Better by Design:
Using Organizational Design for Competitive Advantage in the 21st Century

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Organizational leaders have tried many approaches to improve performance: industry selection, growth, globalization, branding, downsizing, process re-engineering, cost cutting, and deployment of new technologies provide examples of such efforts (Pfeffer, 1998). Unfortunately, because these approaches often fail to account for cultural aspects and the human impact, they can fail to produce the desired results (Pfeffer, 1998; Cameron & Quinn, 2006). Therefore, organizational leaders should consider other options.

This article argues that leaders should focus on organizational design for sustainable competitive advantage. It defines organizational design in the context of traditional vs. contemporary perspectives. Design drivers and the various elements of organizational design establish building blocks for a number of design alternatives. This article considers these alternatives in response to the demands of the 21st century and argues that organizational design provides an excellent vehicle for establishing sustainable competitive advantage. It then identifies implications for today's leaders, concluding with a summary of practical insights.

Organizational Design

Organizational design is not just the creation of an organizational chart and job descriptions. More than ever, organizational experts are thinking of organizational design as the synergistic integration of all organizational facets (Daft, 2007; Galbraith, 2002; Nadler & Tushman, 1997). Nadler and Tushman noted

that "organizational design involves decisions about the configuration of the formal organizational arrangements, including the formal structures, processes, and systems that make up an organization" (p. 48). Daft described organizations as "(1) social entities that (2) are goal-directed, (3) are designed as deliberately structured and coordinated activity systems, and (4) are linked to the external environment" (p. 10). These definitions imply the need for complex, intricate, and deliberate processes to facilitate organizational performance through alignment of vision, mission, strategy, work processes, culture, and people. Strategy, structure, and culture must accommodate one another; furthermore, lateral processes must facilitate coordination activities across hierarchical functions (Galbraith, 2002; Cameron & Quinn, 2006).

Traditional vs. Contemporary Thinking

Not long ago, organizational leaders regarded organizational design activities as bureaucratic requirements (Galbraith, 2002). Although organizational charts and job descriptions were common, organizations placed little emphasis on the potential for organizational design to create competitive advantage or a more satisfying work environment. Leaders frequently overlooked the "Human Equation" (Pfeffer, 1998), and the cultural impact of their attempts to improve performance (Cameron & Quinn, 2006). Change initiatives such as downsizing, re-engineering, outsourcing, and other cost-cutting

processes often failed because leaders did not fully appreciate the impact that these approaches would have on people and organizational culture.

Another characteristic of traditional thinking on organizational design involved the use of hierarchical structures, which can slow down processes, stifle innovation, and frustrate organizational members (Daft, 2007; Galbraith, 2002; Hamel, 2002). Control over resources and people took precedence over flexibility and cooperation. Today, however, many destabilizing forces are pressuring leaders to view organizational design in a holistic way and with greater reverence. Leaders are beginning to view organizational design as an essential process for accommodating customer expectations, meeting the needs of employees, and maintaining a viable operation.

Organizational Design Drivers

All organizations consist of fundamental components and subsystems that require balance for organizational effectiveness (Daft, 2007). Upper- and mid-level managers direct and coordinate the activities of other personnel in the technical core, technical support, and administrative support areas of the organization (Mintzberg, 1979 & 1981) to "adequately perform the subsystem functions of production, maintenance, adaptation, management, and boundary spanning" (Daft, 2007, p. 16). Daft identified 11 "Dimensions of Organizational Design" (pp. 17-22)

to describe selected organizational attributes. Six of these dimensions are structural: formalization, specialization, hierarchy, centralization, professionalism, and personnel ratios. Five of the dimensions are contextual: size, technology, environment, goals/strategy, and culture. These dimensions blend together to make up the overall design.

As Daft (2007) pointed out, "The whole point of understanding varying perspectives and the structural and contextual dimensions of organizations is to design the organization in such a way as to achieve high performance and effectiveness" (p. 22). Clearly, these are the key drivers for organizational design. However, both the pace and magnitude of change are driving changes to organizational design and how organizations are designing for the future. The requirement for managing organizational complexity across multiple dimensions in a networked environment has helped bring greater attention to the need for more effective organizational designs (Galbraith, 2002). Greater focus on "organizing around the customer" (p. xvi) has also brought attention to the competitive advantages available through effective design. Customers have come to expect greater variety and comprehensive solutions, but they also expect to receive products and services faster than ever before.

Since change will continue to have a tremendous impact (Bennis, 1999; Handy, 1989 & 1995; Wacker, Taylor, & Means, 2000), organizations will need to

respond with continuous design processes and customer-focused structures in a virtually oriented environment (Crandall & Wallace, 1998; Galbraith, 2002; Lipnack & Stamps, 2000). Organizational leaders must see and respond to both existing and emerging patterns (Keidel, 1995; Sanders, 1998). They will also need to have the creativity and the imagination necessary for visualization of different alternatives and a brighter future (Morgan, 1997 & 2006).

Organizational Design Alternatives

Different organizational structures and designs facilitate different strategies, organizational activities, and behaviors (Daft, 2007; Galbraith, 2002; Ivancevich & Matteson, 2002). Therefore, selection of an appropriate fundamental structure is critical. In addition, leaders should find ways to link appropriate processes to the coordination needs of the organization. Galbraith identified five basic structures: functional, product, market, geographical, and process. Each of these structures coincides with specific strategies to facilitate their execution; nevertheless, matching structure with strategy is not easy. Typically, no one structure provides complete alignment with an organization's business strategies. However, decision makers can prioritize structural alternatives in ways that create a desirable blend of characteristics, establishing hybrid structures or integrating them with lateral coordination processes.

One example of a hybrid structure exists where planners combine product and market structures to enhance the strategic initiatives of a customer-focused organization. Although these integrated structures can be very effective, they are complicated, which can create friction. Consequently, they require tightly coupled linkages (Galbraith, 2002). According to Galbraith, strategies and activities that involve diversity, rapid change, cross-functional interdependence, use of the Internet, and rapid cycle times drive lateral coordination processes. Unfortunately, these characteristics tend to overwhelm leaders in organizations with simple, functional structures.

Decentralization can help improve decision-making speed, but it will not guarantee better decisions. Furthermore, lateral process teams can pull people from their primary function or customer contact. Cross-functional "pollination" can generate well-thought-out solutions, but it can also increase conflict between people who have competing demands and different views. Therefore, leaders should combine lateral processes with better communication, and training to improve both problem solving and conflict management skills.

Galbraith (2002) identified five types of lateral processes: voluntary, E-coordination, formal groups, integrators, and matrix organizations. Their level of complexity and their requirements for lateral coordination increase in the order listed. However, leaders can mitigate many of these complications by establishing

development programs such as interdepartmental rotation and cross-functional training. They can also co-locate cross-functional activities, mirror functional structures, and integrate performance management systems.

Responding to the Challenges of the 21st Century

The challenges of the 21st century are very different from those in the past. Furthermore, they continue to change at a relentless pace, with radical, perpetual change likely to continue. Globalization, new technologies, changing demographics, economic turbulence, social unrest, environmental concerns, and government intervention will all have a tremendous influence on the future, requiring organizational leaders to respond quickly and with greater flexibility.

The role of organizational design in the 21st century is also changing. Responding to the pace and magnitude of change will require organizational leaders to adapt through an ongoing and flexible design process. Two approaches for dealing with change involve the application of a continuous design/re-design process and designing for a reconfigurable organization (Galbraith, 2002). An ongoing, engaging, and dynamic process can help organizations keep designs

current. Building flexibility and adaptability into organizational designs can position organizations to respond better and faster when unexpected changes do occur.

Organizational design also plays an instrumental role in the process of establishing, modifying, and strengthening appropriate organizational cultures. This is particularly true for the increasingly global, boundaryless, and diverse environments of the 21st century (Galbraith, 2000; Ashkenas,

Ulrich, Jick, & Kerr, 2002). Cultural differences create unique challenges for global organizations, establishing design criteria for market entry and the partnering process for organizations pairing with indigenous counterparts.

An organization's size and familiarity with another country—in conjunction with any host country requirements—will help determine if a joint venture, an acquisition, or a new start-up makes the most sense (Gailbraith, 2000). Communication needs and the use of technology for cross-country and inter-company cooperation will influence

the balance among virtually oriented, boundaryless structures; operational control; and the desire to maintain cooperation (Gailbraith, 2000; Ashkenas, Ulrich, Jick, & Kerr, 2002). Diversity and cultural awareness training is important for people with little international exposure or those who have had minimal interaction with people of other backgrounds.

More than ever, organizational design is essential to an organization's viability. Overlooking its importance can place an organization at risk, resulting in operating inefficiencies, mismatches between strategy and structure, mismatches between structure and culture, and other imbalances. Overlooking the potential for improvement through dynamic organizational design can also place an organization at long-term risk and destroy the potential for sustainable competitive advantage.

Organizational Design and Competitive Advantage

Not long ago, organizational charts and job descriptions were the focus of organizational design (Galbraith, 2002). Obviously, that limited focus is not sufficient for today's chaotic environments where the keys to competitive advantage include speed to market, customer responsiveness, adaptability,

short run" (p. 29). They also noted that strategy flows from vision, along with decisions on resource allocations in concert with demand, operational constraints, and environmental opportunities. To meet the needs of these various requirements, many organizational design models exist; however, as Galbraith (2002) emphasized, any model used must be the right model for the right organization—at the right time and for the right circumstances. Appropriate selection, implementation, and future integration can help establish and maintain a sustainable competitive advantage.

In conjunction with all of the other considerations for organizational design, it is extremely important to acknowledge the human element. For constructive vertical and horizontal communication, organizations must have positive relationships among organizational members. These relationships have become more important as horizontal communication and cooperation have become more crucial for the facilitation of lateral workflows across functional lines.

Simply stated, to facilitate horizontal processes that have become far more common and to encourage empowerment of the 21st century work force, organizational design must accommodate relationships that are conducive to employee satisfaction for optimal performance. That will require organizational designs fostering cooperation through trusting relationships. It will also require acknowledgment of each person's value.

systemic integration, and balance among many competing values. These characteristics make it clear that the organizational design process is inherently complex (Daft, 2007; Galbraith, 2002; Nadler & Tushman, 1997).

Patterns can indicate a great deal about whether an organization is out of balance with respect to control, autonomy, and cooperation (Keidel, 1995). However, it is a completely different matter to determine the reasons for those imbalances and to prescribe appropriate responses while accommodating design requirements for future strategic needs. Many leaders chose to avoid these complexities, attempting to improve performance through downsizing, re-engineering, and a variety of cost-cutting measures. Many of these efforts were

unsuccessful because leaders failed to account for their cultural impact (Cameron & Quinn, 2006).

Nadler and Tushman (1997) argued, "The only real, sustainable source of competitive advantage lies … in an organization's 'architecture'—the way in which it structures and coordinates its people and processes in order to maximize its unique capabilities over the long haul" (p. viii). However, creation of those unique capabilities requires more than simple observation of autonomy, control, and cooperation (Keidel, 1995) or naive approaches to performance improvement (Pfeffer, 1998).

Nadler and Tushman (1997) made the profound observation that "environmental conditions, organizational resources, and history cannot be changed in the

The Empowering Spirit of Cooperation, Trust, and Shared Values

Organizational members have to establish, build, and maintain viable relationships for lateral processes, communication, and cooperation to occur. Covey (2006) suggested that constructive relationships require credibility, which is a function of character and competency. Unless a person has integrity and wholesome intent, others are likely to question their character. Furthermore, unless a person has capabilities and a record of accomplishments with relevant results, others are not likely to see them as competent. Together, character and competency help establish credibility and trust in relationships, which, as Covey noted, speeds action and reduces costs.

Trusting relationships are essential for cooperation and performance. Autonomy allows organizational members to establish and maintain horizontal relationships; nevertheless, empowerment is more complex than simple authorization to make decisions. Blumberg and Pringle (1982) noted that work performance is a function of capacity, willingness, and opportunity to perform. Therefore, before leaders should empower others, they need to know that others are willing and able. Leaders also need to place others in appropriate positions of opportunity. Empowered performance requires leaders who are willing to release control and capable followers who are willing to accept responsibility.

Common values and cultural alignment are essential ingredients for effective organizational design (Cameron & Quinn, 2006; Ciulla, 2004; Head, 1997; O'Toole, 1996). Implementation of a shared vision and shared values must include modeling of appropriate behaviors, not just communication of desired behaviors (Kouzes & Posner, 1995). As Kouzes and Posner noted, leaders also need to challenge the status quo, encourage the hearts of others, and empower them to act.

With all of the other requirements, it is easy for leaders to overlook the importance of mentoring and performance management. However, to improve employee motivation and to ensure appropriate developmental opportunities, leaders should not overlook these processes. Mentoring builds partnerships for continuous learning (Bell, 2002), which is necessary in the volatile environments of the 21st century. Performance management helps to ensure that the right people receive the right opportunities and that they receive appropriate rewards for their efforts. If leaders want to gain the most from their most valuable resources, design concepts will need to meet the needs of organizational members, encouraging them to bring their best aptitudes and attitudes to the design.

Implications for Today's Leaders

Organizations must continuously respond to the turbulent environments of the 21st century. Unless leaders employ comprehensive and flexible processes that help their organizations adapt through continuous organizational design applications, they are likely to lose competitive advantage. Furthermore, because organizational design is a complex and dynamic process, leaders must take the time to understand the process, and they must be willing to give it serious, ongoing consideration. They must also understand the various dimensions of organizational design, recognizing that there are contextual dimensions as well as structural dimensions. Organizational culture and the social aspects of organizational design are just as important as the structural elements. For that reason, successful leaders will incorporate design elements that foster relationships and facilitate cooperation at all levels of the organization.

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Notes

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