

## **DESIGNING ORGANISATIONS**

## **ABOUT THE AUTHOR**

Naomi Stanford is an expert organisation design practitioner, teacher and author. During her earlier UK career she worked in large multinational companies, including Prudential, Price Waterhouse, British Airways, Marks & Spencer and Xerox. She then spent fourteen years in the US as an organisation design consultant in a range of organisations including the US Federal Government, NBBJ and Mercer before returning to the UK to work in the government sector. She is now an independent consultant working with clients in the Middle East and Europe. She writes books, blogs and articles, speaks at conferences and tweets (@naomiorgdesign) regularly on organisation design. Her website [www.naomistanford.com](http://www.naomistanford.com) has over 800 blogs on the topic, including extracts from the seven books she has written.

Here is everything you want to know about organisation design, past, present and future. In this book, Naomi Stanford strikes the right balance between theory, insights from the field and practical case studies. It's the perfect piece of thought leadership for everyone who has to deal with organisation design: business leaders, academics, students, consultants and HR professionals.

*Vincent Favre, Global Organisational Development Director, Danone Company*

Naomi Stanford provides an excellent overview of organisation design and its many components, illustrated with countless examples. *Designing Organisations* is a go-to handbook that will guide and advise leaders and practitioners on how to structure an organisation for success.

*Erik van Vulpen, CEO, Academy to Innovate HR (AIHR)*

Organisation design is about the life of an organisation. An organisation needs to be designed for generating a healthy "life", and its design has to be revamped continuously to maintain that healthy life. This book encompasses everything that is needed to give life to a company and to maintain its development. It is enlightening reading for entrepreneurs, organisational leaders and design practitioners.

*Louis Bruhl, head of RéSolutions and editor of RéSolutions Weekly*

When the first edition of this book came out, it neatly captured an essential universe of knowledge that most professionals are simply never exposed to. How much more fortunate are we now when, with this new third edition, Naomi Stanford adds another decade of wisdom, research and lived experience to the mix. Her section on continuous design should be required reading for anyone in management.

*Emily Frye, cybersecurity expert*

It is not usual for a book on organisation design to be a gripping read, but *Designing Organisations* is a real page-turner, with its clear and powerful language, examples that span the globe and deep theoretical underpinning. I highly recommend this book to anyone undertaking the difficult but rewarding task of organisation design.

*Gaurav Gupta, Global HR Director, Akzo Nobel*

Naomi Stanford has once again succeeded in helping us think systemically about organisation design, what the discipline covers, its history, breadth and possible future, and practically how to do it. This is the book I will buy for my team and clients to help them understand and deliver organisation design work.

*Meir Adler, Global Organisation Development Practice Lead, Novartis*

What really shines in Naomi Stanford's book is her skill in transforming academic theory into clear ways of applying it in practice. Her approach is well structured, cogent and provocative. Stanford has mastered the technique of making analysis of the complex entertaining and elegant. If there is one management book to read this year, this is it.

*Albert De Plazaola, Global Director Strategy, Unispace*

A compelling and important book on the critical issues of organisational design. It presents a comprehensive case for how to approach organisational design and why it is so extremely important to the success of an enterprise. The chapter on culture is especially important at a time when organisations are focused on creating and maintaining their culture. Its relevance, particularly in light of the pandemic, makes the book a much-needed read for practitioners and all who are working within organisations to create strategies and steer their course for the future.

*Arnold Craig Levin, SW Co-regional Consulting Practice Area Leader, Gensler*

Naomi Stanford's book is a lively demonstration of knowledge, experience and enthusiasm in organisational design and implementation. She clearly explains ways of navigating through structure and system design and redesign, and the associated cultural and organisational changes. Stanford's book on this fascinating subject offers new learning, insight and skills development to any manager, just as it has to me. I thoroughly recommend it.

*Dale Massey, Senior Manager (Service Design and Transition), BT Global Secure Solutions*

# **DESIGNING ORGANISATIONS**

Why it matters and ways to do it well

**Naomi Stanford**

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# Foreword

EACH OF THE FIVE ORGANISATION DESIGNERS who worked with me to shepherd this book from start to completion, believe, as I do, that organisation design matters.

Below, they give their reasons.

## **Jim Shillady**

Occasionally organisations succeed by chance. But, in general, success comes from thinking explicitly about what to do, why, and how – and then doing it. Organisation design's value has been in orchestrating that thinking process. Yet until recently it has mainly had to tackle complicated, rather than complex, problems – essentially those requiring novel technical solutions rather than true innovation.

Now organisation design is evolving to take on complexity – challenges that are new in themselves, that are of great significance to people and the planet, and that emerge and interact in surprising, often alarming, ways. In its contemporary form, organisation design matters more than ever; it answers tougher questions, involves participants more frankly and demands more of them, and values action over order. Arguably, no other discipline has such power to help people and their leaders confront new realities and create enterprises fit for a turbulent world.

## **Rani Salman**

The bridge connecting strategy to execution comes in the form of organisation design. Misaligned operating models and poorly designed organisations are notorious for strategic failure. Organisation culture

can shatter the most ambitious and accurately developed strategies. Making sound design decisions can shape a supportive culture and mitigate the risk of strategy failure.

These decisions are not always easy to make, especially in a landscape where organisations have become more interconnected and complex. Compounding the complexity is a never-ending array of dynamic choices that bring with them tensions, difficulty and consequences, both intended and unintended. However, with a focused approach and a unique mixture of science and art, the design process can be challenging yet rewarding, and culminate in organisations capable of high performance. Most importantly, organisation design matters because it runs deep and touches the human experience and psyche, impacting people in profound ways that often transcend their organisational experiences.

### **Fiona McLean**

Organisation design matters because it urges us to put our human selves at the centre of our efforts. It offers us the possibility to think of organisations in different ways, where we can see an organisation as a body of bodies, where our governance and processes are less bound by hierarchy, more inclusive, more transparent, where no voice is unheard. Where decision-making and information flows smoothly from strategy to design and back around in a dynamic feedback loop of human interaction moving strategy into action. Where social interaction and conversation is valued as much as formal planning and where the essence of those social interactions act like a strong pair of lungs transferring life giving oxygen into the system for vitality, in order to create the conditions for continuous design.

### **Giles Slinger**

Organisation design matters because it shapes people's experience of work and whether an organisation can deliver to its customers. In a perfect world, organisations would sense the need for change and would adapt continuously from one stage to the next. But our reality is never perfect. Organisations face a never-ending challenge of balancing continuity (supply) and change (demand). Continuity can be efficient,

and human brains love routines, so organisations would by default supply “the same as before”. At the same time, people value change – they value things that are new and better, so organisations must adapt to this demand. Happily, humans also have a restless curiosity, such a capacity to wonder and invent that supply can effectively be unlimited in meeting new demands. The challenge is moving organisations of such wonderful humans from one stage to another fairly, efficiently and quickly. Organisation design helps gather the evidence, helps develop the options, helps find the agreement and helps deliver the transition, on to the next stage.

### **Milan Guenther**

Companies, institutions and other organisations run those endeavours that enable human action at scale. They bring together teams and their ambitions, resources and ways to use them, products and people’s needs: to be successful as an enterprise, they have to be designed to build relationships and enable dynamics that constitute successful outcomes.

Responding to big challenges requires organisations designed to be fit for purpose, to perform and deliver. This applies to a disruptive startup just as much as to a large corporation, or a public health effort such as a vaccine rollout.

So how do you design successful organisations? You can design business models, information systems and operational processes, product and service portfolios, or team responsibilities and collaboration. Going beyond optimising these individual elements, purposeful organisation design will help you understand how they can be organised coherently as a system, and how to reshape their interplay to bring about a desired future. Designing organisations well matters.

# Preface

I PROMISED MY FAMILY that I would not write another book. They want to see more of me than my back as I face the computer. They had already supported me through my PhD and several books. When invited to write a third edition of this book, in mid-2019, I refused. Then I changed my mind. The trigger for this was the start of the coronavirus pandemic – around February 2020 – which rapidly ramped up into lockdowns, remote working and an extended and shared vocabulary that was evolving at hyper-speed and quickly becoming a core part of the language.

Oxford Languages was unable to suggest a single word of the year for 2020, instead issuing a report entitled *Words of an Unprecedented Year*. The words were not just those spawned by the coronavirus pandemic, but those new to technology and remote working, the environment, social movements and social media, and politics and economics.

What became obvious and clear to me was that this unprecedented year was going to have a profound impact on organisations and the way we thought about them, worked in them and designed them. I thought it would be fascinating to revise the second edition in the light of what I was experiencing, observing and getting to grips with.

This has proved to be the case. We are thinking differently about organisations and the way we work in them and it has been a challenging and exciting journey of reflection, discussion, learning, challenge, signal detection, pattern recognition and meaning-making – and all in the service of improving my own and others' skills and practice.

This third edition has some very different content from the second edition, including a new chapter on continuous design and a completely revised chapter on designing culture. All the examples and

case studies are either new or revised and the impact of the pandemic is threaded through. However, writing this third edition as a guide for others, is not simply a swift reaction to an unprecedented year. It draws on my three-plus decades in the field of organisation design.

The coronavirus pandemic has served to throw into sharp relief my strongly held beliefs that organisations that are continuously designed to be human centred, good places to work, well led by ethical, brave and curious leaders who are purpose- and outcomes driven, will be better able to weather the changing contexts than organisations that focus on hierarchies, structure, procedures, targets and objectives.

The coming years will see the ripple effects of the pandemic, and I am reminded now of fiction writer, Kim Stanley Robinson's quote: "We have come a long way. We have a long way to go. In between we are somewhere." We are indeed at the somewhere between traditional, hierarchical command and control organisations and organisational forms that we have not yet seen come into the mainstream.

If organisations are designed to become flatter, to foster respect and autonomy, promote equal opportunity, equal treatment and equal outcomes – and if, at the same time, organisational leaders and other stakeholders design with the recognition of our interdependence, fragility and vulnerability and the impact of our current lifestyles on our environment – then it will be clear that we are learning from what the pandemic has brought to light.

In writing this third edition, I am hoping that leaders and managers, in their capacity as organisation designers (which they are whether they recognise it or not) will find value in learning more about their role in designing organisations and putting that learning into practice. This book gives them the information, methods, examples, case studies – fictitious but drawn from my work – and tools to guide them.

Naomi Stanford

*May 2021*

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Words and phrases shown in **bold** within the text are explained in the glossary on pages 332–8.

# 1

## Introducing organisation design

Business people don't need to understand designers better. They need to be designers.

Roger Martin

**ORGANISATION DESIGN TAKES PLACE** in a continuously shifting, complex and multi-faceted context. Competitor pressures, regulatory changes, geopolitical events, technology advances, societal expectations and unforeseen events are in constant flux, requiring organisational leaders to make short- and long-term choices and decisions about the operation of their organisation. Examples include choices and decisions around expansion, contraction, merger, opening new markets, making efficiency gains, improving customer service levels, upgrading technologies or multiple other factors in order to keep their organisation high performing.

Making these choices and decisions to design or redesign all or part of their organisation in response to, or anticipation of, context shifts, crises, opportunities or pressures, involves addressing the tensions that design and redesign work inevitably see come into play.

The coronavirus pandemic placed huge pressures on organisational leaders and resulted in significant changes to the context in which almost all companies operate. Stay-at-home restrictions and the forced closure of non-essential retailers fundamentally altered business models for customer-facing firms. Sharp downturns, for example in the hospitality, culture and travel industries, weakened demand for some goods and services, but some others (particularly delivery-based firms) saw demand soar.

## 2 DESIGNING ORGANISATIONS

The extent and depth of the pandemic resulted in some radical changes in organisation design. Some organisations completely altered what they produce and how they operate in response to the crisis. One example has been the global surge in the number of drive-in locations for film, music, theatre, opera and comedy:<sup>1</sup>

*Lithuanian capital Vilnius has put a fresh twist on the trend of drive-in cinemas – hosting one at the city's airport!*

*With nearly all flights scrapped due to covid-19, the airport teamed up with the Vilnius International Film Festival.*

*The first movie was the Oscar-winning South Korean drama Parasite. ... Around 150 cars showed up to watch the movie. Social distancing measures meant vehicles had to be parked at least two metres apart, with a maximum of two people per vehicle.*

*“Implementing this project was a pleasant challenge for us – we had to transform the airport apron, which is usually a restricted area, into a space open to film lovers,” said Dainius Čiuplys, head of Vilnius International Airport.*

*“We were excited to contribute to a project of this nature while also using this opportunity to demonstrate how airports can perfectly combine aviation activities with events and projects of various formats.*

Unilever, a multinational consumer goods company, is one of many large organisations that rapidly changed their design as a pandemic response, massively scaling-up production of hand sanitiser to have more than 30 factories making this pandemic-essential product. This required redesigning production lines, which ordinarily made other beauty and personal care products and setting up new facilities. A factory in Vietnam was set up from scratch in just 25 days. While in South Africa, where products were previously imported, local production was started and packaging formats were changed to make the production and filling process significantly quicker.

Both these examples – one of a small organisation and the other of a multinational – of rapid response-to-crisis have significant design implications. They require changes to policy, staffing, legal compliance, business processes, financial systems, marketing, partnering arrangements, consumer interactions and so on. Both

illustrate the fact that organisation design is integral to business performance and involves paying attention to the interdependence of the multiple elements that comprise an organisation and managing the tensions and trade-offs between them.

This book is about organisation design, specifically the “doing” of organisation design – the process of intentionally designing the “hard” and explicit business elements that can be documented through narrative or graphics, for example in business process maps, policy manuals, customer journeys, system operating guides, organisation charts and governance mechanisms, so that each supports the others.

Inevitably the “soft” elements that are not easily documented – interactions, feelings, perceptions, cultural attributes and emotions – also come into play. This interplay between the hard and soft elements of an organisation is one of the many tensions and trade-offs that leaders and organisation designers have to bear in mind.

The outcome of the activities of doing the organisation design is the design itself. Many people mistake the organisation design for the organisational structure (commonly perceived as the organisation chart). The examples above illustrates the fact that design is not about the organisation chart. It is much more than that.

Although organisational structure is discussed in this book, it is not the main focus. Organisational structure – the arrangement of the different departments/units of an organisation and the different teams and roles working in each department/unit, in an ordered way – is only one of several elements in an organisation design.

To explain the differences between design and structure, consider the analogy of a vehicle. Like an organisation, a vehicle comprises multiple interdependent elements aligned to deliver high performance. For a vehicle, these include the engine, gearbox, drive axle, steering and suspension, brakes, oil filter, chassis, battery, alternator, shock absorbers and other parts. The elements of the vehicle are all designed and aligned to work in seamless unison to propel the car forward.

An organisation typically comprises the elements shown in Table 1.1 – though note this is not an exhaustive list. As with a vehicle the elements that propel an organisation into the future, delivering its purpose, products or services, must be designed and aligned, ideally to work seamlessly together.

TABLE 1.1 **Hard elements of an organisation**

<b>“Hard” organisational elements Including</b>	
<b>People</b>	The characteristics of individuals in the organisation, including their declared skills, demographic profile, length of service and time in role.
<b>Work</b>	Work flow, IT infrastructure, functional systems, interdependencies, handover points, how work actually gets done. This means the basic tasks to be done by the organisation and its parts, including the job roles and content, job design, number of positions, what work is done, and at what level.
<b>Formal organisation elements</b> Things that can be documented and described easily to someone else. The explicit, objective parts of the organisation. The sort of information you get on an induction programme.	Strategy, hierarchies, structures, layers and spans, organisation chart, business processes, standard operating procedures, rules, policies, stated values, space/interior layout, floor plan. That is the totality of the systems and methods that are formally created to get individuals to perform tasks.

Even with advancing technologies a vehicle is not (yet) self-designed and delivered. It takes people working on the end-to-end process. These people are organised, i.e. structured – into business units, into teams within the business units and into roles within the teams. The appropriate structuring of people to deliver a product or service is one element of the entire design.

Supporting the design of the vehicle are various tools and technologies. Ford, for example “has one of the most advanced virtual reality (VR) labs in the world, which allows a vehicle and all of its technical details to be taken out of the design studio and placed on a virtual operating table where a trained professional can dissect its innards”.<sup>2</sup> Similarly, other organisations make use of appropriately chosen tools and technologies – cloud services, learning management systems, financial modelling applications, etc.

The analogy of the vehicle to an organisation is not perfect, as a vehicle is a mechanical, physical, stable (in a design sense) object. A car will not gradually morph into a tank. Organisations, on the contrary,

are complex non-physical entities always shifting in response to their context. The shifts may be intentionally designed, although very often they gradually shift form, without a single overall intention.

Organisation design is about the intention to design a better organisation. There are multiple definitions of the term “organisation design”, each giving a slightly different take on what it is:

- Practitioner and academic Nicolay Worren in his blog “What is organisation design?” says that organisation design means more than “boxology”, involving “the creation of roles, processes and structures to ensure that the organisation’s goals can be realized”.
- The Center for Organizational Design says, “Organizational design is a step-by-step methodology which identifies dysfunctional aspects of work flow, procedures, structures and systems.”
- McKinsey describes organisation design as “going beyond lines and boxes to define decision rights, accountabilities, internal governance, and linkages”.
- The European Organisation Design Forum defines it as a systematic and holistic approach to aligning and fitting together all parts of an organisation to achieve its defined strategic intent.

What all these definitions have in common is that they view an organisation as much more than an organisation chart. They describe a system, comprising interdependent elements that collectively work to deliver a purpose.

The definition of organisation design used in this book is “intentionally arranging people, work and formal organisational elements to effectively and efficiently achieve a business purpose and strategy”. This definition reflects the focus of design on the “hard” elements of an organisation.

However, returning to the vehicle design analogy, vehicle designers know that the elements comprising a complete vehicle are interdependent. A vehicle design will not deliver if its elements are designed in isolation. Designing an organisation takes a similar appreciation that organisational elements are interdependent and that a design will not deliver if its elements are designed in isolation.

Also, in the same way that vehicle designers cannot ignore people’s

contribution to performance (in this case driver and maintenance engineer skills and experience), so organisation designers cannot ignore the social and behavioural elements of an organisation, several of which are shown in Table 1.2.

TABLE 1.2 **Soft elements of an organisation**

"Soft" organisational elements	Including
<b>Informal organisation</b> Things that are not easily described, the shifting coalitions, the nuances, the implicit things.	Culture, relationships, lived values, behaviours, politics, communication, language, myths and stories, management style. That is, the implicit or emerging arrangements, including variations to the norm, processes and relationships, commonly described as the culture or "the way we do things round here". The informal organisation also includes the "shadow side", the way people "decide" how to think and behave, the in-groups and out-groups, social routines, and the rites and rituals that reinforce the culture.

Unfortunately perhaps, the human element, of employees, of customers, of citizens, and so on, is an unpredictable, almost non-designable – but potentially shapable – variable in aiming for a high-performing organisation.

If organisation design is so critical to high performance, then, according to Tom Peters, "It should be on the agenda of every meeting in every single department." Curiously, however, executives rarely talk about it as an everyday issue, and even more rarely reflect on the interactions between the organisational elements and complex social dynamics in order to redesign their business for success.

Peter Senge, in his book *The Fifth Discipline*, points out why intentional organisation design work is uncommon:<sup>3</sup>

*Part of the reason why design is a neglected dimension of leadership: little credit goes to the designer. The functions of design are rarely visible; they take place behind the scenes. The consequences that appear today are the result of work done long in the past, and work today will show its benefits far in the future. Those who aspire to lead out of a desire to control, or gain fame, or simply to be "at the centre*

*of the action” will find little to attract them in the quiet design work of leadership.*

The premise of this book is that organisation design matters and that an organisation has a better chance of success if it is reflectively and continuously designed. Five principles underlie effective, continuous and reflective organisation design:

1. Organisation design is driven by the business purpose and strategy, the operating model and the operating context.
2. Organisation design requires systems thinking: about the many elements of the organisation and the connections between them.
3. Organisation design takes strong, thoughtfully used, future-oriented mindsets and methods.
4. The organisation design process involves social interactions and conversations as much as formal planning.
5. Organisation design is a fundamental continuing business process, not a one-off repair job.

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Reflective questions: Why should organisation design be on the agenda of every business meeting? What would change if it was?

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This chapter continues with a further discussion on what organisation design is and what it is not and then looks at the five principles just listed.

Note that throughout, “organisation” means anything from a unit of operation to a whole enterprise, and includes the formal and informal aspects of this, although, as stated, this book focuses on the formal elements.

The formal elements – departments and divisions, systems and business processes, and so on, – can be designed independently of each other as long as interfaces and boundary spanning both between them and the wider organisation form part of the design.

Herbert Simon’s parable of the two watchmakers explains how

complex systems, such as a whole organisation, will evolve much more rapidly from simple systems, such as departments, if there are stable and intermediate forms than if there are not. In organisation design, getting the units aligned and organised coherently works to the benefit of the whole organisation.

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### The parable of the two watchmakers

There once were two watchmakers, named Hora and Tempus, who manufactured fine watches. Both of them were highly regarded, and the phones in their workshops rang frequently. New customers were constantly calling them. However, Hora prospered while Tempus became poorer and poorer and finally lost his shop. What was the reason?

The watches the men made consisted of about 1,000 parts each. Tempus had so constructed his that if he had one partially assembled and had to put it down – to answer the phone, say – it immediately fell to pieces and had to be reassembled from the elements. The better the customers liked his watches the more they phoned him and the more difficult it became for him to find enough uninterrupted time to finish a watch.

The watches Hora handled were no less complex than those of Tempus, but he had designed them so that he could put together sub-assemblies of about ten elements each. Ten of these sub-assemblies could be put together into a larger sub-assembly, and a system of ten of the latter constituted the whole watch. Hence, when Hora had to put down a partly assembled watch in order to answer the phone, he lost only a small part of his work, and he assembled his watches in only a fraction of the time it took Tempus.

**Source:** Simon, H.A., *The Sciences of the Artificial*, 3rd edition, MIT Press, 1996

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The two watchmakers had an identical purpose – to produce a working watch. But they had different strategies and a different operating model that they employed to do this. Hora prospered by thinking through the design elements of delivering his strategy. He intentionally organised the component parts of the sub-assemblies, then constructed each of the sub-assemblies (ensuring the interdependencies between them were designed) and then assembled

the sub-units into the whole. This method enabled Hora to respond to the changing context of more and more customers. As Hora's business grew and he considered taking on employees, he would make choices and take decisions.

For example, he could choose to have a team of employees, each building one sub-assembly multiple times, and another employee assembling the sub-assemblies constructed by others; or he could choose to have one employee construct a single watch building all the sub-assemblies for this; or he could choose to outsource the construction of some/all sub-assemblies and have employees constructing the watch from the constructed sub-assemblies.

Tempus failed as he had not designed the operational delivery of his strategy. Partly because of this, his business was unable to respond adequately to context changes.

Think too, about the two watchmakers as human beings – it is their personalities, habits, behaviours and interactions with others that shape the type of organisation design that they decide on (or allow without conscious decision, to use). Tempus might have been able to retrieve his business had he learned from Hora's "best practice", or stopped to reflect on his (Tempus's) situation and how he could resolve it, or listened to his friends' advice on what steps he could take to find support.

From this example it is clear that aiming to design the informal, human aspects of the organisation would not be easy, and it is questionable as to whether it is possible. The human aspects constitute what the late Ralph Stacey, a management professor, called the "patterns of relationships, both good and bad, between people". He noted:<sup>4</sup>

*These patterns emerge in complex responsive processes of interaction between people taking the form of conversation, power relations, ideologies, choices and intentions. What happens is the result of the interplay between the intentions and strategies of all involved and no one can control this interplay.*

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Reflective question: How possible is it to design the human dynamics in organisations?

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