some other non-business reason).
- Organisation design means holistic thinking about the organisation: its systems, structures, people, performance measures, processes and culture, and the way the whole operates in the environment.
- Designing for the future is a better bet than designing for now.
- Organisation design happens as much through social interactions and conversations as through planning.

- Organisation design is not to be undertaken lightly: it is resource intensive even when it is going well.
- Organisation design is a fundamental, continuing process, not a repair job.

This chapter discusses what organisation design is and what it is not and then looks at these six principles. Note that throughout "organisation" means a discrete unit of operation or whole enterprise and includes the formal and informal aspects of this. Following the principles of hierarchy theory (levels of organisation), the formal elements – departments and divisions, systems and business processes – can be designed independently as long as interfaces and boundaries with the wider organisation form part of the design. Herbert Simon's parable of the two watchmakers (see below) explains how complex systems, such as a whole organisation, will evolve much more rapidly from simple systems, such as departments, if there are stable and intermediate forms than if there are not. In organisation design, getting the units aligned and organised coherently works to the benefit of the whole organisation.

The parable of the two watchmakers

There once were two watchmakers, named Hora and Tempus, who manufactured fine watches. Both of them were highly regarded, and the phones in their workshops rang frequently. New customers were constantly calling them. However, Hora prospered while Tempus became poorer and poorer and finally lost his shop. What was the reason?

The watches the men made consisted of about 1,000 parts each. Tempus had so constructed his that if he had one partially assembled and had to put it down – to answer the phone, say – it immediately fell to pieces and had to be reassembled from the elements. The better the customers liked his watches the more they phoned him and the more difficult it became for him to find enough uninterrupted time to finish a watch.

The watches Hora handled were no less complex than those of Tempus, but he had designed them so that he could put together sub-assemblies of about ten elements each. Ten of these sub-assemblies could be put together into a larger sub-assembly, and a system of ten of the latter constituted the whole watch. Hence, when Hora had to put down a partly assembled watch in order to answer the phone, he lost only a small part of his work, and he assembled his watches in only a fraction of the time it took Tempus.

Source: Simon, H.A., *The Sciences of the Artificial*, 3rd edition, MIT Press, 1996

But think about the two watchmakers as human beings – it is their personalities, habits, behaviours and interactions with others that shape the type of system that they decide, or allow without conscious decision, to use.

From this it is clear that aiming to "design" the informal, human aspects of the organisation would not be easy. They constitute what Ralph Stacey, a management professor, calls the "patterns of relationships, both good and bad, between people". He notes:[4]

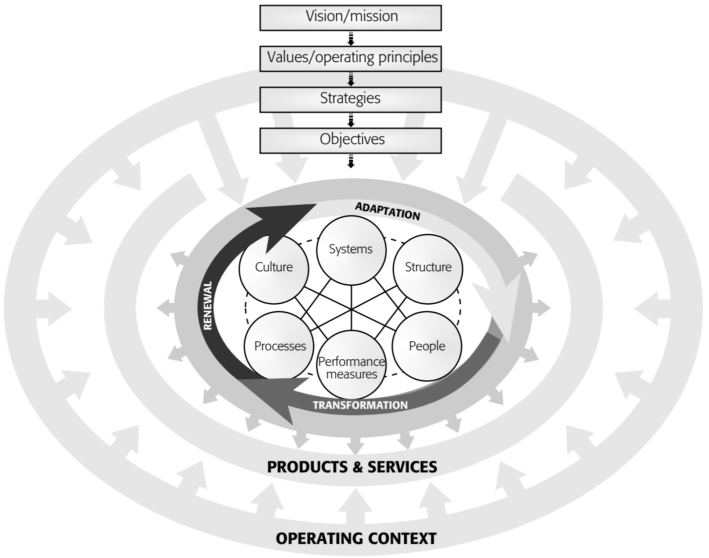
> *These patterns emerge in complex responsive processes of interaction between people taking the form of conversation, power relations, ideologies, choices and intentions. What happens is the result of the interplay between the intentions and strategies of all involved and no one can control this interplay.*

Organisation design: what it is and is not

Organisation design is arranging how to carry out a business's purpose and strategy and achieve its aims. Therefore there are choices and decisions made around "arranging" that keep the organisation adaptable to the operating context (see Figure 1.2).

A reorganisation or restructuring that focuses – sometimes solely – on the structural aspects is not organisation design and is rarely successful. Ask anyone who has been involved in this type of reorganisation and there will be stories of confusion, exasperation and stress, and of plummeting morale, motivation and productivity. Most people who have worked in organisations have had this experience. So why is it that initiatives aimed at revitalisation, renewal and performance improvement so often miss the mark? The simple answer is that focus on the structure is both not enough and not the right start-point.

FIG 1.2 **Alignment of an organisation's components in their context**


Vision/mission
Values/operating principles
Strategies
Objectives
ADAPTATION
RENEWAL
TRANSFORMATION
Systems
Culture
Structure
Processes
Performance measures
People
PRODUCTS & SERVICES
OPERATING CONTEXT

The following example illustrates the point that reorganising from a structural start-point is misguided. A new vice-president has been recruited to lead a division. The division structure looks like that shown in Figure 1.3.

The new vice-president decides (without consulting anyone) that the division would be more effective if the organisation chart looked

FIG 1.3 **Existing division structure**

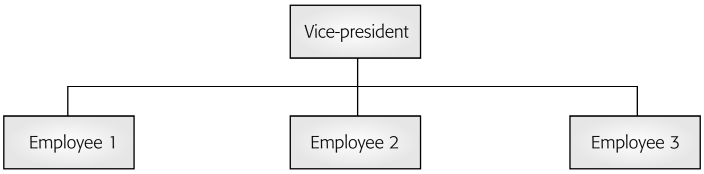
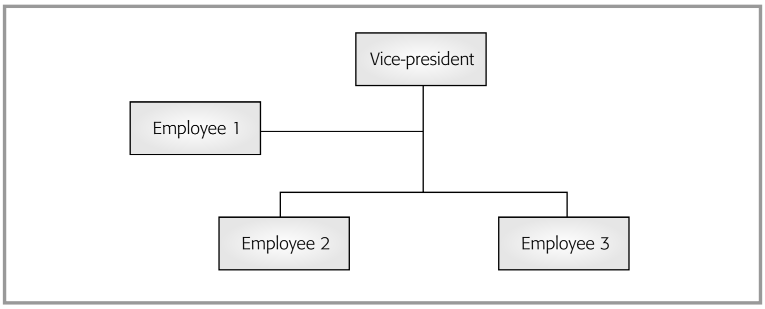

Vice-president
Employee 1
Employee 2
Employee 3

FIG 1.4 **New division structure**



like Figure 1.4. So far, this looks like a simple change (or perhaps not a change at all). But the new positioning of employee 1 raises questions; for example:

- Why was this change initiated?
- Is employee 1 now in a different role?
- Is employee 1 now superior to employees 2 and 3, or has employee 1 been demoted to the role of the vice-president's assistant?
- Do employee 1's responsibilities change in the new role? If so, how – by adding to them and/or dropping some?
- If responsibilities are to be dropped, who, if anyone, is to take them on?
- How will this structural change affect information flow?
- How will this structural change affect relationships among the three employees?
- What effect will the change have on the business's systems if the workflow changes?
- How will customers be affected?
- What effect will this change have on other departments?

What seems a simple structuring tweak is actually complex, and the complexity is increased when more hierarchical levels are involved. Extending the example, Figure 1.5 shows that the new

FIG 1.5 **The new structure (right-hand side) has complex organisational impacts**

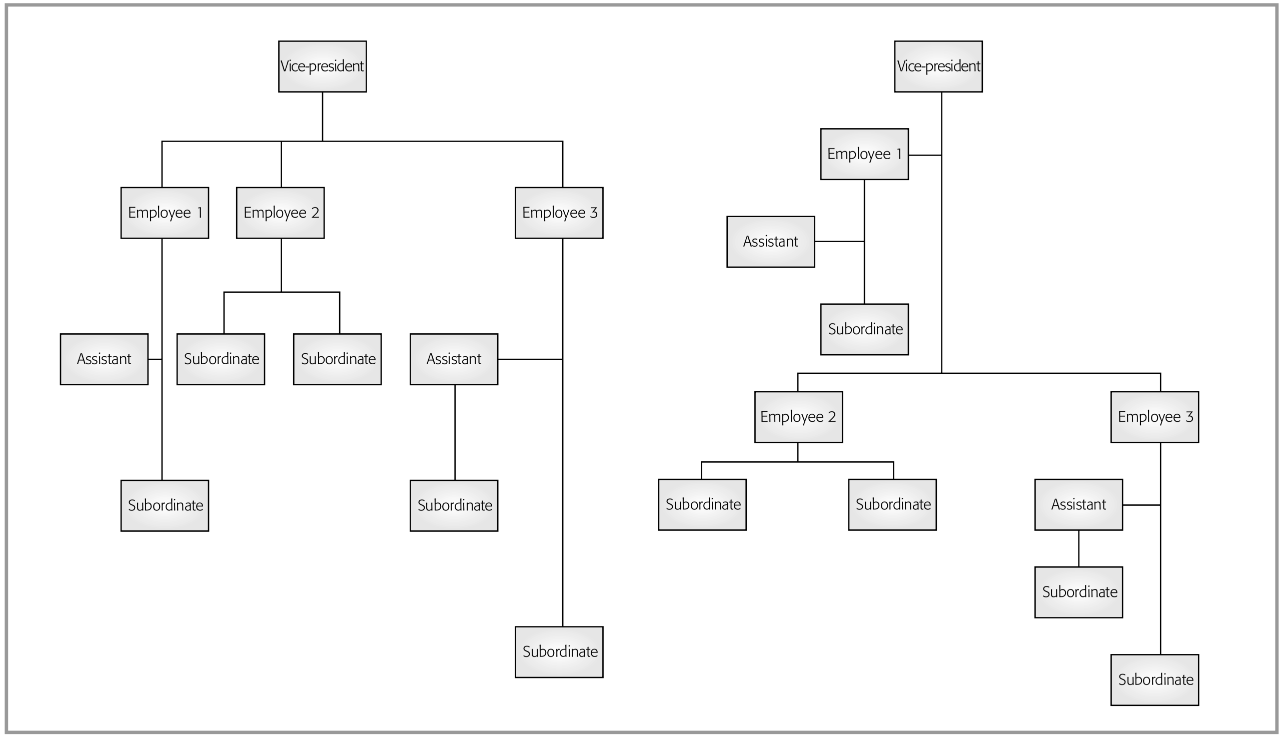

Vice-president
Employee 1
Employee 2
Employee 3
Assistant
Subordinate
Subordinate
Subordinate
Assistant
Subordinate
Subordinate
Vice-president
Employee 1
Assistant
Subordinate
Employee 2
Subordinate
Subordinate
Employee 3
Assistant
Subordinate
Subordinate

TABLE 1.1 **Organisation structure: one aspect of design**

What does the organisation chart tell you?	What doesn't the organisation chart tell you?
Hierarchy	Goals, objectives, strategy, values, principles, protocols, outcomes of the organisation unit
Reporting lines, who reports to who	Workflows
Number of jobs, teams, employees (not full-time equivalent)	What the work is, how the work gets done, who does the work
Names of jobs, teams, employees	Who is accountable for the work, decision-making clarity, delegations
Core business – how work is sectioned	Relationships
	Interactions, interdependencies, links between areas of the business
Core leadership team(s)	Levels of influence, "real influence", power
Gender	Expectations
Job vacancies	Employee work styles, performance, areas of expertise, skill sets, skill gaps
	Employee photos – so I know what they look like when I go to meet them/have questions for them
	Does the structure work? Why does it work/not work?
	Processes and systems
	Workforce movement
	Criteria for matching employees to roles
	Succession planning, critical roles
	Work arrangements (part-time, full-time)

Source: Transport Accident Commission, Victoria, Australia

structuring could change the dynamics of the division substantially (depending on the answers to the various questions), not only because the relationships between the players are changed.

This example shows why taking a structurally focused approach to organisational design is risky. Although it looks straightforward, it is likely to have numerous impacts and consequences and bring with it potential derailers. Table 1.1 lists some of the many complex aspects of design that are not visible on an organisation chart and that need to be thought about in any design work.

To recap, organisation design is more than what is called reorganisation and different from a purely structural response to trying to solve a business problem. Organisation design starts with the business vision/mission (see Figure 1.2) and then involves consideration of all the elements of the organisation in its environment. Too little consistent, collaborative and strategic thought at the start of organisation design work almost guarantees failure. Although such work may (or may not) result in structural change, it involves much more than changing the lines and boxes on the traditional organisation chart.

Organisation design is driven by strategy and operating context

Look again at Figure 1.2. The design process starts with leadership agreement on what the organisational vision/mission, values/operating principles, strategies, objectives and tactics are. This implies strategic thinking and strategic planning, which are different activities that should not be confused. Eton Lawrence summarises Henry Mintzberg's distinction between the two:[5]

> *Mintzberg argues that strategic planning is the systematic programming of pre-identified strategies from which an action plan is developed. Strategic thinking, on the other hand, is a synthesising process utilising intuition and creativity whose outcome is an integrated perspective of the enterprise. Briefly put strategic thinking is the "what", and strategic planning is the "how", and you can't know how you're going to do something until you know what it is that you want to do.*

Note that the operating context surrounds the graphic in Figure 1.2. It is constantly changing and is a critical variable in organisation design work. Knowing the operating context helps determine the need for and scope of organisation design. Having determined the business strategy, the next step in organisation design is to assess the operating context. A simple tool such as the steeples mnemonic illustrated in Table 1.2 will help (the cells have been completed for a hypothetical organisation).