point of view

Key principles of organization design:
diagnosing issues in a company's structure

Summary principles

No silver bullet: There is never a single solution or "perfect" structure.

Trade-offs: Make optimal trade-offs between coordination and autonomy, control and commitment, flexibility and focus.

Top levels: Structure at the top constrains the rest of the design.

Alignment: All organizational components — people, process, technology, structure — should be aligned with the strategy and congruent with one another.

Companies sense when they have organizational problems — executives see a lack of coordination, activities that no one is held accountable for, buried "shadow" functions, poor flow of information and work, slow decision-making and responsiveness, and destructive conflict. But pinpointing the issues and their root causes in a rigorous way is difficult.

Do the causes result from poor structure or talent, weak work processes, bad data, unintegrated systems, a difficult culture, or a combination of these? And what does an optimal structure look like for your organization? Is there an industry-leading structure? And if not, how do you know when have it right for your company?

Organizational structures exist to enable the performance of work activities in line with the company's strategy. This definition applies at every level of the organization, from corporate layers to functional subunits. As in devising strategy, designing an effective structure requires making tradeoffs. In addition, there is never a single best structure for any company or function. All structures have inherent strengths and weaknesses, and all companies have different capabilities and strategic positions.

Good organization design is finely tailored to deliver the company's competitive strategy through enabling its work activities. The design can be evaluated by specific criteria, such as what strategic initiatives and critical operational capabilities the structure should enable.

Regardless of the specific design criteria, however, every design should also be evaluated against a set of key organizational principles. These 10 principles apply to any structure at any level, no matter the design criteria:

- Enable strategy
- Leverage people
- Contain cost
- Operate within constraints
- Eliminate difficult links
- Protect critical specialists
- Optimize hierarchy
- Clarify decision rights and responsibilities
- Strengthen accountability
- Improve innovation and flexibility

Diagnosing issues in a company's structure

Organization fit principles

Principles used to determine whether the structure has any fatal flaws

1. **Enable strategy.**

   Structure exists to enable the strategy and the critical work activities that deliver it. The way a structure does this is by ensuring appropriate management oversight of the operation's key capabilities and strategic initiatives. Assessing what constitutes "appropriate" for any given work activity or initiative depends on how important and difficult to deliver it is. The strongest oversight would most likely be defined as 100 percent of the day-to-day responsibilities assigned to a strong direct report of the CEO. Obviously, not all strategically important work could or should be assigned this level of oversight, but it helps to define a top end of the scale and discount appropriately from there. If an evaluation showed a key strategic capability that did not have a designated owner or if ownership was delegated to a diverse committee or was assigned to a role that was buried in the organizational hierarchy, this could present a problem. The same logic could be applied at a functional level.

2. **Leverage people.**

   At the end of the day, if a company creates an elegant design but cannot staff it with the right talent, it will fail. During an organizational diagnostic, the ability of the current talent to do the critical work and the effect of the current structure (job design) on engaging that talent become very clear. During the creation of a new design, however, companies should "suspend disbelief" for a while, when it comes to the capability of their available workforce. This is because the root cause of many suboptimal organization designs is that the companies have allowed the structure to grow organically, which is usually the opposite of planning it strategically.

3. **Contain costs.**

   Cost containment from a structural perspective refers to analyzing staffing levels and slack, spans of control, staffing pyramids, and role redundancy in the context of the businesses strategy. This implies that all work is not created equal — that some tasks are more strategically important to a company than others. Companies must fund all work appropriately. To do this, they should divide the work and the roles that are tasked with completing it into various categories, based on strategic relevance, with a different cost and resource allocation strategy for each. Pivotal positions are roles that, regardless of where they exist in the hierarchy, accomplish the most strategically important work and should rank as investment opportunities. In tough economic times, companies must make difficult decisions regarding how they will continue to nurture and protect pivotal positions while cutting costs in other areas.

4. **Operate within constraints.**

   Various constraints put limits on companies and their organizational designs, at least in the short to medium term. Government regulation, powerful stakeholders, expensive information technology systems, complex processes, deeply held cultural mores, finances, and other resources all constrain strategy, which, in turn, must be reflected in the design. If a company is actively trying to remove or change a constraint and purposely designs its organization in violation of it, a degree of dysfunctionality will result until either the constraint is removed or the structure is readjusted.

Diagnosing issues in a company's structure

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Organization structure principles

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Principles used to assess how effectively the structure supports the strategy and processes

5. Eliminate difficult links.

The bundling of tasks into jobs and the grouping of jobs into units is one of the primary building blocks of organization design. The probability that two jobs will be aligned is higher if they are located within the same unit. This is because the common leader, shared objectives, aligned performance measures, and cultural traits of a group tend to connect jobs and the individuals who perform them, even if their work is quite different. When work and information flow through an organization, difficult linkages occur when roles that need to be aligned are not. Placing those roles in the same unit should increase the likelihood that they will become aligned. However, because restructuring is a solution that causes a lot of change and initial disruption, companies also should consider other linkage solutions. Strengthening the informal social network between individuals involved in a difficult link can be an extremely effective solution because this "win-win" relationship, once made, will not need the active management of a supervisor. Some linkages require a more formal mechanism, but companies must take care not to overburden their organization with undue structure. Formal mechanisms include common data models, shared technology systems, standardized processes, liaison roles, temporary project teams or task forces, permanent cross-unit teams, full-time project manager integrator roles, and matrix reporting relationships.

6. Protect critical specialists.

Within an organization, the nature of some work is so different from the rest that it requires a separate structure to optimize it. If this work is grouped instead into one of the units, the principle of unit alignment suggests that the specialist work will become "contaminated." Boundaries give control over objectives, provide strategy and performance measures to unit leaders, create groups with their own cultures, and enable the development of specialist skills.

They can also create difficult links, as previously discussed. For this reason, companies weigh the relative advantages and disadvantages of separation. Units that are buffered from the rest of the organization must truly be strategically critical specialists.

7. Optimize hierarchy.

Any management layer should provide more unique value to lower levels than just supervision. Tasks might include providing services from a center of excellence or shared service center; facilitating linkages or knowledge between units; providing management or functional guidance; allocating resources; or buying, selling, and creating new businesses. The business should align the number of management layers with its risk profile. Flatter organizations are more risk-tolerant than multilayered hierarchies. This is because management layers have a tendency to screen data and eliminate decision options as they go up the chain. As a result, those at the top of a multilayered hierarchy will have fewer decisions to make and will be presented with fewer options that have been more thoroughly analyzed. Therefore, the multilayered hierarchy will make fewer mistakes but will also miss more opportunities, and all of this will take longer to process.

8. Clarify decision rights and responsibilities.

Companies need to place work responsibilities and the decision rights needed to execute them where the requisite knowledge and skills reside or can be assembled most inexpensively.

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Organization structure principles

Principles used to assess how effectively the structure supports the strategy and processes

Organizations often inefficiently separate decision rights from work responsibilities, sometimes several layers above the point where they should be.

Three factors are critical for companies in analyzing where they should place decision rights:
- Is the requisite knowledge contained in a single unit or distributed across the organization?
- Is the impact of the decision local to a single unit or more broadly felt?
- How easy is it to effectively transfer the information, if required?

9. **Strengthen accountability.**

If supervisors cannot assess their subordinates' performance, they will not be able to exercise adequate control. A good design strengthens accountability for work to the degree that the unit or individual performing the work has customers at "arms length" who can go to a competitor for service or build their own capability. The unit or individual also owns all of the inputs required to complete the work, is not reliant on other parties, and has performance measures that clearly show bottom-line results. Not all work allows for this kind of autonomous accountability, and to the degree it does not, the company becomes more reliant on a knowledgeable manager who can quickly and accurately assess quality using more subjective performance measures and his own experience as a guide.

10. **Improve innovation and flexibility.**

Several factors constrain an organization's flexibility. As these barriers are removed, the company is more able to innovate successfully.

Two of the factors exist at an organizational level, and the third is found in the design of individual roles. At the organizational level, a company with undue complexity and interdependence in its structure will have a harder time making significant changes to that structure because of the "ripple effect" on many more individuals than under a modular, separated structure. An imbalance of power and influence can present another barrier to innovation. Power bases can be either officially sanctioned in the formal structure or a product of the informal network of relationships. An imbalance in the formal structure is much easier to identify and address than problems caused by the informal power bases. A social network analysis can be a helpful tool to identify what might be going on behind the scenes.

At the individual level, job design can be a barrier to innovation if the role responsibilities do not vary enough and if pressures on production are such that the individuals have little bandwidth for anything other than the task at hand. Where it makes sense to do so, creating resource pools of generalists and building "slack" into the system can lead to innovative thinking and better resource allocation for cyclical or project-based work.

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