Organisational structure and design

MODULE 6 | 6.2.2 | STUDENT COMPANION

Structure (or organisational design) divides work into distinct tasks and roles and coordinates them through levels, responsibilities and reporting lines. A good design supports goals already set, suits the organisation's challenges and balances stability against the need for change. It is the vehicle through which strategy is carried out.

Three components of structure

Complexity

How far work is differentiated: horizontally across units at the same level, and vertically into levels of hierarchy

Formalisation

How far jobs are standardised by written descriptions, policies and procedures: consistency, but less flexibility

Centralisation

Where decisions are made: at the top, or pushed down to local managers. Coordination versus speed

Every structure balances control and consistency against speed, flexibility and responsiveness

Formalisation in practice: a fast-food kitchen's step-by-step procedures keep every meal the same, but the same rule book would stifle a team designing next season's menu.

What drives the design

Driver	Typical effect	Corella Partners (imagined)
Purpose or mission	The starting point: the simplest structure that lets the work run	Advice that helps clients grow
Strategy	Responding to local markets favours decentralisation	Industry expertise needs national teams
Environment	Stable: routine structures; uncertain: flexible ones	Software is automating compliance work
Technology	Mass production: taller; digital: flatter	Online tools link six offices
Size	Large organisations must decentralise some decisions	450 staff in six offices
People and culture	Skilled professionals expect autonomy	Qualified accountants want a say

Centralised or decentralised?

Centralised (tall)	Decentralised (flat)
• Many levels of management • Authority held at the top • Narrow spans of control • Strengths: consistency, coordination, control	• Fewer levels • Authority pushed down to middle and junior managers • Wide spans of control • Strengths: speed, responsiveness, motivation

About 1,100 people: spans of 10 need four levels; spans of 5 need six

The span-of-control arithmetic: with about 1,100 people and every manager supervising 10, four levels are enough (1 + 10 + 100 + 1,000). With spans of 5, six levels are needed, bringing more managers, more cost and slower communication. The long-term trend is towards decentralisation and empowerment, but organisations often re-centralise in a downturn to control costs.

Outsourcing: the case for and against

Corella outsources routine compliance processing but keeps client relationships and quality review in-house; a small team samples the outsourced work, and the contract sets service levels and data-protection rules.

For	Against
The provider does the work better or more cheaply	Can hollow out the company
Frees resources for the activities that build advantage	Dependence on suppliers for quality and control
Less bureaucracy; a flatter, more flexible organisation	Loss of skills needed to shape the future
Access to specialist expertise (for example, cloud services)	Risks must be actively managed

Mechanistic or organic?

Mechanistic	Organic
People managed like parts of a machine	People as the most important resource
Many rules and regulations	Shared principles and symbols over rules
Motivation mainly from pay	Motivation from the work itself
Authoritarian style	Participative style
Centralised and formalised	Decentralised
Power from formal position	Comfort with ambiguity; initiative
	Power from expertise

Mechanistic designs suit stable settings; organic designs suit turbulent ones

No organisation is purely one or the other: what matters is which principle dominates and whether it fits the environment. Research also suggests giving the employee's experience more weight in design decisions (Kessler, Nixon and others, 2016). Digital platforms blend both: physically decentralised, yet some enforce strict central standards through their apps, while others let two-way ratings regulate quality.

Case note: Zappos and holacracy

In 2013 the online shoe and clothing retailer Zappos, owned by Amazon since 2009, announced it would adopt holacracy, a system of self-management that replaces traditional managers with self-organising circles and roles. In March 2015 chief executive Tony Hsieh offered at least three months' pay to employees who did not want to embrace self-management: about 14% (210 of roughly 1,500) took the offer by May 2015, and about 18% by early 2016, in a year when total staff turnover reached 29%. Zappos later moved away from strict holacracy. Self-management can release initiative, but a structure that runs ahead of what its people want can cost the talent the strategy needs.

Sources: Fortune, 4 March 2016; HR Dive, 10 May 2015; Amazon Form 10-K, 2009.

Practice questions

MODULE 6 | 6.2.2 | TRY THESE BEFORE THE WORKED ANSWERS

Question 1 - Rate the structure

Pelican Air (an imagined regional airline) has eight levels of management; a 300-page operations manual followed to the letter; every route and pricing decision made at head office; and pilots, cabin crew and engineers in separate departments. Rate each component and suggest one change that would help a strategy of faster local decisions.

Component	Low, medium or high?	Evidence
Complexity (vertical)		
Complexity (horizontal)		
Formalisation		
Centralisation		

Question 2 - Outsource the IT?

Ridgeline University (imagined) is considering outsourcing its IT infrastructure and help desk to a cloud provider. Give three arguments for, three against, and two ways to manage the risks.

Question 3 - Mechanistic or organic?

Feature of Inkwell Design Studio (imagined)	Mechanistic or organic?
(a) Designers choose their own projects within broad themes	
(b) A 90-page manual governs all client work	
(c) Pay is modest; people stay for the creative work	
(d) The founder personally approves every proposal	
(e) Teams form and dissolve around projects	
(f) Influence comes from whoever has the best ideas	

Worked answers

MODULE 6 | 6.2.2 | WORKED ANSWERS - ATTEMPT THE QUESTIONS FIRST

Question 1 - Pelican Air

Component	Rating and evidence
Vertical complexity	High: eight levels of management
Horizontal complexity	High: separate departments for pilots, cabin crew and engineers
Formalisation	High: a 300-page manual followed to the letter
Centralisation	High: all route and pricing decisions at head office
One change	Give regional managers authority over local schedules and fares within limits, and remove one or two management levels

Question 2 - Ridgeline University

For	Against	Managing the risks
Specialist expertise and up-to-date security	Dependence on one provider	Service levels and penalties in the contract
Lower and more flexible costs	Loss of in-house IT skills	Keep a small in-house team to manage the provider and the IT strategy
Frees staff to focus on teaching and research systems	Data privacy and control concerns	Data-protection terms, audits and an exit plan

Question 3 - Inkwell Design Studio

Feature	Classification
(a) Choose own projects	Organic: initiative and autonomy
(b) 90-page manual	Mechanistic: formalisation (useful for consistent client work)
(c) Stay for the work	Organic: intrinsic motivation
(d) Founder approves all	Mechanistic: centralised decisions
(e) Teams form around projects	Organic: flexible, decentralised
(f) Best ideas win	Organic: power from expertise