

ORGANIZATION DESIGN

Chapter 11

Managers have long sought to discover the “one best way” to structure an organization. But there is no *one* best way; rather, the best way to design an organization is to optimize the fit among a number of key elements. **Organization design** is the process of ensuring that there is a “fit” between how an organization manages its four fundamentals of organizing and its culture, environment, technology, and strategy.

Although there is not one best way to organize, research suggests that it is helpful to think of four different generic organization design types. An **organization design type** is a specific, coherent alignment among the four fundamental components of an organization’s structure, culture, and strategy to fit the prevailing environment and technology. In other words, there are four types of organizations where all the pieces fit together nicely. The four are called: simple, prospector, defender and analyzer. These four generic organization design types are adaptable enough that they can be applied equally well to Financial Bottom Line (FBL), Triple Bottom Line (TBL) and Social and Ecological Thought (SET) management, though with different meanings and nuances. The table below summarizes these four types, key fundamentals, and examples of each type for FBL, TBL, and SET organizations.

FOUR GENERIC TYPES OF ORGANIZATION DESIGN		FBL	TBL	SET
1. Simple Type <i>Structure:</i> familial <i>Culture:</i> clan	<i>Environment:</i> harsh <i>Technology:</i> craft	Amway	Botanical Paperworks	Greyston Bakery
Strategy: focus				
2. Prospector Type <i>Structure:</i> pioneer <i>Culture:</i> adhocracy	<i>Environment:</i> prolific <i>Technology:</i> non-routine	Apple	Tesla	Grameen Bank
Strategy: differentiation / transformer				
3. Defender Type <i>Structure:</i> programmed <i>Culture:</i> hierarchy	<i>Environment:</i> barren <i>Technology:</i> routine	garment factories in Bangladesh	Everlane	31 bits
Strategy: cost leadership / minimizer				
4. Analyzer <i>Structure:</i> outreach <i>Culture:</i> market	<i>Environment:</i> oasis <i>Technology:</i> engineering	Goldman Sachs	3M	Habitat for Humanity
Strategy: dual / compounder				

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We will now explore further these fundamentals of structure, culture, environment, and technology referenced in the table above.

Four generic types of organizing and culture

The FBL approach to the four fundamentals of organizing that were described in the previous chapter are often combined to form an overarching continuum that goes from a mechanistic structure to an organic structure.

- A **mechanistic structure** is characterized by having prescribed standardization, narrow specialization, concentrated centralization, and functional departmentalization (e.g. the U.S. Postal Service).
- An **organic structure** is characterized by non-prescribed standardization, broad specialization, diffuse centralization, and divisional departmentalization. An example of an organic structure is a neighborhood “ultimate Frisbee” league where players show up if they are available and are divided into different teams each week.

This organic-mechanistic continuum is the most widely recognized contribution in the organization design literature

A second continuum goes from a culture that has an internal versus to one with an external focus.

- **Internal focus culture** refers to organizations that tend to place relatively more value on treating the organization as a means to meet the needs of its members.
- **External focus culture** refers to organizations that tend to place greater value on members as a means to meet the needs of the organization.

Combining these two continuums results in the following table:

	Internal focus structure Internal focus culture	External focus structure External focus culture
Organic structure Adaptability culture	<i>Familial structure</i> <i>Clan culture</i>	<i>Pioneer structure</i> <i>Adhocracy culture</i>
Mechanistic structure Predictability culture	<i>Programmed structure</i> <i>Hierarchy culture</i>	<i>Outreach structure</i> <i>Market culture</i>

A *familial structure* is organic and has an internal focus, and is often found in smaller organizations. It is evident in the networks of distributors who work in an FBL firm like Amway,

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where salespeople look out for each other, and there is a strong incentive for senior people to nurture and help junior people to increase sales. A familial structure is also evident in smaller craft-based TBL firms like Botanical Paperworks, which makes hand-made paper for special events like wedding invitations. And it is evident in a SET firm like Greyston Bakery which provides jobs, training, and work-based and personal support for chronically unemployed people. Similarly, the *clan culture* values flexibility and an internal focus, and emphasizes cohesiveness, morale, and the development of its members. It is characterized by teamwork, participative decision-making, and is comfortable with high levels of openness. This culture is attractive for members who value affiliation, mutual dependence, long timelines, and interpersonal relationships and processes. Compared to the other types of cultures, the clan culture tends to place particular emphasis on internal social well-being. Like its familial structure twin, the clan culture is evident among the distributor groups in Amway (FBL), the papermakers at Botanical Paperworks (TBL), and the staff at Greyston Bakery (SET).

A *programmed structure* is mechanistic and has an internal focus. A programmed structure is evident in the thousands of FBL-managed overseas garment factories in countries like Bangladesh, which place relatively high emphasis on an FBL mechanistic structure and face increasing pressures from external stakeholders (e.g., human rights activists, concerned consumers) to adopt more characteristics associated with an internal focus structure. Another variation of a programmed structure is illustrated by TBL on-line fashion retailer Everlane, which sources all its clothing from socially responsible garment factories. A final variation is the SET-managed Uganda-based operations of *31 bits*, where single mothers produce jewelry with recycled paper. Each of these firms has a mechanistic structure and an internal focus. Similarly, a *hierarchy culture* values predictability and an internal focus, and emphasizes bureaucratic information management and communication. It is characterized by its emphasis on minimizing costs, smooth operations, and dependability. This culture is attractive for managers who value certainty, long timelines, security, routinization, and the systemic analysis of facts in order to find the one best way to perform tasks. Many elements of the hierarchy culture are evident in organizations like garment factories in Bangladesh (FBL), Everlane (TBL), and *31 bits* (SET).

A *pioneer* structure is organic and has an external focus. It is evident in innovative FBL organizations like Apple Inc. (though not in its overseas FBL factories that manufacture its products, which would be more likely to have programmed structures¹), TBL organizations like Tesla Motors, and the SET organization Grameen Bank. Similarly, the *adhocracy culture* values flexibility and an external focus, and emphasizes dynamism, innovation, and growth. It is characterized by its emphasis on being willing to take risks and being on the cutting edge. This culture is attractive for managers who value growth, variation, uncertainty, risk and excitement, a future-orientation, and mutual influence with external stakeholders. It is also evident at Apple (FBL), Tesla (TBL), and the Grameen Bank (especially during its formative years) (SET).

Finally, an *outreach* structure is mechanistic, has an external focus, and is evident in FBL organizations like Goldman Sachs, which has very concentrated centralization, and whose external focus is on enhancing financial well-being (and it has a poor reputation in terms of overall well-being). It is also evident in a large TBL firm like 3M, whose external focus is evident in its engineers spending 15% of their time working on new product ideas that they think will serve the needs of the marketplace. Characteristics associated with an outreach structure are also evident in the SET organization Habitat for Humanity, which has a well-developed formal structure and is always seeking to increase its support and the number of homes it can build for under-housed people. Akin to the outreach structure, the *market culture* values predictability and an external focus, and emphasizes competitiveness, results, and constantly improving operations. It is characterized by its emphasis on planning, goal-setting, and efficiency. This culture is attractive for managers who value short timelines and high certainty, coupled with a need for achievement and independence. It is evident at Goldman Sachs (FBL), 3M (TBL), and Habitat for Humanity (SET).

FOUR TYPES OF ENVIRONMENTS

The **organizational environment** *consists of all the actors, forces, and conditions outside the organization*. It is important to remember that the natural environment (e.g., ecosystems, weather, the biosphere) is part of, but different from, the organizational environment. While the natural environment is an important part of the organizational environment, it is only one part; the organizational environment also includes a variety of social, political, and technological factors.

Two dimensions of the external environment are of particular interest for organizational design: stability and munificence.

- **Environmental stability** *refers to the likelihood that there will be little change among the key stakeholders and resources in an organization's external environment*. Stability is evident when there is a secure source of supply, when demand is steady, when the technology does not rapidly change, and when government policies are predictable and consistent.
- The second dimension, **environmental munificence**, *refers to the availability of resources in the environment that enable organizations to grow and change*. In cases where the viability of an organization is threatened by a low-munificence environment, an internal focus structure may be most appropriate. In high munificence environments, managers can afford to lose current resources because there are many other, often better, resources available to be found externally.

As shown in the following table, these two environmental dimensions give rise to four different kinds of environments: harsh, barren, prolific, and oasis.

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	Low munificence	High munificence
Changing environment	<i>Harsh environment</i>	<i>Prolific environment</i>
Stable environment	<i>Barren environment</i>	<i>Oasis environment</i>

A *harsh* environment is characterized by rapid change and low munificence. Organizations in a harsh environment need to: 1) constantly change to adapt their environment, and/or 2) create special mechanisms to stabilize/firmly secure their key resources and thereby decrease the impact of the changes. Greyston Bakery (SET) has a contractual commitment from Ben & Jerry's ice cream to purchase most of the 6 tons of brownies Greyston produces each day. Botanical Paperworks (TBL) uses its established reputation and ability to fulfill orders in a timely fashion to compete against its lower-priced overseas competitors, and Amway (FBL) establishes ongoing personal relationships with customers and distributors to protect itself from the stream of competitive products in its market.

A *barren* environment is characterized by stability and low munificence; managers therefore go to great lengths to retain the valuable resources that are in short supply. The stakeholders who provide key resources need to be attended to and coddled. For both *31 bits* (SET) and Everlane (TBL), this means providing personalized messages for their supporting customers, highlighting especially that their products are being manufactured by workers benefitting from an internal focus organization structure. For the garment factories in Bangladesh, the greatest resource is ensuring that they get orders from retailers (FBL).

A *prolific* environment is characterized by rapid change and high munificence. Apple (FBL) is always looking for "the next big thing," and its successes (e.g., the iPhone, iTunes) pay for innovative products that are less successful (e.g., AppleTV). Tesla (TBL) can also be seen as competing in a prolific environment, given the changes that are occurring in the automobile industry (e.g., changing consumer and regulatory demand for cleaner emissions) and growing munificence (e.g., government incentives in many jurisdictions to develop green technologies, the strong interest in Silicon Valley to find technological solutions to ecological problems, and the expanding infrastructure for battery charging). The environment of the Grameen Bank (SET) is also changing, in part due to Grameen's success in demonstrating that a financial institution can consistently be profitable while serving the world's poorest micro-entrepreneurs, which has prompted change in other organizations seeking to profit from this under-tapped market.

The *oasis* environment is characterized by stability and high munificence; it therefore attracts many competitors (which, over time, will reduce munificence). Organizations in this quadrant

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typically focus on growth, taking advantage of both existing and new opportunities while also reducing the number of competitors. Examples include Goldman Sachs (FBL) which, notwithstanding the changes since the 2008 financial collapse, is competing in a fairly stable and munificent environment (i.e., financial institutions continue to make a disproportionate amount of profits). Similarly, 3M (TBL) may be seen as competing in relatively stable environment (e.g., Scotch Tape, Post-It notes, Thinsulate) and also in new munificent environments (e.g., one third of 3Ms sales are generated by products that were launched within the past five years). Habitat for Humanity (SET) also operates in an oasis environment because there is a stable supply of under-housed people, and there are always philanthropically-minded people willing to help (though arguably never enough).

FOUR TYPES OF TECHNOLOGY

Technology refers to the combination of equipment (e.g., computers, machinery, tools) and skills (e.g., techniques, knowledge, processes) that are used to acquire, design, produce, and distribute goods and services. There are two key dimensions to technology: task analyzability and task variety.

- First, *task analyzability* refers to the ability to reduce work to mechanical steps and to create objective computational procedures for problem solving. High task analyzability tends to be associated with a mechanistic structure. This is not limited to simple tasks; even something as complicated as building a car can be sub-divided into many separate steps.
- Second, *task variety* refers to the frequency of unexpected, novel, or exceptional events that occur during work. When tasks have low levels of variety, internal focus structures may be more appropriate than external focus structures.

	Low variety	High variety
Low analyzability	<i>Craft technology</i>	<i>Non-routine technology</i>
High analyzability	<i>Routine technology</i>	<i>Engineering technology</i>

Craft technology is characterized by work that has low analyzability and low variety. Work in such an organization is often based on a lot of tacit knowledge that is applied in predictable settings. This might include the performing arts, teaching, and general management. Craft technology may also be evident in some “continuous process” organizations where much of the work is done by machines, but people’s tacit knowledge is required to oversee the machines and ensure that they are operating properly. Just like teachers and artists, the workers are trouble-shooters where the nature of problems is often difficult to predict. Craft technology tends to fit with an internal focus structure and a more organic organization structure. A now-

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classic study by Joan Woodward found that continuous process manufacturers achieved higher financial performance if they had a more organic organization structure (due to challenges in standardizing a continuous process). Examples of craft technology include the work of personal sales in Amway (FBL), hand-made paper-making at Botanical Paperworks (TBL), and the art of baking products for high-end restaurants at Greyston Bakery (SET).

Routine technology is characterized by work that has high analyzability and low variety. Work in such organizations can be broken down into separate steps and there are few exceptions to standard ways of operating, thus lending itself to a mechanistic structure. A common example is traditional assembly-line technology. Jobs like bank tellers, data entry workers, or tollbooth operators would also be highly routine. Routine technology that is coupled with an assembly-line technology has been associated with increased financial performance, as is the case in garment factories in Bangladesh (FBL). These jobs also lend themselves to an internal focus structure, especially in situations where the workers themselves do not interact with external stakeholders, as is the case for employees performing routine tasks in Everlane (TBL) and *31 bits* (SET).

Non-routine technology is characterized by work that has low analyzability and high variety. Work in such organizations cannot easily be broken down into separate steps and there are many one-of-a-kind activities. An example is custom-built products and services, including jobs like innovative computer programmers, and researchers and strategists who do non-routine work. Joan Woodward found that when manufacturers relied on “small-batch” technologies to do custom work (e.g., unique short-run or one-of-a-kind products), then an organic organization structure was associated with increased financial performance because it was a better fit (again, due to challenges in standardizing a continuous process). This quadrant tends to be associated with an external focus structure, as innovative project-based computer work, custom jobs, researchers, and strategists all do well if they are closely attuned to external stakeholders. Examples include Apple Inc. (FBL), Tesla (TBL), and the Grameen Bank (SET).

Engineering technology is characterized by work that has high analyzability and high variety. Examples include the work of engineers, lawyers, and tax accountants. The most appropriate structure for this technology is mechanistic with an external focus. Examples include Goldman Sachs (FBL), 3M (TBL), and Habitat for Humanity (SET).