



Organizational Design: foundation of a successful company

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Abstract

Many factors come together to make an organization great. A few worth mentioning are leadership style, personality and charisma; a compelling vision and mission; excellent products and employees; exceptional customer service; a unifying organizational culture; the right strategy and plans; technology; and an exceptional organizational design. This article analyzes one factor – organizational design. An extraordinary organizational design can act as a solid foundation to build upon as a company strives for success. This is not an exhaustive study on the subject, but rather an overview on some critical design issues. The author believes there are ten organizational design principles that are critical for a company to implement to lay this solid foundation of organizational greatness. The ten factors include: establishing a healthy hierarchy, increasing the span of control for managers, dividing the organization into high performance teams, encouraging open lines of communication, empowering employees, providing systems of accountability, fostering a learning organization, implementing a selective hiring system, training and developing employees, and instituting a fair reward system. When all of these factors come together in their proper place the foundation for a great company has been laid.

“An organization’s ability to learn, and translate that learning into action rapidly, is the ultimate competitive advantage.” – Jack Welch¹

Many different elements make an organization successful. For example - leadership style, vision and mission, excellent product and employees, strategy, organizational culture, technology, and organizational design are all various elements that help a company succeed or fail. If a firm falters in one of these areas, it could make the difference between being good or being great. If it fails in multiple areas, the results are often catastrophic. This paper will analyze one element – organizational design. Many believe that strategy precedes structure.² This maybe true, however, I would like to submit that there are some basic organizational design principles that can lay a strong foundation for any company in their pursuit of greatness. This is not intended to be an exhaustive essay on the subject, but rather an overview on some critical design issues. There are ten organizational design principles that are foundational for a company to implement as they pursue success.

Establish a Healthy Hierarchy

For over a century, American companies have used Frederick Taylor’s scientific management theory, which calls for precise, efficient, bureaucratic organizations. This theory gained popularity during the Industrial Revolution as strong leaders emphasized top down control, standard rules, and clearly defined authority and responsibility.³ There are now many organizational theorists and practitioners that would agree with this statement by Galbraith, “The traditional hierarchical structure of organizations – with its dysfunctional effects – continues to fall under harsher and harsher criticism. There is an appropriate trend away from authoritarian management styles and the separatist titles and privileges of a multi level hierarchy.”⁴ There will continue to be a growing trend for

organizations to be leaner and flatter. The old hierarchy of command and control will become fewer.

Ashkenas et al. believe that organizations that have hierarchies designed around the old success factors of size, role clarity, specialization, and control is an outdated model. Instead, they believe healthy hierarchies in the twenty-first century must revolve around the new success factors of speed, flexibility, innovation, and integration.⁵ This is due to the fast paced, turbulent, ever changing global economy. I would like to add that a healthy hierarchy is also based upon healthy relationships between the layers of authority. There must be a genuine love and concern for each other – to treat one another with love and respect.

Increase Span of Control

There are two ways to remove excess layers of hierarchy – increase the span of control of managers and divide the organization into high performance teams. I will address each in turn. Span of control is the number of employees who report to any given manager. In a study done by A. T. Kearney in 1993 of oil companies, the average span of control was 4.8 employees per manager. A conference board study of spans conducted years after the Kearney study revealed an average span of 7.8 in the same industry.⁶ Based on this evidence, organizations are getting leaner and flatter. ConocoPhillips is a highly centralized company with a steep hierarchy; their span of control is five.⁷

Ashkenas et al. believe, “Removing layers of managers gets the organization closer to reality and helps decision making move faster, tie in with customer needs, and be more responsive to changing situations. Also, removing layers of management and increasing span of control ensures that the remaining managers cannot get too engrossed in details.”⁸ In other words, increasing span of control liberates employees to make decisions, take responsibility for those decisions, and empowers them to have greater authority. It also helps eliminate micromanaging by supervisors. There are obviously factors effecting span of control such as geographic location, skill and experience of employees,

technology, and complexity of the task.⁹

Divide the Organization into Teams

The second way to remove excess layers of hierarchy is the development of teams. Pfeffer believes self-managed teams are a key component for a successful organization:

1. Teams substitute peer-based for hierarchical control of work. He believes peer accountability is more effective than hierarchical supervision. People in teams feel responsible and accountable for the work.
2. Teams permit employees to become a think-tank, which allows for creative solutions to problems.
3. Teams allow organizations to save money by removing layers of hierarchy that are not necessary.¹⁰

Blanchard uses the term “high performance teams.” He defines a team as “two or more persons who come together for a common purpose and who are mutually accountable for results.”¹¹ He identifies seven characteristics of high performing teams using the acronym PERFORM:

Purpose and values. High performance teams share a sense of purpose and a common set of values, which includes a compelling vision.

Empowerment. High performance teams have the authority to make decisions, however, with this authority comes responsibility and accountability.

Relationships and communication. High performance teams are committed to open and honest conversations in a way that exhibits care, dignity and respect for one another.

Flexibility. High performance teams are interdependent. The leader of the team often changes based on needs and talents. Members are willing and capable of changing and adapting according to the internal or external environments.

Optimal Productivity. High performance teams get the job done in a timely manner with excellence. They are committed to significant results. They take pride in their work, and hold each other accountable for a job well done.

Recognition and appreciation. High performance teams receive positive feedback. They encourage each other and are motivated to perform for the good of the team and the company.

Morale. High performance teams take pride in their work. They have a strong team spirit and sense of a unity.¹²

Cross-sectional teams are sometimes needed to solve issues among departments, to find solutions to organizational problems, or to create a new product. Cross-sectional teams take people from a variety of departments to form a team. It is often advantageous to have a variety of skills and perspectives on a given team to solve organizational issues.

Encourage Open Lines of Communication

Organizational design should encourage and facilitate communication among employees and departments.¹³ Every successful organization needs fluid communication throughout the company. Employees feel included when there is an atmosphere of honest, candid communication. Blanchard believes, “Sharing information and facilitating open communication builds trust and encourages people to act like owners of the organization.”¹⁴ Employees need information to make informed decisions, including financial reports. Both good and bad news needs to be shared. Blanchard goes on to say, “People without accurate information cannot act responsibly; people with accurate information feel compelled to act responsibly. Open communication is the lifeblood of the organization.”¹⁵ Industry best practices and standards are some of the essentials that need to be shared. Communication should happen through a variety of avenues: email, company wide bulletins, newsletters, telephone, team meetings, and face to face. The most important information should be handled face

to face. Healthy lines of communication keep the company agile, flexible, and fluid.

Empower Employees

Successful organizational design gives employees the authority to makes appropriate decisions. However, with the implementation of teams, rarely are decisions made in a vacuum, but rather a team takes responsibility for decisions and actions. According to Blanchard, “Empowerment is the process of unleashing the power in people – their knowledge, experience, and motivation – and focusing that power to achieve positive outcomes for the organization.”¹⁶ Decisions need to be made by those who are closest to the issue. Ultimately, empowerment is handing over authority and trusting employees to make the right decisions. This requires employees to be both informed and competent.¹⁷ The difference in an authoritarian hierarchy culture and an empowered culture is displayed in the following diagram:¹⁸

Hierarchical Culture	Empowerment Culture
Planning	Visioning
Command and Control	Partnering for performance
Monitoring	Self-monitoring
Individual responsiveness	Team responsibility
Pyramid structures	Cross-functional teams
Workflow processes	Projects
Managers	Coaches/team leaders
Employees	Team members
Participative management	Self-directed teams
Do as you are told	Own your job
Compliance	Good judgment

Provide Systems of Accountability

If an organization is going to empower their employees, it is imperative to have systems of accountability in place to protect the integrity of the organization and employees. Accountability is simply being responsible for one’s actions. There needs to be accountability for ethical standards, keeping to the mission

and vision of the organization, reaching performance goals, and meeting expectations. Accountability is a good thing; no person should be an island. The following are ways to provide everyone in the organization appropriate accountability:

1. Working on teams. Groups of people are accountable to each other both ethically and from a performance perspective.
2. Strategic plans. Approved and detailed strategic plans allow for freedom and yet responsibility. These plans keep us on task and on target.
3. Ask questions. Foster an environment that allows anyone in the organization to ask tough questions. People need to be able to ask questions without fear of dismissal or reprimand.
4. Honest and open communication. Do not keep secrets. Communicate values and publish a code of ethics. Provide seminars on the code of ethics.
5. Establish an ethics committee and chief ethics officer to establish appropriate ethical standards and to deal with infractions.
6. Protect whistle-blowers. Employees need to know they can safely tell someone if they know about illegal, immoral, or unacceptable practices within the organization.¹⁹
7. Provide performance reviews. These reviews can be informal meetings on a monthly basis to check on the progress of goals and/or it could include annual performance reviews. Ashenas et al, recommend a 360-degree feedback process. This is a comprehensive evaluation that allows reviews from the supervisor, peers, direct reports, and even customers.²⁰

Foster a Learning Organization

Great companies enjoy the learning process. They are a better company for both their failures and successes. According to Daft, "The learning organization promotes communication and collaboration so that everyone is engaged in identifying and solving problems, enabling the organization to continuously experiment,

improve, and increase its capability."²¹ There are several characteristics of a learning organization:

1. Open communication between and within organizations with an intent to share knowledge and foster continuous learning.
2. Structures become horizontal, fluid, flexible, and involve empowered teams.
3. There are few rules and procedures for performing tasks.
4. Knowledge of tasks and authority to get the job resides with employees, rather than managers.
5. Employees, customers, suppliers, and partners all play a role in determining the strategic direction of the company.²²
6. Welcome questions and analysis of all decisions. Ideas are debated and at the end of the day, the best ideas remain on the table.²³
7. Encourage innovation and creativity.
8. A shared mindset that fosters learning.
9. Rotate roles and assignments.
10. Hire competent and experienced people that bring fresh eyes to the organization.
11. Provide training programs, conferences, and ongoing educational experiences.
12. Reflect and evaluate everything you do as a team.
13. Establish regular performance reviews.
14. Teach leaders to mentor and coach employees.²⁴
15. Make failures your friend. Learn and grow from failures. Failures should not be punished.²⁵

Implement a Selective Hiring System

One of the most important elements an organization can do is implement a selective hiring system. Jim Collins believes it is imperative to get the "right people on the bus, the right people in the right seats, and the wrong people off the bus. If you get the right people on the bus, the problem of how to motivate and manage people largely goes away. The right people don't need to be managed or fired up; they will be self-motivated by the inner drive to produce the best results and to be part of creating something great."²⁶ When making

hiring decisions, remember these simple principles:

1. Define the job clearly. A well-crafted job description will help your organization find the right “fit.”
2. Hire the best person for the job. Do not hire someone just because they are available. Be patient. Do not get emotionally tied to an applicant and hire the wrong person.
3. Establish a trial period. A ninety-day trial period for new employees gives both parties an opportunity to evaluate the partnership, compatibility and job performance.²⁷
4. Acquire a large applicant pool. A good goal is to have three times the amount of applicants as positions available. This allows the organization to be more selective.
5. Ask good interview questions. Be rigorous. Do not get in a hurry to hire anybody. Be willing to have four or five rounds of screening. Follow up on references. It pays to be thorough.²⁸
6. Involve a wide range of people within the organization in the screening process. Use customers to help the screening process. Develop discernment in character through years of experience. Value the input of others.
7. Bring in new talent from time to time. Do not grow all your leaders. Fresh eyes and ideas in the organization is a valuable commodity.²⁹
8. Do not hire for a particular job, hire the best people possible – figure out their job later.³⁰
9. Hire for character, mission match, and skill set. In that order, do not reverse the order.
10. Hire people that will compliment you. Be secure enough to hire people better than you.

Almost all the literature on this subject suggests hiring for character; not education, certain skill set, work experience, or specialized knowledge. Implementing a selective hiring system is a key element for greatness. As Jim Collins says, “People are not your most important asset, the right people are.”³¹

Train and Develop Employees

Once hired, an organization needs to invest in their employees by training and developing character, ethics, general and specific skills. Developing competencies helps the company to be a learning organization and it is increasing the intellectual capital of the staff. Although these factors do not show up on the balance sheet, it is increasing the health and success of the organization. Mentoring programs for new employees can go a long way to orient a person to an organization and to help them to grow both personally and professionally. Collins believes an organization needs a culture of discipline that includes disciplined people, disciplined thought, and disciplined action.³² Much of these expectations and disciplines can be taught.

Institute a Fair Reward System

Great organizations provide not just a just wage, but also a fair reward system. There are a variety of reward systems such as gain sharing, profit sharing, stock ownership, pay for skill, and various forms of individual and team incentives. Many successful organizations encourage stock ownership. If employees are owners, they will think and act like owners.³³ Many organizations scale rewards according to vertical position. This is the wrong thinking. When rewards are based on this premise, it tells employees that climbing the hierarchy is more important than performance. According to Ashkenas et al., “When rewards exist to recognize and encourage superior performance regardless of level, boundaries loosen and the hierarchy’s health improves.”³⁴ This sort of reward system will help employees avoid the “peter principle.” Employees will be satisfied to stay in a job that they do well, if they are compensated in a just fashion through rewards, instead of feeling compelled to climb the organizational ladder to a place of incompetence.

Here are a few guidelines when putting together a reward system:

1. Base rewards on performance and skill. Performance pay based on a combination of firm, team, and

individual performance.

2. Share rewards up and down the organization. However, do not reward everyone the same. Consider using stock options as an incentive. Wal-Mart has a stock option program for all employees.
3. Use nonfinancial rewards. This is limited only by creativity. For example, parking place, encouraging letters, special dinners, press releases, conferences, company vehicle, country club membership, privileged assignments, etc.³⁵
4. Give praise publicly and privately.
5. Promote when possible. Every company is in need of good leaders. Make sure you do not promote to the level of incompetence. Use people to the best of their abilities.
6. You get what you pay for. Compensate people what they are worth to the company. Place value on them through words, positions, responsibilities, rewards, and pay. By doing this they will give back to the organization through hard work and loyalty.³⁶

Conclusion

“An empowered organization is one which individuals have the knowledge, skill, desire, and opportunity to personally succeed in a way that leads to collective organizational success.”³⁷ Organizational success is the goal. A company is on its way to greatness when it has an effective organizational design that promotes success. The ten organizational design principles discussed in this paper will help any company pursue a healthy design and lay a strong foundation for a successful organization.

About the Author

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