

## **GUIDE TO ORGANISATION DESIGN**

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# **GUIDE TO ORGANISATION DESIGN**

Creating high-performing and adaptable  
enterprises

Second edition

**Naomi Stanford**

THE ECONOMIST IN ASSOCIATION WITH  
PROFILE BOOKS LTD

Published by Profile Books Ltd  
3 Holford Yard  
Bevin Way  
London WC1X 9HD  
[www.profilebooks.com](http://www.profilebooks.com)

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A CIP catalogue record for this book is available from the British Library

eISBN 978 1 78283 090 0

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# Acknowledgements

MY THANKS TO THE PEOPLE who have contributed directly and indirectly to this book. They include colleagues and employees of the organisations I have worked with, those who have reviewed chapters, friends who have tracked my progress and the family members who have lived with the process of getting this book to print: special thanks go to Hannah Barugh, Rosa Barugh and Roger Woolford.

Stephen Brough has been a wonderful editor who has contributed sound advice and a great talent for cutting out the jargon. Thanks also to Penny Williams for her meticulous and detailed editing in preparing the book for publication.

I would also like to acknowledge the good work of Freedom from Torture ([www.freedomfromtorture.org](http://www.freedomfromtorture.org)), to which the royalties from this book are going. If only such an organisation did not have to exist.

# Preface

I CAME TO WRITE THIS BOOK to answer the many questions that people have about the constant “reorganisations” and “restructurings” that they willingly or unwillingly participate in during the course of their working life.

I currently work with both the initiators of these reorganisations and the people whose working lives are changed as a result of them. Both parties have similar concerns:

- How do I know that the reorganisation is really necessary?
- Is there any evidence suggesting that it is good to change things per se, or does it always depend on the specific change?
- How do you know if organisation redesign has worked?
- Is there any hard evidence about the absolute pros and cons of different structures?
- Is there a step-by-step guide I could follow?

In my previous work, as an employee of several large multinational companies, over time I too had to reapply for my job, was laid off, had five new managers in the course of six months, was relocated, had to lay off staff myself, and so on – all as a result of various reorganisations. But during these experiences I also worked with the changes and helped people approach restructuring not with dread but with a certain sense of excitement and energy.

From these experiences I learned to think of organisations both in the more traditional way as whole systems that are inevitably shifting and responding as their context changes, and in the newer way as complex adaptive organisms evolving in order to survive. With these

perspectives I discovered that there is a lot more to reorganisation than tinkering with the chart that represents the structure.

To answer the types of questions listed above, which I too had asked, I looked at all the components that contribute to organisational performance and found that it is more likely to improve if leaders and managers take a wider perspective than simply focusing on the structure: there is less rework, people are happier with the outcomes and it makes it easier to align all the organisational elements.

I also recognised that organisational alignment is always temporary, because things change. The design has to be adaptable; it must evolve and it must take into account the interests and views of all those with a stake in the business.

Lou Gerstner (former CEO of IBM) spoke well when congratulating his staff:

*In my eyes you stand tall. You did all this – the milestones passed, the victories just ahead, and those far down the road. Thank you. Take a bow. You’ve earned it. And, of course, I can’t resist: let’s all get right back to work because we’ve just begun!*

Seven years later, as I write the second edition of this book, I am as absorbed in organisation design as ever. I have worked in several African countries, in China, in Europe as well as America, and I am now back in the UK. All organisations are the same and all are different, but the world in which they operate is certainly different. When I wrote the first edition there was no social media, robots were not in the workplace, the net generation was still in cradles, there had been no global financial crash and the BRICs (Brazil, Russia, India, China) had not roared into prominence. Thus organisation design is different. It is about designing for collaborative technologies, for the “voice of the customer”, for acknowledgement that expertise and access to information can lie at any organisational level.

But some things remain the same. As I said in 2007, there is no constant: one design gives way to the next. This book is written for leaders and managers looking for practical advice on tackling the business performance issues that face them. I have updated it to reflect the context changes mentioned above, but the structure remains as in the first edition.

Each chapter has information about the topic in hand, illustrative examples from organisations, a case study, and some practical and immediately usable tools. Note that all the examples given in this book report the situation as it was at the time, and they are only partial: they serve as illustrations of points, not as enduring truths about any specific organisation. The case studies are all disguised and somewhat fictionalised examples of organisations I have worked with. The tools are ones I find helpful and use regularly. I hope as you look through and read the book you will find hints, tips and approaches that you can apply to good result in your organisation. And I hope you will enjoy your organisation design work as much as I enjoy mine.

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January 2015

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# 1 Introducing organisation design

*Design is a plan for arranging elements in such a way as best to accomplish a particular purpose.*

Charles Eames, 1969

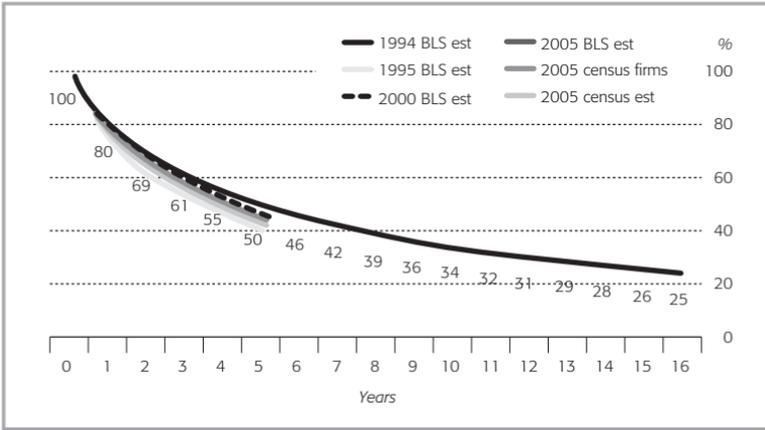
STORIES ABOUT COMPANY START-UPS run like this: “We had a great idea. We got the funding. We hired people. We did well for a bit. Something happened. We fell apart.” This story is sadly typical. In the US, for example, a new business is unlikely to be running five years after being started, as Figure 1.1 illustrates.<sup>1</sup>

The picture for start-ups in the UK is similarly risky. In 2013, the Office for National Statistics reported that the five-year survival rate for businesses born in 2007 and still active in 2012 was 44%, with a higher survival rate for those in the health sector (56.1%) and a lower rate for those in hotel and catering (37%).

Business failure is not limited to start-ups. For example, in the UK retail sector during 2013, 49 retailers (all having traded for more than five years) declared bankruptcy. Overall this meant 2,500 stores closed and 25,140 employees were affected. In 2014, the Centre for Retail Research reported: “The period from Christmas 2012 to March 2013 was horrid with retailers like Blockbuster, HMV, Jessops and Comet going into administration.”

Most businesses – established or start-up – fail. This failure is not necessarily total but is evident in some aspects: the businesses do not control costs, they let their customers defect, or they bring the wrong products or services to market. These failures result in low business

FIG 1.1 The survival of start-ups



Sources: Created from data from Longitudinal Business Database 1977–2010, Census; Business Employment Dynamics 1994–2010, Bureau of Labor Statistics

performance and all-round stakeholder dissatisfaction.

Risk of failure in these and other aspects can be minimised or even completely avoided by consciously designing a new organisation or redesigning an existing one in such a way that it performs well and adapts readily to changing circumstances. This means assessing all the elements of an organisation and its operating environment and acting to bring them into alignment as far as is possible given that an organisation is in a continuous state of flux.

Organisation design, as defined in this book, is how people and work are organised to carry out an organisation’s strategy and achieve its aims. Intrinsic to the strategy and aims of any well-run organisation will be ensuring the experience for customers and employees is of high quality. This involves aligning the organisation with the strategy and creating coherent designs, while building trust among the principal stakeholders. This definition covers both the formal (for example, policies) and the informal (for example, what the gossip is) aspects of the organisation.

The outcome of shaping and nudging all the components of an enterprise towards the achievement of an agreed mission is a business process that “is so critical it should be on the agenda of every

meeting in every single department”.<sup>2</sup> Curiously, however, executives rarely talk about it as an everyday issue, and even more rarely reflect on the interactions between the complex social dynamics and the organisational frameworks in order to redesign their business for success. What they often do instead is act from a position where they can control their environment and reorganise or restructure. But as will become clear later in this chapter, a focus simply on organisation structure (the organisation chart) seldom has the desired effect. Peter Senge, in his book *The Fifth Discipline*, points out why intentional organisation design work is uncommon:<sup>3</sup>

*Part of the reason why design is a neglected dimension of leadership: little credit goes to the designer. The functions of design are rarely visible; they take place behind the scenes. The consequences that appear today are the result of work done long in the past, and work today will show its benefits far in the future. Those who aspire to lead out of a desire to control, or gain fame, or simply to be “at the centre of the action” will find little to attract them in the quiet design work of leadership.*

The premise of this book is that organisation design matters and that an organisation has a better chance of success if it is reflectively designed. If its design is not being improved all the time – the British cycling team that won a gold medal at the 2012 Olympics called it “the aggregation of marginal gains” – the organisation will not be successful. Six principles underlie effective and reflective organisation design:

- Organisation design is driven by the business strategy and the operating context (not by a new IT system, a new leader wanting to make an impact, or some other non-business reason).
- Organisation design means holistic thinking about the organisation: its systems, structures, people, performance measures, processes and culture, and the way the whole operates in the environment.
- Designing for the future is a better bet than designing for now.
- Organisation design happens as much through social interactions and conversations as through planning.

- Organisation design is not to be undertaken lightly: it is resource intensive even when it is going well.
- Organisation design is a fundamental, continuing process, not a repair job.

This chapter discusses what organisation design is and what it is not and then looks at these six principles. Note that throughout “organisation” means a discrete unit of operation or whole enterprise and includes the formal and informal aspects of this. Following the principles of hierarchy theory (levels of organisation), the formal elements – departments and divisions, systems and business processes – can be designed independently as long as interfaces and boundaries with the wider organisation form part of the design. Herbert Simon’s parable of the two watchmakers (see below) explains how complex systems, such as a whole organisation, will evolve much more rapidly from simple systems, such as departments, if there are stable and intermediate forms than if there are not. In organisation design, getting the units aligned and organised coherently works to the benefit of the whole organisation.

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## **The parable of the two watchmakers**

There once were two watchmakers, named Hora and Tempus, who manufactured fine watches. Both of them were highly regarded, and the phones in their workshops rang frequently. New customers were constantly calling them. However, Hora prospered while Tempus became poorer and poorer and finally lost his shop. What was the reason?

The watches the men made consisted of about 1,000 parts each. Tempus had so constructed his that if he had one partially assembled and had to put it down – to answer the phone, say – it immediately fell to pieces and had to be reassembled from the elements. The better the customers liked his watches the more they phoned him and the more difficult it became for him to find enough uninterrupted time to finish a watch.

The watches Hora handled were no less complex than those of Tempus, but he had designed them so that he could put together sub-assemblies of about ten elements each. Ten of these sub-assemblies could be put together into a larger sub-assembly, and a system of ten of the latter constituted the

whole watch. Hence, when Hora had to put down a partly assembled watch in order to answer the phone, he lost only a small part of his work, and he assembled his watches in only a fraction of the time it took Tempus.

**Source:** Simon, H.A., *The Sciences of the Artificial*, 3rd edition, MIT Press, 1996

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But think about the two watchmakers as human beings – it is their personalities, habits, behaviours and interactions with others that shape the type of system that they decide, or allow without conscious decision, to use.

From this it is clear that aiming to “design” the informal, human aspects of the organisation would not be easy. They constitute what Ralph Stacey, a management professor, calls the “patterns of relationships, both good and bad, between people”. He notes:<sup>4</sup>

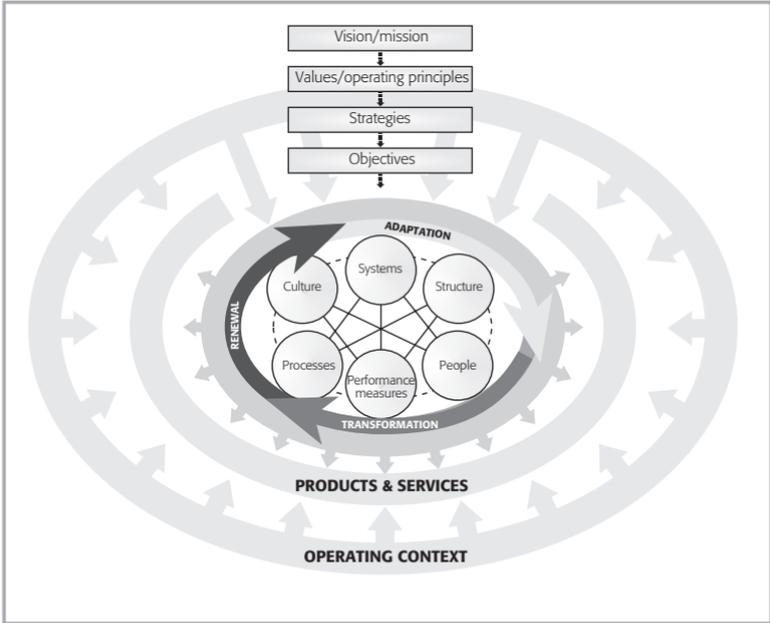
*These patterns emerge in complex responsive processes of interaction between people taking the form of conversation, power relations, ideologies, choices and intentions. What happens is the result of the interplay between the intentions and strategies of all involved and no one can control this interplay.*

## Organisation design: what it is and is not

Organisation design is arranging how to carry out a business’s purpose and strategy and achieve its aims. Therefore there are choices and decisions made around “arranging” that keep the organisation adaptable to the operating context (see Figure 1.2).

A reorganisation or restructuring that focuses – sometimes solely – on the structural aspects is not organisation design and is rarely successful. Ask anyone who has been involved in this type of reorganisation and there will be stories of confusion, exasperation and stress, and of plummeting morale, motivation and productivity. Most people who have worked in organisations have had this experience. So why is it that initiatives aimed at revitalisation, renewal and performance improvement so often miss the mark? The simple answer is that focus on the structure is both not enough and not the right start-point.

**FIG 1.2 Alignment of an organisation's components in their context**



The following example illustrates the point that reorganising from a structural start-point is misguided. A new vice-president has been recruited to lead a division. The division structure looks like that shown in Figure 1.3.

The new vice-president decides (without consulting anyone) that the division would be more effective if the organisation chart looked

**FIG 1.3 Existing division structure**

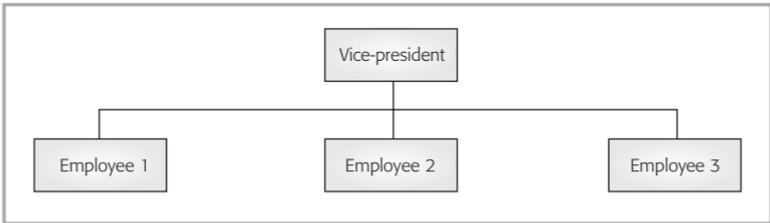
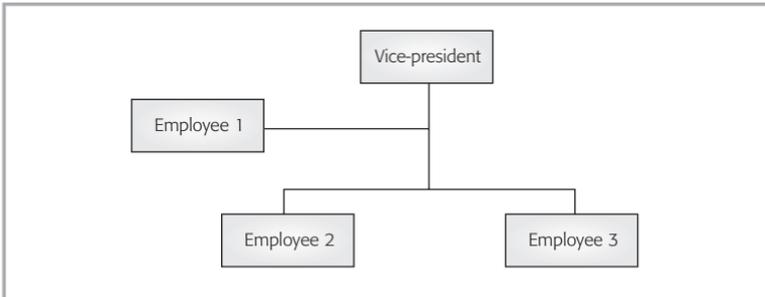


FIG 1.4 **New division structure**

like Figure 1.4. So far, this looks like a simple change (or perhaps not a change at all). But the new positioning of employee 1 raises questions; for example:

- Why was this change initiated?
- Is employee 1 now in a different role?
- Is employee 1 now superior to employees 2 and 3, or has employee 1 been demoted to the role of the vice-president's assistant?
- Do employee 1's responsibilities change in the new role? If so, how - by adding to them and/or dropping some?
- If responsibilities are to be dropped, who, if anyone, is to take them on?
- How will this structural change affect information flow?
- How will this structural change affect relationships among the three employees?
- What effect will the change have on the business's systems if the workflow changes?
- How will customers be affected?
- What effect will this change have on other departments?

What seems a simple structuring tweak is actually complex, and the complexity is increased when more hierarchical levels are involved. Extending the example, Figure 1.5 shows that the new