

Emerging Approaches to Organisation Design

“Globalisation, technology advances and the changing competitive landscape are increasing the need for connections between businesses, countries and markets. Organisations need to develop to manage the complexity involved in global operations, and to adapt quickly to changing circumstances.”

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Executive Summary

1. Competition, interconnectedness, globalisation and the pace of change inherent in today's business climate mean that organisations need to be designed to cope with complexity. This report considers the challenges faced by complex global businesses, and the design choices they face.
2. The principal theoretical approaches to organisation design are highlighted, in particular the work of Jay Galbraith and his STAR model, which emphasises that business strategy is fundamental to organisation design, and that processes, reward systems and people practices need to be aligned with the organisation structure to deliver the chosen strategy.
3. We find that large organisations operating across multiple dimensions are faced with the dilemma of whether to maximise the benefits of synergy and scale or focus resources to achieve responsiveness and specialisation. Many of the companies we interviewed take a 'surgical' approach to organisation design, seeking simultaneously to achieve leverage in certain areas while maintaining focus in others.
4. We explore the 'lateral organisation', consisting of processes, networks and projects that complement the vertical hierarchy and allow work to be done across formal organisational boundaries. The lateral organisation is an important tool for managing complexity, allowing decisions to be devolved and made at speed. The use of lateral approaches also means the organisation design can be adapted more rapidly and flexibly than changing the formal hierarchy. Lateral approaches need to be designed with the same degree of rigour as the vertical structure.
5. The impact of emerging organisation design solutions is considered, in particular how they can help manage complexity and innovation. We specifically focus on:
 - organisational agility and how it leads to superior business performance;
 - team-based work designs;
 - the role of internal and external networks;
 - virtual and network organisations; and
 - designing for sustainability.
6. One of the key design challenges for organisations is achieving a suitable balance between organising so that individual business units have all the resources under their control to maximise performance in their local market, and organising to optimise the overall system through coordinating activities centrally to extract maximum scale and leverage. We find that there are few large organisations at either extreme of this continuum. Leading firms 'surgically' decide where to connect and where best value can be obtained from allowing units to operate independently, deploying a combination of approaches in line with their strategy. Most organisations we interviewed, however, are on a journey towards some form of coordination to optimise the overall system.

‘It is increasingly unrealistic to expect corporate executives to be in close enough contact and sufficiently knowledgeable about what is going on in the various parts of the business to govern multiple dimensions effectively from the centre. The organisation must find approaches to governing from within and across.’

7. The role of the corporate centre in today’s complex multinational organisations is in flux. The emphasis is on finding the right balance of leveraging resources and knowledge by carrying out work on behalf of the organisation, such as through shared services and centres of excellence; and coordinating activities across the dimensions of the organisation by:

- providing frameworks or fostering networks or linkages; and
- determining values, objectives and a shared sense of purpose that unite far-flung parts of the organisation.

Organisations carefully consider what aspects – such as risk, technology, brand, and reputation – will be centrally managed and where integration will be achieved through lateral networks and processes.

8. Governance is a key issue for organisation design. The complexity and global reach of today’s large organisations mean traditional, hierarchy-driven controls are inadequate. Lateral structures are necessary to complement controls emanating from the centre. Organisations also need to combine ‘hard’ approaches to governance – such as cross-dimensional councils and boards – with ‘soft’ approaches focused on developing a common sense of purpose and values to drive consistent behaviours.

9. Knowledge is a critical source of sustainable competitive advantage. Organisations must be designed explicitly to identify, develop, sustain and leverage knowledge. Networks have a key role in helping foster innovation and improve business performance through deploying knowledge across the dimensions of the organisation. Networks increasingly extend beyond the boundaries of the organisation, with firms building extensive network connections to external contributors.

10. We highlight a paradox faced by organisations today: shareholder demands and economic conditions mean firms must achieve scale and operational efficiency, while simultaneously finding new sources of growth through innovation. Emerging organisation forms such as ambidextrous and network organisations help address this challenge. New technologies that facilitate online collaboration allow companies to reach beyond their boundaries to develop new ideas through open innovation and crowdsourcing.

11. Emerging practice in organisation design has significant implications for the HR function. The demands of managing complex, multi-dimensional organisations require different leadership approaches, and different solutions for talent management, change management and reward. However, there are opportunities for HR to take a leading role, both in helping design the organisation and in improving organisation effectiveness.

12. Organisation design is a difficult subject which requires organisations to find a path through the inevitable tensions, contradictions and trade-offs. There is no single answer that is suitable for all organisations, or for any one business through time. The key is to find solutions that allow the inherent tensions to be managed while allowing the organisation to adapt quickly to changing circumstances and strategies.

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