



Book Designing Dynamic Organizations

A Hands-On Guide for Leaders at All Levels

Jay Galbraith, Diane Downey and Amy Kates
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Recommendation

Constant change, economic uncertainty, unrelenting competition and the frenetic pace of cyber-commerce now strain even the most nimble organizations. Traditional leaders designed many companies, especially those more than a few decades old, along strict hierarchical, top-down parameters, so these firms often find it hard to react swiftly to change. Consultants Jay Galbraith, Diane Downey and Amy Kates have assembled their savvy change management counsel to rescue stuck companies. They designed this “thought-guide” to lead executives through the wilderness of organizational transformation. Their experience-based workbook is chock-full of exercises, questions, formats, charts and tools to direct you step-by-step through the process of creating a “reconfigurable organization” that can handle shifting circumstances. While some examples in this near-classic manual are dated, the advice is still spot-on. *BooksInShort* recommends this excellent, nitty-gritty primer on organizational transitions to executives and human resources professionals.

Take-Aways

- Setting an organization up correctly is a leader’s most significant contribution.
- “Organization design” makes it easier for companies to respond to change with agility.
- “Reconfigurable” businesses work through processes efficiently.
- To embark on your organization design, tackle the five elements of the “star model”:
- The first, “strategy,” establishes the direction of your firm and underpins your goals.
- The second, “structure,” vertically represents responsibilities and lines of authority.
- The third, “processes and lateral capability,” focuses on horizontal functions, networks and relationships.
- The fourth factor, “reward systems,” and the fifth, “people practices,” cover compensation and human resource-related processes that advance corporate goals.
- Once you’ve completed your organization design, conduct a “systematic transition” to bring it to fruition.
- Allocate time to implement new approaches and make changes in the right order.

Summary

Organizational Leadership

As a business leader, you need three crucial skills to change your company: 1) the ability to envision the right strategy for your firm, 2) the aptitude to hire the right management team to execute that strategy and 3) the leadership to create a corporate structure that allows your staff to operate smoothly. Most CEOs focus on the first two capabilities but don’t spend sufficient time addressing their organizational framework. Increased competition, the pressure to do more with less and the work world’s everyday “chaos” force managers into “fighting fires.” This leaves them scant opportunity to consider the benefits of a well-planned business framework, much less to implement organizational makeovers. Yet your business rises and falls according to its “structure, processes, metrics and reward systems, and people practices” – the elements of “organization design” that should enable your employees to be productive. A 2000 study found that almost one-third (up from 10% in 1993) of CEOs surveyed saw their failure to reorganize their firms as an “impediment to growth.”

“On a day-to-day basis, we count on organizations, not heroes, to ensure that resources are in the right place when needed, and that people have the right

skills, tools and resources to carry out their jobs.”

A strong organization design enables your team to respond agilely to change in your business environment. More than just adding lines and filling in boxes on a chart, organization design gives you the tools to establish a “community of collective effort that yields more than the sum of each individual’s efforts and results.” Creating an effective organization is a leader’s most significant top-down contribution to a firm’s success. And all kinds of entities – from large multinationals to small businesses to departments – can use the principles of organization design.

Reach for the Star to Reconfigure Your Company

Successful corporate redesign relies on understanding five concerns, notated as the five points of the “star model.” These components interconnect, and each one relies on the others:

1. **“Strategy”** – Sitting at the top of the star and occupying a critical role in any organization, strategy establishes a firm’s direction. To avoid chaos, a company must have a “vision,” a “mission” and “short- and long-term goals.”
2. **“Structure”** – A typical organizational chart outlines a firm’s structure and its lines of command, responsibilities and hierarchies. If your structure doesn’t support your strategy, “friction” will ensue.
3. **“Processes and lateral capability”** – Even the best structures can impede the flow of information among people in separate boxes on the org chart. To ensure flexibility and responsiveness and to avoid “gridlock,” connect “interpersonal and technological networks, team and matrix relationships, lateral processes and integrative roles.”
4. **“Reward systems”** – Measuring and rewarding workers’ achievements can “align individual behaviors and performance” to your strategy and halt “internal competition.”
5. **“People practices”** – Properly managing human resources (HR) allows you to slot the right people with the right skills into the right jobs as needed. To avoid “low performance,” make sure your HR techniques support your strategy.

“An organization operates in multiple directions and dimensions and must be linked together.”

Since change is inevitable, you want to create a “reconfigurable organization” that adapts nimbly, so you don’t have to start from scratch structurally each time a major alteration occurs among your clients, markets or products. A reconfigurable organization has the following features:

- **“Active leadership”** – Executives manage change as part of their “core competence.”
- **“Knowledge management”** – Information flows through the company unimpeded.
- **“Learning”** – Leadership at all levels focuses on education and adaptability.
- **“Flexibility”** – Responding to ongoing change is intrinsic to the firm’s structure.
- **“Integration”** – People can move around and gain a holistic view of the firm.
- **“Employee commitment”** – Staffers receive the resources they need to succeed.
- **“Change readiness”** – People can adapt with “resilience and collective competence.”

“Three key levers [of change] are setting the business strategy and vision, choosing the players on the executive team, and designing the organization.”

You may need an organizational redesign if you create a new business, enlarge an existing one, bring in fresh management, change your strategy or face industry shifts. Take four initial steps:

1. **“Determining the design framework”** – Plumb your strategy for details. Ask, “Why do we need to change?” “Where do we need to go?” “What will the end state look like?”
2. **“Designing the organization”** – Consider structure, reward systems, processes and lateral capability. Ask, “What is going to change?” and “How will we get there?”
3. **“Developing the details”** – Encourage project teams to create and present ideas.
4. **“Implementing the new design”** – Pull the entire firm together to make it happen.

“Organization design is the means for creating a community of collective effort that yields more than the sum of each individual’s efforts and results.”

Good organizational change should exploit all of a firm’s talent, so your redesign troops should include employees who can provide specialized expertise and information. Involving staffers in this process lets them support the changes early on, gives them a new perspective on the firm and empowers them with a sense of accomplishment as they use the star model’s five components.

1. Designing the Strategic Framework

To create an organization design that truly activates your strategy, remember that in business as well as in architecture, “form follows function.” That means your structure should support your goals and the tactics you will use to reach them. To determine your starting point, use outside consultants to gather survey data, report on strengths and weaknesses, and help delineate the changes your organization needs. Think through your assumptions. If you manage a division in a large corporation, you must understand your parameters, although innovative thinking can extend some such limits.

2. Designing the Structure

A firm’s structure is its arrangement for how employees work, how they assemble their activities and how their lines of authority operate. “Organizational roles” define each unit’s duties and results, where those duties interrelate and where one unit’s influence ends and another’s begins. Determine how many layers of management you need, and explicitly outline your managers’ leadership roles. Firm up your value proposition because it dictates whether you organize as a product-, operations- or

customer-centered entity. Companies can focus on one of five “structural concepts”:

1. **“Function”** – If your company operates a “single line of business.”
2. **“Geography”** – If you need to be close to clients.
3. **“Product”** – If “being first in the market is important.”
4. **“Customers”** – If relationships are a priority.
5. **“Front-back hybrid”** – If you supply back-office support for multiple products.

“The idea of self-organizing, self-renewing and adaptive organizations is appealing to managers trying to create organizations that are responsive to a rapidly changing external environment.”

The central concept you select must align with your organization design. Ask if it could “create power imbalances.” Does it maintain your work flow? Have your executives participate in “mapping” your structure to assure that its various levels coordinate well. Assign governance roles to sponsors, leaders, steering committee members and working-group representatives who will participate in the design and carry out the restructuring along with their regular duties.

3. Designing the Processes and Lateral Capability

Once you’ve decided on the best structure, resist the urge to implement it immediately. Instead, devote time to setting up the apparatus that supports and adds to your structure vertically. Think about how information, data, relationships and networks will move through the open gaps or “white spaces” of your proposed organization chart. That is where your functions connect. Your staffers already know how their job responsibilities and boundaries fit your company’s vertical structure. However, in large, complicated corporations, it is their horizontal (“lateral”) capabilities that give them the flexibility to accomplish their work.

“The organization needs to be as complex as the business it supports.”

“Networks and lateral processes” spring up organically in any size of company, but big, complex firms also need team and “matrix” configurations. Foster networks through proximity, joint learning and revolving short-term jobs. People can work “in a team” with a shared goal, “on a team” if they produce individually, and “as a team” when their results depend on one another’s actions. Give staffers multiple views of the firm to encourage them to contribute.

4. Designing the Reward and Recognition System

Any organization design must include employee reward systems that motivate the behaviors managers want to encourage. These systems ensure that everyone knows the firm’s goals and pulls together to achieve them. Use reward metrics to analyze group and individual performances, and to assess how well the company’s strategy is working. Evaluate staffers’ overall capacities (not just their on-the-job abilities as compensated with skill-based pay), so your reconfigured organization can deploy specific expertise where needed. A menu of goals can expand an individual’s job responsibilities to include departmental, divisional or corporate objectives.

“Restructuring is bound to make your leadership team nervous.”

Leaders must understand how incentives impel behavior, so they do not provoke unintended consequences. For example, a business that measures call-center workers’ productivity by the number of queries they handle, and not by how well they resolve customers’ problems, will reward quantity instead of quality. Companies’ reward methods express their cultural values. For instance, when a rival firm’s workers went on strike, FedEx gave its employees a share of the profits after people from across the company pitched in to handle the flood of extra work.

“You usually don’t have a choice about whether to redesign your organization. The business changes, the strategy changes and you are no longer positioned to deliver what needs to get done.”

Salaries tell your workers both how well they’re performing now and how much the company values them in the long term. You also can use variable compensation, such as one-time cash bonuses or stock options, to recognize people who reach their targets or improve their performance. Such rewards compensate staffers for specific achievements, while ongoing tokens of appreciation (such as gift cards) can acknowledge their “intrinsic motivation.” Encourage employees to think of their work contribution as fulfilling “roles” beyond their “jobs.”

5. Designing People Practices

No matter how well-designed your business is, your HR choices are critical to its success. Designate your lead executives first; then, in order to allay the inevitable concerns that arise during reorganizing, name your staff as quickly as possible. This allows these employees to get to work. Stretching your team members’ abilities can bear fruit, so take a chance on some people who may not be fully primed for a particular job. However, pair each not-quite-ready staffer with an experienced manager.

“Rarely is an organization designed from a clean sheet of paper.”

Conduct assessments using employee interviews, “skills audits” and “past performance reviews.” Investigate individuals’ “learning aptitudes” to identify those who can apply past experiences and knowledge to changing conditions. Make the placement process transparent. Adapt your “performance feedback” methods to each job’s structure, using various evaluation methods as appropriate. Provide opportunities for staffers to advance. Recognize that education is the “new currency” in employee relations. People in reconfigurable organizations must be eager to learn.

Putting Your Reconfigured Organization Together

How you activate your new organization design is as crucial as how you’ve designed it. Prepare a “systematic transition.” Allocate enough time – weeks, even months – to implementation, so you can ensure that you’re instituting changes in the right order. Consider a pilot program that puts the new structure to work within a specific unit or group as a testing and learning experience. Keep your lines of communication open, so you can track how the reorganization is going. Be aware of “skepticism” and

forthright about what's happening. Guide the integration process with meetings that let people form and strengthen new relationships in your changed company.

About the Authors

Jay Galbraith teaches at the University of Southern California and at Lausanne's International Institute for Management Development. **Diane Downey** is president of Downey Associates International, where **Amy Kates** is vice president and senior consultant.
