STEP 1
Getting started

STEP 1 GETTING STARTED
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1 Assessing the scope and goals of the organization

Introduction: the challenge of designing the organization

In today's volatile world, organizational design is an everyday, ongoing activity and a challenge for every executive, whether managing a global enterprise or a small work team. Globalization, worldwide competition, deregulation, political risks, and ever-new technologies drive ongoing redesigns of organizations. The response has been many new forms of *organizational design:* matrix, learning, modular, cellular, network, alliance, collaborative, or spaghetti – to name a few. New organizational forms challenge old ways of organizing for efficiency and effectiveness. Yet, fundamental design principles underlie any well-functioning organization. Organizations still require a formal design. The fundamentals are: What are our goals? What are the basic tasks? Who makes which decisions? What is the structure of communication, and what is the incentive structure? Fenton and Pettigrew (2000, p. 6) state that "a closer inspection of the literature reveals that many of the new forms are not entirely new but reminiscent of earlier typologies, such as Burns and Stalker's (1961) organic and mechanistic forms and Galbraith's preoccupation with lateral relations." Thus, fundamental concepts and principles of organizational design remain very important for the modern organization of today and tomorrow (Puranam *et al.*, 2014).

Steve Balmer, Microsoft's retiring CEO, wrote in 2013 an email to all employees of Microsoft:

> Today, we are announcing a far-reaching realignment of the company that will enable us to innovate with greater speed, efficiency and capability in a fast changing world.

Today's announcement will enable us to execute even better on our strategy to deliver a family of devices and services that best empower people for the activities they value most and the enterprise extensions and services that are most valuable to business.

Balmer's statement outlines a bold and far-reaching change in strategy and organizational design. He captured the challenges of Microsoft: fast-changing world, speed, efficiency, capabilities, realignment of the company, empowerment, and innovation. He expressed high hopes that the announced design change will significantly benefit the company.

On February 4, 2014, Microsoft Corp. announced that its board of directors had appointed Satya Nadella as Chief Executive Officer. Nadella continued to realign Microsoft.

On July 14, 2014, Satya Nadella wrote in an email to the employees:

The first step to building the right organization for our ambitions is to realign our workforce. With this in mind, we will begin to reduce the size of our overall workforce by up to 18000 jobs in the next year. Of that total, our work toward synergies and strategic alignment on Nokia Devices and Services is expected to account for about 12500 jobs, comprising both professional and factory workers. We are moving now to start reducing the first 13000 positions, and the vast majority of employees whose jobs will be eliminated will be notified over the next six months. It's important to note that while we are eliminating roles in some areas, we are adding roles in certain other strategic areas. My promise to you is that we will go through this process in the most thoughtful and transparent way possible. We will offer severance to all employees impacted by these changes, as well as job transition help in many locations, and everyone can expect to be treated with the respect they deserve for their contributions to this company.

Nadella strongly communicates that Microsoft both has a focus on what the right design should be, but also how the design should be implemented.

Turning to other examples, Hewlett-Packard (HP) has struggled for some years to find a way for a turn-around – a struggle which has illustrated that announcing a new organization is not enough. HP knew that aligning leadership, strategy, and organizational structure are important elements in a turn-around. On June 13, 2011, HP announced "new structure aligns HP to better capitalize on strategic market opportunities – Livermore joins board of directors – Donatelli, Veghte, Zadak to report directly to HP CEO Apotheker." Shortly after, in September 2011, HP named Meg Whitman new President and CEO and sacked Leo Apotheker; Apotheker did not get to see the results of his new structure. On to March 21, 2012, HP in a press release announced:

…an organizational realignment to improve performance and drive profitable growth across the entire HP portfolio. The new structure is expected to speed decision-making, increase productivity and improve efficiency, while providing a simplified customer experience. Ensuring we have the right organizational structure in place is a critical first step in driving improved execution, and increasing effectiveness and efficiency.

…The result will be a faster, more streamlined, performance-driven HP that is customer focused and poised to capitalize on rapidly shifting industry trends.

But this was not enough. On August 8, 2012, HP announced organizational changes for Enterprise Services with a number of leadership changes. And it continues on August 21, 2013, where HP announced changes to its executive leadership team that will help the company accelerate its turn-around. In a separate organizational move, HP combined its marketing and communications functions under the leadership of Chief Communications Officer Henry Gomez. All of the changes were to be effective immediately, HP announced.

Structural changes or design changes can on paper be effective immediately, but to implement a complete organizational redesign involves much more and will take time. HP recognized the difficulty and established the project "The HP WAY NOW." It involves redesigning, the company structure, the incentive system, the decision processes, and the climate, among many other components. This also involved the CEO of HP Meg Whitman redesigning the offices for the C-suite so they now sit in open cubicles. Further, the annual base salary of Meg Whitman and her eight co-officers was reduced to $1. Their real salary only comes from bonus and stock options, signaling that only results count.[1]

Turning to a public sector example, Aarhus University in Denmark on June 11, 2010 decided to undertake one of the largest redesigns of a large university ever made. Aarhus University has about 45,000 students and 10,000 employees, including faculty, staff, and Ph.D. students.

The President set new goals and designed a new strategy. The goal was that the university would, in addition to its previous activities, address the grand challenges: water scarcity, poverty, social unrest, demographic changes, health, and resource scarcity, among other things. Further, the university aimed to be in the top 50 in Europe and stay in the top 100 in the world. The point of departure for the reorganization was the creation of the new Aarhus University by a merger of the old Aarhus University and six smaller research and teaching universities and national research institutions.

[1] Based on a presentation by Debbie McIsaac VP, Global Employee Engagement, HP, September 10, 2013.

To support the merger and the new strategy, the university was completely reorganized to break down the old faculty and department silos for the purpose of supporting cross-disciplinary research and educational programs to address the grand challenges. The organizational structure was changed from a divisional configuration to a matrix with four faculties and four cross-faculty layers on teaching, research, talent development, and knowledge exchange. The number of departments was reduced from fifty-five to twenty-five. All department chairmen and all deans had to apply to keep their job. A significant number either did not apply or did not get the job. For example, only one of the old nine deans was reappointed.

Further, the administrative structure was changed from many local faculty administrations to one central administration with local service centers. Where a significant part of the administrative personnel in the old structure referred to a dean, most of the administrative personnel in the new structure referred to a deputy director in the new central administration.

As a result of the structural changes, approximately half of the 9,000 employees had to move offices. Further, about half of the administrative staff got a new job. Additionally, a process of changing work procedures, ICT systems, and university branding, among other things, were initiated. The diagnosis and design of the new architecture took about two years, while the implementation is still ongoing.

The Danish Government decided in 2007 to reorganize the emergency departments in Denmark. Before 2007, there were about sixty hospitals with emergency facilities. Now, in 2014, there are twenty-one. Before the new system was implemented, the patients with a need for acute care were admitted to the department which was the most appropriate for each particular patient. Now, all acute patients have to enter the hospital through the new emergency departments. The redesign of the national system has also required a significant restructuring of the individual hospitals, with new department structures, new staffing, new ICT systems, new decision rules, and new coordination of patient flow. Further, five new large hospitals at a total cost of $10 billion are being built to replace some of the old ones that would not fit the new design. The architecture and building layout of the new hospitals are designed to fit the new organization structure. The purpose of the redesign is to increase the quality of patient care and to be able to handle the expected massive increase in acute patients due to demographic changes – with many more old people with more complex diagnoses. Further, the new design is expected to optimize the use of resources and thus also to better control cost. The implementation

is still ongoing, with much trial and error effort in choosing and deciding the details of the design (Petersen and Petersen, 2014).

Why are organizations redesigned? Research on the relationship between organization design and efficiency shows that approximately 30 percent of the variation in performance can be explained by the organizational design (Obel, 1993; Doty *et al.*, 1993; Burton *et al.*, 2002; Volberda *et al.*, 2012). Imbalances (misfits) between the various design components of organizational design can therefore be crucial for the performance of the organization. The effect can be enhanced if there is a misfit between several of the design components. Further, in many cases changes in design components are carried on to enhance the internal components of the organization (such as climate and work processes) and therefore are implemented without consideration of how these internal components are in effect interdependent with external design components. In this book, we provide a way to diagnose the need for a new design, as well as an approach to choose and implement the most appropriate design. We provide an analytical model and a process for implementing a new design.

As can be seen from the cases above, organizational design is not only reorganizing the organizational chart. It involves many interrelated components. Based on a large body of research, an organization's design should be chosen based on the particular context, and further the description of the context should be multidimensional, including both structural and human components. Structural components of organizational design include goals, strategy, and structure. Human components include work processes, people, coordination and control, and incentive mechanisms. Together, these components provide a holistic approach to the organizational design challenge.

We present organizational diagnostic, design of the architecture, and implementation as a continuous process. It starts with the organization's goals, and from there we work from the top to the bottom, considering strategy, structure, process, people, coordination, control, and incentive. This is a top-down approach to diagnosing potential design issues. Based on the diagnosis, the particular architecture is designed. Next, the process of implementing the architecture should be undertaken. The diagnosis, design, and implementation follow a seven step-by-step approach:

Step 1 Getting started
Step 2 Assessing strategy
Step 3 Analyzing the structure

Step 4 Assessing process and people
Step 5 Analyzing coordination, control, and incentives
Step 6 Designing the architecture
Step 7 Implementing the architecture

We recommend a top-down approach that is complemented by iterative incorporation of lower-level issues on the top-level design. Firm political and implementation issues may suggest that the organization be designed bottom-up, but such an approach would eliminate some possible good designs because the tasks of the organization can be affected by its goals and strategy. The top-down approach may have to be done in an iterative fashion, and caution has to be exercised to ensure that lower-level design and choice of tasks do not eliminate some good alternative designs.

The multi-contingency organizational design

In this book, we build on the basics of organizational design. Organizational design involves two complementary problems: (1) how to partition a big task of the whole organization into smaller tasks of the sub-units; and (2) how to coordinate these smaller sub-unit tasks so that they fit together to efficiently realize the bigger task or organizational goals. By complementary, we mean that the smaller tasks must be defined and arranged in a way that allows effective coordination. We consider these issues for "older" classic organizational forms as well as "newer" modern organizational forms.

We address the organizational design using the multi-contingency design model. This consists of five components: goal/scope, strategy, structure, process and people, coordination, control and incentives. The model is an extension of the multi-contingency model in Burton and Obel (2004), which integrates and extends the many single contingency models on strategy, size, environment, technology, and climate (Chandler, 1962; Woodward, 1965; Pugh *et al.*, 1969; Lawrence and Lorsch, 1967; Cameron and Quinn, 2011). The model is consistent with Leavitt's model (Leavitt, 1964), the organizational strategy, structure, and process model by Miles and Snow (1978), and the Star model by Galbraith (1995).

The multi-contingency design model is shown in Figure 1.1.

The lines between the circles in the organizational design diamond model shown in Figure 1.1 represent fit, or alignment, connections. Misalignments in

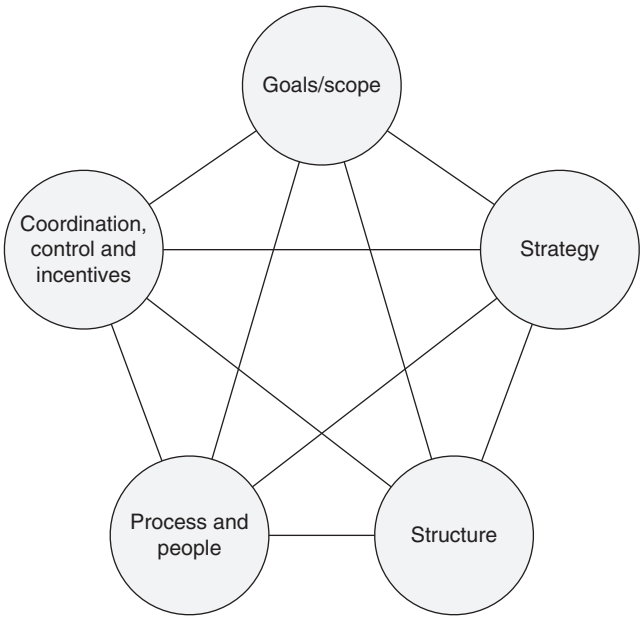

Figure 1.1 The organizational design diamond model

any of these connections will result in lower performance than could otherwise be obtained.

We present a step-by-step approach which is a "how to" method for diagnosing, designing and implementing an organization design change, based on the components in the diamond model. Each step and its subcomponents provide fundamental building blocks for any organization, and we guide you through the process of assessing and analyzing each building block, as well as planning for change. The step-by-step model presents a framework for dealing with the high degree of complexity involved in changing the architecture or design of an organization. The multi-contingency model provides a comprehensive framework for diagnosing the organizational design components and whether they are aligned.

To simplify and show continuity in our approach, all components are mapped onto a series of two-dimensional graphs that clearly illustrate managerial options. The graphs are interlocking, such that a specific quadrant in any one graph corresponds to the same quadrant in all other graphs. Similarly, the horizontal dimension in a two-dimensional graph aligns with the horizontal dimension in the other graphs and likewise with the vertical dimension. In this way, you can visualize the relationships among the organizational design

components and readily identify where there are *misfits* in your organization's design. Misfits are misalignments within the organizational design components that can lead to deterioration in the firm's performance (Burton *et al.*, 2002).

Misfits lead to a decrease in organizational performance, either today or in the future. Misfits are thus the starting point for the implementation of change. As such, misfits are the engine of the organizational design process. If your organization changes in response to design misfits, rather than waiting for financial or other performance problems to arise, goal attainment is more likely to be achieved.

The graphs that we will provide for each design component will allow you to visualize and plot the current location of your organization and then identify the desired point to which you would like the organization to move. In this way, you can see where you are and where you want your organization to be in the organizational design space. On the website for this book, you will find a number of spreadsheet tools for all seven steps of the organizational design process.[2] However, you can use this book on its own; the software or web-based tools are not required to complete the step-by-step approach and design your organization.

Organizational design is an ongoing executive process that includes both short-term, routine changes, as well as intermittent, larger-scale changes. We will address the dynamics of design, including misfit management, for both routine and larger-scale changes in the context of organizational design throughout this book. In the final chapter, we will address the issue of how to implement a new organization design. To find the right design or architecture is important, and to implement the design is even more important. Research indicates that more than 50 percent of change processes fail (see e.g. Amis *et al.*, 2004; Beer and Nohria, 2000; Ford and Ford, 2009; Hinings and Greenwood, 1988). Therefore, finding the right implementation process is vital.

Our step-by-step approach is based on an information-processing view of the firm. This view, or theoretical basis, provides you with a framework and a process for understanding a wide range of organizations in product and service industries and across global boundaries (Tushman and Nadler, 1978). The approach helps you interpret the history of organizations, assess and redesign

[2] While diagnostic questions and the two-dimensional graphs give you an easy way to get an overview, the ideas of the book have also been included in the OrgCon® software. This software presents a more elaborate version of the approach presented in this book and provides a set of analytic and graphical tools that will ease the process of design. OrgCon® can be obtained from www.ecomerc.com.