

## **Organizational Design—Definition and Introduction**

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An organization does not simply appear on its own; in fact, organizations are contrived social systems that are created by like-minded groups of persons in order to pursue and achieve a stated goal or purpose. Organizational design is concerned with the factors and issues that must be considered, and the rules and processes that must be implemented, with respect to the design, development, implementation and maintenance of a successful and effective organization. Organizational design is more than simply organizational structure – the boxes and lines that are normally found on a traditional organization chart – and extends outward to include a variety of other factors including information and reward systems; management and decision making processes; organizational culture, including mission, vision, values and norms; strategy, including the goals or purposes for which the organization exists; and the human resources who will do the work necessary for the organization to operate, survive and thrive. The creativity involved in the design process has led some to refer to the field as organizational architecture.

The organizational designer is charged with balancing each of the factors mentioned above and determining the best way to bring about coherence or fit among them in order for the organizational design to become and remain a source of competitive advantage. The decision process involves important strategic choices with respect to the goals and purposes of the organization, the modes of organization, the processes for integrating individuals into the organization, and the timing for changes in any of the elements to respond to changes in the environment in which the organization operates. Since an organization is perceived as a continuum that exists over a period of time, organization design is concerned with maintaining coherence over the life of the organization. Accordingly, care must be taken to constantly monitor and shift organizational goals, organizational modes and processes that impact the experience of individuals involved with the organization. In order for this process to be carried out smoothly and efficiently organizations must also develop capacities for organizational learning in order to collect and stockpile the knowledge and information needed for change and adaptation.

A wide range of methods have been used to identify and depict the elements that must be considered in the organizational design process. One of the most popular is the “Star Model”, which was first developed by Galbraith in 1977 and which emphasizes the following five major components: tasks, structure, information and decision processes, compensation and reward systems and people (i.e., human resources management). Each component presents the organizational designer with several key choices. With respect to tasks, the organization must decide upon the correct scope of diversity, difficulty and variability to meet its performance objectives. Structural choices include identifying the appropriate division of labor, departmentalization, configuration, and distribution of power. With respect to information and decision processes, the choices include selection of the decision mechanism, the frequency and formalization of information collection and decision making, and design of the database. When focusing on choices regarding the people who will be integrated into the organization, important factors include selection,

training and development, promotion and transfer. Finally, the choices with respect to reward systems include the compensation, promotion, leadership style and job design. [See Galbraith, J.R. *Organization Design*. Reading, Mass.: Addison-Wesley, 1977, 31]

The Star Model is generally depicted as a pentagon that connects each of these components and a star is placed inside the pentagon with the word “fit” to emphasize the interdependence of each of these elements and the need to make sure that each of them is consistent with the business strategy that has been adopted by the organization. The primary driver of each component is the strategy adopted by the organization. If a change in strategy requires a modification to any one element then the designer must check each of the other elements to confirm that they still work in the new circumstances or to determine what changes in those other elements might be necessary and appropriate to accommodate and compliment the initial change. For example, if the organization alters its strategy by targeting a new market the designer must determine if the necessary human resources (i.e., “people”) are available to the organization for the initiative and make sure that the organizational reward systems provide adequate incentive to shift focus toward achieving the revised strategic goals and objectives in the new market.

By 1995 Galbraith himself had modified the five points of the Star Model to include the following: strategy, including vision, governance and comparative advantage; structure, including power and authority, information flow and organizational roles; business processes and lateral linkages; compensation and reward systems; and human resource management, including organizational learning. [See Galbraith, J.R., *Designing Organizations* San Francisco: Jossey-Bass, 1995] Several other variations of the Star Model have evolved and been popularized by business consultants and academics. For example, information technology has been added to structure, process, people and culture to form the five points of the star and “strategy” has been placed in the middle of the star to emphasize how the choice made with respect to organizational strategy should be tightly aligned with the other organizational elements. Another version of the Star Model is based on taking a strategic focus toward the following five areas: vision and strategy, with a specific emphasis on identifying a mission and set of goals that go beyond financial performance; values and culture, including ideas about how the organizational values can be marketed and delivered to customers and other business partners; leadership and management, which include recruitment and motivation of talented human resources similar to the element of “people” in the other variants of the Star Model; business processes, including information technology; and organizational structure, both formal and informal.

A similar analytic tool for looking at the organizational design process is the McKinsey 7S Model that has been widely utilized to analyze and improve the effectiveness of organizations. Like the Star Model, the 7S Model has various elements that are depicted as interdependent elements. These elements can usefully be broken down into “hard” factors, such as strategy, structure and systems, and “soft” factors that are more intangible and imbedded in the culture of the organization, such as skills, shared values and beliefs, staff and style. The notable difference from the Star Model is the inclusion of skills, including the capabilities and competencies within the organization; shared values, which

are defined as the values and beliefs of the organization; and style, which calls for taking into account the leadership approach of top management and overall operating approach of the organization. [See Waterman, R., Peters, T.J. and Phillips, J.R. "Structure is Not Organisation" *Business Horizons*, Vol. 23(3). New York: McKinsey & Co., 1980, 14-26]

The key organizational design elements chosen by other influential thinkers in this area are quite similar to those described above. Nadler and Tushman reference informal and formal organizational structure, business processes and human resources. [See Nadler, D.A., Tushman, M.L. and Nadler, M.B. *Competing by Design: The Power of Organizational Architecture* Oxford: Oxford University, 1997] Merron focuses on vision, strategic goals and strategic management, organizational culture and organizational structure. [See Merron, K. *Riding the Wave: Designing Your Organization's Architecture for Enduring Success* New York, NY: John Wiley, 1997] Henning mentions the role of the organization (i.e., strategy and purpose), reward systems, groupings (i.e., organizational structure) and business processes and work design. [See Henning, J. *The Future of Staff Groups* San Francisco: Berrett-Koehler Publishers, 1997] The goal of each of these models, as well as those described above, is to reinforce that organizational design does not stop with structure and that an effective organization cannot exist without ensuring that all of the elements in the chosen model have been analyzed and then arranged in the manner that is best suited for executing the strategy of the organization and achieving its stated mission and goals.

It should not be hard to appreciate how important it is for the elements included in the popular organizational design models to be closely aligned with strategy of the organization. Tasks, workflow, power and authority systems, reward systems, human resource practices and business processes must all support the business objectives of the organization and the right choices with respect to these elements can promote effective communications, productivity, and innovation. Problems with organizational design can undermine potential advantages such as strong functional capabilities and talented human resources. For example, even though an organization may have strong sales and production resources that perform well as separate units the organization will not be able to achieve the greatest advantage from these competencies unless and until the design element are in place that ensure that sales and production will communicate about customer needs and cooperate on activities that will satisfy those needs. Another example concerns how well reward systems fit with the organization's strategic goals and objectives. If the organization has decided to pursue growth by adding new customers it should be sure that its compensation programs for sales personnel place greater weight on new customers as opposed to maintaining the pre-existing customer base.

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