

# The Role of Organizational Design in 21<sup>st</sup> Century Organizations

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by Michael B. Hoyes

***“Design is directed toward human beings. To design is to solve human problems by identifying them and executing the best solution”—Ivan Chermayeff***

Blockbuster, Dell, Kodak, Motorola, Sears, Sony...big name companies that, over time, seem to have lost their edge. It is not the purpose of this paper to dissect the particular reasons for their failure, but to inspire the leader to understand the mortality of the organization he or she leads and consider the role of organizational design in the health of that organization. Competition is increasingly stiff, technology is advancing at an ever-increasing rate, consumers are increasingly discerning, and innovation is a buzzword that belies the effort required to actually innovate. What tool might an organization employ to increase the odds of success and longevity in this turbulent world? This paper concludes that a thoughtful organizational design will “tee up” an organization for the long haul, but it will not be easy, nor is there any particular “quick fix.”

## The Environment

***“A great nation is not led by a man who simply repeats the talk of the street-corners or the opinions of the newspapers. A nation is led by a man who hears more than those things; or who rather, hearing those things, understands them better, unites them, puts them into a common meaning; speaks, not the rumors of the street, but a new principle for a new age”—Woodrow Wilson***

“The corporation isn’t a sturdy species. In fact, only a tiny fraction reach the age of 40 [years]” (Ante, 2012, p. 1B-1). The problem for corporations today and in the future is a multi-faceted one. Canton calls this an “‘Extreme Future,’ one that is highly dynamic, disruptive, and multidimensional” (Canton, 2006, p. 4). The unpredictable nature of the present and future world is evident when one considers the state of air travel post September 11, 2001, and the new requirements levied to

enhance passenger safety. This multi-faceted environment poses a problem whose solution a company must solve to enable its survival. "Today, the core competencies of successful companies go beyond simply changing to react to market threats. The core competencies include the ability to anticipate and implement future change" (Overholt, 1997, p. 22).

We have all seen evidence of the information explosion, where "information technology links the processing power of the computer with the microwaves, the satellites, and the fiberoptic cables of telecommunications. It is a technology which is leaping rather than creeping into the future" (Handy, 1990, p. 17). And this explosion seems to be on an exponential curve rather than a linear one, as noted by Gordon Moore's (the founder of Intel) law, which postulates that computing power doubles every year, as the cost of computing power falls by half. This opens up the capability for consumers to be highly informed and therefore increasingly discerning.

Meanwhile, "organizations want the most work for the least money while individuals typically want the most money for the least work" (Handy, 1995, p. 21), and competition is increasingly of a global nature. "Markets that were once the exclusive domain of local producers are now fair game for competitors headquartered halfway around the globe" (Nadler & Tushman, 1997, p. 5). It is, indeed, paradoxical that "life will never be easy, or perfectible or completely predictable. It will be best understood backward, but we have to live it forward" (Handy, 1995, p. 13). And even more so, there is a sense of urgency, in that there may not be time enough to react, making proactivity essential for long-term health. Handy offers the typical sequence of events that lead to unsatisfactory change:

- FRIGHT—bankruptcy, takeover or collapse;
- NEW FACES—new people brought in to "fix" the problem;
- NEW QUESTIONS—study groups formed to investigate the "old ways;"
- NEW STRUCTURE—break up the present way of doing things and "clubs;" and
- NEW GOALS AND STANDARDS—new aims proffered. (Handy, 1990, pp. 10-11)

Though the above is rather daunting, and is a scene all too familiar in many organizations, resolution is not purely a matter of "dumb luck," but can be attributed to leadership understanding and employing a sound organizational design. The reader should be forewarned, "organizational [design] capabilities represent the last truly sustainable source of competitive advantage" (Nadler & Tushman, 1997, p. 5).

## Organizational Design

### **“Beware of the urgent crowding out the important”—Charles E. Hummel**

When many hear of the phrase “organizational design,” there is a leap to the whiteboard to craft a new wiring diagram beginning with the CEO and tracing its way throughout the organization. As Keidel (1995) writes, “scores of managers are convinced that design equals structure equals organizational chart and that changing design amounts to little more than altering boxes and lines” (p. 7) This is not what we mean. Nadler and Tushman define organizational design as involving “decisions about the configuration of the formal organizational arrangements, including the formal structures, processes, and systems that make up an organization” (Nadler & Tushman, 1997, p. 48). Throughout their work, those scholars seem to take the organization’s strategy as well thought out, articulated, and deployed as a precursor to their definition of organizational design. Hence, this paper agrees with Galbraith’s view that organizational design includes strategy, structure, processes, rewards, and people (Galbraith, 2002), and further purports that the design must operate within an environment. One thing scholars agree upon is that there must be alignment within the attributes. A major problem with diving into solely a structural change, as this section commences, is that changing the structure without consideration of the other attributes of design will undoubtedly lead to trust issues from the employees toward leadership due to the lack of alignment with the other attributes of organizational design.

As with many of the choices leaders may make, there are numerous organizational designs one might employ, such as the *Star*, *Shamrock*, *Federal*, *Starfish*, and *Spider Plant*. Again, discussing any of these in any detail is not the purpose of this paper. Our purpose is to reinforce that the organization’s design, whatever it may be, will impact the long-term health of the organization. Therefore, developing that design should occur in a thoughtful manner with an understanding of the impact and an awareness that organizational design is much more than merely structure. Mootee (2012) provides several reasonable questions when considering the adequacy of an organizational design:

- a) Does the design reflect the needs for how a company thinks and plans to compete in the future?
- b) Does the design adequately reflect the motivations, strengths and weaknesses of the managers and staff?
- c) Does the design allocate enough attention to the intended sources of added value and strategic initiatives of the parent or holding company?

- d) Does the organizational design provide the desired allocated power to groups/individuals that is linked to the strategic value of the unit or functions?
- e) Is the organization adaptable and swift to respond to future changes? (p. 1)

Scholars agree that, like human DNA, each organizational design is unique based upon myriad circumstances. Nadler and Tushman (1997) offer the following points:

There are no perfect designs; the design process required the weighing of choices and the balancing of trade-offs. The best designs draw upon the knowledge, experience, and expertise of people throughout the organization. Even the best designs can be derailed by ill-planned, poorly executed implementation. (pp. 229-230)

As company leaders deal with the many critical issues of the day, this paper demonstrates the need to develop a holistic understanding of the organization's design. As stated earlier, this is likely to be the discriminator for whether the company continues on into the future, or if unwittingly, it is already in its decline. As leaders face daily challenges, they would be well served to not allow the urgency of the immediate remove their vision from the organization's design. It is that important, now and in the future.

### **About the Author**

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