Deciding Your Organization Structure For 2021

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Leaders can sense when their organization is not working well or if the environment they operate in has changed, rendering the operating strategy and structure obsolete. The current Covid-19 pandemic has caused an "event horizon" for all organizations and sectors.

Executives will need to reorientate their organization in 2021. However, organization design is difficult, as it aims to take a complex entity, dissect and analyze it and then rebuild it so it functions better. This requires a mix of analytical work and visualization of the data. Then add some experience with a mix of logic and creativity to design the solutions.

This article offers some insights on the first phase of designing the "shape" of an organization, which I call the macro-structure.

The axioms 'strategy sets structure' and 'structure breeds behavior' remain true and have stood the test of time.

Don't be tempted to jump straight into redesigning the detail of the organization without considering if the overall structure is correct. It is imperative first to decide if an organizational restructure is required. It's one of the biggest and most important questions an executive needs to answer: "Do we need fundamentally to reorientate the organizational structure to achieve our strategy?"

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Some leaders shy away from embarking on an organization design initiative. Redesigning a company is a large undertaking that needs expertise and experience to get it right. So, leaders might be tempted to opt for an operational improvement program. If the organization needs to improve performance only a little, then this option might be suitable. However, if the organization needs to raise its performance substantially or faces

a significant threat, a new strategy and operating structure will be required.

A good strategy is about being unique. It means selecting a specific set of activities to deliver a distinctive combination of value and forming the organization to provide its products and services most effectively. Set a robust strategy, restructure and align the organization, then implement an operational improvement initiative, such as lean or six-sigma. Improvement initiatives won't work if the structure is broken. Strategy, structure, then lean.

A company's macro-structure should be logically configured and aligned with its strategy.

The macro-structure is the skeleton of the organization. It determines how positions are grouped and the approximate size of units. It also encompasses the design of the horizontal and vertical linkages to add flesh to the bones — especially planning and control systems to standardize outputs and coordination mechanisms to enable collaboration.

Few companies systematically approach organization design issues.

Sound chief executives can provide a clear rationale for their companies' strategies; they are often much less articulate when it comes to justifying their structures.

When it comes to designing an organization structure, there are four drivers to consider:

• **Product-market strategies:** How the company intends to lead each product-market field in which it will compete

• **Corporate strategy:** How the company intends to gain an advantage from competing in the product-market areas

• **People:** The skills and attitudes of the individuals within the organization

• **Constraints:** The cultural, environmental, legal and internal factors that can curb the choice of design

Designers who fail to consider these drivers will make it hard for a company to achieve its strategy. This leads to the first of a series of practical tests — the market advantage test: "Does the design allocate appropriate management attention to the operating priorities and intended sources of advantage in each product-market area?"

Even senior-level managers who try to add value are often vague about how they will do so. Do the senior members of the organization "earn their keep"? To answer this, consider the executive team advantage test: "Does the design reflect the intended sources of added value generated by the executive team and board members?"

Most managers within a company will want to bend the structure to retain their team. However, I would advise training or replacing employees who are unable to contribute sufficiently. Do not weaken the organization's ability to achieve its strategic goals. It's tough to do but necessary. That is why it's healthier to get external support when redesigning an organization. This leads to the people test: "Does the design identify the skills, experience and behaviors within each departmental unit that are required to achieve the strategic intent?"

Managers are aware that constraints can exist, but sometimes they do not pay enough attention to issues during the design process. Options can be developed and even selected before the corporate lawyer or IT expert points out the problem. Hence the fourth test, the feasibility test: "Does the design take account of the constraints that may make the proposal unworkable?"

To help managers adopt a less haphazard approach, I have distilled five principles of good organization design:

• **The specialization principle:** Set unit boundaries to accomplish the most important benefits obtainable from specialization.

• **The cooperation principle:** Define units so that the tasks that need to be coordinated are within unit borders.

• **The knowledge and competence principle:** Identify which responsibilities to decentralize and the hierarchical levels to set up.

• **The control and commitment principle:** Define the process for ensuring that managers effectively discharge decentralized responsibilities.

• **The innovation and adaptation principle:** Ensure the organization can change and evolve in the future.

I understand the theory; what does that mean in practice?

Next year will make or break many organizations. One of the first things you should do is to examine your strategy — and remember, efficiency programs are not a strategy. Are the plans still relevant in this new environment? If not, change them.

Consider bringing in an external expert to review the macro-structure and decide if an organizational restructure is required or if it's better to redesign the organization within the confines of the existing structure. Then, use a methodical approach to identify the drivers and adopt sound design principles to reorientate, reshape and resize the enterprise to achieve the strategy.

In 2021, the future of your organization will depend on it.

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