Unit 3.1 – Organizational Structure

Organizational Structure:

Life can be a complicated, confusing mess. We have so many things to do, so many possible ways to do them, and so many ways to coordinate, so many possible ways to coordinate the things that we do.

Organizations are the same. Most organizations have amazingly complex collections of work to do in order to achieve their mission and their vision. They often have an equally complicated mix of people who are charged with accomplishing that work.

The resulting complexity and uncertainty can create chaos in our lives and at the workplace. Chaos drives frustration, stress, inefficiency, ineffectiveness, and often outright failure. In our personal lives, we try to bring order to the chaos by finding a way to systematically attack our complex sets of activities. In organizations, we do the same -- a bit more formally but we do the same.

The process of organizational design is intended to bring order to the organizational chaos and to do so by defining a structure that's aligned with the organization's strategy and its culture, to drive success, and to gain competitive advantage.

The Big Picture:

Let's talk about the enduring ideas for organization design and structure. First, organization structure is intended to bring order to what could otherwise be chaos in an organization. Secondly, there is no one correct structure that will work for every organization. There are a lot of alternatives that we need to consider. Third, when we design a structure for a particular organization, it's critical that we take into account the environment, the technology, and the people. Finally, an effective organization structure is one that is aligned extremely well with the organization's strategy and with the culture of the organization.

Aspects of Culture:

At the end of our discussion of organizational culture, we looked at a graphic that helped us understand how important it was to integrate strategy and culture. We made the point that strategy, culture, and structure can be so closely related that it's really difficult to consider one without the other. In fact, culture and structure can be considered so closely connected that the authors of our text addressed culture and structure in the same chapter.

Let's look again at that graphic to reinforce the idea that we have a very tight link between culture and structure.

Definitions:

Let's think about three important aspects of organization design and structure. Let's define what we mean by these terms. Let's talk about the purpose of designing a structure for an organization, and let's talk about the two biggest challenges we face as we design a structure for an organization.

First, let's define what we mean by organizational design. Organizational design is a process. It's the process of designing a structure for an organization that will coordinate the work that's done within the organization. Think of organizational design as the work that an architect does in designing a building. The architect doesn't design the building, but the architect interacts with his or her client to identify what needs to be done in that building and who needs to work together in that building and what needs to be located close to other parts of the building. Given that input, the architect designs a plan for a structure that will work well.

When we talk about organizational design, we're talking about designing a plan for the structure of the organization that will facilitate success in the organization.

Purpose:

Why do we want to do organizational design? Sure, we want to do organizational design to help the organization succeed. But let's think a little more specifically about the purposes of organizational design. We want to develop a plan to define and coordinate the various tasks that need to be done to achieve the strategic objectives, the mission, the vision of the organization.

We not only want to identify what those tasks are and a way to coordinate them but we also want a design and a resulting structure that will inform the members of the organization what they need to do and with whom they need to do it.

We also want the structure that we design to be a motivating force. We want members of the organization to see that following the structure that's aligned with the organization design will help them succeed and will help their organization succeed and will motivate them to do the work we're asking them to do and to coordinate the way we're asking them to coordinate. In short, the purpose of designing an organization structure is to bring order to the chaos that would otherwise exist, to help an organization achieve success, to help an organization gain competitive advantage.

Challenges:

As we design a structure for an organization, there is a specific set of challenges that we face. The degree to which we address these challenges effectively will determine how good of a building we design, how good of a structure we can create.

The first challenge is once we've identified all of the tasks that need to be done to drive success, we have to identify appropriate horizontal units. How will we break up the organization horizontally? Then we have to figure out how to break up the work vertically. How many levels should we have? Who should report to whom? And we need to make sure that we distribute the work appropriately. We will visit each of these in more detail later in this topic. But the first challenge is differentiating work, separating it appropriately.

The second big challenge is reintegrating because what we do with the differentiation challenge is find the best ways to help people specialize so that they can individually contribute the most and the best way for departments to specialize so that they can contribute the most and the best way for divisions to specialize. But if all we have is a bunch of isolated individuals or isolated departments, we don't drive organizational success. Where our first big challenge is separating, differentiating the work, our second big challenge is reintegrating so that things are coordinated and produce effectiveness across people, across departments, across divisions.

Organizational Structure:

As I mentioned, when we talk about organizational structure, we're talking about the result of building what we designed during the organization design process. That resulting structure defines the work that needs to be done. It distributes the work across individuals and units of the organization. It creates the interlocking roles that are needed for those individuals and those units that need to coordinate within the organization. It's structure that specifies who does what.

Visible Impacts:

When we implement an organizational design plan and we create a structure, just as is true when we build the building that an architect designed, there are quite a few visible impacts of the decisions that were made when we designed the organization. First, the decision of how to structure an organization actually impacts the appearance of the organization. It impacts who is where. It impacts how large the rooms are. How many people are in a room. It impacts the visible nature of the organization.

It also visibly impacts the nature of jobs, the collection of tasks that individual people do in the organization. It impacts who is doing what. It also visibly impacts the relationships of this organization with other organizations because part of what the structure does is to define external interfaces. It specifies what individuals and what units for example will interact with suppliers, will interact with customers.

We are defining visibly what the organization looks like when we create a structure. Think of the appearance of a building where you go to school or the building where you live or the building where you work. Think about how much of what you see was impacted and think about how much of what you do and with whom you work was impacted by those design decisions that created the structure in which you live and work and study.

Strategic Impact:

Very importantly and really driving the organization design process are the potential impacts of the structure that we create through organizational design. This is really a task designed to enhance strategic success of the organization. Let's think about some of the potential strategic impacts of designing a structure for an organization.

First, we know from research that a structure that matches the needs of the organization, that's aligned with its strategy, that's aligned with its culture can enhance the effectiveness of the organization. Remember when I say effectiveness, I'm talking about the degree to which the organization achieves its strategic objectives.

We also know from research that a structure that's well aligned can enhance the efficiency, the time, the energy, the amount of money that's spent in order to achieve that effectiveness success. We also know that the way we structure organizations and jobs and departments and other units in the organization will have a big impact not only on the look and feel of jobs but how members of the organization feel about their jobs.

We know that some structures can motivate members, can make them feel good about their work experience, can contribute to developing organizational commitment. We know that other structures can damage satisfaction, can damage motivation, can damage relationships between people.

We also know that if we design the culture and the structure to be aligned that we can gain synergy where the structure can actually capitalize on the culture and where the structure can reinforce and help to shape the culture of the organization.

Unit 3.3 – Elements of Structure

Elements of Structure:

This graphic gives you a visual presentation of part of what a structure might look like that's designed for a small hospital. Notice how this organizational chart, as it's typically known, shows hierarchal levels going from board of directors to the CEO to the president to executives to directors and so forth on down the structure of the organization.

An organizational chart like this depicts the vertical elements of the structure but notice how it also depicts the horizontal elements. At one basic level, we've separated the executive administrative director from the executive medical director. The work in the structure that involves administration is under one person. The work that involves delivery of medical care is under another person.

Then notice how as we go down in the hierarchy you can see additional horizontal splits. This describes a structure using an organizational chart to show some of the decisions that this particular organization has made about how many levels, about what levels there should be, and the horizontal differentiation that was done in the organization. The lines show an effort to coordinate and integrate the work that's being done in these various parts of the organization.

Notice, for example, that it's important to coordinate the work of pharmacy, physician, and laboratory; but it's not really as critically important to coordinate the work of those units with the work of the director of admissions for example. The structure shown in this organizational chart shows how we're separating the work, but it also shows which parts of the work most importantly need to be coordinated and how that can be done.

In your textbook, you've read about some of the most common elements of organization structure. These are terms we need to know. These are issues that designers think about when they design the structure of an organization, and they're issues that managers think about as they execute the resulting structure.

Let's take a look at some of these common elements. Let's begin with common unifying purpose. A structure needs to unify the work that's being done. Now, that's done to some extent by having specific strategic objectives that are defined as goals for each individual and each unit and by specifying how those coordinate. But we also want to use the structure to reinforce a joint understanding of the organization's reason for being and to reinforce my role and my unit's role and how my role is consistent with that of others in the organization.

We also want to make sure that the structure has appropriate coordination of effort. When we design a structure, we identify who needs to work with whom, which units need to work with other units. The structure has a coordinating effort component to it. I need to know who to work with. I need to know who to go to for information. I need to know who to go to for a decision. I need to know who to take my ideas to. The coordinating effort part of the structure provides that for the organization.

Division of Labor:

A big part of designing a structure, as we mentioned, is division of labor or differentiation, work specialization. When we do this, when we work on division of labor for the organization, we identify all the work that needs to be done. We begin by saying what tasks need to be achieved in the organization somewhere in order for the organization to achieve its high level objectives.

After we've done that, we start to arrange those small tasks, those individual actions, if you will, those individual small successes. We arrange those discrete pieces of work and assign them to individual people. We call that a job. A person's job is a collection of those tasks which is a subset of the total set of tasks that need to be done for the organization to succeed.

If we didn't make the specific job design assignment, an individual would not know for sure what they're expected to do. By looking at the total set of work, breaking it up, assigning it to individuals, the organization makes sure it

has a structure that is likely to achieve all of the needed tasks and that the tasks have been assigned to individuals appropriately. We not only assign tasks to individuals, but we assign individuals to units.

The next step is to after we've organized tasks into jobs, we organize jobs into departments, we organize departments into divisions, and so on. In the process of doing this, we assign authority and authority relationships. What authority do you as an individual have? What decisions can you make on your own? What authority does your department have? What authority does your boss have? We'll talk more because this authority issue is so important. We'll talk more about the assignment of authority and authority relationships as we go through this topic.

Hierarchy & Span of Control:

Part of the authority issue is to create a hierarchy. Who is your boss? When we create a hierarchy of authority, we are in effect creating a chain of command. One of the reasons for doing this is to coordinate the work that's done at different levels. If I am a director of a division and I have authority or control over everything that gets done below me in my division, I probably have a number of department heads to report to me. I can make sure resources are distributed appropriately across those departments. I can make sure I've acquired the knowledge that's needed for a higher level evaluation of our work, and I can make sure that I distribute knowledge downward in my division effectively.

Hierarchy of authority or chain of command is a very important part of the structure that we design. It distributes work. It facilitates the exchange of information. It coordinates work. And importantly, it's a control mechanism to make sure that resources are used appropriately, to make sure that goals are aligned, to make sure that goals are achieved.

As we assign authority to an individual, we have to think about how broad of a span of control one individual should have. How many people can you manage? If you're a division head, how many departments can you manage? If you are a department head, how many individuals can you manage? How many teams can you manage?

Span of control is the number of people or the number of units reporting to an individual manager. If we make this too narrow, we have a very expensive management and control system. If we make it too broad, we create a job that's very, very difficult for a manager to perform effectively. We need to find that right balance of control, and there is no one right span of control for every organization. It depends on how capable the followers are. It depends on how complicated the technology is, how mature the organization is. We need to find the right span of control for an individual manager for a particular organization.

Authority & Accountability:

Continuing to talk a bit about authority, let's make sure we understand what we mean when we say authority. When a manager is assigned to a management position, he or she is given a specific set of inherent organizational rights. Those rights are not for the person. They're for that person's position. The rights are vested in the position.

Typically the authority rights that are vested in a management position include definition of which decisions, which types of decisions a manager is authorized to make, the degree to which that manager is authorized to delegate decision making and work to others, and the degree to which a manager can utilize organizational resources. This is often called the zone of control of a manager because it defines the zone in which you can control resources, decisions, and people.

Another thing that's typically assigned to a position of authority is accountability. This accountability characteristic requires the manager and workers to report and justify their work results upward in the organizational hierarchy.

Responsibility & Delegation:

Along with authority, responsibility is assigned. Whether you are a division manager, a department manager, a team leader, or someone who is simply a worker, responsibility is assigned to you as part of the structure that's created by the organization. You are obligated to perform the tasks, to make the decisions, to use the resources that are defined in your responsibilities.

One of the areas where managers often struggle and followers often struggle is in the area of delegation of decision making and execution of work. In a well-defined structure, there is very clear definition of the degree to which a manager has the authority and responsibility to delegate work to followers. A manager cannot do all the work for his or her team, his or her department, his or her division. It's important to delegate some of that work. The structure should help to inform the manager of what should be delegated, what can be delegated, and what should not be delegated.

Authority & Responsibility:

Let's look at a graphic that addresses an example of the specification of authority and responsibility for one part of an organization. The board of directors in an organization has the ultimate responsibility for defining the overall strategy of the organization. That board of directors also has responsibility to delegate the responsibility for day-to-day strategic planning, for executive decision making, for legal counsel. The structure defines how many jobs will be created, how many units will be created for those types of functions. The structure defines what the board of directors will delegate to each of those.

In this particular example, the chief executive officer who focuses mostly on strategic and legal issues will have a president reporting to him or her and a particular set of responsibilities as assigned by the structure to that president who then assigns responsibilities perhaps to an executive administrative director and an executive medical director in a healthcare organization. This is just one very small part at the top of an organization showing how authority and responsibility can be delegated and distributed by the structure of an organization.

Centralization vs. Decentralization:

We've been talking about issues related to decision making. We've talked about hierarchies. We've talked about span of control. One of the resulting impacts of the look and feel of the structure of an organization is the degree to which an organization can be considered to be centralized or decentralized. Now, these actually exist on a continuum from extremely centralized to extremely decentralized. There is no one right place to put all organizations on this continuum. But there is one best place on this continuum for a given organization and for a given part of the organization.

In an organization that's considered to have very much centralized authority structure, the most important decisions must be made at the highest level possible. The argument for this is that at the highest level possible in the organization we have the broadest set of knowledge and thus the best informed decision making.

In a more decentralized authority structure, most important decisions are made at lower levels of the organization, the lowest level possible. The argument for this is that decisions should be made by the people who are most closely connected to the decisions and the implications of the decisions that are made.

As you can see, there is no one right universal answer. If all decisions are made at the top, whoever is at the top will be overwhelmed and will be making decisions about issues with which they are not directly connected. If all decisions are made at the bottom, we will indeed have people who are most directly impacted by the decisions; but people who do not have a broad perspective will be making most of the important decisions.

The trick in deciding where on that continuum from very decentralized to very centralized is to find the right spot for each part of the organization.

Unit 3.4 – Basic Types of Structure

Reintegration:

Most of what we've talked about so far has focused on ways to separate or differentiate the work that's being done in an organization. We've talked about how to separate vertically and how to separate horizontally. We do that to try to be efficient and effective. However, it's critical that we coordinate or reintegrate the work that's being done by the various parts of an organization.

There is some common ways that organizations attempt to do that. Usually it's either talked about as how do we separate things at the top and how do we separate things going down. Or for now, let's talk about how we coordinate and reintegrate things as we go down the organization.

To help us with this discussion, let's look at some of the options that a company like Proctor & Gamble might have. When they think about what's the first grouping, the first reintegration or the highest level reintegration that we should do in the organization, they have some options. They could choose to coordinate, to build, to reintegrate based on function, based on product type or customer type or geographic location. They could use those or others as the basis for regrouping or reintegrating. They could do that and then use another one at the next level down. Or sometimes they'll use a combination of these. We'll look at examples of each of these.

by Function:

If Proctor & Gamble makes the decision to first coordinate, reintegrate, organize, structure -- choose your word -- if they choose to group by function, then Proctor & Gamble might define its divisions and its departments by doing something like this. They might create a support division that has purchasing and public relations and legal and accounting. They'd group those together because those are all support functions.

Then they might group together production activities in the organization where they put together manufacturing and quality control for example. Then they might have a maintenance grouping where the people who do the engineering, who do the human resource management, who do the actual physical maintenance in the organization are grouped together because they are all focused on maintaining the components of the organization that can drive success.

They might create what's often called an adaptive group which typically includes research and development, marketing research. They group those together because those are research activities that are not involved in the current direct delivery of products or services but is involved in finding ways to adapt the products and services for the future.

Or they might say we're going to organize primarily by managerial level. We're going to have a group of top managers, mid managers, and lower level managers.

An organization might say let's do this by function first. If they do, they look at all this work that's being done in the organization. They ask which people, which departments, which units of the organization are engaged in similar types of functions. Let's put them all together, and we'll probably have to subdivide further because Proctor & Gamble is so big and does so much. But let's make our first grouping based on what people do, based on functions.

by Product:

Another opportunity for reintegrating, for grouping at Proctor & Gamble is to do this based on product line. If Proctor & Gamble created its divisions, its departments, its teams based on the products that individuals, teams, departments, and divisions are working on, they'd be likely to structure, group together, the people in the organization who are involved in working on breakfast food products. They have another group that works on snack food products. Another group that works on hair-care products. One that works on personal hygiene products. One that works on cleaning supplies. One that works on health products. If Proctor & Gamble decided

that their primary way of organizing was by product, at the very top of the organization they would have product groupings.

by Customer:

Another alternative available to Proctor & Gamble is to have customer groupings. Again as is true for functional or product based organizing, this could be the top level basis of organization or this could be done at a lower level. Proctor & Gamble has the option of organizing based on groups of customers -- not the functions, not the products -- but who the customers are.

If Proctor & Gamble chose to structure their organization based on this, they would have a group of individuals, teams, departments that serve convenience stores. Another that works with on-line retailers. Another that works with big box stores. Another that works with super markets. Another that works on direct consumer sales and so forth.

Now, this might be the top level organizer or it might be one that's used at subsequent levels. As is true with all of these options, the trick is going to be what's the best way to make our first grouping and then sub groupings and sub-sub groupings.

by Geography:

Proctor & Gamble would also have the option of organizing by geographic factors. If they chose to do this, they would be saying we want to group together the people, the departments, the divisions that are working in, for, and with particular parts of the world. With that approach, Proctor & Gamble might have a group of people who work on business in the U.S. Within that, they might subdivide people at Proctor & Gamble who work in the U.S. and the northeast, in the Midwest, in the south, and the west, and so on.

They might have a grouping for international. Within that, they might have a grouping for international. Within that, they might have a Europe; they might have a South America, a central Asia, a south Asia grouping. And they might break down even further on geography. Proctor & Gamble has a lot of options.

The most typical model that's used in creating a structure is to make a first decision should we first group by function or by product or by customer or by geography? If we first group by geography, for example, what do we group by below that? And what do we group by below that? In a way, this is a hierarchy of groupings.

Unit 3.5 – Combined Reintegration

Reintegration:

Very few organizations define their organization's structure based on only function or only product or only geography or only customer. Really what they do is they either make sequential decisions and group by one of those first and then another and then another or they sometimes will kind of combine those into what we typically call a matrix structure where we might have a combination of a structure that's defined based on a combination of function, product, customer, geography.

What a matrix structure does is to more broadly connect the people, the departments, and the divisions of the organization and to do so by creating a matrix that might connect one department with two other departments.

By doing that, we have managed to have more complete connections. In the process of doing that, a department and a department manager might report to a higher level manager from each of those two areas of the organization. When we do that, we end up with dual authority and dual reporting responsibility. Now, the value is obvious of being more broadly connected. Today everything's about being connected, right? The value of being more broadly connected in the organization is pretty clear both for the individual manager and the unit and for the success of the organization.

But with that valued set of connections comes that dual authority/dual responsibility that sometimes leads to questions like who do I listen to first? If my two bosses tell me two different things, which one do I go with? You're connected; I'm connected. You're probably more broadly connected than I am. If you become too broadly connected, it becomes difficult to manage your connections. With a matrix structure, we want to make sure we gain the value of those improved broader connections without killing ourselves with the complexity of the structure.

Functional Structure:

As we mentioned, using a functional structure will tend to group people together in formal groups based on function. Let's again take a look at what that might look like in a structure.

One structure we might have for a business might have a president. If the organization chooses to use a functional organizing model, under the president would be each of the primary functions. We have a division for marketing and finance and production and human resources. It's common we will call that first level head in the organization a vice-president, one step below the president.

In a healthcare setting, we might have a structure that's based on function that has a chief administrator or maybe a president. Below that, we tend to have a chief of medical services and a director of administrative services and outpatient services and food services. Each of these two structures has the first split or the first organization, if you will, based on function.

Example: Pier 1:

You can see that Pier 1 has also adopted a functional approach to its first level of organization. Now, the particular functions are different for Pier 1 than for a healthcare organization because we're talking about finance which is common to a healthcare organization but stores and marketing and logistics and HR which is common. But we're also talking about real estate. Pier 1 has used the same type of structural approach at the top, functional, as the healthcare example but they have created different functional divisions.

Divisional Structure Examples:

Here are a couple of other real examples. Let's look at this graphic. At the top, you'll see a product divisional structure. This organization has said we think it's most appropriate for our organization to have our first grouping, our first organization done by the types of products. We want a division that focuses on motion picture and television. We want a division that focuses on music. We want a division that focuses on print media. We

want a division that focuses on internet products. This particular company has decided that its best chance to be successful in achieving its overall strategic objectives is to make its first grouping based on type of product.

In the second example, however, this organization has made the decision that it's in its best interests to make its first cut, first organizing step to be one that's based on customers. This financial institution has decided that it will have a division focused on consumer loans, on mortgage loans, on business loans, and on agricultural loans. For this particular organization, the conclusion was reached that these types of customers are different enough that they want to separate the people who work with these four types of customers.

The final example here shows what might happen if we use a geographic divisional structure where the first cut is based on where we are. This particular organization has divisions that are western, northern, southern, and eastern. Now, often geographic splits are made not because people are far from one another but because the characteristics of customers, products, services might be different in different geographic areas. When we talk about organizing by geography, it's not always just because of where people are. It might also be that where they are is a surrogate for what they do and how they do it.

Example: Coca Cola:

Coca-Cola has made a primary organizing structure that has a division that's Coca-Cola International, Coca-Cola the Americas, and a separate bottling group that actually puts the product into the bottles and the cans and into the distribution system. Below that, Coca-Cola has done geographic splits and then product splits.

Matrix Structures:

I mentioned a matrix structure where we might combine a functional and divisional structure where an individual unit or manager might report both to a function and to a product line, where we have dual responsibility and dual authority. Let's take a look at what a matrix structure might actually look like and see if this helps you visualize the concept of having dual reporting relationships.

Example: Matrix Structures:

The first thing you will probably notice when you look at this graphic is that it looks very complicated. The second thing you will notice if you look closely is that it's very connected. Notice how well connected the units of this organization are. Notice how the first cut in the structure of this organization was functional. It could have been geographic or product or customer. In this particular instance, the organization made its first split based on functional areas. They've got engineering, finance, production, and marketing. Below that, they have made subsequent splits or assembly of responsibilities.

But notice how we have, if you look at one of these smaller parts of the structure, there is a follower there who reports both vertically and horizontally. In many matrix structures, what that means is that you're reporting directly or indirectly. In this case, you might be reporting to a production manager and to a marketing manager at the same time. That's great connection, but again it can be very challenging to report to both a production manager and a marketing manager.

If you look through this matrix structure, you will see people who report to a combination of engineering and finance, finance and production. We get all sorts of combinations. Matrix structures tend to have vertical, horizontal, and often what are considered diagonal connections.

Last comment on a matrix structure, it's developed by organizations that believe that a higher level of coordination is needed than can be achieved through a traditional vertical organizational structure that has one vertical connection up, one vertical connection down.

Additional Structural Elements:

Let's re-visit a few of the terms that we've been talking about and will continue to talk about. Let's re-visit vertical differentiation, the hierarchy of authority, span of control, horizontal differentiation, and the integration challenge.

Vertical Differentiation:

When we talk about vertical differentiation, we're talking about the design of the organization that specifies the levels in the organization. It specifies reporting relationships. The vertical differentiation specifies the hierarchy of who reports to whom and who has responsibility and authority at each level of that hierarchy. Often when we use the term hierarchy, we're talking about where someone fits in that hierarchy, what rank or what level they are in that particular hierarchy.

Tall and Flat Organizations:

When we talk about the nature of the hierarchy in an organization, we can talk about how tall or how flat the hierarchy is. With a tall hierarchy, we have many different levels in the organization. With a relatively flat hierarchy, we have a relatively small number of levels in the hierarchy.

Today the trend is definitely towards trying to flatten hierarchies. Sometimes that's overdone. If we flatten too much, we overwhelm the leaders at each of the levels. If we have too tall of a hierarchy, we gain inefficiency; and it's really hard to be responsive. The trick is finding the flattest hierarchy that can still work effectively without overwhelming the leadership at each level of that hierarchy.

Zappos & Hierarchy:

Let's re-visit Zappos. We have heard from Tony Hsieh at Zappos what his thoughts are on hierarchy in organizations. In particular, he's talked a lot about why a formal tall hierarchy is not good for Zappos given the nature of its mission, the nature of its culture. Let me quote part of what Tony had to say as he talked about Holacracy. Tony says: Research shows that every time the size of a city doubles, innovation or productivity per resident increases by about 15%. But when companies get bigger, innovation or productivity per employee generally goes down. So we're trying to figure out how to structure Zappos more like a city and less like a bureaucratic corporation. In a city, people and businesses are self-organizing. We are trying to do the same thing by switching from a normal hierarchal structure to a system we call Holacracy. This enables employees to act more like entrepreneurs and self-direct their work instead of reporting to a manager who tells them what to do.

Clearly this concept of a Holacracy would not work for every organization. For an organization like Zappos with its strategic plan, with its culture, we really have compatibility. Over the coming years, we will see how well this works for Zappos.

Span of Control:

When we talk about span of control, we're really focused on an individual supervisor or individual leader. We're asking about the number of organizational members who report to that supervisor, that leader, that manager. As we move up in the organization, as we talk about span of control, we're thinking about how many departments, how many divisions report to an individual manager.

Span of control can be considered very wide or it can be very narrow. With a wide span of control, a large number of individuals or units report to an individual manager. With a narrow span of control, a relatively small number of individuals or units report to that manager. Clearly it's more efficient in some ways for an organization to use a very wide span of control because they won't need as many managers.

However, as the span of control increases, it becomes more and more challenging for an individual manager to have the knowledge and the relationships that are needed to manage effectively. If a span of control is too narrow, we have inefficiency; and in fact, the job might not be very interesting for the manager. We need to find that right balance where the span of control fits the organization and the capabilities of that manager.

In many organizations, we might use a relatively narrow span of control at lower levels but a wider span of control as we move up and have managers who are more experienced and more knowledgeable and therefore more capable of handling a wider span of control.

Horizontal Differentiation:

We've talked multiple times about horizontal differentiation. The process of designing the horizontal differentiation is when we take individual tasks and combine them to create a job so when we take individual jobs and combine them to form teams, when we take teams and combine them to form departments, combine departments into divisions. The horizontal differentiation says this is how we're going to take that collection of total set of tasks for the organization and organize them by clustering them horizontally. This establishes the division of labor. This tells us which part of the organization will work on marketing tasks, which part will work on human resource tasks, which part will work on manufacturing, and so on.

As we develop our horizontal differentiation, as we combine tasks into jobs, jobs into teams, teams into departments, and so on, we need to think about how specialized we want jobs to be, how specialized we want teams and departments and divisions to be. With highly specialized jobs, for example, we have a relatively narrow range of tasks that need to be performed by the person who holds that job. With a highly specialized job, the individual who holds the job has less to learn, can learn it more quickly, and is more likely to become a master of that relatively focused set of tasks that he or she has to perform. Clearly that's an advantage. However, we've learned from our research that for most people having an overly specialized job over time becomes boring, disinteresting, and can demotivate the worker.

Less specialized jobs have a broader, richer mix of tasks that are performed in the job, the team, the department. Less specialized jobs tend to be more interesting to the people who hold those jobs. However, less specialized means that a broader range of knowledge, a broader range of skills is required to be effective on that less specialized job. It means more training is required. It means selection is more difficult. It means compensation has to be higher in most cases.

Again we have a balancing act. We understand the speed with which we can get someone to perform at a high level on a highly specialized job. But we also understand the value of having less specialized jobs to create masters of broader domains. Again we must find the balance.

The Integration Challenge:

We've spent a lot of time talking about differentiating, separating, and sometimes grouping small parts of what we've separated. This leads us to our second big challenge. The first challenge was how to differentiate. The second challenge, the big challenge, is how to integrate after we've split the tasks and the jobs and the teams and the departments into various locations in the organization.

The integration challenge is to figure out how to integrate, how to coordinate the task, the functions, the subunits, and the people across the organization so that they work effectively together, so that we create synergy, and we do not have a situation where we built silos that are good within the silo but not contributing to overall success or that might work at cross purposes.

As we face the integration challenge, we need to ask what needs to be integrated and then think about what are the alternatives we have for reintegrating now that we've separated all of these tasks that together we hope will contribute to the success of the organization.

Some Integrating Mechanisms:

Organizations use a wide range of integrating mechanisms. There are a lot of possibilities. Most organizations will use a pretty rich combination of these mechanisms. Let me just describe each of these briefly to give you an idea of the integrating mechanisms that are available after we've done our differentiation.

First is something we've already talked -- the hierarchy of authority. One way to integrate work is to use the hierarchy that we've established, the vertical hierarchy. The way we integrate work using the hierarchy is that someone who is doing a piece of work reports upward. That person communicates -- that manager, that leader -- communicates with the leader of another channel in the hierarchy and they coordinate the work of the people below them. They in turn report to the next level up in the organization, and that person coordinates their work.

This is using the existing hierarchy. This can work very effectively. It also leads to the sharing of knowledge and helping to create knowledge throughout levels of the hierarchy. But it can be inefficient. It involves a lot of people. It can slow the responsiveness of an organization, particularly if we have a hierarchy that's particularly tall.

Another option is one we use every day, and that's direct contact -- face to face, on the phone, by email -- direct contact between the individuals, the teams, the units that need to coordinate their work. This enables the people individually or in teams or departments to determine what information they need from other parts of the organization, what information they need to share, what efforts they need to coordinate, and they directly communicate with one another.

The efficiency of this and the potential effectiveness is that the people who know the most about the needs and how to do the work are in direct contact. The potential challenge with this is that these people may not have the big picture of why they're doing this work or what the higher level priorities are. Also using a lot of this face-to-face contact or phone-to-phone or text-to-text contact takes time away from those people's ability to perform their primary work task.

Sometimes organizations will use what's called a liaison role, someone who has a so-called regular job with set of tasks they're asked to perform that contribute to the success of the organization. But in addition to that, part of their job is to serve as a liaison with one or more other parts of the organization. Rather than having, for example, every member of a department engage in direct contact with every member of another department, using a liaison role, we have one person in each of those departments. Those two liaison employees will each determine the needs of the people in their own unit, communicate that to the other liaison, share information with the other liaison, and develop plans with the other liaison to coordinate the work of the two parts of the organization.

Sometimes we need more coordination and more integration than can be done by a liaison spending only part of their time on that coordinating task. In that situation, sometimes organizations will devote an entire job in a unit to coordinating and integrating. Typically we'll call that an integrating role. It's very much like the role of a liaison except that the primary job of the person who holds the integrating role is to work with his or her unit to identify the coordination needs, the information needs of the people in that unit, and to coordinate with someone in an integrating role or perhaps a liaison in one or more other units.

Usually we're more likely to use an integrating role instead of a liaison role when the integrating needs are huge. Huge because of complex work or huge because we need to coordinate with multiple units. The advantage of that is this person can concentrate solely on the integration task. The disadvantage is that because this integrator is not also engaged in the day-to-day productive task of his or her unit, it's possible to lose touch in the realities of what is really needed in his or her unit.

Task Force:

Sometimes the need for integration becomes even bigger. Sometimes it's a short-term need. We may be launching a new product or a new venture. In this case, we might create a task force where we get a group of people from different parts of the organization in the same room, same physical room or same virtual room, it's

temporary, while we're doing a start-up, while we're launching a new product for example. We assign them to this task force or this committee.

The only reason this committee, this task force, exists is to coordinate and integrate the work of the various units that are represented in the task force for the duration of the need. Then the task force ends. It's a short-term bring people together from all the units that need to be coordinated, have them together on a regular basis to address the information and coordination needs. When we've taken care of it, we get rid of the task force.

In other situations, we have an ongoing need for a high level of coordination between multiple units. In that case, instead of using a temporary task force, we form an ongoing team. That ongoing team has representatives from each unit that needs to share information and coordinate. They meet on a regular basis, physically, virtually. The reason they meet is to understand the information and coordination needs, the changing needs of the people and the units in each of their parts of the organization.

This is sort of the equivalent of an ongoing task force that is formed to address any informational and coordinational needs of these multiple units where the task force was formed to address some emerging or perhaps even sometimes emergency coordination need.

We don't see this very often, but sometimes we will actually have an integrating department where we have an entire department of people and the job of that department is to oversee the coordination of the work of multiple parts of the organization. The job of this integrating department is to do research, to identify the information needs, the integration needs, the coordination needs of multiple parts of the organization and to interface with the people from each of those parts of the organization to make sure the information flows, the integration occurs, the coordination happens.

This is only likely to happen in an organization that's large and complex that can devote the resources to an entire group or department of people whose sole task is this integrating task.

Horizontal Design:

Much of what we've been talking about is the horizontal design of organizations. I'd like to show you a graphic that illustrates some of the formal horizontal connections that one organization has created to try to make sure that the information needs and the coordination needs of various parts of the organization are actually addressed.

In this graphic, you can see that this particular organization has identified the need for both vertical and horizontal and kind of diagonal coordination as well. In their organizational chart, they've actually identified and drawn in indicators to show where there is an ongoing need for one part of an organization to coordinate with other parts. In some cases, this crosses functions. In some cases, it crosses levels. In this organization as you go deeper, it also crosses product type and although not shown here eventually also crosses geography and customer type as well.

These lines that connect these various parts of the organization are indications that the organization believes these units need to coordinate or the organization is less likely to be successful. These lines -- these vertical lines, horizontal lines, and diagonal lines -- might be addressed by a liaison or a coordinator or a coordinating department.

The key here is the organization has formalized in its organizational chart that these are coordinations and integrations that must occur to drive success.

Authority:

Let's think about the degree to which authority in an organization should be centralized.

Decentralized Authority:

With an organization that decentralizes authority, the organization is saying we do not want the authority for decision and resource allocation to be in the hands of a very small number of people. Instead we'd like to distribute the authority throughout the organization. We would like to have a leaner organization that doesn't need as many decision making levels.

We would like to have those people who are closest to the work, who are closest to problems, closest to opportunities to be the people who make decisions that are related to that work, those problems, those opportunities. We would like to facilitate learning throughout the organization, and we believe that a great way to facilitate learning is to charge people throughout the organization with decision making and empower them with authority. If they want to make good decisions, if they want to execute their decentralized authority, they need to learn. We not only place this learning, this decision making differently; but we drive learning because of it.

Organizations that decentralize authority often are motivated because they know that the research shows that when individuals or teams or departments are involved in the decision making and when they're given the authority to make decisions, they're more likely to have a sense of ownership of the decision. The research -- and I'm sure your personal experience -- clearly shows that when you have a sense of ownership, you want to make it work. You will look for ways to make it work.

As a result of this, many, the majority of people in most organizations, welcome the decentralization of authority. They welcome being given the authority to make decisions that they are well positioned to make and fully capable of making. We've got to be careful when we decentralize authority that we do not overwhelm people with decision making tasks. We have to be careful that when we decentralize authority, we only assign authority and decision making to individuals that they're capable of making effectively and being comfortable making effectively.

Highly Centralized Authority:

At the other end of the continuum from high decentralization would be an organization that decides to highly centralize its authority and decision making. In this sort of organization, the decision making authority is given to a relatively small number of top managers. The idea here is that decisions will be made at the highest level, with the greatest authority, and with the big picture. One of the primary motivations of centralizing authority is to get decisions made at the level where there is the best big picture view for understanding the context of the decisions.

What this does in organizations is it creates a masters of knowledge. It creates some great decision makers. But it's a very small number of masters of knowledge, and it's a very small number of great decision makers. The organization has a pool of highly refined effective, if this works, decision makers in those positions of authority.

It also means the organization is relying on a relatively small number of people to help drive success. Losing any one of those people can have a major impact because we leave a big hole in the ability of the organization to effectively make decisions and execute decisions.

For the person who is not involved in the decision making, having a highly centralized authority structure can provide freedom -- freedom to perform their other tasks, freedom from needing to do the research and the evaluation and the decision making. This can at times, if we over-centralize authority, overwhelm our decision makers.

I see this in my organization sometimes and I'm sure you've seen it in organizations as well where a very small number of decision makers has a very large number of decisions to make. As a result, sometimes they take too long to make decisions which frustrates everybody. Sometimes they make decisions less well because they did not have the time to research the alternatives, to evaluate the criteria, and make thoughtful decisions. Sometimes they're overwhelmed to the point of stress interfering with their ability to perform effectively.

When we highly centralize authority, even though we free our lower level employees from these decision making tasks, we also often create a situation where they have much less sense of ownership. When they have less ownership, they're less likely to be committed to finding ways to make those decisions work.

Formalization:

Some organizations are really quite formal. Others are pretty informal. Let's think a little bit about how formal an organization's structure can be and should be.

High Formalization:

An organization that has high formalization relies heavily on formal rules, formal procedures. They tend to standardize operations. Basically they do work quote by the book. This high formalization, which is often found and associated with centralized authority and decision making, this high formalization to inform people how to do their work and to control how they do their work and to control outcomes relies on rules and procedures. They have a book that says to succeed follow the book.

On the other hand, some organizations have pretty low formalization. In an organization with low formalization, coordination is typically achieved not by rules, not by procedures, not by enforcement but by mutual adjustment, by coordination efforts between the individuals and the units in the organization. Rather than learning how to do your work and how to succeed by reading a book or following directions, you learn how to be successful by doing the work and by coordinating with others.

We've referenced Zappos a number of times throughout this topic, and I'd like to do that again with a very short quote. If you ask Tony Hsieh what do you think about the appropriate level of formalization for an organization like Zappos given its strategy and given its culture and given the rest of its structure, what do you think, Tony? Tony says one sentence quote we don't have many customer service rules period end of quote.

Customer service is everything to Zappos. Customer service, as you know, is how Zappos has decided to differentiate itself as an organization. Zappos and Tony Hsieh believe that by having a very low level of formalization the people in the organization who understand the mission, who understand the objectives, who are engaged in the culture will find the way to provide excellent customer service and that for Zappos that will work better than a 50 page guide that tells employees how to handle customer service.

Rules vs Norms:

As we think about formal versus informal organizations, we're clearly thinking about the use of rules versus norms. In organizations that are very informal, we have relatively few rules; but we typically have just as much need for guidance on how to do work effectively. We typically have just as much need for the coordination of work.

In organizations that are low in formalization, we still need all of that coordination, all of that information. In that type of organization, we often have to rely on norms that come from the culture of the organization. In that sort of organization, norms can actually become more powerful than rules. When we rely on rules for guidance, we have formal written statements. They specify appropriate behavior. They specify inappropriate behavior. They specify the desired means for reaching goals, and they focus those rules on control.

When we rely on norms, we're using unwritten but generally agreed upon standards often because they're part of the culture. Those norms inform us of appropriate behavior and inappropriate behavior. The norms reinforce the

strategic objectives by emphasizing our personal goals. The focus here is on cultural guidance and compliance with the culture as opposed to compliance with the rules.

An informal structure is unlikely to work without a culture that provides appropriate guiding norms. We've talked about this when we talked about culture in our last topic.

Multi-Organizational Design & Structure Situations:

So far we've been talking primarily about what happens inside of one organization. I'd like to take just a minute to mention that a lot of business activities and NGO activities and not-for-profit activities and government activities are not all done inside of one organization. A lot of the high level objectives of organizations motivate an individual organization to work with other organizations to facilitate success. Let's take just a minute or two on multi organization design issues mostly to help you be familiar with the terminology.

When you hear someone talk about a conglomerate, what we're usually talking about is a conglomeration, a collection, of separate companies that do not necessarily have any close connection to one another in terms of product or service. The thing they have in common is that these multiple independent companies are overseen by one single parent company.

That parent company might assign very high level goals to each of those companies, but those individual companies are operated independently. This idea of a conglomerate is that an organization, the parent company, is building a portfolio to seek upside gain, protect against downside risk by owning multiple often unrelated companies. They're operated separately because they're so different. It's not believed that one of those companies can benefit much from interacting with the others and that each should develop the structure and the culture that will be most appropriate and most effective for each of those companies. That's not to say that companies held as part of a conglomerate can't learn from one another, but their structures tend not to be intertwined.

You'll also hear the term strategic alliance. Now, with a conglomerate, each of the involved companies was owned by the same parent company. With a non-equity strategic alliance, we have two or more organizations that agree to work together without any shared ownership, without any shared general management. This is like two friends getting together to say, together we can help each other achieve our own personal goals. That's really what a strategic alliance is focused on.

Each of two or more organizations conclude that by being friends, by being partners, by forming an alliance, a non-ownership alliance with another organization, they can help each other achieve their own goals. But they're not mixing their structures.

You'll also hear the term joint venture. Let's suppose we have Company A and Company B. Company A and Company B are each considering going into a new business venture. Each of those two companies decides by ourselves we probably don't have what it takes to launch this new business. Maybe we're short on money. Maybe we're short on knowledge. Maybe we're short on experience or short on capability. Maybe we're short on human resources.

But what these two companies do since they've each concluded that they either don't want to or are incapable of creating this new Company C, they do it together. They jointly create a new company. Now, where we started with two companies, we now have three. The new third company, Company C, is jointly owned by the two primary companies. They don't mix their structure.

What they do? They bring knowledge, expertise, and resources to the new company. Because they believe that if they jointly create and jointly own this new company, it will have a higher probability of success. If it succeeds, both of the original companies will benefit. Again with a joint venture, that third company is allowed to operate independently.

You will also sometimes hear about a network design. There are a lot of different definitions of this. But the best thing I can tell you about a network organization is that it creates a very small internal structure, just the core of what's needed to define the strategy of the organization and to coordinate the execution of success.

What these network organizations do, they have a very small central organization structure; and then they develop a network with other organizations. They might network with companies that are suppliers. They might network with companies that are manufacturers. They might network with a company that's a distributor, that's sales, that's quality control, that's maintenance, that's marketing, that's advertising.

What a network company does is to keep a very small number of people and units and very tight structure inside the primary organization and then develop a network externally. A lot of companies like this, particularly in early stages of development because it reduces their investment.

However, to drive success with a network organization, the core competence of the primary organization has to be the development and maintenance of network relationships. Even if you do that successfully, often you're only capturing some of the profits or some of the social gain that occurs because some of that is being achieved by your network partners.

Organizations sometimes decide to be network organizations because they don't want to create a large organization with a big complicated structure.

Unit 3.8 – The Contingency Approach

The Contingency Approach:

This should be obvious. Choose the structure, design the structure that matches the needs of the organization. Should be obvious.

However, many organizations are smart. They look at how other organizations structure themselves, and they admire organizations that are successful, and they want to copy the structure of successful organizations. They then design a similar structure for their own organization.

The contingency approach to designing organizations says do your research, look at what works for other organizations, but design your structure to meet the needs of your situation. The research is very clear on this. Organizations tend to be both more effective and more efficient when they design a structure and restructure at appropriate times to fit the evolving needs of the organization both internally and externally. What works for Zappos may not work for American Airlines. What works for one hospital may not work for another.

We've talked about a lot of different considerations as we design. But when it comes right down to it, we like to do what the organizations do that we admire. Think of it a different way. Design a structure for your organization that will cause others to admire the success of your organization.

Practical Research Insights:

What I'm about to address should be obvious. What works for you won't necessarily be the same thing that works for your friends. What works for one organization won't necessarily be what works for another. The organizational structure that helps Zappos achieve success probably is not the same structure that will help American Airlines achieve success.

The idea of using a contingency approach to design the structure of the organization is to ask the question: What structure would best serve the needs of our organization given our culture, given our strategy?

There is a tendency for organizational designers to do research which is great. They do research and identify organizations that are successful. They admire successful organizations. There is a tendency to want to copy successful organizations. Unfortunately, copying the structure of one successful organization may or may not be a good match for your own organization.

Contingency approach says design it for your needs. At a very basic level, this results in some organizations being what we would call mechanistic organizations. They have very formal and rigid rules and hierarchies and delegation of authority and that sort of thing. That can work really well in a particularly stable environment where a relatively simple set of rules and procedures and hierarchy can guide and drive success.

However, in today's reality, both internal and external environments tend to be very dynamic. That makes things exciting but challenging. From the perspective of designing the structure for an organization, this causes many organizations to lean towards what's generically called an organic structure which means the organization recognizes that the environment is changing, the challenges are changing, the opportunities are changing. As they change, even if their strategic objectives do not change, they need to design and redesign their structure to match those emerging environmental changes, those emerging challenges, and those emerging opportunities.

The mechanistic structure is fairly fixed, and the organization tries to protect it and retain it. The organic structure by design will change and change over time. These organizations redesign their structure on a regular basis as the environment changes.

Key Issues for Decision Making:

As we think about our own organization's situation, as we think about the appropriate structure to design for our organizations, we need to think about the strategic objectives of the organization, our individual goals. We need

to think about our current and emerging technologies. We need to think about the size of our organization and what's happening to the size of our organization and the complexity of our organization. We need to think about the human resources and the culture of the organization. As we design our structure, it needs to be integrated with all of these factors and with full consideration of the external environment.

Pros & Cons:

There's been a lot of research on what types of structure decisions can best drive success and looking at the pros and cons of each of these. I'd like to take a look at some of the pros and cons of functional organization, divisional organization, matrix organization, horizontal, and some more open boundary things that today are often called hallow or modular or virtual organizational structures.

First, let's think about a functional approach where we divide and organize our organization by function. We put the marketing people together and the accounting people together. With a functional organizational structure, we realize some real advantages. This can save money. We know that when we put all the marketing people together, we drive efficiency, we stimulate effectiveness, we save money because we generally need less. It's also easier to apply quality standards in that particular domain.

However, having functional areas separated from the rest of the organization only works best in a relatively stable environment. When the environment is less stable, the finance people, the accounting people, the marketing people need to be connected more to other parts of the organization so that they can perform their functions in coordination with others.

In many organizations, using function as the primary or sole method of organizing is considered not particularly relevant today unless it's combined with another cut of the organization's structure.

With what's commonly called a divisional approach, what we've referred to as a customer approach or a product approach to organizing, we can increase the focus on customers. We can increase the focus on products. We can give those core elements of what we do and who we do it for more attention and do it better, and we can also have more flexibility in decision making.

However, when we form divisions this way or departments this way, what we discover sometimes happens is if we allow these units to become too isolated, a particular customer focused group or a product focused group might do exactly that too much -- focus too much on their own product, focus too much on their own customer. We may see these groups working at cross purposes with one another.

Again using a divisional structure where we organize by customer or product, that sort of thing, can be beneficial; but it almost always will need another organizing strategy to make sure that we coordinate across these separate pieces that we create.

We talked about the matrix approach to organizing, the one that combines the other methods. It really is done in an attempt to combine all the advantages of the other approaches that we've talked about. But it does bring some overhead with it. For example, it threatens the idea of unity of command. If I'm a manager and I report upward to two managers in two different parts of the organization, who is my master? If they disagree, who do I listen to? Is it my job to resolve their disagreements?

Matrix approach can sometimes slow decision making. Because for me to get a decision validated or a decision made, I have to go to two people. And often I have to get them talking to one another, and I'm subject to their availability and their joint availability. This can slow decision making sometimes.

In a matrix structure, sometimes we encourage or at least create a situation where political behavior can occur. I'm reporting, for example, to people from two different parts of the organization. They each have a vested interest in their own part of the organization. For personal, political reasons, and unit political reasons, they're very likely to promote their own units over the others. That can create some political problems in the organization.

Now, ideally they should be talking to each other; but they shouldn't be focused on political issues. They should be focused on jointly finding the best way to achieve the strategic objectives of the organization.

Even when it's working well, matrix structure requires a lot of communication. I have to communicate up to at least two people. I have to communicate horizontally to others. They have to communicate to one another and to me and to the others. This can put a bigger communication burden on us which takes more time and more resources. Often that increased communication is actually one of the big advantages of a matrix structure because it leads to better coordination, but it is an investment in the cost of all of that communication.

Conclusions:

We've talked about the horizontal communication issues. We specify links horizontally when we think there is a need to coordinate horizontally. That can improve communication. That can improve coordination. When we have cross functional teams or cross product teams that are horizontally connected, that can drive creative solutions. Something that's learned over here in this part of the organization can actually drive success in another part. Having formal horizontal connections can facilitate that.

Often these horizontal connections can drive product or service development at a faster pace because we're bringing more perspectives. And knowledge sharing, where it's relevant, is always a good thing. It's facilitated by these horizontal connections.

However, whenever we have horizontal connections, issues of lines of authority are raised. If you and I talk to each other and we have a joint decision that we'd like to execute, who approves it? My boss? Your boss? Both bosses? Where is the authority to approve this?

This can work particularly well in organizations that are not highly specialized which means knowledge across the horizontal parts of the organization can be useful to other parts of the organization horizontally. In a very specialized organization, work being done over here is probably so dissimilar from the work done in my unit that the horizontal connection isn't likely to help me. It might be important for us to correlate our work moving upward, but it's probably not likely to help much as each of us tries to do our own work.

Doing this, acting on horizontal connections requires the empowerment to interact with, to work with, and make decisions with people from other parts of the organization. That can create challenges in the hierarchy, and it can create challenges for the individuals who are involved as they need to often negotiate agreements across the horizontal parts of the organization.

I'll only mention this briefly, but some organizations have started to create more open structures sometimes called boundary-less or hallow or modular or virtual. Their argument is that by having very little structure people will find a way to generate the best returns, that by having very little structure, people will find the best way to achieve what the organization does best, that by having very little structure we won't constrain people, and we will allow people to do what they do best individually. Great arguments.

However, we lose a lot of control. We lose coordination of expertise. We lose control over strategic objectives, the definition of strategic objectives, the path to success, and it makes it more difficult for us to coordinate.

What it needs is a lot of trust -- a lot of trust within the organization because there is not a structure that defines authority at a high level. There is not a structure that defines who talks to whom or how work is done. You need a lot of trust. You need a lot of competence. And we need a culture that's supportive of this type of open structure. Basically this is an organic structure to the extreme where we say to the people in the organization here is the definition of our highest level strategic objectives. Make it work.

We've talked a lot about a lot of structural issues. You're left without an answer to the question what is the best structure to design for an organization? What I hope you are left with are thoughts on the alternatives available as you design an organization's structure and thoughts about the key elements inside and outside the organization that need to be considered as you design that structure and make decisions about things like how

many levels to have in your hierarchy, what to do with authority, how centralized or decentralized to be, how to group the jobs, how to group the departments, how to group the divisions.

The best structure to design for an organization is the one that maximizes the probability of achieving the strategic objectives of the organization and that will be facilitated in that pursuit by the culture of the organization.

Summary:

In summary, research clearly shows organizations that align their strategy, their culture, and their structure tend to be more effective, more likely to achieve their objectives. They tend to be more efficient, use less resources in the process of achieving their objectives, and they are more likely to gain competitive advantage.

Many feel that designing the structure of an organization is boring. Others feel it's the most exciting thing you could do. What we know is that if we can find that magic match for a given organization of strategy, culture, and structure, it will drive effectiveness, efficiency, and be much more likely to achieve competitive advantage. Remember success is driven by a combination of what you seek, what you do, how you do it, and who does it.

The Big Picture:

You'll remember this graphic. This graphic will grow for us throughout the course. We started by talking about strategy and the importance of specifying strategic objectives and developing a strategy that will help us achieve that. We then moved to a discussion of culture -- the values, norms, and beliefs -- that hopefully will help us achieve our strategic objectives. And with this topic, we talked about how to design a structure that will be a structure that facilitates achieving strategic objectives and that is aligned with the culture of the organization.

Enduring Ideas:

Let's remember our enduring ideas. Organizational structure, if designed well, can bring order to what would otherwise be chaos. Let's remember that there are many effective structures across organizations. There is only one structure that's the best match for the realities of your organization. Let's remember that effective structures consider the environment, the technology, and the people in the organization. Importantly, let's remember that structure to be effective must be aligned with the organization's strategy and its culture.