

## Organizational Design: A Step-by-Step Approach

### Fourth Edition

Now in its fourth edition, this is the definitive step-by-step “how to” guide to designing an organization. Building on information processing theory, the book proposes a holistic, multi-contingency model of the organization. This textbook communicates the fundamentals of traditional and new organizational forms, including up-to-date analysis of self-organizing, boss-less, digital, and sustainable organizations. Providing a framework for the practical implementation of organizational design changes, the authors break the process down into seven basic steps: (1) Assessing Goals, (2) Assessing Strategy, (3) Analyzing Structure, (4) Assessing Process and People, (5) Analyzing Coordination, Control and Incentives, (6) Designing the Architecture, and (7) Implementing the Architecture. Each step connects with one of the nine interdependent components of the multi-contingency model, and the authors also provide a logical query process for approaching each of these components. This is an ideal guide for managers or executives interested in assessing their organization and taking steps to redesign it for success, as well as for MBA and executive MBA students looking for an introduction to organizational design.

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# ORGANIZATIONAL DESIGN

## A Step-by-Step Approach

Fourth Edition

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## PREFACE TO FIRST EDITION

In writing this book, we had specific readers in mind. We dedicate this book to our executive students at The Fuqua School of Business and at the Aarhus School of Business, Denmark. Executive students are very special professionals who come from around the world and bring their varied experience. They have a goal to acquire new knowledge to act and take decisions that will make a difference in their world. In particular, they want to improve the performance of their firm, unit, or organization. From our first detailed outline to the final editing from Cary, Durham, and Aarhus – whether in person, video conference, or elaborate email – they were ever with us.

Experience and science are two great teachers. Most of us spend most of our time in organizations at work, home, worship, and leisure. Over time, we amass a wealth of experience through observation and action to apply in the design of organizations; simply, we use our experience to design. But this experience is limited and we can enhance it by blending it with the science of organization design. The science of organization design is an accumulation of knowledge by many individuals who, over many years, have conducted research on the performance of organizations under many conditions. It informs us about how to take action to design an organization. The scientific foundation of this book comes from almost a century of research we call the multi-contingency approach of organizational design.

The executive wants to understand, diagnose, and take action. Experience and science are complementary and mutually supportive. In our classes we try to build upon our executive students' varied experiences with the science of organization design to enhance their ability as executives to take informed decisions and actions. As leaders in their firms they want to know what is wrong, why it is wrong, and what can be done. In this book we approach their questions systematically. We begin with the goals of the organization; then we develop an understanding of the environment; examine the strategies; tease out the structure and the IT infrastructure; examine the leadership style; observe the climate; and scrutinize the incentives. Using our experience and the science of good design, we analyze what works well and what does not work well, or not at all. Good design fits together; poor design has misfits and the organizational performance suffers. Design is the diagnosis of misfits and the action to fix them. What is a good way to read and use this book? The book begins with organizational goals and builds up a comprehensive integrated model for a good organizational design. Skip around, examine the figures and tables, answer the diagnostic questions to get started. For whatever approach you find comfortable, you should pick an organization such as your own firm to use for analysis of, and reflection on, the concepts. Along the way, you should diagnose the organization and think about the actions you want to take to make your organization perform better.

Many have helped in a number of ways. There are our executive students who provided the motivation. Over the last two years, Dr. Katy Plowright, our editor at Cambridge, has been the patient yet demanding task master; she has been our anchor and our guide. Further, we have had the support of a number of editors at Cambridge; they have been most helpful. Dorthe Døjbak Håkonsson of the University of Southern Denmark and Min Li of the Fuqua School read the penultimate draft and made many

improvements. Karin Søby of the Aarhus School of Business read and corrected the manuscript. Finally, we want to thank our friends and families, who have been there when we needed them most – all the moments between the blank screen and a book.

**Richard M. Burton**  
**Gerardine Desanctis**  
**Børge Obel**  
*August 12, 2005*

On August 16, 2005, Gerry DeSanctis passed away. Gerry was charming, patient, supportive, and kind, as well as disciplined, determined, and strong willed. She had passion for her students and was a complete teacher. We were privileged to work with her in writing this book. She made us better, both in our work and our spirit. It was a wonderful opportunity and an experience that bonded our friendship.

Gerry had deep courage. She is our incredible colleague and beloved friend. In her parting words, “I’ll always be with you.”

**Richard M. Burton**  
**Børge Obel**  
*September 10, 2005*

## PREFACE TO SECOND EDITION

Since the first edition in 2006, many things have changed. The world economic crisis, which is most evident in the financial sector, has changed our world from expected growth to more restrictions and more nuanced changes. Yet, the fundamentals of organizational design remain relevant – perhaps even more so. The step-by-step approach which focuses on the identification and fixing of misfits addresses today's challenges; an information-processing view of organization captures the basic processes of organization; and a design is essential to good performance for the organization. In short, the basic ideas for a good design remain, even if some of the parameter values are modified.

Yet, we have made some significant changes in this second edition. We have: added a number of examples to illustrate the fundamentals and provide a timely context for the reader; introduced emotions as an underlying frame for leadership and climate; expanded the dynamic fit ideas and included time more explicitly; and deepened the examination of joint ventures, mergers, partnerships, and strategic alliances.

Paula Parish of Cambridge University Press has been a very supportive editor. Dorthe Døjbak Håkonsson, of the Aarhus School of Business, Aarhus University, has shared our joint research which is central to the changes in this edition.

And finally, thanks to the many individuals who used the first edition and inspired us to undertake this revision.

**Richard M. Burton**

**Børge Obel**

*September 3, 2010*

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## PREFACE TO THIRD EDITION

In this third edition, we are joined by our long-time friend and colleague: Associate Professor Dorthe Døjbak Håkonsson, Aarhus University, Denmark. The three of us have done joint research on organizational design for more than two decades. Our joint journal articles and Dorthe's related research bring new insights and ideas to this edition.

The book itself has a new feel, with the diamond model for thirteen contingencies of organizational design. It brings the  $2 \times 2$  contingency fit models together into a holistic framework, further providing the basis for the implementation of organizational architecture.

The information-processing view of the organization and the multi-contingency model remain the basis. The step-by-step approach to design is still the core – now with two more steps representing the issues of going from a diagnosis to implementation. Further, there are many new developments which bring the book up to date: new organizational forms introducing agreements as a fundamental dimension, revised ideas for information and knowledge systems, revised discussion of the sequencing of misfit realignment, and the implementation of organizational change in Chapter 12. This project view for implementation is an information-processing approach for: what is to be done, who is to take action, and when. Further, the project approach to implementation provides a “drill-down” method for detailed implementation with milestones and deadlines. It brings organizational design in the front to the practice level for the firm.

So many people have made this book possible. Foremost, we thank our students. They have challenged us and made the book much better. Paula Parish of Cambridge University Press pushed and pulled with finesse. Morten Rasmussen made the new feel of the book possible with fashionable figures and tables. Tore Håkonsson, Senior Vice President at SOLAR, and Jesper Sørensen, Senior Manager at Shell, had insights on business change models that were most useful to our linking of our theory to a practical change implementation framework. We also thank members of the NOCA (Network of Corporate Academies) theme group on Organization Design and Development for the useful comments and discussion of an earlier version of this book. Karin Søby proof-read the book.

Finally, we remember our friend and colleague: Professor Gerardine DeSanctis. Her scholarly work is still very visible in this edition. In the first edition, we wrote: “Gerry had deep courage. She is our incredible colleague and beloved friend. In her parting words, ‘I will always be with you.’”

**Richard M. Burton**  
**Børge Obel**  
**Dorthe Døjbak Håkonsson**  
*October 1, 2014*

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## PREFACE TO FOURTH EDITION

With a fourth edition, what is there to say? Happily, there is a great deal to say. First, the information-processing model of organizational design remains fundamental. The basic of who talks with whom about what and who makes which decisions is not only affirmed, but we have new capabilities to incorporate into the model. Previously, we thought of “whom” as an individual, but now we have agents who are human and intelligent robots applying artificial intelligence (AI) to implement and modify organizational rules. The change here is the pace of change in utilizing these intelligent robots in services such as banking, accounting, health care, and interpersonal communications. Of course, robots have been used in manufacturing, but the rapid expansion in services of who talks to whom and who makes which decisions is expanding. That is, agents – human and robots – are the information-processing building blocks of information work in organizations. We find digitalization of the organization everywhere.

Second, we are experimenting with new forms of organization which are built upon traditional forms and incorporate new mechanisms. To name a few: self-organizing teams and larger boss-less organizations without an explicit hierarchy; organizations which incorporate contract employees and activities within the organization; agile organizations which can adapt quickly to new situations; virtual organizations which challenge time zones and work processes; and ambidextrous organizations which must be efficient and effective at the same time. It is an exciting time for organization design with these experiments which give us new questions, new insights and a new expanded space of possibilities for what might be a good organization design. Where there is a tendency to view these new forms as quite different from traditional forms of organization, we see them as transformations and variations which fit well within the information-processing view of organization.

Whatever the form, the fundamental design challenge remains to take the big task of an organization and break it into smaller units, which must be coordinated to obtain a unified performance of the whole. The multi-contingency model with its nine components of design is a holistic approach to design traditional and new organizations with enhanced agent capabilities to process information in ways we could realize just in the recent past. The multi-contingency model now has nine components rather than thirteen. The four components which previously fit well in a  $2 \times 2$  model are now found in all quadrants as properties. They are still in the model, but integrated into the nine components. This change follows the new technology developments in information processing which cut across all four quadrants at the same time and change some of the components themselves in our holistic approach.

In every edition, we have utilized case stories to illustrate concepts, ideas, and place the discussion in today’s world. Here, we augment those short cases with four comprehensive case studies: Libratone, LEGO, Haier, and Microsoft, which apply the multi-contingency model to diagnose these companies for fit and misfit. The information-processing model of organization is made fully evident and complete for these cases.

With each edition, our students and colleagues have challenged us and made the book better. Further, they made us better as scholars and we thank them. Valerie Appleby of Cambridge University Press has been a stalwart support who made the

intricacies of that organization work for us. Morten Rasmussen has added color to his artistic rendering of the figures, tables, headings, and icons. He has gone beyond shades of grey to a full mosaic. Executives at LEGO and other organizations have given their descriptions and insights which greatly enhance the book. Merete Elmann proof-read and edited a penultimate version for clarity. Birgitte Steffensen edited the references. This edition builds upon the three previous versions and everyone there helped us here as well. Again, we thank each one.

We especially want to remember our long-time colleague and friend Gerardine DeSanctis, who was instrumental in creating the first edition; her intellect and deep understanding continue to guide our thinking.

**Richard M. Burton**  
**Børge Obel**  
**Dorthe Døjbak Håkonsson**  
*October 1, 2019*

## AN OUTLINE OF THE STEP-BY-STEP APPROACH

### **STEP 1 Getting Started**

1. Assessing the Scope and Goals of the Organization

### **STEP 2 Assessing the Strategy**

2. Strategy
3. Environment

### **STEP 3 Analyzing the Structure**

4. Traditional Configurations of the Firm
5. New Organizational Forms

### **STEP 4 Assessing Process and People**

6. Work, Task Design, and Agents
7. Leadership and Organizational Climate

### **STEP 5 Analyzing Coordination, Control, and Incentives**

8. Coordination and Control
9. Incentives
10. Designing the Structure and Coordination

### **STEP 6 Designing the Architecture**

11. Designing the Architecture and the Sequence of Change

### **STEP 7 Implementing the Architecture**

12. Implementing the Change: Who Should Do What When?

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