15.320
Strategic Organizational Design

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Two key messages

- **There are patterns in organizational design.**

- **Organizational design is changing.**

There are patterns in organizational design

- If you learn the common patterns, you don't need to keep rediscovering them.

- Companies that apply them well can gain significant strategic advantage.

Organizational design is changing

- New, often more decentralized, patterns are becoming increasingly desirable.

- You will probably have opportunities in your career to invent or apply new organizational design patterns.

Question

- **How much of the intelligence of people throughout an organization can we use in a decentralized organization?**

What will this course include?

- **Introduction**

- **Designing organizations for strategic goals**

- **Conclusion**

What is strategic organizational design?

- What does it mean?

- How is it "strategic"?

- How is it "organizational"?

- How is it "design"?

Three lenses
for analyzing organizations

- **Strategic design**

  – How can people configure organizations to achieve goals?

- **Political**

  – How do different stakeholders use power to achieve their goals?

- **Cultural**

  – How do "we do things around here"? How do attitudes, beliefs, and symbols shape the meanings people assign to situations?

Three lenses for analyzing organizations

- **Strategic design**

  – How can people configure organizations to achieve goals?

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  – How do different stakeholders use power to achieve their goals?

- **Cultural**

  – How do "we do things around here"? How do attitudes, beliefs, and symbols shape the meanings people assign to situations? What values does the organization embody?

A definition

Strategic organizational design--

  – **Configuring the *formal elements* of organizations**

  (including structures, processes, incentives, contracts, and systems)

  – **to achieve specific *goals***

  – **in specific *environments***

  (including external competitors and internal culture and politics)

How is strategic organizational design "strategic"?

- **To design an organization well, you need to know the organization's goals and strategy.**

  – Organizational design is about translating vision and strategy into reality.

- **Often, organizational design is at the heart of strategy.**

  – Products alone are *not* the source of *sustainable* competitive advantage.

  – What is?

Two main routes to competitive advantage

- **Position**

- **Capabilities**

From Saloner, G., Shepard, A., and Podolny, J. *Strategic Management* (2001). New York: John Wiley & Sons, Ch. 3.

How is organizational design related to competitive advantage?

- **Organizational design is usually essential to advantage based on capabilities.**

- **Capabilities (and organizational design) can help create (or destroy) advantage based on position.**

- **In summary:**

  - **Organizational designs have to emphasize some things and not others.**

  - **They should emphasize the things that give sustainable competitive advantage.**

How is strategic organizational design "organizational"?

- **Organizational design involves how to *organize* work:**

  - Grouping

  - Linking

  - Aligning

What is included in organizational design?

Strategic Organizational Design	Composition of organizational units
	Reporting relationships among internal units
	Contractual relationships with key external units
	Other structural connections among units (including key management and other processes)
	Organization-wide systems for information, measurement, incentives, control, and recruiting
Operational Design	Subunit work flows, processes, and resources (tools, materials)
	Subunit reward systems
	Subunit physical work environment
	Individual job design

Organizational design is a powerful organizational tool

- **Organizational design is one of the few levers for change available to most managers.**

    – Changes in strategy, people, culture are usually more limited or more difficult.

- **It has the potential to massively change performance.**

- **It grabs attention.**

Adapted from David Nadler & Michael Tushman. *Competing by Design: The Power of Organizational Architecture.* New York: Oxford University Press, 1997.

How is strategic organizational design "design"?

- **Design is about how to *combine elements* to achieve *goals*.**

  - Not just how to describe or predict or analyze things

- **Design involves tradeoffs.**

  - No one best answer for all situations.

- **Design involves invention and innovation.**

  - Creating new possibilities, not just analyzing or selecting among predefined options

Conclusions

- **If you know how to recognize and apply *classic* patterns of organizational design, you'll be better able to implement strategies effectively in many situations.**

- **If you know how to effectively invent or apply *innovative* organizational designs, you may be able to make this a key element of your whole strategy.**

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