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Organisation design

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What is organisation design?

Organisation design is the process and the outcome of shaping an organisational structure, to align it with the purpose of the business and the context in which the organisation exists.

Organisation design is one of the important competencies for HR practitioners described in our Profession Map, as effective design of organisational structures requires familiarity with the external environment and the business needs, as well as an understanding of people behaviours and people processes.

- Find out more about the Profession Map

Organisation design is sometimes considered together with, or as part of, organisation development. Organisation development is concerned with improving the overall organisational effectiveness over a period of time with a strong emphasis on change in an organisation's culture and behaviours, rather than structures, systems and processes. Organisation (re)design can be used as an intervention in the organisation development process.

- See our factsheet on organisation development

Approaches to organisation design

Organisation design and organisation development approaches may appear to blur partly due to the way organisation design theory has evolved. While early approaches adopted a mechanistic take on structuring organisations with little consideration to people behaviours and attitudes, later models considered how people work together.

Bureaucratic approaches to structure largely stem from Max Weber's work[1], prescribing that effective organisations are characterised by robust and consistent processes and clear hierarchical structures. This type of structure is associated with tight management control and supervision, with little individual autonomy over roles and tasks.

Complementing this approach is 'scientific management' developed by F.W. Taylor[2], outlining specific principles of designing a bureaucratic structure. Through analysing the time taken to complete tasks, as well as the optimal sequences of the task, Taylor proposed how workers and structures could be 'scientifically' selected to achieve organisational efficiency. Taylor's studies had a significant influence on work organisation and job design in the early twentieth century and have been widely applied to assembly lines (for example, in the Ford Motor Company). Work organisation combining top-down control and efficiency measurements is still popular in industries dependent on standardisation of work tasks, for example call centres and assembly lines.

- Find out more in our factsheet on job design

From the 1960s, the need for organisations to be adaptive to the changes in the external environment has been acknowledged, giving rise to the 'organic' or systems approach which shifts focus onto the organisational culture and its people, rather than structure only, But it's accepted that a fluid take on design might only suit some organisations, with the traditional work processes relying on the hierarchical and structured design. Within this organic focus new forms of organisation (inevitably combined with new forms of management) have been developed and tested, for example, matrix organisation, network organisation, and co-operatives.

Types of organisational structures

Connor, McFadden and McLean highlighted the following common types of organisational structures[3]:

- functional (by the different functions present in the organisation, for example, sales, production, HR)
- geographical (by location of operation, therefore, enabling local decision-making)
- product-line based
- customer/market based
- matrix (combining hierarchical and functional approaches, typically with multiple reporting lines).

New forms of organisation

More recently new forms of organisation have been described, largely enabled by the technological advances in virtual working, the rise in 'non-standard' work (for example, flexible working and zero-hour contracts), and the idea of empowerment, or devolving decision-making down the organisational hierarchy. These new approaches to work have challenged the traditional hierarchical structure, focusing on increasing organisational agility, enabled by more flexible organisational structures. Examples of collaborative, non-hierarchical ways of organising include Wikipedia, the Occupy movement, the Engage for Success movement, and, famously, Zappos.

Another trend is working 'beyond the organisation' or collaboration between organisations for mutual benefits. This is widespread in sectors such as pharmaceuticals, car manufacture, advertising, marketing and media and consulting. For example, large-scale construction projects, such as Terminal 5 at London Heathrow Airport and the London Olympic Park, have been designed, developed and put in operation by several organisations working in partnership towards the same goal.

- Find out more in our report *Innovative forms of organising: networked working*
- See our report *Organising HR for partnering success* which explores the implications of partnership working for HR

Factors influencing the choice of organisation design

Organisation design and business objectives

Alignment of the business purpose is an essential feature of organisational design, as illustrated by the various organisational structures (for example, product-line based, or customer/market based)[4]. Importantly, the structure may have to evolve with the changes in the corporate strategy, enabling the ways of working necessary for fulfilling that strategy.

Similarly, external environment has an impact on how an organisation is designed, with stakeholder analysis (PESTLE) typically conducted to establish how the structure may fit their varying needs.

- See our factsheet on PESTLE analysis

Although business strategy is usually set by senior managers, they require input from HR to take into account people behaviours and people management processes. For more information on the HR involvement in strategic business decisions see our HR Outlook series.

Organisation design and culture

An association between different types of organisation design and organisational culture has also been observed. It's important to consider these relationships when using organisation design as an organisational development intervention, for example in cultural change. Handy's cultural typology[5] provides a useful framework for understanding parallels between organisation design and culture.

- **Power cultures** are dominated by one individual or a small group, and are characteristic of many start-up organisations.
- **Role cultures** correspond to the functional structure, where parts of organisations are clearly separated by their functional purpose, and, therefore, heavily rely on senior managers to direct the operations of each of the functions, as well as to co-ordinate between themselves. The disadvantage is that these cultures (and structures) can breed 'silos' which impede agility.
- **Task cultures** are related to matrix organisations which rely on a network of connections, corresponding to tasks or projects at hand. While this culture enables collaboration and knowledge-sharing, it also requires clarity of the main vision, as well as consistency of processes, including performance management, to avoid conflicting priorities placed on employees through multiple reporting lines.
- **Person cultures** are found in parts of organisations where authority is associated with expertise. This can be true of clusters of specialists or consultants, for example, legal professionals, architects or academic groups. The structure of such an organisation must support and enable individual interests.

The variety of cultures within a single organisation can justify a mix of organisation design approaches, depending on which ways of working are effective in achieving business objectives in a particular part of the organisation. Our report *Developing organisation culture: six case studies* looked in detail at organisations undertaking culture change and, based on their experiences, includes a practical checklist of some of the important issues to consider for effective culture transformation

It's important to consider global cultural differences and the resulting idiosyncrasies of organisational cultures

when designing global corporations, with a need to think about the 'organisation within an organisation'.

Hofstede[6] famously identified five dimensions that can explain international differences in cultural preferences, and, therefore, types of effective organisational structures across the globe:

- **Power distance** – the degree of social distance between senior management and workforce.
- **Uncertainty avoidance** – the degree to which individuals are comfortable with taking risks.
- **Individualism/collectivism** –the propensity of the culture to reward individual or team effort.
- **Masculinity/femininity** – competitive or nurturing cultures.
- **Long-term orientation** – value attached to long-term investment compared to short-term wins.

Maturity of people processes

The sophistication and effectiveness of the existing people processes and systems are important elements contributing to the organisational design. A classic example is the increased use of technology for recruitment and performance management, remote working, and communicating (for example, intranet and social media). Depending on the uptake and effectiveness of these tools organisations may consider different structures, for example, moving from a functional to a network way of organising. Similarly, higher levels of trust in an organisation can justify a transition towards a flatter organisational structure.

Our report *Achieving sustainable organisation performance through HR in SMEs* considers evolution of organisational structure and HR processes in SMEs.

Our research *Smart working: how smart is UK PLC? Findings from organisational practice* has shown that more organisations focus on several areas of job and organisation design to improve productivity and performance:

- freedom to act
- virtual teams or work groups
- outcome-based performance measurement
- flexible working practices
- technology-enabled work environments
- high-trust working relationships
    - See our report Where has all the trust gone?

CIPD viewpoint

HR practitioners must be fully aware of the role organisation design plays in shaping people processes. Firstly, they need to make sure that organisation design is aligned with the business strategy and that various interventions aren't conflicting. For example, in a matrix structure individuals need clarity on how and by whom their performance appraisals will be conducted. Secondly, HR practitioners should use organisational design as one of the instruments for shaping the culture necessary to achieve the business strategy and to improve the quality of jobs for people. Responding to the changing nature of work, some organisations use physical space to encourage people from different teams to communicate and collaborate more.

Our research shows that organisation design is particularly important to SMEs who may need to review structures and processes as they grow. Many start-ups begin with a 'spider web' structure where a network of individuals work towards the vision of a single entrepreneur or a group of founders, but develop a greater hierarchical separation between the senior and the junior members of staff over time. In turn, larger companies may be working towards removing redundant levels of hierarchy to achieve greater individual autonomy and speed up decision-making.

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Further reading

Books and reports

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