

# Organization Design

Author, Birge D. Reichard Ph.D.

## **Preface**

The terms *organization design, organization structure and reorganization* are used interchangeably here. All three have a major impact on organization dynamics, and a useful frame for viewing an organization's needs may be a review of the behavioral dynamics as manifested in organization design.

## **Historical Perspective of Organization Structure**

It is useful to take a moment to recall the reasons why structure became an organizational concern, the various approaches that have been taken and what has been learned by the effort.

*Division of labor* became necessary when the industrial revolution converted cottage industry artisans who performed a whole task (such as making shoes) to production line workers who performed specific parts of the whole task (e.g. stamping out soles). This production line of workers could indeed increase production, and, for managers whose over arching assumption was that organizations are essentially economic vehicles, the production gains outweighed the loss of artisan pride in the "whole job".

As production increased and more workers joined the

production line, **coordination** of the workers was needed. Foremen were inserted above the workers to manage the integration of the tasks. As factories grew, the increasing number of foremen were seen as needing to be coordinated by managers above them - and so the hierarchy grew. What is important about this early beginning of organization structure was that it evolved from **the interplay of values** (e.g. organizations were seen as economic entities, people were viewed as needing to be controlled and as dependent upon the organization) and the **nature of the work**. One overriding principle of organization design that is still very useful is the axiom "Form Follows Function". That is, the structure should facilitate the accomplishment of the work. Structure, including the management structure, evolved from the bottom level tasks.

An inevitable consequence of dividing up the whole task into pieces was loss of **job satisfaction**. The production line workers became less "motivated" than the artisans of the past. Since organizations were viewed as economic entities, the solution was to pay them more. However, this did not address workers' inner needs.

The Hawthorne studies in the 30's began to uncover some of the psychological needs derived from work and the workplace. During the 1940's through the 1960's the Human Relations school of organization design focused on working conditions, reinforcement or recognition and rebuilding whole jobs and work systems through

approaches such as job enrichment, QWL and Socio-Tech. The values espoused during this period revealed a view of organizations as being more than **just** economic entities - they were also the arena for human achievement, growth and development. Employees and organizations were seen as being **interdependent** upon each other. The structure efforts focused on small self-regulating groups of workers who did not need a tall structure of managers to control or coordinate them. Again it was the interaction of values (people were now seen as motivated by achievement, complex tasks, variety, etc.) and the nature of the work (small groups where decisions were made by those performing the tasks).

Students of organization design identified three primary forms of organization structure: functional, product line and matrix. **Each has advantages and disadvantages.** For example, functional organizations take longer to process information and make decisions; but they are good at developing specialized expertise. Product line organizations are more self contained, more decentralized and are good for quick decision making in a rapidly changing market. However, they require a redundancy of expensive staff or specialist resources. Again, values, beliefs and personal preferences, as well as competencies, enter into choosing a structure. For example, control is increased in a functional organization, conflict is prevalent in matrix organizations and autonomy is essential for product line type

organizations.

### **Current Perspectives**

Unlike the early "division of labor" thinkers like Frederick Taylor, who believed in one best way to design a job or an organization, most people now believe that **there is seldom one best way to organize**. This makes sense if one factors values and beliefs into the "logic" of organization design. The only "one best way" advocate I know of is Eliot Jacques, who is an admitted advocate of traditional tenets of bureaucracy such as one man - one boss). The culture and norms of an organization and its **practiced** (vs. espoused) **values** are a major factor in the success or failure of the structure. **There is no perfect structure**. Every structure has advantages and disadvantages and, when contemplating organization design, one must consider the assets and liabilities each particular organization brings to a proposed form. For example, one may prefer a functional structure but be short of functional specialists, or one may prefer a product line form but be short of general managers.

Another reason for a more flexible approach to organization design (as compared to the "one best way" approach) is **the need to consider the contextual factors** in which any organization exists.

For example, some divisions of large organizations have adopted The Strategic Business Unit (SBU) concept, which was highly advocated by consulting firms like the Boston Consulting Group.

It would only be possible to redesign a "non-SBU" structure if the larger organization in which the division is embedded agreed. The **reward systems** - especially job grading and compensation need to be consonant with the structure. Using the SBU example, how possible is it for an SBU to have a different compensation system from the larger organization? Does the culture fit the structure?

Again, using the SBU example, does the SBU culture promote autonomy in the SBU while the larger organization is really a centrally controlled organization?

One of the most important guidelines in organization design is to **avoid dealing with non-structure issues through structure**. It is very debilitating to an organization to use structural solutions (e.g. levels, titles, segments, etc.) to manage relationship problems. However volatile the conflict, confronting it is less costly than trying to "structure it away".

## **Summary**

To recap the issues discussed here, I will put them in point form for easier reference. They are as follows:

1. Structure according to the work. The whole point of organization design is to facilitate work.  
"Form Follows Function."

2. Organization culture and norms, prevailing beliefs about the purposes of an organization (besides making money) and assumptions about human behavior greatly affect structure decisions.
3. There is no one best structure. There are usually several options, and the options are very related to the *real* culture, values and beliefs (not the espoused).
4. Every structure has advantages and disadvantages. Assessing the organization's strengths and vulnerabilities is part of thinking through any structure change.
5. The context in which an organization - or any sub part of it - is embedded must be considered in deciding upon a design. All of the support systems (e.g. rewards, information systems, planning system) must "fit" the design.
6. It is risky to use structure to solve non-structure problems like relationship problems.

Given the complexity of large organizations today, organization design is very personal to each organization. The geographic spread, product mix, coordination and control dilemmas and management development needs must be accounted for in design. Organization design or redesign is a major intervention and requires understanding and agreement to both the intentions of the design and to the problems that will need to be managed because of the design. Involvement of top management is essential.

### **Conclusions**

Organization design/redesign must involve all of the appropriate people (the principals who must lead the people in the structure) in thinking through the design. It is not useful for the staff to design a structure and to give it to the managers who must make it work. Forthright assessments of the existing organization and clarity about what is wanted in the future are hallmarks of these "thinking through" discussions. Organization design is not an engineering problem -the thinking through that is required will, by necessity, be messy. As with any significant managerial activity it also requires courage!