

# ***Practical Approaches to Organization Design***

Is your organization well designed? How do you know? What does a well designed organization look like, and how does it feel to work there? How is it different from a poorly designed one? <sup>i</sup>

The answers to these questions lie in the functional structure, also known as the Organization Design, of your work place. You've heard the term before, "Organization Design". The words are familiar to you at a high level, yet may be indistinct as to how they apply to your organization. Although the concept has been around for ages, many HR professionals are unaware of its strategic impact, and more importantly, how Organization Design should be approached.

In this article we will examine the concept of Organization Design (OD) and how it can work in your organization.

## ***Doesn't OD mean Organization Development?***

While they share the same acronym, Organization Design is not to be confused with Organization Development. In fact, these are two separate concepts. Organization Development deals with the "people" side of business performance; leadership, team dynamics, and operational effectiveness.

Organization Development is an effort that is planned, organization wide, and managed from the top. It is intended to increase organization effectiveness and health through planned interventions in the organization's process, using behavioral science knowledge. <sup>ii</sup> It is used to change beliefs, attitudes and values in an organization. Organization Development entails leadership coaching, effective communication strategies, and change awareness to name a few factors.

The key to recognizing the difference is to understand that Organization Development is a response to Organization Design. In simpler terms, Organization Development deals with "soft matters", while Organization Design is "hard".

## ***So what exactly is Organization Design?***

Let's look at a few definitions. Organization Design is:

- ... About how work gets done. It examines the link between the goals of the corporation and how managers and staff are working to achieve those objectives. <sup>iii</sup>
- A process for improving the probability that an organization will be successful by assessing and re-shaping structure and positions to better meet (business) goals. It is a formal, guided process for integrating the people, information and technology of an organization.
- Used to match the *form* of the organization as closely as possible to the purpose(s) the organization seeks to achieve. <sup>iv</sup>
- ... About determining the configuration of formal organizational arrangements, including the formal structures, processes and systems that make up an organization. <sup>v</sup>

- The way an organization is structured to comply with a strategic plan.

It deals with the allocation of tasks, reporting relationships and levels to provide a means of achieving full organizational alignment between the “people” aspects and the “function”. This alignment refers to the complete integration of skills, jobs and people, with the goals, functions and structure of the environment on an ongoing basis.

### ***Is this a good thing?***

An effective organizational design helps communications, productivity and innovation. It creates an environment where people can work effectively. <sup>vi</sup>

According to Capelle Associates Inc., an Organization Design consulting firm in Toronto and Montreal, the benefits of Organization Design include:

- Improved employee satisfaction
- Improved customer satisfaction
- Improved financial performance
- Improved competitive advantage
- Significant return on investment <sup>vii</sup>

### ***When should we Re-Design?***

In their book, *Competing by Design*, Nadler and Tushman advise that a significant redesign is called for when your organization evolves to the point at which there are substantial congruence problems between the formal organizational arrangements and the other components of your business (such as reporting, business processes, information, performance measurement and control systems.) These situations may be driven by:

- Strategic shifts in competition, regulation, technologies, markets or resources - resulting in a redefinition of work requirements
- Cultural or political change
- Growth
- Staffing changes (such as new leadership, or changes in needs, preferences or skill levels) <sup>viii</sup>

Symptoms of ineffective organization design to look out for include:

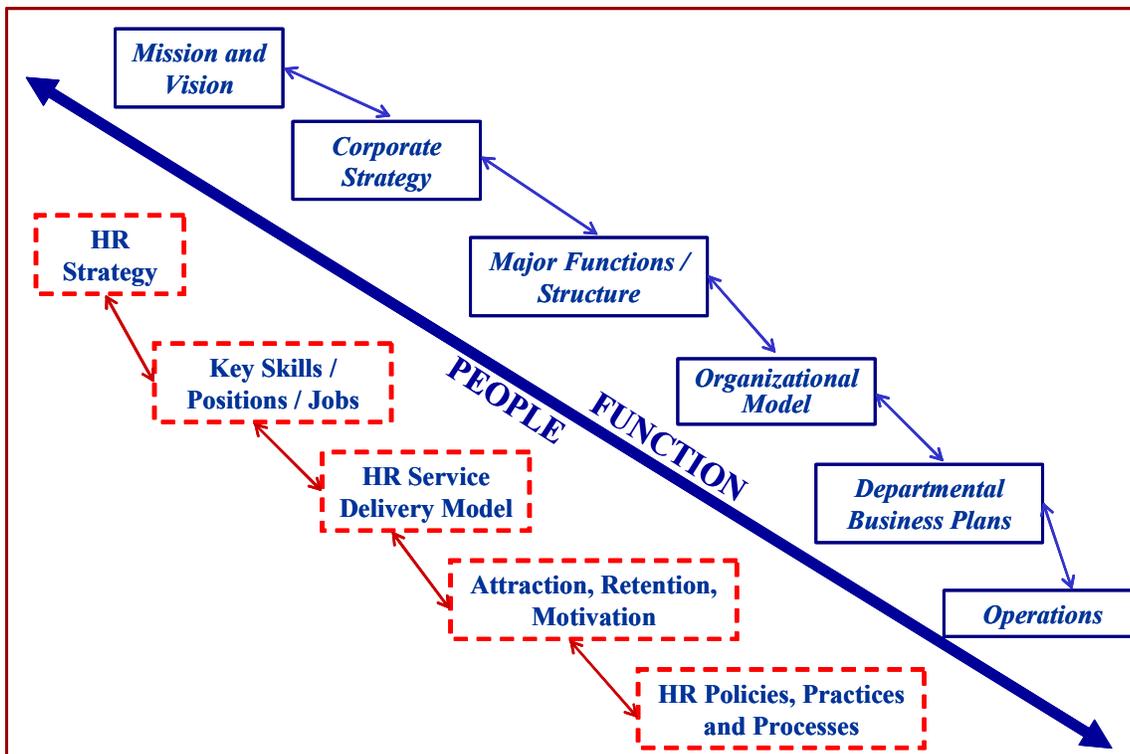
- Lack of inter-office coordination
- Excessive friction and conflict among internal groups
- Unclear roles
- Misused resources
- Poor work flow
- Reduced responsiveness to change
- Proliferation of extra-organizational units such as task forces, committees and projects <sup>ix</sup>

Our firm’s experience has shown that clients often require an organizational redesign as a result of:

- Organic growth – the organization has grown one position or one unit at a time in an unplanned fashion
- External impacts – such as mergers or amalgamation
- Changes in technology – such as the introduction of a new ERP computer system
- Changes in business requirements – such as a new program or service offering
- Changes in leadership – where the current structure does not support the goals of new management.

***What does the Design model look like?***

Organization Design is much more than simply your structure or your organization chart. It is the process of aligning your organization’s structure with its mission. (See illustration below.) This means looking at the complex relationships between tasks, workflow, responsibility and authority - and making sure these all support the objectives of the business. <sup>x</sup>

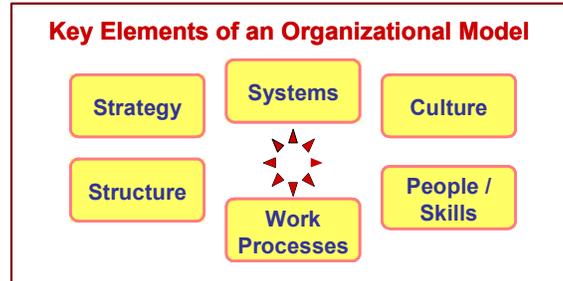


As illustrated, there is a direct link (or at least there should be) from operations and business plans all the way to your corporate strategy, mission and vision.

When change takes place; the functions, roles, responsibilities and skills of jobs and positions change. This automatically impacts the entire HR discipline (HR planning, recruitment, resourcing, training and learning, performance management, classification, employee relations, and compensation) and must be fully supported by an effective HR strategy and HR service delivery model.

***“We have a new strategic direction, how do I approach Organization Design to ensure our new goals can be achieved?”***

There are several key elements involved in reviewing your current structure for effective Organization Design. Whatever the reason for change, there are six important factors to be considered:



The best way to re-structure the organization and produce effective results is to base your design on the overall *strategy* and goals of the business. This involves using the vision, mission, and strategic plan of your organization as a reference point and guide to where the change will take you. The *strategy* element of Organization Design answers the question, “What goal are we trying to accomplish?” Without understanding the link to the strategy component, your new structure will be ineffective to say the least.

Once the goals and strategy are determined; current functions, *work processes* and interconnected activities need to be identified and assessed. What is it that you do? What are the major functions of your business? Do the current work units and reporting relationships support the strategic plan? An in-depth understanding of current processes is vital to understanding what needs to be changed.

Now that you have assessed functions and work processes, the organizational *structure* component needs to be addressed. Do we need to add a new work unit? Should we combine portions of work units? How many levels of management are required to meet the strategic plan? Would a Matrix Design be more effective in reaching our goals?

The answers to these questions will lead you to begin thinking about designing your new organizational chart. Hold on...not so fast! Before you start to put pen to paper and move boxes around, there are more factors that need to be considered. The actual work *systems* need to be acknowledged. What is the business plan for each unit? Who is monitoring the work? How are resource allocation and technology implemented? How do the support functions contribute?

At this point in the process, you have reviewed your strategic plan, work processes, structure, and systems. For all of these factors to be effective, they need to be executed by the best employees with carefully planned roles and responsibilities. This involves integrating *people*, professions, and *skills*. Will we hire a new manager from outside or promote from within? Do the existing employees have the skills required to fulfill new responsibilities as a result of required changes?

At our firm, we accomplish this through a “staff mapping” exercise which maps employees and skills to positions and highlights variances.

Finally, a major factor that needs to be considered is the *culture* of the organization. Your organizational *culture* is a key driver for success in organizational change. A paper exercise will not help if employees are not willing to accept the new way of operating.

### ***What else should I consider?***

At a more practical level, there are several principles of Organizational Design to consider when it comes down to actually preparing your organization chart. These are:

- Division of Labour (departmentalization and/or specialization)
- Departmentation (functional, purpose and/or location-based)
- Coordination and Control (chain of command, span of control)
- Authority and Responsibility
- Line activities versus Staff activities
- Job design <sup>xi</sup>

### ***What Now?***

Now you understand that Organization Design involves a systematic process with several factors. You have the approach and methodology required to get started. Organization Design can be daunting if not planned appropriately and not based on a viable model. Give your organization the advantage of a well planned foundation by utilizing a practical approach to Organization Design.

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### **References:**

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- <sup>ii</sup> Griffin, Mickey W., Management, 8<sup>th</sup> edition, Chapter 13. (Houghton Mifflin, Geneva, IL, USA, 2005)
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- <sup>v</sup> Nadler, David. A. and Tushman, Michael, L., Competing by Design, (Oxford University Press, New York, 1997)
- <sup>vi</sup> MindTools.com (1995)
- <sup>vii</sup> Capelle Associates Inc. (2006)
- <sup>viii</sup> Nadler and Tushman (1997)
- <sup>ix</sup> Nadler and Tushman (1997)
- <sup>x</sup> MindTools.com (1995)
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